# Grupo Security Earnings Report

**Grupo Security Reports Second Quarter 2017 Profit of CH$35,958 million, -20.8% YoY and +7.7% QoQ.**

- On August 29, 2017, Standard & Poor's upgraded Banco Security's risk rating from BBB/A-3 to BBB/A-2, reflecting an improved capital base.
- As approved at an extraordinary shareholders' meeting on April 27, 2017, the preferential subscription period for the Grupo Security capital increase took place from July 25 to August 24. Of the nearly 437 million shares offered at CH$220 a share, 97.26% were placed, raising a total of CH$93,424 million.
- At the annual general meeting on April 27, shareholders agreed to pay a total dividend of CH$7.75 per share. Combined with the dividend paid in November 2016, dividends charged to 2016 profit climbed to CH$12.0 per share, equal to CH$39,100 million or 52% of profit.
- On March 28, 2017, Fitch Ratings confirmed the ratings for Banco Security, Grupo Security and Factoring Security, upgrading its outlook from stable to positive.
- On January 5, 2017, Grupo Security exchanged 95.1% of the F series bond, equivalent to UF 1,189,000, for the M series bond, thus extending the duration of the Group's total debt from 11.3 to 13.1.

**Santiago, Chile – June 30, 2017 Grupo Security S.A., (SSE BSC: SECURITY; SSE BBG: SECUR),** ("Grupo Security"), a niche Chilean-based diversified financial group offering banking, insurance, asset management and other services to large and medium-sized companies and high-income individuals, today announced financial results for the three and six months ended June 2017.

Renato Peñafiel, Chief Executive Officer at Grupo Security, highlighted, "Second quarter earnings totaled CH$18,648 million, an increase of 7.7% over the first quarter, pushing profit for the first half of the year up to CH$35,958 million. Importantly, the previous year's results reflect an extraordinary gain of CH$14,937 million on the sale of our stake in Penta-Security. Excluding that effect, our income was up 18.0% year over year. Our businesses continue performing above industry averages. During the last year the Bank's loans grew by 9.8%, greater than industry growth of 5.3%, direct premiums at Vida Security grew by 69.5%, greater than market performance of -0.5%, and Mutual Funds grew by 23.8% greater than market growth of 15.2%. Finally, the noteworthy results of the recent capital increase confirm our shareholders' trust and support, as 97.26% of newly issued shares were subscribed, raising CH$93,424 million."

| Grupo Security Indicators<br>*In MCH$* | jun-17 | mar-17 | dic-16 | jun-16 | % Chg<br>QoQ | <br>YTD | <br>YoY |
|---|---|---|---|---|---|---|---|
| Banco - Total Loans | 4,620,365 | 4,533,229 | 4,462,332 | 4,208,683 | 1.9% | 3.5% | 9.8% |
| Industry - Total Loans[1] | 145,640,422 | 143,623,893 | 142,743,912 | 138,355,134 | 1.4% | 2.0% | 5.3% |
| Inversiones - AUM Mutual Funds | 2,396,620 | 2,051,093 | 1,854,062 | 1,935,670 | 16.8% | 29.3% | 23.8% |
| Industry - AUM Mutual Funds | 35,903,443 | 33,979,005 | 31,194,215 | 31,175,018 | 5.7% | 15.1% | 15.2% |
| Vida - Investment Portfolio | 2,363,879 | 2,314,976 | 2,278,932 | 2,178,297 | 2.1% | 3.7% | 8.5% |
| Industry (life insurance) - Investment Portfolio | 36,933,098 | 36,150,961 | 35,269,102 | 33,385,689 | 2.2% | 4.7% | 10.6% |
| Factoring - Factored Receivables | 263,222 | 293,702 | 286,846 | 242,698 | -10.4% | -8.2% | 8.5% |

| Grupo Security Indicators Statment of Income | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Banco - Net Interest Margin | 39,666 | 35,995 | 34,390 | 10.2% | 15.3% | 75,661 | 66,248 | 14.2% |
| Banco - Net Fees | 14,234 | 12,635 | 13,538 | 12.7% | 5.1% | 26,869 | 25,089 | 7.1% |
| Banco - Operating Expenses | -31,498 | -32,845 | -27,718 | -4.1% | 13.6% | -64,343 | -57,361 | 12.2% |
| Banco - Net Provision Expenses | -8,786 | -10,364 | -5,252 | -15.2% | 67.3% | -19,150 | -11,217 | 70.7% |
| Vida - Direct Premium | 122,038 | 99,890 | 66,261 | 22.2% | 84.2% | 221,928 | 130,896 | 69.5% |
| Vida - Claims Paid | -33,679 | -37,298 | -25,236 | -9.7% | 33.5% | -70,978 | -45,126 | 57.3% |
| Vida - Pensions Paid | -52,499 | -42,396 | -31,774 | 23.8% | 65.2% | -94,896 | -61,823 | 53.5% |
| Vida - Investment Income | 28,012 | 41,019 | 24,290 | -31.7% | 15.3% | 69,030 | 46,958 | 47.0% |
| Factoring - Revenue | 7,352 | 7,628 | 7,296 | -3.6% | 0.8% | 14,979 | 14,294 | 4.8% |

| Ratios | jun-17 | mar-17 | dec-16 | jun-16 | % Chg QoQ | % Chg YTD | % Chg YoY |
|---|---|---|---|---|---|---|---|
| Grupo - Share Price (Ch$) | 231.0 | 243.8 | 225.99 | 215.0 | -5.2% | 2.2% | 7.4% |
| Grupo - Number of Shares (millions) | 3,258 | 3,258 | 3,258 | 3,258 | 0.0% | 0.0% | 0.0% |
| Grupo - ROE | 11.0% | 10.4% | 13.1% | 11.8% | 65 p | -207 p | -73 p |
| Banco (Consolidated) - ROAE | 10.9% | 10.5% | 11.6% | 10.4% | 35 p | -76 p | 46 p |
| Factoring - ROE | 21.6% | 19.2% | 23.2% | 21.0% | 240 p | -160 p | 60 p |
| Vida - ROAE | 17.0% | 15.1% | 13.3% | 11.6% | 188 p | 372 p | 538 p |
| Travel - ROE | 34.0% | 20.5% | 43.5% | 35.0% | 1350 p | -950 p | -100 p |
| Grupo - Leverage | 33.3% | 35.0% | 34.5% | 33.8% | -165 p | -114 p | -48 p |
| Banco - Efficiency | 53.3% | 55.7% | 59.4% | 54.2% | -243 p | -609 p | -94 p |
| Factoring - Efficiency | 43.8% | 44.7% | 44.3% | 44.9% | -96 p | -53 p | -113 p |
| Banco - Non-Performing Loans | 1.32% | 1.49% | 1.43% | 1.47% | -18 p | -11 p | -15 p |
| Banco - Risk Index | 1.73% | 1.86% | 1.81% | 1.84% | -12 p | -7 p | -11 p |
| Factoring - Risk Index | 2.9% | 2.6% | 2.5% | 2.9% | 27 p | 42 p | -4 p |
| Banco - BIS Tier I Ratio | 7.7% | 7.3% | 7.1% | 7.4% | 44 p | 64 p | 35 p |
| Banco - BIS Tier II Ratio | 13.3% | 13.2% | 13.2% | 12.8% | 11 p | 10 p | 55 p |

ROAE: profit 12M over average equity

On January 5, 2017, Grupo Security exchanged 95.1% of the F series bond, equivalent to UF 1,189,000, for the M series bond, thus improving the amortization schedule and extending the duration of the Group's total debt from 11.3 to 13.1.

On March 28, 2017, the risk rating agency Fitch Ratings confirmed the ratings of Banco Security, Grupo Security and Factoring Security and revised its outlook from stable to positive due to progress Banco Security has made in implementing its strategy, which has allowed it to diversify its revenue sources, strengthen its balance sheet and liquidity and improve its capital ratios.

On April 27, 2017, Grupo Security shareholders approved a dividend payment of CH$7.75 per share charged to profit for the year 2016. This dividend and the interim dividend distributed in November 2016 total CH$12.0 per share, equivalent to CH$39,100 million, or 52% of profit for the year 2016. The shareholders also approved the annual report and financial statements for 2016 at this meeting.

At the extraordinary shareholders' meeting held on the same date, Grupo Security shareholders approved a CH$100,000 million capital increase of approximately 437 million shares to strengthen growth as well as the capital base of Grupo Security's principal assets: banking and insurance.

On July 13, 2017, the Superintendency of Securities and Insurance (SVS) approved and registered the aforementioned issuance in the Securities Registry. Shares were offered at CH$220 per share during the preferential subscription period between July 25 to August 24, 2017. A total of 424,655,845 shares were subscribed, raising CH$93,424 million. The 11,980,563 unplaced shares were presented to the Board of Directors, which will determine how they will be placed in accordance with the Corporations Law and SVS regulations.

On August 29, 2017, Standard & Poor's upgraded Banco Security's ratings from BBB-/A-3 to BBB/A-2, maintaining a negative outlook due to the country's current economic conditions. The upgrade reflects a stronger capital base resulting from last year's write-off of intangible assets as well as the recent Grupo Security capital increase, up to CH$50,000 million of which will be used to capitalize Banco Security.

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## GRUPO SECURITY EARNINGS REPORT FOR 2Q17

Grupo Security posted profit of CH$35,958 million for the six months ended June 2017 (-20.8% YoY and +7.7%QoQ). EBITDA for the same period totaled CH$59,422 million, -11.4% YoY and +7.8% QoQ.

The Group posted an ROAE as of June 2017 of 11.0%, -73 b.p. YoY and +65 b.p. QoQ. Profit from the Group's business areas was CH$47,692 million, -17.1% YoY and +10.7% QoQ.

