Fernando Salinas (CEO, Grupo Security)

Introduction (Slide 1)

Good morning and thank you for joining us for Grupo Security's earnings presentation for the first quarter of 2023.

It is a pleasure to introduce Nicole Winkler, who joined Grupo Security in April as the new Corporate Planning and Development Manager. Nicole has extensive experience in different companies in the financial sector, leading development, planning and research departments. Her experience and deep knowledge of the financial market will be fundamental to continue our company's growth trajectory.

Today, we are also joined by Eduardo Olivares, CEO of Banco Security; Alberto Oviedo, from the Risk Division and Manuel Widow, from Planning and Management.

From Vida Security we are joined by Finance Manager Rodrigo Guzmán, along with Investment Manager Juan Pablo Cofré.

Also with us are Francisco Letelier, Corporate Digital and Data Manager and Felipe Jaque, Chief Economist of Grupo Security.

You may either submit questions in the Q&A section or raise your hand at the end of the presentation. Now Felipe will briefly comment on the macroeconomic environment.

Felipe Jaque (Chief Economist, Grupo Security)

Macroeconomic Context 2023-24 (Slide 2)

Economic activity rebounded in the first quarter of the year, with GDP growing 0.8% with respect to the immediately preceding quarter in seasonally adjusted terms. As a result, the year-on-year variation was -0.6%. Despite this recovered output, domestic spending continued to tighten. Indeed, private consumption fell -2.5% in its seasonally adjusted quarterly measurement (-6.7% year-on-year) while investment fell -0.9% in the quarter (-2.1% year-on-year).

This rebound in GDP in the first quarter was mainly due to improved terms of trade; however, the second quarter figures show a reversal in terms of trade. In addition to this reduced external momentum, domestic credit conditions are becoming very restrictive, which should further tighten lending and thus lead to a drop in economic activity. In short, the first quarter rally is not expected to be sustainable for the rest of the year, so we foresee a stagnation of activity (zero growth compared to 2022). Meanwhile, in the labor market, seasonally adjusted job creation has practically come to a standstill, and has even decreased at the margin, pushing the unemployment rate up.

This adjustment in domestic spending should continue to drive down total and core inflation. This has been reflected in market inflation expectations, which point to 4.7% as of December 2023 (coming from 5.5%-6%), very close to our 4.5% projection.

In this context, the Chilean Central Bank should pave the way for the monetary normalization process to begin in the next IPoM. In our opinion, it should be more aggressive than implied by market prices, leading to a greater fall at the short end of both peso and UF yield curves.

Globally, the Federal Reserve raised the rate to 5.25%, which should be the ceiling in the current cycle. In fact, with total—and core—inflation moderating and inflation expectations around the Fed's 2% target, the market expects monetary policy easing to begin as early as September. Our view is that the Fed may delay it a little longer than implied by financial prices.

Fernando Salinas (CEO, Grupo Security)

Grupo Security Mar 2023 (Slide 3)

Thank you, Felipe. For 1Q23, Grupo Security's profit reached MCH$42,344, 40.8% higher than 1Q22, resulting in profit of MCH$142,600 for the last twelve months, the highest in the Group's history.

The first quarter performance was driven mainly by the lending area. Specifically, Banco Security and its subsidiaries achieved consolidated profit of MCH$43,543, 70.6% higher than the previous year, thanks to a strong net interest margin in the commercial areas and good results from the Treasury Division.

As for Factoring Security, it reported profit of MCH$3,345, down 7.9% from 1Q22, with stable levels of factored receivables, a larger spread and losses on indexed assets and liabilities.

Inversiones Security enjoyed profit of MCH$2,388 with a total of BCH$3,874 in assets under management. The weaker results for the period are explained by a poorer performance from the company's proprietary trading portfolio and a lower transaction volume at Valores Security, offset by a higher ROA from funds.

Vida Security recorded profit of MCH$10,067, with a 19.8% increase in gross written premiums, particularly from annuities, offset by a negative impact from price-level restatement.

In the other services area, Travel Security reported profit of MCH$1,238, while Inmobiliaria Security recorded a loss of MCH$764 due to ownership being transferred on fewer units, in line with its current investment cycle.

Lastly, Protecta Security obtained profit of MS./ 10.1 in Peru, up 93.7% from 2022, largely because of improved investment income. Bear in mind that converting results in soles to IFRS used in Chile and adjusting for the varied accounting criteria used in each country results in a different book-basis profit.

I now leave you with Eduardo Olivares, CEO of Banco Security, for a brief summary of the Bank's results.

Eduardo Olivares (CEO, Banco Security)

Banco Security, Consolidated (Slide 5)

For 1Q23 Banco Security posted consolidated profit of MCH$43,543, up 70.6% from 1Q22.

The Bank's performance was driven by an improved net interest margin in the commercial areas, lower risk expense in the commercial segment and strong results in the Treasury Division, associated with interest rate conditions.

Total loans amounted to BCH$7,315 as of March 31, 2023, 8.0% higher than March 2022, mainly due to increases of 6.1% in commercial loans and 16% in retail loans. Overall, the Bank had market share of 3.25% by total loans. The Commercial Banking Division had market share of 5.9% in its target segment, while Retail Banking reached 4.4%.

Meanwhile, the NIM on loans was 5.55%, driven by higher interest rates. The Bank reported an efficiency ratio of 39.3% as of March 2023, versus 50.7% a year earlier.

In addition, subsidiaries AGF and Valores reported profit of MCH$2,489, or 33.3% less than 2022, mainly attributable to weaker returns from the proprietary trading portfolio and decreased operating income.

Consolidated ROAE stood at 21.6%, compared to 14.4% in the previous year.

Banco Security – Results by Business Area (Slide 6)

The Commercial Banking Division reported profit of MCH$24,342 for 1Q23, almost doubling the previous year's earnings, mainly explained by margin growth and lower risk expenses. Thus, the net interest margin reached MCH$48,992, 36.1% higher than March 2022, mainly explained by increased income from liabilities due to interest rates hikes.

Retail Banking recorded profit of MCH$3,658 for 1Q23, 45% higher than the previous year. This result was driven by growth in the net interest margin, which reached MCH$23,671, up 46.6% from March 2022, due to growth in income from liabilities because of interest rate hikes and a larger volume of term deposits.

The Treasury Division, comprising the trading, investment, distribution and asset and liability management (ALM) desks, achieved profit of MCH$17,014 in 1Q23, 24.6% higher than the previous year, thanks to the Bank's funding strategy implemented over the last few years, together with a context of rising interest rates.

Now Alberto Oviedo, Risk Division Manager for Banco Security, will give us more details on credit risk during the period.

Alberto Oviedo (Risk Division Manager, Banco Security)

Banco Security – Risk (Slide 7)

The provision for credit losses for 1Q23 was MCH$17,487, equivalent to 0.96% of total loans. Total risk expense was 8.8% higher than the previous year due to higher risk expense in the consumer portfolio of MCH$6,357, with a low basis of comparison due to the greater liquidity in the system in 2022.

This effect is partially offset by a lower commercial portfolio risk expense of MCH$9,679 in 1Q23, due to a good portfolio performance during the period and increased collection of written-off loans.

Meanwhile, the Bank recorded voluntary additional allowances of MCH$1,500 during 1Q23: MCH$500 for the commercial portfolio and MCH$1,000 for the consumer portfolio. Overall, additional allowances totaled MCH$22,500 as of March 2023.

The NPL portfolio totaled MCH$154,269 as of March 2023, which represents 2.11% of loans. With this, the NPL coverage ratio is 1.13 (1.28 including additional allowances).

Nicole Walker (Corporate Planning and Development Manager, Grupo Security)

Factoring Security (Slide 8)

Factoring Security posted profit of MCH$3,345, up 7.9% from the prior year. Net operating income fell 0.6%, due to lower net indexation income, partially offset by a larger portfolio spread. Meanwhile, factored receivables closed the quarter at MCH$430,513, stable with respect to March 2022.

Support expenses amounted to MCH$4,012, 26.4% higher than the previous year, mainly due to an increase in administrative and personnel expenses associated with cost-of-living salary adjustments in the last twelve months. Risk expenses amounted to MCH$269 million, a decrease of 68.7% compared to March 2022.