### EARNINGS CONTRIBUTION BY BUSINESS AREA

| Earnings from Related Companies | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
| **Lending Area** | | | | | | | | |
| Banco Security (standalone) | 14,263 | 10,549 | 12,004 | 35.2% | 18.8% | 24,812 | 25,459 | -2.5% |
| Factoring Security | 1,893 | 1,855 | 1,880 | 2.0% | 0.7% | 3,748 | 3,580 | 4.7% |
| **Asset Management Area** | | | | | | | | |
| Valores Security | 784 | 431 | (56) | 81.7% | - | 1,215 | 148 | 723.3% |
| AGF Security | 1,523 | 1,269 | 1,492 | 20.1% | 2.1% | 2,792 | 3,273 | -14.7% |
| **Insurance Area** | | | | | | | | |
| Vida Security | 5,522 | 7,579 | 3,526 | -27.1% | 56.6% | 13,101 | 7,847 | 67.0% |
| Penta Security | - | - | - | - | - | - | 18,979 | - |
| Servicios Security | 244 | (105) | 370 | - | - | 139 | 455 | - |
| **Other Services** | | | | | | | | |
| Inmobiliaria Security | 165 | 688 | 125 | - | 32.4% | 853 | 518 | 64.6% |
| Travel Security | 1,144 | 715 | 1,063 | 59.9% | 7.6% | 1,859 | 2,051 | -9.3% |
| Travex Security | 154 | 123 | 55 | 25.7% | 179.3% | 276 | 123 | 124.5% |
| **Grupo Security Profit** | **18,648** | **17,310** | **14,527** | **7.7%** | **28.4%** | **35,958** | **45,416** | **-20.8%** |

(1) Subsidiary earnings correspond to 100% of their profits and differ from the results reported in the segment note, which includes consolidation adjustments to account for Grupo Security's percent ownership in each of its respective subsidiaries.

(2) For Penta-Security, a minority interest of 29.55% is considered. The figure shown here is the before-tax gain on the sale of its minority interest in Penta-Security. After taxes, the extraordinary gain totaled CH$14,937 million.

# REVIEW OF OPERATIONS BY BUSINESS AREA

## LENDING BUSINESS AREA (67.1% of assets; 59.9% of profit from business areas as of June 2017)

The lending business area comprises operations of Banco Security (excluding its asset management subsidiaries, AGF Security and Valores Security Corredores de Bolsa), and Factoring Security.

### BANCO SECURITY

As of June 2017, Banco Security reported consolidated profit attributable to its owners of CH$28,816 million, -0.2% YoY. Banco Security's stand-alone profit (excluding asset management subsidiaries AGF Security and Valores Security Corredores de Bolsa) reached CH$24,812 million (-2.5% YoY).

Banco Security's ROAE (profit LTM over average equity) was 10.87%, +46 b.p. YoY.

**Banco Security - Operating Segments**

| Banco Security Segment Note | Commercial Banking | | Retail Banking | | Treasury | | Other | | Total Bank | | Subsidiaries | | Total Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *In Ch$ Million* | jun-17 | jun-16 | jun-17 | jun-16 | jun-17 | jun-16 | jun-17 | jun-16 | jun-17 | jun-16 | jun-17 | jun-16 | jun-17 | jun-16 |
| **Net interest margin** | 37,552 | 34,690 | 30,249 | 28,261 | 10,564 | 7,227 | -2,250 | -3,036 | 76,114 | 67,142 | -453 | -894 | 75,661 | 66,248 |
| *∆% 6M16* | 8.2% | | 7.0% | | 46.2% | | -25.9% | | 13.4% | | -49.3% | | 14.2% | |
| **Net Fees** | 7,608 | 6,127 | 11,596 | 10,266 | -238 | -313 | -918 | 786 | 18,048 | 16,866 | 8,821 | 8,223 | 26,869 | 25,089 |
| *∆% 6M16* | 24.2% | | 12.9% | | - | | - | | 7.0% | | 7.3% | | 7.1% | |
| **Net FX transactions and other income** | 5,156 | 4,923 | 1,191 | 789 | 10,977 | 11,283 | -7,632 | -11,253 | 9,693 | 5,742 | 7,860 | 6,069 | 17,553 | 11,811 |
| *∆% 6M16* | 4.7% | | 51.0% | | -2.7% | | -32.2% | | 68.8% | | 29.5% | | 48.6% | |
| **Loan losses and foreclosed assets** | -6,813 | -1,737 | -12,021 | -8,873 | -2 | -35 | -799 | -470 | -19,635 | -11,114 | 0 | 0 | -19,635 | -11,114 |
| *∆% 6M16* | - | | 35.5% | | - | | - | | 76.7% | | - | | 76.7% | |
| **Total operating income, net of credit risk provisions** | 43,502 | 44,003 | 31,015 | 30,444 | 21,301 | 18,162 | -11,598 | -13,973 | 84,220 | 78,636 | 16,228 | 13,398 | 100,448 | 92,034 |
| ∆% 6M16 | -1.1% | | 1.9% | | 17.3% | | -17.0% | | 7.1% | | 21.1% | | 9.1% | |
| **Operating expenses** | -19,361 | -16,733 | -28,691 | -24,634 | -6,560 | -6,295 | 2,150 | -168 | -52,461 | -47,830 | -11,882 | -9,531 | -64,343 | -57,361 |
| *∆% 6M16* | 15.7% | | 16.5% | | 4.2% | | - | | 9.7% | | 24.7% | | 12.2% | |
| **Net operating income** | 24,142 | 27,270 | 2,325 | 5,811 | 14,741 | 11,866 | -9,448 | -14,141 | 31,759 | 30,806 | 4,346 | 3,867 | 36,105 | 34,673 |
| ∆% 6M16 | -11.5% | | -60.0% | | 24.2% | | -33.2% | | 3.1% | | 12.4% | | 4.1% | |
| **Income tax expense** | -5,290 | -5,002 | -509 | -1,011 | -3,230 | -2,065 | 2,067 | 2,716 | -6,963 | -5,362 | -621 | -630 | -7,584 | -5,992 |
| *∆% 6M16* | 5.8% | | - | | 56.5% | | -23.9% | | 29.9% | | -1.4% | | 26.6% | |
| **Profit attributable to equity holders of the bank** | 18,851 | 22,267 | 1,815 | 4,800 | 11,511 | 9,802 | -7,365 | -11,410 | 24,812 | 25,459 | 4,004 | 3,421 | 28,816 | 28,878 |
| ∆% 6M16 | -15.3% | | - | | 17.4% | | -35.5% | | -2.5% | | 17.0% | | -0.2% | |

| Banco Security Segment Note | Commercial Banking | | Retail Banking | | Treasury | | Other | | Total Bank | | Subsidiaries | | Total Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *In Ch$ Million* | 2Q-17 | 1Q-17 | 2Q-17 | 1Q-17 | 2Q-17 | 1Q-17 | 2Q-17 | 1Q-17 | 2Q-17 | 1Q-17 | 2Q-17 | 1Q-17 | 2Q-17 | 1Q-17 |
| **Net interest margin** | 18,880 | 18,672 | 15,192 | 15,057 | 6,883 | 3,681 | -1,020 | -1,231 | 39,935 | 36,179 | -269 | -184 | 39,666 | 35,995 |
| *∆% 1Q17* | 1.1% | | 0.9% | | 87.0% | | -17.2% | | 10.4% | | 46.2% | | 10.2% | |
| **Net Fees** | 3,744 | 3,863 | 6,633 | 4,963 | -131 | -107 | -592 | -325 | 9,654 | 8,394 | 4,580 | 4,241 | 14,234 | 12,635 |
| *∆% 1Q17* | -3.1% | | 33.7% | | - | | - | | 15.0% | | 8.0% | | 12.7% | |
| **Net FX transactions and other income** | 2,499 | 2,657 | 655 | 536 | 4,559 | 6,419 | -4,288 | -3,344 | 3,426 | 6,267 | 3,839 | 4,021 | 7,265 | 10,288 |
| *∆% 1Q17* | -5.9% | | 22.3% | | -29.0% | | - | | -45.3% | | -4.5% | | -29.4% | |
| **Loan losses and foreclosed assets** | -3,862 | -2,951 | -5,521 | -6,500 | -2 | -1 | 617 | -1,415 | -8,768 | -10,867 | 0 | 0 | -8,768 | -10,867 |
| *∆% 1Q17* | 30.9% | | -15.1% | | - | | - | | -19.3% | | - | | -19.3% | |
| **Total operating income, net of credit risk provisions** | 21,262 | 22,240 | 16,959 | 14,056 | 11,309 | 9,992 | -5,283 | -6,316 | 44,247 | 39,973 | 8,150 | 8,078 | 52,397 | 48,051 |
| ∆% 1Q17 | -4.4% | | 20.6% | | 13.2% | | -16.4% | | 10.7% | | 0.9% | | 9.0% | |
| **Operating expenses** | -8,618 | -10,742 | -13,375 | -15,315 | -2,818 | -3,742 | -813 | 2,963 | -25,625 | -26,836 | -5,873 | -6,009 | -31,498 | -32,845 |
| *∆% 1Q17* | -19.8% | | -12.7% | | -24.7% | | - | | -4.5% | | -2.3% | | -4.1% | |
| **Net operating income** | 12,643 | 11,498 | 3,583 | -1,259 | 8,491 | 6,250 | -6,096 | -3,352 | 18,622 | 13,137 | 2,277 | 2,069 | 20,899 | 15,206 |
| ∆% 1Q17 | 10.0% | | - | | 35.9% | | 81.9% | | 41.8% | | 10.1% | | 37.4% | |
| **Income tax expense** | -3,026 | -2,265 | -757 | 248 | -1,999 | -1,231 | 1,408 | 660 | -4,375 | -2,588 | -256 | -365 | -4,631 | -2,953 |
| *∆% 1Q17* | 33.6% | | -405.5% | | 62.4% | | 113.4% | | - | | -29.9% | | - | |
| **Profit attributable to equity holders of the bank** | 9,618 | 9,234 | 2,826 | -1,011 | 6,492 | 5,019 | -4,672 | -2,693 | 14,263 | 10,549 | 2,301 | 1,703 | 16,564 | 12,252 |
| ∆% 1Q17 | 4.2% | | - | | 29.4% | | 73.5% | | 35.2% | | 35.1% | | 35.2% | |

#### Commercial Banking

Banco Security's commercial banking division targets companies with sales above US$ 1.2 million. While Banco Security's core business targets large companies, efforts have been made in recent years to strengthen the medium-sized company segment by tailoring services to its needs. This strategy is designed to diversify our customer base and improve returns in each segment.

As of June 2017, commercial loans had expanded +11.3% YoY and +4.1% YTD, totaling CH$3,650 billion. Industry wide, commercial loans grew +2.1% YoY and +0.5% YTD. Including foreign subsidiaries, the industry's commercial loans grew +2.7 % YoY and +1.0% YTD. The Bank boasts market share of 6.3%[1] in its target segment of medium and large companies as of June 2017. The commercial banking division had 8,708 customers as of June 2017 (+2.3% YoY).