The subsidiary had an efficiency ratio of 46.9% for 1Q23, an improvement over last year's 36.9%. Meanwhile, the risk index, calculated as allowances over total factored receivables, was 1.29% versus 1.4% in March 2022.

Asset Management (Slide 9)

The asset management area—comprised of the mutual fund subsidiary (AGF), the brokerage subsidiary (Valores) and Securitizadora Security—had assets under management of BCH$3,874, 1.3% less than March 2022. This is explained by a decrease in domestic assets in custody and mutual funds, mainly balanced and equity funds, partially offset by higher AUM in domestic fixed income funds and investment funds.

The area reported profit of MCH$2,388 for 1Q23, down 41.5% from March 2022. The decrease is mainly explained by weaker returns on the company's proprietary trading portfolio, associated with a smaller portfolio volume and lower inflation.

Operating revenue amounted to MCH$9,604, up 3.6% from the prior year, with increased fund revenue due to greater ROA because of higher rates. Transactional income amounted to MCH$2,690, 19.1% lower than March 2022 due to reduced activity in international products and equities, in line with industry trends.

Now Rodrigo Guzmán, Finance Manager at Vida Security, will present the insurance company's results.

Rodrigo Guzmán (CFO - Vida Security)

Vida Security (Slide 11)

Vida Security reported profit of MCH$10,067, 24.4% lower than in March 2022, with a good result from technical reserves and better returns on the company's proprietary trading portfolio, offset by price-level restatement, higher expenses and a smaller income tax benefit.

The company achieved total premiums of MCH$133,721 in 1Q23, growing 19.8% over 2022. This is mainly explained by growth in annuities, individual insurance and, to a lesser extent, group insurance.

Claims and pensions paid totaled MCH$149,763, 40.5% greater than 1Q22, because of higher annuity sales, an increase in surrenders and transfers in CUI and APV policies and a larger loss ratio in group health policies.

This explains the contribution margin of -MCH$15,853 for 1Q23, compared to -MCH$18,000 for 1Q22.

Vida Security – Annuities (Slide 12)

With respect to annuities, the market began to recover in 2022 after contracting because of higher defined rates for programmed withdrawals offered by pension fund administrators (AFPs).

As of March, the industry reached total annuity premiums of MUF 24.4, exceeding the March 2022 level by 64.9%. In this context, Vida Security had total premiums of MUF 1.8, with growth of 22.6% (real) and 37.5% (nominal), reaching market share of 7.5%.

Next, Investment Manager Juan Pablo Cofré will comment briefly on the portfolio results.

Juan Pablo Cofré (Investment Manager, Vida Security)

Vida Security - Investment Income (Slide 13)

Investment income was MCH$42,661, versus MCH$7,350 for 1Q22, due to a rebound in returns from the CUI and APV portfolio, along with strong returns on the proprietary trading portfolio,

which was up 10.1% year-on-year to MCH$37,008 in 1Q23, representing an ROI of 5.9%. During the period it reported improved returns on international equities and real estate assets, partially offset by weaker results in alternative assets and the negative effect of exchange differences.

The CUI and APV portfolio reported a gain of MCH$5,653, versus a loss of MCH$26,260 for 1Q22, due to stronger returns from equities and indexes. Positive returns from the CUI and APV portfolio are counterbalanced by recording additional technical reserves.

Nicole Walker (Corporate Planning and Development Manager, Grupo Security)

Protecta Security (Slide 15)

In the international business area, Protecta Security had profit of MS./ 10.1 for 1Q23, double last year's figure. This performance is explained by a 23.1% rise in investment income with respect to 2022, partially offset by an increase in claims paid, related to a larger stock of pensions payable and indexation of pensions because of high inflation in Peru.

As of March 2023, it had total premiums of MS./ 132.4, down 16.6% from 1Q22, and reported annuity sales of MS./ 71.5, -26.1% from last year, with market share of 23.7%. In addition, it had private annuity sales of MS./ 34.1, a 15.4% decrease from last year, explained by a market contraction and heightened competition in this product line.

Bear in mind that converting results in soles to IFRS used in Chile and adjusting for the varied accounting criteria used in each country results in a different book-basis profit.

Other Services Area (Slide 16)

Travel Security achieved profit of MCH$1,238 (consolidated with its subsidiary in Peru), versus MCH$401 for 1Q22, thanks to the recovery in sales to MCH$55 in 1Q23.