The commercial banking division posted profit of CH$18,851 million for 1H17 (-15.3% YoY). These figures are explained by increased provision expenses, totaling CH$6,813 million in 1H17 compared to CH$1,737 million in 1H16. Importantly, 1H16 represents a low basis of comparison for risk given the portfolio's strong performance and the provisions recorded in 2H15 in light of weak economic expectations that did not ultimately materialize in increased risk.

| Commercial Loans by Economic Sector In Ch$ Millions | Loans Jun-17 | % Total |
|---|---|---|
| Construction and real estate | 832,407 | 22.8% |
| Financial services and insurance | 577,203 | 15.8% |
| Wholesale and retail trade | 441,189 | 12.1% |
| Real estate investors and corporate services | 522,655 | 14.3% |
| Manufacturing | 331,481 | 9.1% |
| Social services | 221,987 | 6.1% |
| Transportation | 252,681 | 6.9% |
| Utilities | 197,698 | 5.4% |
| Agriculture and livestock | 102,439 | 2.8% |
| Fishing | 96,319 | 2.6% |
| Telecom | 40,713 | 1.1% |
| Mining | 27,436 | 0.8% |
| Forestry | 5,767 | 0.2% |
| **Total commercial loans** | **3,649,975** | **100%** |

Administrative expenses rose to CH$19,361 million (+15.7% YoY) for the six months ended June 2017 as a result of higher productivity bonuses tied to the previous year's results as well as increased expenses to implement technology projects, which were distributed across all the Bank's business segments.

These effects were not fully offset by the greater net interest margin, which reached CH$37,552 million as of June 2017, +CH$2,862 million YoY (+8.2% YoY), reflecting increased commercial loans (+11.3% YoY), with a spread slightly above the previous year.

Quarter over quarter, profit grew +4.2%, reaching CH$9,618 million in 2Q17. The increase was primarily attributable to reduced administrative expenses, which fell to CH$8,618 million (-19.8% QoQ) thanks to the quarter's decreased expenses to implement technology projects. Net interest margin was also up, reaching CH$18,880 million (+1.1% QoQ). These effects were partially offset by lower net fees, which totaled CH$3,744 million (-3.1% QoQ), and increased credit risk provision expenses. The latter reached CH$3,862 million in 2Q17 (+30.9% QoQ) due to increased write offs, which were partially offset by the corresponding reversals of provisions.

## Retail Banking

Banco Security's retail banking division targets high-income individuals. In recent years, the retail division has focused on expanding consumer products while conservatively managing risk, resulting in average annual growth of 15% since 2011.

As of June 2017, the Bank had total retail loans (consumer + mortgage) of CH$970 billion, +4.5% YoY and +1.5% YTD, driven primarily by consumer loans (+8.4% YoY and +2.8% YTD). For the industry, retail loans increased +9.2% YoY and +4.0% QoQ, driven by mortgage loans (+9.7% YoY and +5.0% QoQ) and, to a lesser extent, consumer loans (+8.0% and +2.0% YTD). Including foreign subsidiaries, the industry's retail loans grew +8.9% YoY and +3.9% YTD. The Bank boasts market share of 4.9% in its target segment of high-income individuals as of June 2017. The retail banking division had 85,941 customers as of June 2017 (+2.4% YoY).

The retail banking division posted profit of CH$1,815 million for 1H17, down from the CH$4,800 million recorded in June 2016. The drop was attributable to increased administrative expenses of CH$28,691 million (+16.5% YoY), which were impacted by rising activity levels and implementation of technology projects, which were distributed across Banco Security's business segments.

[1] Only includes regions of Chile where Banco Security has offices.

Provision expenses also rose in 1H17 to CH$12,021 million (+35.5% YoY), reflecting portfolio growth, lower recovery rates for written-off loans because of stricter regulations and more conservative provisioning policies for consumer products.

These effects were partially offset by a rise in net fees, which reached CH$11,596 million, (+CH$1,329 million and +12.9% YoY), thanks to higher bank card and current account fees. In addition, the division reported a net interest margin of CH$30,249 million, (+CH$1,988 million YoY and +7.0% YoY), mainly due to increased loans with average spreads exceeding those recorded in 2016.

In 2Q17, the retail banking division posted profit of CH$2,826 million, up from the 1Q17 loss of CH$1,011 million. The increase is explained by lower administrative expenses of CH$13,375 million (-12,7% QoQ), reflecting the quarter's lower expenses to implement technology projects. As a complement, loan losses were also down to CH$5,521 million in 2Q17 (-15.1% QoQ).

## Treasury

The treasury division reported 1H17 profit of CH$11,511 million (+17.4% YoY), explained by a greater net interest margin, which amounted to CH$10,564 million in 1H17 (+42.6% YoY). The MPR cut in the first half of the year (from 3.5% in December 2016 to 2.5% in June 2017) drove up the net interest margin as price adjustments for liabilities are faster than for assets. A greater income from UF/CH$ mismatches also contributed to the higher net interest margin.

These effects were not fully offset by a lower financial income (net financial operating income (loss) + gain (loss) from FX transactions + other income), which amounted to CH$10,977 million in 1H17. The figure fell -2.7% YoY due to last year's high basis of comparison and despite a strong performance by foreign currency instruments.

Furthermore, administrative expenses rose to CH$6,560 million (+4.2% YoY) in 1H17 as a result of greater expenses to implement technology projects distributed across all the Bank's business segments.

The treasury division consists of trading, investment, distribution and asset and liability management (ALM) operations. The ALM desk manages financial investments used to stabilize the net interest margin, manage interest rate risk in the balance sheet, manage liquidity and efficiently fund the bank's loan portfolio. As of June 2017, ALM represented 55.9% of treasury income. The investment and trading desks manage the Bank's own portfolio of primarily Chilean Central Bank notes and corporate bonds and represent 19.6% of treasury income. The remaining 24.5% of treasury income comes from the distribution desk, which brokers specialized products for commercial banking customers (currency, forwards and structured products).

## Banco Security - Consolidated Statement of Income

| | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Net interest margin | 39,666 | 35,995 | 34,390 | 10.2% | 15.3% | 75,661 | 66,248 | 14.2% |
| Net Fees | 14,234 | 12,635 | 13,538 | 12.7% | 5.1% | 26,869 | 25,089 | 7.1% |
| Net financial Operating Income | 7,184 | 9,494 | 6,143 | -24.3% | 16.9% | 16,678 | 24,221 | -31.1% |
| Net foreign exchange transactions | -654 | 214 | 3,203 | - | - | -440 | -4,699 | -90.6% |
| Recovery of charged-off loans | 613 | 528 | 1,386 | 16.1% | -55.8% | 1,141 | 2,529 | -54.9% |
| Other net operating income | 753 | 77 | -8,890 | - | - | 830 | -7,609 | - |
| **Gross operating income** | **61,796** | **58,943** | **49,770** | **4.8%** | **24.2%** | **120,739** | **105,779** | **14.1%** |
| Credit risk provisions | -9,399 | -10,892 | -6,638 | -13.7% | 41.6% | -20,291 | -13,746 | 47.6% |
| Administrative expenses | -31,498 | -32,845 | -27,718 | -4.1% | 13.6% | -64,343 | -57,361 | 12.2% |
| **Net operating income** | **20,899** | **15,206** | **15,414** | **37.4%** | **35.6%** | **36,105** | **34,672** | **4.1%** |
| Income attributable to investments in other companies | 297 | 0 | 198 | - | - | 297 | 198 | 50.2% |
| **Profit before tax** | **21,196** | **15,206** | **15,612** | **39.4%** | **35.8%** | **36,402** | **34,870** | **4.4%** |
| Income tax expense | -4,631 | -2,953 | -2,103 | - | - | -7,584 | -5,992 | 26.6% |
| **Profit for the period** | **16,565** | **12,253** | **13,509** | **35.2%** | **22.6%** | **28,818** | **28,878** | **-0.2%** |

For 1H17, the Bank reported a net interest margin of CH$75,661 million (+14.2% YoY), driven by greater interest and indexation income, which amounted to CH$172,736 million (+4.6% YoY) for June 2017, mainly because of the rise in total loans (+9.8% YoY). Interest and indexation expenses for 1H17 totaled CH$97,075 million (-1.8% YoY). The figure fell short of the 9.1% growth recorded in the Bank's total liabilities due to the MPR cut (from 3.5% to 2.5%) in early 2017, which lowered the cost of liabilities.

| **Net Interest Margin** *In Ch$ Million* | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Interest and indexation income | 89,388 | 83,348 | 86,398 | 7.2% | 3.5% | 172,736 | 165,118 | 4.6% |
| Interest and indexation expenses | -49,723 | -47,352 | -52,008 | 5.0% | -4.4% | -97,075 | -98,870 | -1.8% |
| Net interest margin | 39,666 | 35,995 | 34,390 | 10.2% | 15.3% | 75,661 | 66,248 | 14.2% |
| Interest margin net of provisions | 30,267 | 25,103 | 27,752 | 20.6% | 9.1% | 55,370 | 52,502 | 5.5% |
| Net interest margin / total loans | 3.43% | 3.18% | 3.27% | 26 p | 17 p | 3.28% | 3.15% | 13 p |
| Net interest margin net of provisions / Total loans | 2.62% | 2.22% | 2.64% | 41 p | -2 p | 2.40% | 2.49% | -10 p |

Net fees totaled CH$26,869 million as of June 2017, +7.1% YoY, because of greater fees from bank cards and current accounts in the retail banking division as well as increased fund management and brokerage income from the asset management subsidiaries. Financial income, which is the sum of net financial operating income (loss) and the net gain from FX operations, totaled CH$16,238 million (-16.8% YoY) due to a lower gain on the valuation of the fixed income trading portfolio due to hikes in the UF and nominal interest rates, in addition to decreased income from proprietary trading by the Bank's asset management subsidiaries.

In the first half of 2017 recovery of written-off loans was down 54.9% YoY, reaching CH$1,141 million, reflecting stricter treatment in light of regulatory changes.

As of June 2017, other operating income amounted to CH$830 million. The increase relative to the previous year's loss of CH$7,609 million was explained by impairment applied in 1H16 to reflect obsolete technology systems and its impact on the basis of comparison.

Credit risk provisions amounted to CH$20,291 million (+47,6% YoY) as of June 2017, attributable to a low basis of comparison for the commercial portfolio's provision expenses, a more conservative criteria in the constitution of consumer product provisions and the one-time CH$1,969 million effect of an adjustment to the provisioning model implemented in January 2017.

For the six months ended June 2017, administrative expenses reached CH$64,343 million (+12.2% YoY) as a result of additional indirect expenses to implement technology projects and expenses tied to increased commercial activity at asset management subsidiaries.

In quarterly terms, Banco Security reported quarterly profit of CH$16,565 million in 2Q17 (+35.2% QoQ). Net fees totaled CH$14,234 million for 2Q17, +12.7% QoQ, because of increased sales of supplementary loan insurance products by the retail banking division and increased fund income from the asset management subsidiaries.

Financial income, which is the sum of net financial operating income (loss) and the net gain from FX transactions, was CH$6,530 million (-32.7% QoQ), reflecting a reduced flow of structured businesses in 2Q17 and a lower gain on valuation of the fixed income trading portfolio as a result of hikes in the UF and nominal interest rates.

Other operating income amounted to CH$753 million in 2Q17, up from the CH$77 million recorded in 1Q17.

In 2Q17, credit risk provisions were CH$9,399 million, -13.7% QoQ. The drop was due to a high basis of comparison in 1Q17, given the one-time CH$1,969 million effect of an adjustment to the provisioning model.

Operating expenses for 2Q17 totaled CH$31,498 million (-4.1% QoQ), because of lower expenses to implement technology projects.

## Banco Security - Operating Expenses and Efficiency

| *In Ch$ Millions* | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Personnel | -12,361 | -11,608 | -12,588 | 6.5% | -1.8% | -23,969 | -26,119 | -8.2% |
| Administrative expenses | -17,692 | -19,726 | -12,999 | -10.3% | 36.1% | -37,418 | -27,083 | 38.2% |
| Depreciation and amortization | -1,445 | -1,511 | -2,131 | -4.4% | -32.2% | -2,956 | -4,159 | -28.9% |
| **Total operating expenses** | **-31,498** | **-32,845** | **-27,718** | **-4.1%** | **13.6%** | **-64,343** | **-57,361** | **12.2%** |
| **Operating expenses / Gross operating income** | **51.0%** | **55.7%** | **55.7%** | **-475 p** | **-472 p** | **53.3%** | **54.2%** | **-94 p** |

The Bank reported operating expenses of CH$64,343 million (+12.2% YoY) for 1H17. As of June 2017, personnel expenses amounted to CH$23,969 million, -8.2% YoY. Administrative expenses reached CH$37,418 million. +38.2% YoY, reflecting greater indirect expenses to implement technology projects and higher expenses at asset management subsidiaries associated with increased commercial activity. Depreciation and amortization expense reached CH$2,956 million, -28.9% YoY, as intangible assets reached the end of their useful lives in 2016.

Expenses in 2Q17 were CH$31,498 million, down from the CH$32,845 million recorded in the immediately preceding quarter. The drop is attributable to reduced administrative expenses, which were CH$17,692 million in 2Q17 (-10.3% QoQ), thanks to lower expenses to implement technology projects this quarter. Personnel expenses reached CH$12,361 million in 2Q17 (+6.5% QoQ). Finally, depreciation and amortization expense reached CH$1,445 million, -4.4% YoY.

Banco Security's efficiency ratio, measured as operating expenses over gross operating profit, totaled 53.3% for June 2017 (-94 b.p. YoY). This ratio compares to 48.1% for the banking system and 48.5% for peer banks[2] as of June 2017.

### Banco Security's Loan Portfolio

Total loans reached CH$4,620,365 million as of June 2017, up +9.8% YoY and +3.5% YTD. For the industry, loans increased +5.3% YoY and +2.0% YTD. Including foreign subsidiaries, this figure increased +5.5% YoY and +2.3% YTD.

Commercial loans grew +11.3% YoY and +4.1% YTD, to CH$3,649,975 million (79.0% of Banco Security's total loan portfolio), while retail loans (consumer + mortgage) reached CH$969,729 million as of June 2017, +4.5% YoY and +1.5% YTD. The 20 largest borrowers represent 10.3% of the Bank's total loan portfolio.

[2] Comparably-sized banks: Average for BBVA, Scotiabank, BICE, Consorcio and Security

| Total Loans *In Ch$ Millions* | | jun-17 | mar-17 | dec-16 | jun-16 | % Chg QoQ | YTD | YoY |
|---|---|---|---|---|---|---|---|---|
| **Consumer** | Loans | 395,197 | 393,390 | 384,350 | 364,619 | 0.5% | 2.8% | 8.4% |
| **Mortgage** | Loans | 574,532 | 567,050 | 571,059 | 563,544 | 1.3% | 0.6% | 1.9% |
| **Mortgage + Consumer** | Loans | 969,729 | 960,440 | 955,409 | 928,163 | 1.0% | 1.5% | 4.5% |
| | No. Customers | 85,941 | 84,727 | 83,887 | 83,893 | 1.4% | 2.4% | 2.4% |
| **Commercial** | Loans | 3,649,975 | 3,572,549 | 3,506,685 | 3,280,520 | 2.2% | 4.1% | 11.3% |
| | No. Customers | 8,708 | 8,712 | 8,551 | 8,513 | 0.0% | 1.8% | 2.3% |
| **Total Loans** | | **4,620,365** | **4,533,229** | **4,462,332** | **4,208,683** | **1.9%** | **3.5%** | **9.8%** |
| **Market Share** | | **3.2%** | **3.2%** | **3.1%** | **3.0%** | **4.63 p** | **4.63 p** | **13.05 p** |

| Interest and indexation income *In Ch$ Millions* | jun-17 | mar-17 | jun-16 | % Chg QoQ | YoY | jun-17 | jun-16 | % Chg YoY |
|---|---|---|---|---|---|---|---|---|
| **Consumer** | 12,312 | 12,672 | 11,986 | -2.8% | 2.7% | 24,984 | 23,964 | 4.3% |
| **Mortgage** | 9,343 | 7,964 | 10,528 | 17.3% | -11.3% | 17,307 | 19,774 | -12.5% |
| **Mortgage + Consumer** | 21,655 | 20,636 | 22,514 | 4.9% | -3.8% | 42,291 | 43,738 | -3.3% |
| **Commercial** | 59,321 | 54,947 | 55,751 | 8.0% | 6.4% | 114,268 | 105,913 | 7.9% |

## Asset Quality

Given Banco Security's exposure to corporate and high-income customers, its risk ratios are among the lowest in the industry.

| | jun-17 | mar-17 | dec-16 | jun-16 | % Chg QoQ | YTD | YoY |
|---|---|---|---|---|---|---|---|
| **Total Loans** | **4,620,365** | **4,533,229** | **4,462,332** | **4,208,683** | **1.9%** | **3.5%** | **9.8%** |
| Nonperforming loans - consumer | 5,889 | 5,295 | 5,004 | 4,655 | 11.2% | 17.7% | 26.5% |
| Nonperforming loans - mortgage | 5,604 | 5,248 | 5,158 | 5,331 | 6.8% | 8.6% | 5.1% |
| Nonperforming loans - commercial | 49,332 | 57,205 | 53,700 | 51,845 | -13.8% | -8.1% | -4.8% |
| **Total nonperforming loans** | **60,825** | **67,748** | **63,862** | **61,831** | **-10.2%** | **-4.8%** | **-1.6%** |
| Non-performing loans - consumer | 1.49% | 1.35% | 1.30% | 1.28% | 14 p | 19 p | 21 p |
| Non-performing loans - mortgage | 0.98% | 0.93% | 0.90% | 0.95% | 5 p | 7 p | 3 p |
| Non-performing loans - commercial | 1.35% | 1.60% | 1.53% | 1.58% | -25 p | -18 p | -23 p |
| **Total nonperforming loans** | **1.32%** | **1.49%** | **1.43%** | **1.47%** | **-18 p** | **-11 p** | **-15 p** |
| Gross provisions | 99,025 | 90,424 | 106,252 | 88,701 | 9.5% | -6.8% | 11.6% |
| Write-offs | (18,881) | (6,129) | (25,601) | (11,073) | 208.1% | -26.2% | 70.5% |
| **Credit risk provisions** | **80,144** | **84,295** | **80,651** | **77,628** | **-4.9%** | **-0.6%** | **3.2%** |
| Provisions - consumer (% total) | 16,304 | 16,018 | 13,254 | 12,430 | 1.8% | 23.0% | 31.2% |
| Provisions - mortgage (% total) | 1,322 | 1,471 | 1,380 | 1,572 | -10.1% | -4.2% | -15.9% |
| Provisions - commercial (% total) | 62,518 | 66,806 | 66,017 | 63,626 | -6.4% | -5.3% | -1.7% |
| **Credit risk provisions** | **80,144** | **84,295** | **80,651** | **77,628** | **-4.9%** | **-0.6%** | **3.2%** |
| Coverage - consumer | 276.9% | 302.5% | 264.9% | 267.0% | -2566 p | 1199 p | 983 p |
| Coverage - mortgage | 23.6% | 28.0% | 26.8% | 29.5% | -444 p | -316 p | -590 p |
| Coverage - commercial | 126.7% | 116.8% | 122.9% | 122.7% | 995 p | 379 p | 401 p |
| **Coverage - total nonperforming loans** | **131.8%** | **124.4%** | **126.3%** | **125.5%** | **734 p** | **547 p** | **621 p** |
| Provisions / loans | 1.73% | 1.86% | 1.81% | 1.84% | -12 p | -7 p | -11 p |
| Provision expenses / loans | 0.83% | 0.91% | 0.62% | 0.53% | -9 p | 21 p | 30 p |

As of June 2017, Banco Security's risk index reached 1.73%, -11 b.p. YoY and -7 b.p. YTD. The 90-day nonperforming loans portfolio reached 1.32%, -15 b.p. YoY and -11 b.p. YTD. The ratio of provisions net of recovery, measured on an annualized basis, over average loans was 0.83%, up +30 b.p. YoY and +21 bps YTD, explained by the low basis of comparison for commercial portfolio provision expense in 2Q16, reflecting more conservative provisioning policies for consumer products as well as the one-time effect of CH$1,969 million of an adjustment to the provisioning model in 1Q17. It is worth noting that Banco Security's coverage levels of 131.8%, +621 b.p. YoY, are significantly improved in relation to the previous year, leaving the Bank prepared to face current economic conditions of lower growth and a potential spike in unemployment.

| | Credit Risk (%) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Provisions / Loans | | | | | Over 90 Day Nonperforming Loans | | | |
| | Mortgage | Consumer | Total | Commercial | Total | Mortgage | Consumer | Commercial | Total |
| Banco Security | 0.23 | 4.13 | 1.82 | 1.71 | 1.73 | 0.98 | 1.49 | 1.35 | 1.32 |
| Medium Banks* | 0.47 | 4.21 | 1.68 | 1.79 | 1.79 | 1.25 | 1.50 | 1.00 | 1.12 |
| Banking system | 0.88 | 6.39 | 2.66 | 2.43 | 2.49 | 2.41 | 2.11 | 1.58 | 1.86 |