Meanwhile, the real estate subsidiary reported a loss of -MCH$764 as a result of lower unit sales compared to the previous period, in line with the development stages of other projects.

Real estate assets under management totaled MCH$87,429, up 19.5% with respect to March 2022, explained by some new projects, which offset the smaller number of ownership transfers during the period.

Next, Francisco Letelier, Corporate Digital and Data Manager for the Group, will give a brief summary of the progress made on the Group's digital strategy.

Digital Slide (Slide 17)

Francisco Letelier (Corporate Digital and Data Manager, Grupo Security)

In June of last year we began implementing an ambitious Digital Plan, focused on the Bank and subsidiaries, Vida and Factoring. As we have shared on other occasions, this plan involves an investment of around MUS$50 over a 4-year period and we expect it to produce an impact of between MUS$20 - 30 of additional net income each year once fully operable.

A few months after its launch, we have already accomplished relevant milestones, such as:

- First, we finalized implementation of our fully cloud-based data lakes. The main data has been ingested and is properly governed.
- In addition, our partnerships with the Fintech world generated more than BCH$1 in revenue last year, an amount that has continued to grow since the beginning of the year.
- A few months ago, we launched a new version of our digital factoring platform, called Autofactoring 2.0, and have doubled the business we do through digital channels.
- SecurityPass, our unified SoftToken solution for the Bank and its subsidiaries, has exceeded 1.2 million transactions and we have more than 24,000 customers enrolled.
- Apart from that, we have deployed our new technological architecture on which we have already built our new fully cloud-based APIs. This is very relevant in view of the new Fintech Law.
- Finally, in the area of advanced analytics, we have created more than 20 models that meet the needs of our businesses and customers. These models cover topics ranging from cross-selling to fraud monitoring, and have allowed us to strongly expand our prospect base in Retail Banking and Factoring.

Closing Slide, Group (Slide 18)

Fernando Salinas (CEO Grupo Security)

All in all, Grupo Security recorded profit of MCH$42,344, achieving an ROAE of 18.5% and earnings per share of CH$32.2. As mentioned at the beginning, this is equivalent to profit of BCH$142.6, the highest in the Group's history.

The businesses' strong performance has allowed us to distribute dividends of CH$17 per share over the last 12 months, which represents a dividend yield of 9.1% as of May 20th.

This effect, added to the partial recovery in the share price, reaching CH$186.1 at Friday's close, has resulted in a total share return of 75.1% over the last twelve months.

Closing Remarks (Slide 19)

Thank you for the presentation and thanks to everyone for logging on. Now we are available to answer your questions. You can raise your hand on the platform or submit them in the Q&A section.

The Bank has shown a fairly resilient margin at the NIM level, especially above the industry, which has been more contractionary in the last year. Do you believe this trend will continue in the second half of the year or should a more significant contraction begin?

Eduardo Olivares

We have been able to maintain a fairly good NIM, as you mentioned just now, and we hope that as monetary conditions normalize, as Felipe said should happen towards the second half of the year, we will be able to converge towards more historical NIM figures. At the time, we took advantage of some opportunities like the Central Bank's financing facilities.

In general, we have a higher concentration of long-term financing than the industry average, and that has been paying off. But clearly, once things settle and conditions normalize, we are probably going to converge on historical numbers.

Could you give us an outlook on the behavior of non-performing loans, especially in the corporate segment, for the coming quarters?

Alberto Oviedo

Delinquency has increased in the financial industry since the second half of last year. More so than delinquency, we have seen a rise in risk expenses associated with consumer portfolios.

This occurred because of our own structure and because, if you look back over a longer period, while the industry grew, we grew less in consumer loans. Because of this, we have been less impacted than the rest of our competitors, basically because of the segment we are in and because, in the end, we grew fewer and fewer new customers mean fewer early delinquencies. Today, this is giving us an advantage and has allowed us to consolidate a constant level of offers to our customers, regardless of the economic cycle. And we expect that to continue to be the case. We believe that there will be a rise in delinquency in consumer and mortgage business during the second half of the year. But it should not significantly impact the bottom line.