*Average for BBVA, Scotiabank, BICE, Security, Consorcio

## Banco Security - Funding Sources

| **Funding Sources** | | | | | | | | | % Chg | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *In MCH$* | jun-17 | | mar-17 | | dec-16 | | jun-16 | | QoQ | YTD | YoY |
| Demand deposits | 613,572 | 10.0% | 552,965 | 9.2% | 570,018 | 9.4% | 561,299 | 10.0% | 11.0% | 7.6% | 9.3% |
| Time deposits | 2,843,583 | 46.4% | 2,886,217 | 48.1% | 3,051,820 | 50.1% | 2,727,914 | 48.5% | -1.5% | -6.8% | 4.2% |
| Total deposits | 3,457,155 | 56.4% | 3,439,182 | 57.3% | 3,621,838 | 59.5% | 3,289,213 | 58.5% | 0.5% | -4.5% | 5.1% |
| Bonds | 1,700,712 | 27.7% | 1,639,620 | 27.3% | 1,571,273 | 25.8% | 1,435,327 | 25.5% | 3.7% | 8.2% | 18.5% |
| Interbank loans | 181,882 | 3.0% | 124,305 | 2.1% | 158,757 | 2.6% | 133,419 | 2.4% | 46.3% | 14.6% | 36.3% |
| Other liabilities* | 309,670 | 5.1% | 333,435 | 5.6% | 277,245 | 4.6% | 320,755 | 5.7% | -7.1% | 11.7% | -3.5% |
| **Total Liabilities** | **5,649,419** | **92%** | **5,536,542** | **92%** | **5,629,113** | **92%** | **5,178,714** | **92%** | **2.0%** | **0.4%** | **9.1%** |
| Equity | 482,493 | 7.9% | 467,946 | 7.8% | 461,737 | 7.6% | 447,283 | 8.0% | 3.1% | 4.5% | 7.9% |
| **Liabilities + Equity** | **6,131,912** | **100%** | **6,004,488** | **100%** | **6,090,850** | **100%** | **5,625,997** | **100%** | **2.1%** | **0.7%** | **9.0%** |

*Includes borrowings from financial institutions and derivative instruments, among other items.

### ○ Demand and Time Deposits

As of June 2017, deposits totaled CH$3,457,155 million, +5.1% YoY and -4.5% YTD. For the industry, total deposits fluctuated +1.6% YoY and -1.2% YTD. Including foreign subsidiaries, this figure varied +2.4% YoY and -0.6% YTD. Banco Security's time deposits consisted of 28.3% retail deposits and 71.7% institutional deposits. The 15 largest depositors[3] represent 29% of the Bank's total deposits. The loan to deposit ratio was 134% as of June 2017, compared to 123% as of December 2016 and 128% as of June 2016.

Banco Security has a strategy to diversify funding sources using sales incentives to increase its retail deposit base. Banco Security strictly controls and monitors liquidity risk[4], striving to diversify funding sources while applying strict limits to asset/liability mismatches, maintaining liquid assets and lengthening liabilities to increase funding terms. It is important to note that the Bank's exposure from asset and liability mismatches is among the industry's lowest. As of June 2017, the ratio of long-term interest rate risk to regulatory capital was 8.4%. As of June 31, 2017, liquid assets[5] represented 48% of demand and other time deposits.

[3] Excludes stock brokerage companies.

[4] Liquidity risk represents the possibility of not fulfilling obligations when they mature as a result of the inability to liquidate assets or funds, or not being able to dispose of them easily or offset exposure without significantly reducing prices due to insufficient market depth (Grupo Security Annual Report, note 35).

[5] Includes cash and cash deposits, transactions pending settlement and the portfolio of financial instruments.

### ○ Debt Issued

| Series | SBIF Registration Number | SBIF Registration Date | Currency | Amount | Placement Period | Annual Interest Rate | Duration (Years) | Maturity |
|---|---|---|---|---|---|---|---|---|
| H1 | 3/2007 | 25-ene-07 | UF | 3,000,000 | 25-ene-10 | 3.00 | 23 | 01-dic-29 |
| K1 | 1/2008 | 04-ene-08 | UF | 3,000,000 | 04-ene-11 | 3.00 | 10 | 01-ene-18 |
| M1 | 1/2009 | 19-may-09 | UF | 3,000,000 | 19-may-12 | 3.00 | 10.5 | 01-jul-19 |
| N1 | 1/2009 | 19-may-09 | UF | 3,000,000 | 19-may-12 | 3.00 | 105 | 01-jul-19 |
| R1 | 10/2011 | 06-oct-11 | UF | 3,000,000 | 06-oct-14 | 3.00 | 10 | 01-jun-21 |
| K2 | 1/2012 | 14-mar-12 | UF | 4,000,000 | 14-mar-15 | 3.25 | 10 | 01-nov-21 |
| B2 | 1/2013 | 26-feb-13 | UF | 4,000,000 | 26-feb-16 | 3.25 | 5 | 01-nov-17 |
| K3 | 1/2013 | 26-feb-13 | UF | 4,000,000 | 26-feb-16 | 3.50 | 10 | 01-nov-22 |
| K4 | 10/2013 | 06-nov-13 | UF | 5,000,000 | 06-nov-16 | 3.60 | 10 | 01-oct-23 |
| B3 | 14/2014 | 09-oct-14 | UF | 5,000,000 | 01-jun-17 | 2.50 | 5 | 01-jun-19 |
| K5 | 14/2014 | 09-oct-14 | UF | 5,000,000 | 01-jun-17 | 2.75 | 10 | 01-jun-24 |
| B4 | 05/2015 | 01-abr-15 | UF | 5,000,000 | 04-dic-18 | 2.25 | 5 | 01-jun-20 |
| K6 | 05/2015 | 01-abr-15 | UF | 5,000,000 | 04-dic-18 | 2.75 | 10 | 01-mar-25 |
| K7 | 05/2015 | 01-abr-15 | UF | 5,000,000 | 04-dic-18 | 2.75 | 10 | 01-sep-25 |
| Z1 | 10/2015 | 01-sep-15 | CLP | 75,000,000,000 | 01-jul-20 | 5.25 | 5 | 01-jul-20 |
| B5 | 11/2016 | 03-oct-16 | UF | 5,000,000 | 03-ago-20 | 5.30 | 5.5 | 01-ago-21 |
| K8 | 12/2016 | 03-oct-16 | UF | 5,000,000 | 03-ago-20 | 2.80 | 10 | 01-oct-26 |
| Z2 | 13/2016 | 03-oct-16 | CLP | 75,000,000,000 | 03-ago-20 | 2.40 | 5 | 01-feb-22 |

## Banco Security - Capitalization

As of June 2017, Banco Security's equity attributable to the owners totaled CH$482,438 million. For some years now, Banco Security has been preparing for the implementation of Basel III. To that end, at the April 2017 extraordinary shareholders' meeting, Grupo Security shareholders agreed to a CH$100,000 million capital increase in order to support commercial growth and strengthen the capital base for Banco Security and its life insurance business. The process was approved by the SVS. The preferential subscription period took place from July 25 to August 24, 2017, raising CH$93,224 million, of which Grupo Security will allocate up to CH$50,000 million to the Bank.

| *In Ch$ Millions* | jun-17 | mar-17 | dec-16 | jun-16 | % Chg QoQ | % Chg YTD | % Chg YoY |
|---|---|---|---|---|---|---|---|
| Capital | 252,047 | 252,047 | 252,047 | 252,047 | 0.0% | 0.0% | 0.0% |
| Reserves and valuation accounts | 33,619 | 30,670 | 27,978 | 28,689 | 9.6% | 20.2% | 17.2% |
| Retained earnings | 196,772 | 185,178 | 181,662 | 166,454 | 6.3% | 8.3% | 18.2% |
| **Equity attributable to equity holders of bank** | **482,438** | **467,895** | **461,687** | **447,190** | **3.1%** | **4.5%** | **7.9%** |
| Tier I (core capital) | 482,438 | 467,895 | 461,687 | 447,190 | 3.1% | 4.5% | 7.9% |
| Regulatory capital | 683,281 | 670,001 | 663,808 | 612,878 | 2.0% | 2.9% | 11.5% |
| Minimum required capital | 410,308 | 405,597 | 401,638 | 383,920 | 1.2% | 2.2% | 6.9% |
| Risk-weighted assets | 5,128,845 | 5,069,964 | 5,020,477 | 4,798,994 | 1.2% | 2.2% | 6.9% |
| BIS ratio | 13.32% | 13.22% | 13.22% | 12.77% | 11 p | 10 p | 55 p |
| Core capital / total assets | 7.37% | 7.31% | 7.10% | 7.40% | 6 p | 27 p | -3 p |

The Bank's capital adequacy ratio as of June 2017, calculated as regulatory capital over risk-weighted assets, reached 13.32% (with a regulatory minimum of 8%), +55 b.p. YoY and +10 b.p. YTD. The ratio of core capital to total assets reached 7.37% (with a required minimum of 3%), -3 b.p. YoY and +27 b.p. YTD.

## FACTORING SECURITY

For 1H17, Factoring Security reported profit of CH$3,748 million, +4.7% YoY, thanks to an increase in factored receivables, which reached CH$263,222 million as of June 2017, +8.5% YoY. Furthermore, operational expenses were CH$4,512 million (-4.0% YoY), as a result of lower banking costs associated with the MPR cut. These effects were not fully offset by higher administrative expenses, which reached CH$5,847 million in 1H17 (+8.4% YoY), because of increased commercial activity.

The efficiency ratio reached 43.8%, -113 b.p. YoY. The risk ratio, measured as provisions over total loans, was 2.9% as of June 2017, -4 b.p. YoY and +27 b.p. QoQ.

| In Ch$ Millions | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Factored receivables | 263,222 | 293,702 | 242,698 | -10.4% | 8.5% | 263,222 | 242,698 | 8.5% |
| Provisions | 7,621 | 7,717 | 7,122 | -1.2% | 7.0% | 7,621 | 7,122 | 7.0% |
| Gross operating income | 7,352 | 7,628 | 7,296 | -3.6% | 0.8% | 14,979 | 14,294 | 4.8% |
| Operating expenses | -2,113 | -2,399 | -2,384 | -11.9% | -11.3% | -4,512 | -4,702 | -4.0% |
| Support expenses | -2,932 | -2,915 | -2,782 | 0.6% | 5.4% | -5,847 | -5,394 | 8.4% |
| **Profit for the period** | **1,893** | **1,855** | **1,880** | **2.0%** | **0.7%** | **3,748** | **3,580** | **4.7%** |
| Efficiency ratio | 42.8% | 44.7% | 42.8% | -192 p | -1 p | 43.8% | 44.9% | -113 p |
| Risk ratio | 2.9% | 2.6% | 2.9% | 27 p | -4 p | 2.9% | 2.9% | -4 p |

# INSURANCE BUSINESS AREA (29.0% of assets; 27.6% of profit from business areas as of June 2017)

The insurance business area reported profit of CH$13,178 million. This area includes the life insurance subsidiary Vida Security, which consolidates 61% of Protecta beginning in September 2015, and Servicios Security, the holding that groups the insurance brokerage (Corredora de Seguros Security) and assistance business (Europ Assistance).

At the extraordinary shareholders' meeting on April 27, 2017, Grupo Security shareholders agreed to a CH$100,000 million capital increase in order to strengthen growth and the capital base of Grupo Security's principal businesses: banking and insurance. Approved by the SVS, The preferential subscription period took place from July 25 to August 24, 2017, raising a total of CH$93,424 million, of which Grupo Security will allocate up to CH$40,000 million to the insurance area.

## VIDA SECURITY

For June 2017, Vida Security reported profit of CH$13,101 million (+67.0% YoY). The increase is primarily attributable to greater investment income, which reached CH$69,030 million (+CH$22,072 million and +47.0% YoY), reflecting an improvement in variable income instruments associated with good global market performance.

The contribution margin totaled -CH$36,331 million in 1H17, down from the -CH$20,330 million recorded in 1H16, as a result of increased claims and pensions paid, which reached CH$165,873 million (+55.1% YoY). The rise is attributable to the new SIS contract and greater surrenders and transfers of CUI and APV funds, which were partially offset by a lower variation in technical reserves related to lower annuity sales. Additionally, the subsidiary posted total variation in technical reserves of CH$50,966 million (+51.8% YoY), in keeping with increased sales of CUI and APV policies and increased investment income from this portfolio. These effects were not fully offset by higher direct premiums, which reached CH$221,928 million (+69.5% YoY). This rise is attributable to the new SIS contract and increased sales of CUI and APV policies, which were partially offset by lower annuity sales.

The subsidiary reported administrative expenses of CH$18,295 million (+12.8% YoY), reflecting increased expenses related to commercial activity.

| In MCH$ | 2Q17 | 1Q17 | 2Q16 | % Chg. QoQ | % Chg. YoY | 6M17 | 6M16 | % Chg. |
|---|---|---|---|---|---|---|---|---|
| Direct Premium | 122,038 | 99,890 | 66,261 | 22.2% | 84.2% | 221,928 | 130,896 | 69.5% |
| Retained premium | 104,170 | 83,235 | 65,219 | 25.2% | 59.7% | 187,405 | 128,881 | 45.4% |
| Variation in technical reserves | -26,885 | -24,080 | -14,542 | 11.6% | 84.9% | -50,966 | -33,568 | 51.8% |
| Claims paid | -33,679 | -37,298 | -25,236 | -9.7% | 33.5% | -70,978 | -45,126 | 57.3% |
| Pensions paid | -52,499 | -42,396 | -31,774 | 23.8% | 65.2% | -94,896 | -61,823 | 53.5% |
| Underwriting expenses | -4,160 | -3,025 | -4,465 | 37.5% | -6.8% | -7,185 | -8,559 | -16.1% |
| Medical expenses | -6 | -13 | -19 | - | - | -19 | -35 | - |
| Insurance impairment | 760 | -454 | 76 | - | - | 306 | -100 | - |
| **Contribution Margin** | **-12,300** | **-24,032** | **-10,740** | **-48.8%** | **14.5%** | **-36,331** | **-20,330** | **78.7%** |
| Administrative expenses | -10,082 | -8,213 | -8,942 | 22.8% | 12.7% | -18,295 | -16,214 | 12.8% |
| Investment income | 28,012 | 41,019 | 24,290 | -31.7% | 15.3% | 69,030 | 46,958 | 47.0% |
| Exchange differences | 934 | 1,160 | -3,096 | - | - | 2,094 | -11,944 | - |
| Gain (loss) on indexed assets and liabilities | -934 | -337 | 1,517 | - | - | -1,271 | 7,825 | - |
| **Profit for the period** | 5,522 | 7,579 | 3,526 | -27.1% | 56.6% | 13,101 | 7,847 | 67.0% |
| | | | | | | | | |
| **Administrative ratios** | | | | | | | | |
| (1) (Claims paid + pension paid)/ Direct premium | 70.6% | 79.8% | 86.0% | -917 p | -1542 p | 74.7% | 81.7% | -696 p |
| (2) Administrative expenses/ Direct premium | 8.3% | 8.2% | 13.5% | 4 p | -523 p | 8.2% | 12.4% | -414 p |
| (3) Underwriting expenses/ Direct premium | 3.4% | 3.0% | 6.7% | 38 p | -333 p | 3.2% | 6.5% | -330 p |
| Combined Ratio (1) + (2) + (3) | 82.3% | 91.0% | 106.3% | -875 p | -2398 p | 86.2% | 100.6% | -1441 p |
| (4) Profit / direct premium | 5.3% | 9.1% | 5.4% | -380 p | -11 p | 7.0% | 6.1% | 90 p |

In quarterly terms, profit was down -27.1% QoQ, falling to CH$5,522 million, due to a drop in investment income to CH$28,012 million (-31.7% QoQ), because of a slowdown in variable income markets and a poorer performance by fixed income instruments.

The contribution margin rose from -CH$24,032 million in 1Q17 to -CH$12,300 million in 2Q17 thanks to increased direct premiums, which reached CH$122,038 million, (+22.2% QoQ). Direct premiums rose as a result of higher individual and group insurance premiums as well as recovered annuity sales after a first quarter impacted by increased industry competition. Claims paid totaled CH$33,679 million (-9.7% QoQ), explained by lower SIS claims as well as decreased surrenders and transfers from CUI and APV funds. Variations in technical reserves were CH$26,885 million (+11.6% YoY) in keeping with increased CUI and APV policy sales.

## Results by Product Line

### o Individual Insurance

Individual insurance policies are contracted by individuals to cover certain risks (life, health, credit life, etc.). Depending on the terms of the policy, policyholders may be able to allocate part of the direct premium to savings in mutual funds or portfolios managed by the company. Based on figure 601 in the financial statements of Vida Security, it includes product lines 101-112 and 425 and excludes line 107. As of June 2017, direct premiums from individual insurance represented 36% of Vida Security's total direct premiums.

The contribution margin reached -CH$14,120 million as of June 2017. The drop relative to the CH$1,133 million generated in June 2016 reflects higher claims paid of CH$34,474 million, +33.9% YoY, due to greater surrenders and transfers of CUI and APV funds. In 1H17, the variation in technical reserves reached CH$52,692 million (+65.5% YoY) thanks to greater sales and strong investment income on the CUI and APV portfolio.

These effects were not offset by increased direct premiums, which totaled CH$80,339 million in 1H17, +CH$14,123 (+21.3% YoY), due to improved sales of CUI and APV policies, totaling CH$74,868 million (+20.9% YoY) and representing 93.2% of all individual policies.

| Individual Insurance<br>In MCH $ | 2Q17 | 1Q17 | 2Q16 | % Chg.<br>QoQ | <br>YoY | 6M17 | 6M16 | %Chg. |
|---|---|---|---|---|---|---|---|---|
| Direct Premium | 44,460 | 35,878 | 32,807 | 23.9% | 35.5% | 80,339 | 66,215 | 21.3% |
| **Retained premium** | **43,973** | **35,273** | **32,309** | **24.7%** | **36.1%** | **79,246** | **65,249** | **21.5%** |
| Variation in technical reserves | -27,965 | -24,728 | -13,186 | 13.1% | 112.1% | -52,692 | -31,843 | 65.5% |
| Claims paid | -16,994 | -17,479 | -14,640 | -2.8% | 16.1% | -34,474 | -25,748 | 33.9% |
| Pensions paid | -908 | -835 | -674 | 8.8% | 34.7% | -1,744 | -1,245 | 40.0% |
| Underwriting expenses | -2,403 | -2,037 | -2,736 | 18.0% | -12.2% | -4,441 | -5,249 | -15.4% |
| Medical expenses | -5 | -12 | -18 | - | - | -17 | -30 | - |
| Insurance impairment | 0 | 0 | 0 | - | - | 0 | 0 | - |
| **Contribution Margin** | **-4,303** | **-9,817** | **1,054** | - | - | **-14,120** | **1,133** | - |
| | | | | | | | | |
| Claims rate (1) | 40.3% | 51.0% | 46.7% | -1078 p | -641 p | 45.1% | 40.8% | 431 p |
| Underwriting expense rate (2) | 5.4% | 5.7% | 8.3% | -27 p | -293 p | 5.5% | 7.9% | -240 p |

(1) Claims paid/ Direct premium

(2) Underwriting expense/ Direct premium

The 2Q17 contribution margin was up CH$5,515 million compared to 1Q17, reaching -CH$4,303 million thanks to increased direct premiums, which rose 23.9% as a result of increased commercial activity levels. Additionally, the subsidiary reported claims paid of CH$16,994 million, -2.8% QoQ. In 2Q17, variations in technical reserves reached CH$27,965 million, +13.1% QoQ, because of increased premiums, which were partially offset by lower investment income related to the CUI and APV portfolio.

### ○ Family Protection

| Family Proteccetion<br>In MCH$ | 2Q17 | 1Q17 | 2Q16 | % Chg.<br>QoQ | <br>YoY | 6M17 | 6M16 | %Chg. |
|---|---|---|---|---|---|---|---|---|
| Direct Premium | 1,580 | 1,711 | 1,838 | -7.7% | -14.0% | 3,291 | 3,385 | -2.8% |
| **Retained premium** | **1,561** | **1,693** | **1,838** | **-7.8%** | **-15.1%** | **3,254** | **3,385** | **-3.9%** |
| Variation in technical reserves | 46 | -49 | 13 | - | - | -3 | 0 | - |
| Claims paid | 291 | -684 | -396 | -142.6% | -173.6% | -393 | -810 | -51.6% |
| Pensions paid | 0 | 0 | 0 | - | - | 0 | 0 | - |
| Underwriting expenses | -517 | -592 | -533 | -12.6% | -2.9% | -1,109 | -1,061 | 4.6% |
| Medical expenses | 0 | 0 | 2 | - | - | 0 | 0 | - |
| Insurance impairment | 0 | 0 | 0 | - | - | 0 | 0 | - |
| **Contribution Margin** | **1,382** | **368** | **924** | 275.3% | 49.5% | **1,750** | **1,514** | 15.6% |
| | | | | | | | | |
| Claims rate (1) | -18.4% | 40.0% | 21.5% | -5838 p | -39970 p | 11.9% | 23.9% | -1201 p |
| Underwriting expense rate (2) | 32.7% | 34.6% | 29.0% | -185 p | 464 p | 33.7% | 31.3% | 236 p |

(1) Claims paid/ Direct premium

(2) Underwriting expense/ Direct premium

Family protection insurance covers the insured party's family group in the event of death or disability, depending on the terms of the policy. Based on figure 601 in the Vida Security financial statements, it includes product line 107. As of June 2017, direct premiums from family protection insurance represented 1.5% of Vida Security's total direct premiums.