In Commercial Banking, which is a much larger business, the delinquency rate we had in March 2022 is similar to this quarter's rate, despite the fact that delinquency has been rising in the financial system. At the end of the first quarter, we had practically the same delinquency rate as the financial system, while a year ago we had a 70 or 80 basis-point difference. This has basically been driven by the type of portfolio we have, which has good collateral coverage and rather limited growth lately. That is what should happen in the second half of the year, we hope. If interest rates remain at current levels, the impact on the commercial lending and credit segment will be increasingly significant. This is important to keep in mind. If interest rates ease a bit towards the second half of the year, we will most likely find ourselves with a scenario more similar to the second half of the previous year.

However, our base scenario is an increase in delinquency in the second and third quarters, with risk expense at around 1% and a >90-day delinquency rate that we should be able to maintain at around 2%.

What relevant regulatory risks do you observe, both at the bank and insurance level?

Eduardo Olivares

Regarding regulatory risks, the fintech and open banking law is generating a series of paradigm shifts in the industry, which are not only addressed from a digital point of view, but also in preparing ourselves from a business and commercial perspective to be able to address them.

In terms of Basel 3 implementation, we are already in the third exercise and in the second IAPE exercise. In general, we have had good feedback, but I would say that this is not very different from what is happening for the rest of the industry players, in terms of adapting business models, information models and clearly the paradigms of banking are more aligned with what is happening in the first world, especially in Europe, than what we knew. Beyond that, regulation is increasing, and ultimately our obligation is to be aligned with the regulator so that we can effectively address everything that involves not only Basel 3, but also other laws and initiatives.

What impact do you see for the insurance industry from the current situation for *Isapres*?

Rodrigo Guzmán

There is still a great deal of uncertainty as to how the regulatory framework for *Isapres* will evolve.

As everyone knows, there are at least two short laws that are quite visible in their content regarding what might happen with *Isapres*. As far as we are concerned, we are a second-layer insurance company that is undoubtedly affected by what happens in the first layer. However, our insurance policies generally have limits and caps on coverage, which makes the risk quite limited.

What we do see is an opportunity to offer some insurance coverage that would give current members, the three million *Isapre* policyholders, some certainty as to what healthcare providers they could use in a more uncertain future. I think there is a great opportunity there. We are also developing some alternatives, which are almost ready to launch, with attractive options for our clients and also for *Isapre* policyholders who are seeing the industry structure modified a little bit.

As for regulatory risk, we are in a changing environment, which is also true in the pension area. There are so many uncertainties. However, opportunities are opening up for life insurance companies, both to offer annuity products in the different modalities offered today, as well as to manage funds in the business model proposed by regulators for the future of pension management.

How do you think the Fintech Law will impact your business?

Francisco Letelier

As you know, the Fintech Law was enacted at the end of last year and today the CMF is in the process of drafting the regulations. A forecast of the material impact will depend a lot on what the regulator defines over these eighteen months. This week we have already begun participating in some consultation roundtables focused mainly on tougher regulatory issues. As we see it, this is going to produce an important change at the regulatory level in three dimensions.

First of all, information will no longer belong to the institutions and will become much more about the customers. There will also be new services created and certain operational aspects that will fundamentally modify regulatory compliance. We believe that competition will increase sharply and will generate new opportunities to create value.

The first has to do with the creation of new financial services by adding information, launching payment operations and business models that are a little different from what we were previously able to do from a regulatory and technological point of view.

On the other hand, in line with what we have already been working on with fintechs, we are also going to see new forms of collaboration, banking as a service and open platform services, an extended ecosystem. We believe the change will be material, a bit like Eduardo described. How quickly we will be moving towards that material change, in the medium term, will depend a lot on how the regulations take shape.

Could you comment on the impact of the potential rate cut on the company's investment portfolio?

Juan Pablo Cofré

The impact of lower rates should actually be quite marginal because we have already experienced a context of low rates in the country. And our investment strategy has been to diversify into other asset classes, both domestic and international, where a decline in short-term rates has a much softer impact. Our business is a business of matching, of being as covered as possible. And, therefore, the short-term rate does not always impact longer-term rates. And if that happens, variable rates are also adjusted on the pricing side of our liabilities. So, in that sense, if it happens, we believe that it will not have a relevant or significant impact on our investments.

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