In 1H17, the contribution margin for these policies totaled CH$1,750 million (+15.6% YoY, +275.3% QoQ) with direct premiums of CH$3,291 million (-2.8% YoY, -7.7% QoQ), and underwriting expenses of CH$1,109 million (+4.6% YoY, -12.6% QoQ).

## ○ Group Insurance

| Group Insurance<br>In MCH$ | 2Q17 | 1Q17 | 2Q16 | % Chg.<br>QoQ | <br>YoY | 6M17 | 6M16 | %Chg. |
|---|---|---|---|---|---|---|---|---|
| Direct Premium | 17,686 | 14,557 | 18,360 | 21.5% | -3.7% | 32,243 | 34,387 | -6.2% |
| **Retained premium** | **16,980** | **14,086** | **17,816** | **20.5%** | **-4.7%** | **31,066** | **33,339** | **-6.8%** |
| Variation in technical reserves | -237 | -357 | -1,686 | -33.5% | -85.9% | -594 | -2,213 | -73.2% |
| Claims paid | -10,853 | -10,789 | -12,743 | 0.6% | -14.8% | -21,642 | -22,740 | -4.8% |
| Pensions paid | 0 | 0 | 0 | - | - | 0 | 0 | - |
| Underwriting expenses | -1,049 | -327 | -1,060 | 220.2% | -1.0% | -1,376 | -1,956 | -29.7% |
| Medical expenses | -1 | -1 | -3 | - | - | -2 | -5 | - |
| Insurance impairment | 760 | -454 | 76 | - | - | 306 | -100 | -407.5% |
| **Contribution Margin** | **5,601** | **2,157** | **2,400** | 159.6% | 133.3% | **7,758** | **6,324** | 22.7% |
| | | | | | | | | |
| Claims rate (1) | 61.4% | 74.1% | 69.4% | -1275 p | -804 p | 67.1% | 66.1% | 99 p |
| Underwriting expense rate (2) | 5.9% | 2.2% | 5.8% | 368 p | 16 p | 4.3% | 5.7% | -142 p |

(1) Claims paid/ Direct premium
(2) Underwriting expense/ Direct premium

Group insurance is contracted by a company for its employees and may include life, health or credit life coverage, depending on the terms of the policy. Based on figure 601 in the financial statements of Vida Security, it includes product lines 202-213 and 302-313. As of June 2017, direct premiums from group insurance represented 14.5% of Vida Security's total direct premiums.

As of June 2017, the contribution margin reached CH$7,758 million (+22.7% YoY), reflecting lower claims, down to CH$21,642 million (-4.8% YoY) and reduced variation in technical reserves, which reached CH$594 million, -CH$1,099 million YoY. These effects were partially offset by lower direct premiums of CH$32,243 million (-6.2% YoY) as some group insurance policies were not renewed at the end of 2016.

In quarterly terms, the 2Q17 contribution margin was CH$5,601 million (+159.6% QoQ). The surge reflects a +21.5% increase in direct premiums associated with greater commercial activity, while claims paid remain similar to the previous quarter.

## ○ Annuities

Workers that choose an annuity upon retirement turn over their retirement funds to an insurance company and receive in exchange a fixed, inflation-indexed monthly payment for the rest of their life and survivor pensions for their legal beneficiaries. Based on figure 601 in the financial statements of Vida Security, it includes product lines 421, 422 and 423[6]. As of June 2017, direct premiums from annuities represented 9.1% of Vida Security's total direct premiums.

When an annuity is sold, a reserve must be recognized in the company's liabilities, equivalent to the present value of the obligations to the retiree. This generates an accounting loss in the income statement known as the reserve adjustment, which in annuities is recorded within the line item pensions paid.

[6] This also includes line 424 from the SVS, which corresponds to the old Disability and Survivor's system defined in Circular 528 (C-528). As of June 2017, this line contributes to Vida Security only CH$772 million in pensions paid.

| Annuities<br>In MCH$ | 2Q17 | 1Q17 | 2Q16 | % Chg.<br>QoQ | <br>YoY | 6M17 | 6M16 | %Chg. |
|---|---|---|---|---|---|---|---|---|
| Direct Premium | 15,447 | 4,849 | 13,188 | 218.6% | 17.1% | 20,296 | 26,795 | -24.3% |
| **Retained premium** | **15,447** | **4,849** | **13,188** | **218.6%** | **17.1%** | **20,296** | **26,795** | **-24.3%** |
| Variation in technical reserves | -128 | 0 | 0 | - | - | -128 | 0 | - |
| Claims paid | 0 | 0 | 0 | - | - | 0 | 0 | - |
| Pensions paid | -29,352 | -21,303 | -28,551 | 37.8% | 2.8% | -50,655 | -55,839 | -9.3% |
| Underwriting expenses | -191 | -68 | -136 | 180.3% | 40.6% | -259 | -293 | -11.6% |
| Medical expenses | 0 | 0 | 0 | - | - | 0 | 0 | - |
| Insurance impairment | 0 | 0 | 0 | - | - | 0 | 0 | - |
| **Contribution Margin** | **-14,224** | **-16,522** | **-15,499** | **-13.9%** | **-8.2%** | **-30,746** | **-29,336** | **4.8%** |
| | | | | | | | | |
| Underwriting expense rate (1) | 1.2% | 1.4% | 1.0% | -17 p | 0 p | 1.3% | 1.1% | 0 p |

(1) Claims paid/ Direct premium

In 1H17, the contribution margin for annuities was -CH$30,746 million (+4.8% YoY and -13.9% QoQ). The figure was explained by lower annuity costs, which had fallen to CH$50,655 million (-9.3% YoY and +37.8% QoQ) as of June 2017 due to a reduced variation in technical reserves related to lower sales, which was only partially offset by an increase in pensions paid (+3.2% YoY). As of June 2016, annuity sales were CH$20,296 (-24.3% YoY) because of the impact that increased competition had on 1Q17. In 2Q17, sales reached CH$15,447 million (+218.6% QoQ), marking a significant recovery compared to the previous quarter.

## ○ Disability and Survivor Insurance (SIS)

| SIS<br>In MCH$ | 2Q17 | 1Q17 | 2Q16 | % Chg.<br>QoQ | <br>YoY | 6M17 | 6M16 | %Chg. |
|---|---|---|---|---|---|---|---|---|
| Direct Premium | 42,864 | 42,895 | 68 | -0.1% | - | 85,759 | 113 | - |
| **Retained premium** | **26,209** | **27,335** | **68** | -4.1% | - | **53,544** | **113** | - |
| Variation in technical reserves | 1,398 | 1,053 | 317 | 32.8% | - | 2,451 | 488 | - |
| Claims paid | -6,123 | -8,347 | 2,544 | -26.6% | - | -14,470 | 4,172 | - |
| Pensions paid | -22,239 | -20,258 | -2,549 | 9.8% | - | -42,497 | -4,739 | - |
| Underwriting expenses | 0 | 0 | 0 | - | - | 0 | 0 | - |
| Medical expenses | 0 | 0 | 0 | - | - | 0 | 0 | - |
| Insurance impairment | 0 | 0 | 0 | - | - | 0 | 0 | - |
| **Contribution Margin** | **-755** | **-218** | **380** | 247.0% | - | **-972** | **35** | - |
| | | | | | | | | |
| Underwriting expense rate (1) | 66.2% | 66.7% | - | -52 p | - | 66.4% | - | - |

(1) Underwriting expense/ Direct premium

Disability and survivor insurance is mandatory for all individuals with pension accounts at Pension Fund Management Companies (AFPs) and is directly contracted collectively by the AFPs for these individuals through semi-annual public bidding processes. It is financed by employers throughout a member's active work life with a fraction of the additional amount charged by the AFP[7]. It provides protection to the insured and his or her family group in the event of disability or death of the insured party. Based on figure 601 in the financial statements of Vida Security, it includes product line 420.

This table of pensions paid includes disability and survivor payments to insured retirees. Claims paid includes a reserve for the present value of the obligation with the insured parties. The total variation in technical reserves corresponds to an adjustment to reserves as a result of regulatory testing.

In the fifth SIS bidding process organized by the AFPs, Vida Security was awarded two fractions for men and two for women for the period from July 2016 to June 2018. As of June 2017, direct premiums from SIS insurance represented 38.6% of Vida Security's total direct premiums.

[7] http://www.spensiones.cl/portal/orientacion/580/w3-article-3024.html

During June 2017, the SIS product line reported a contribution margin of -CH$972 million with CH$85,879 million in total direct premiums, CH$14,470 million in claims paid and CH$42,497 million in pensions paid.

## Administrative Expenses - Vida Security

| *In MCH$* | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | %Chg. |
|---|---|---|---|---|---|---|---|---|
| Payroll | -3,234 | -3,305 | -3,009 | -2.1% | 7.5% | -6,539 | -5,836 | 12.1% |
| Distribution Channel expenses | -949 | -1,165 | -1,119 | -18.5% | -15.2% | -2,114 | -2,395 | -11.7% |
| Other | -5,898 | -3,743 | -4,814 | 57.6% | 22.5% | -9,642 | -7,983 | 20.8% |
| **Total administrative expenses** | -10,082 | -8,213 | -8,942 | **22.8%** | **12.7%** | -18,295 | -16,214 | **12.8%** |

In 1H17, Vida Security reported administrative expenses of CH$18,295 million, +12.8% YoY and 22.8% QoQ. Distribution channel expenses were CH$2,114 million for the period,-11.7% YoY and -18.5% QoQ. Other administrative expenses totaled CH$5,898 million, +20.8% YoY and +56.6% QoQ, in part related to collections expenses.

## Investment Income - Vida Security

The subsidiary reported investment income of CH$69,030 million for 1H17, (+22.072 million YoY and -CH$13,007 million QoQ) thanks to improved results in variable income related to good global market performance.

It is worth noting that the investment portfolio related to CUI and APV reached CH$460,758 million in June 2017 (+26.2% YoY and +12.8% YTD), in keeping with increased sales. It is important to note that improved investment income from individual insurance with savings components requires increased technical reserves, which partially offsets the positive effect of the net gain.

Investment income from equities and indexes totaled CH$19,405 million for the first half of 2017, +CH$16,335 million YoY and -CH$9,051 million QoQ. Income from fixed income instruments came in at CH$41,316 million in 1H17, +1.4% YoY and -9.4% QoQ,

| Investment Income Ch$ Million | jun-17 | mar-17 | dic-16 | jun-16 | % Chg QoQ | % Chg YTD | % Chg YoY | Stock % 2Q17 |
|---|---|---|---|---|---|---|---|---|
| Fixed Income | 1,725,410 | 1,689,177 | 1,687,248 | 1,593,164 | 2.1% | 2.3% | 8.3% | 73.0% |
| Equities and indexes | 370,299 | 356,220 | 319,647 | 316,400 | 4.0% | 15.8% | 17.0% | 15.7% |
| Real estate | 230,472 | 231,497 | 232,103 | 234,903 | -0.4% | -0.7% | -1.9% | 9.7% |
| Other investments | 37,698 | 38,082 | 39,934 | 33,830 | -1.0% | -5.6% | 11.4% | 1.6% |
| **Investments Income** | **2,363,879** | **2,314,976** | **2,278,932** | **2,178,297** | **2.1%** | **3.7%** | **8.5%** | |

| Investment Income In Ch$ Million | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg. |
|---|---|---|---|---|---|---|---|---|
| Fixed Income | 19,638 | 21,679 | 19,695 | -9.4% | -0.3% | 41,316 | 40,753 | 1.4% |
| Equities and indexes | 5,177 | 14,228 | 840 | -63.6% | - | 19,405 | 3,070 | - |
| Real estate | 2,959 | 3,537 | 3,169 | -16.3% | -6.6% | 6,497 | 6,804 | -4.5% |
| Other investments | 237 | 1,575 | 587 | - | - | 1,812 | -3,669 | - |
| **Investments Income** | **28,012** | **41,019** | **24,290** | **-31.7%** | **15.3%** | **69,030** | **46,958** | **47.0%** |

## Exchange Differences and Gain (Loss) from Indexation Adjustments

As of June 2017, exchange differences totaled CH$2,094 million, versus -CH$11,944 million as of June 2016, primarily because of reduced exchange rate variations. For 1H17, the company posted a loss from indexed units of -CH$1,271 million, due to a larger number of indexed liabilities than indexed assets.

## **ASSET MANAGEMENT BUSINESS AREA** (2.4% of assets; 7.5% of profit from business areas as of June 2017)

The asset management business area includes Administradora General de Fondos Security and Valores Security Corredores de Bolsa. It also includes Securitizadora Security, which manages securitized assets and their respective special purpose vehicles (SPVs). This business area complements the product range offered by the rest of the Group's companies, providing services tailored to the needs of each of its segments. The products and services offered by this business area include mutual funds, investment funds and voluntary pension savings (APV), foreign currency and forwards, stocks, portfolio management and international investments.

| *In Ch$ Millions* | jun-17 | mar-17 | Dec-16 | jun-16 | % Chg QoQ | % Chg YTD | % Chg YoY |
|---|---|---|---|---|---|---|---|
| Assets under management (AUM) | 4,207,365 | 3,856,161 | 3,643,266 | 3,774,952 | 9.1% | 15.5% | 11.5% |
| Mutual funds under management | 2,396,620 | 2,051,093 | 1,854,062 | 1,935,670 | 16.8% | 29.3% | 23.8% |
| *Market share - mutual funds* | 6.7% | 6.0% | 5.9% | 6.2% | 64 p | 73 p | 47 p |

| *In Ch$ Millions* | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Value of shares traded | 651,930 | 840,000 | 469,675 | -22.4% | 38.8% | 1,491,930 | 787,202 | 89.5% |
| *Market share - equities brokerage* | 5.6% | 8.3% | 5.6% | -275 p | -6 p | 6.9% | 4.8% | 204 p |
| Operating income | 9,632 | 9,076 | 8,965 | 6.1% | 7.4% | 18,708 | 17,388 | 7.6% |
| Non-operating income | 976 | 1,139 | 1,261 | -14.4% | -22.7% | 2,115 | 2,389 | -11.5% |
| Total expenses | -8,168 | -8,105 | -8,587 | 0.8% | -4.9% | -16,272 | -15,717 | 3.5% |
| Efficiency ratio | 77.0% | 79.3% | 84.0% | -234 p | -697 p | 78.1% | 79.5% | -133 p |
| | | | | | | | | |
| Fund management | 1,524 | 1,268 | 1,492 | 20.2% | 2.1% | 2,792 | 3,273 | -14.7% |
| Equity, currency and fixed income brokerage, portfolio mgt and Int´l business | 756 | 411 | -214 | 84.2% | - | 1,167 | -29 | - |
| Securitization | -255 | -145 | -117 | - | - | -400 | -236 | 69.4% |
| **Profit - Asset Management** | **2,024** | **1,534** | **1,161** | **32.0%** | **74.3%** | **3,558** | **3,009** | **18.3%** |

The subsidiary's AUM as of June 2017 totaled CH$4,207,365 million, +11.5% YoY and +15.5% YTD. Mutual funds under management totaled CH$2,396,620 million, +23.8% YoY and +29.3% YTD, with a market share of 6.7%. The area reported total value of shares traded of CH$1,491,930 million, with market share of 6.9%.

As of June 2017, the asset management area reported profit of CH$3,558 million (+18.3% YoY), attributable to higher operating income, which reached CH$18,708 million (+7.6% YoY), reflecting increased income from mutual funds because of 23.8% YoY growth in volume, despite reductions in average fees. In addition, increased activity was recorded in the equities, international and fixed income security trading businesses and was partially offset by lower income from the distribution of foreign funds with alternative investment strategies. Total expenses reached CH$16,272 million (+3.5 YoY), due to increased expenses related to commercial activity.

On a quarterly basis, 2Q17 profit reached CH$2,024 million (+32.0% QoQ), primarily thanks to increased operating income of CH$9.632 million (+6.1% QoQ) and expenses comparable to the preceding quarter.

## OTHER SERVICES BUSINESS AREA (1.4% of assets; 5.0% of profit from business areas as of June 2017)

This business area includes the operations of Travel Security and Inmobiliaria Security, which offer non-financial products and services that complement Grupo Security's offering and are directed towards the same target markets.

### REAL ESTATE: INMOBILIARIA SECURITY

Inmobiliaria Security posted 1H17 profit of CH$853 million, (+64.6% YoY and -76.0% QoQ). Ownership was transferred on 29 units in 1H17, versus 26 units in 1H16. In quarterly terms, ownership was transferred on 9 units in 2Q17, down from 20 units in 1Q17. Inmobiliaria Security recorded apartment purchase promise agreements totaling UF 291,000 for the period ended June 2017 (-3.6% YoY) and UF 85,000 in 2Q17 (-UF 121,000 QoQ). It is important to note that there is a lag between a sale and revenue recognition. Under IFRS, revenue is recognized once legal title to the property has been transferred.

Real estate assets under management totaled CH$74,666 million, +22.6% YoY and +4.3% QoQ. The year over year increase is due mainly to the purchase of new lots and capitalization of projects under development.

| *In Ch$ Millions* | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Real estate assets under management | 74,666 | 71,575 | 60,920 | 4.3% | 22.6% | 74,666 | 60,920 | 22.6% |
| Total income | 557 | 1,074 | 478 | -48.2% | 16.5% | 1,630 | 1,293 | 26.1% |
| Total expenses | -436 | -353 | -427 | 23.8% | 2.2% | -789 | -883 | -10.7% |
| Profit before tax | 120 | 721 | 51 | -83.3% | 137.8% | 842 | 410 | 105.5% |
| **Profitfor the period** | **165** | **688** | **125** | **-76.0%** | **32.4%** | **853** | **518** | **64.6%** |

### CORPORATE TRAVEL AGENCY: TRAVEL SECURITY

Travel Security posted profit of CH$1,859 million for the period ended June 2017, -9.3% YoY. Despite a growth of 13.2% YoY in sales as a result of an increase in the number of trips, this was offset by a drop in commission income charged as a percentage of the sale.

Travel Security's profit rose 59.9% QoQ to CH$1,144 million in 2Q17, with greater sales and income compared to 1Q17.

Travex Security, Travel Security's Peruvian travel agency subsidiary, recorded profit of CH$276 million for 1H17 (+124.5% YoY) and CH$154 million for 2Q17 (+25.7% QoQ).

| | 2Q17 | 1Q17 | 2Q16 | % Chg QoQ | % Chg YoY | 6M17 | 6M16 | % Chg |
|---|---|---|---|---|---|---|---|---|
| Total sales - Travel (MUSD) | 71 | 62 | 63 | 15.8% | 12.8% | 133 | 118 | 13.2% |
| Total sales - Travex (MUSD) | 18 | 17 | 14 | 7.7% | 25.1% | 35 | 27 | 27.9% |
| Net operating income (MCH$) | 1,489 | 1,154 | 1,510 | 29.1% | -1.4% | 2,643 | 2,902 | -8.9% |
| **Profit for the period - Travel (MCH$)** | **1,144** | **715** | **1,063** | **59.9%** | **7.6%** | **1,859** | **2,051** | **-9.3%** |

## RISK RATINGS

| | Grupo Security | Banco Security | Vida Security | Factoring Security | Inv. Seguros Security |
|---|---|---|---|---|---|
| FitchRatings (local) | A+ | AA- | AA- | A+ | A+ |
| ICR (local) | AA- | AA | AA | AA- | |
| Standard & Poors (international) | | BBB/A-2 | | | |

## BONDS ISSUED BY GRUPO SECURITY

| Series | Registration Number | Registration Date | Currency | Amount | Annual Interest Rate | Duration (Years) | Maturity |
|---|---|---|---|---|---|---|---|
| F | 620 | 15-09-09 | UF | 59,094 | 4.50 | 23 | 15-09-32 |
| K | 763 | 30-06-13 | UF | 3,000,000 | 4.00 | 25 | 30-06-38 |
| L 3 | 795 | 09-10-14 | UF | 3,000,000 | 3.80 | 21 | 15-11-35 |
| M | 842 | 25-10-16 | UF | 1,189,000 | 4.20 | 25 | 15-10-41 |

### RETURNS AND DIVIDENDS

On April 27, 2017, Grupo Security shareholders approved a dividend payment of CH$7.75 per share charged to profit for the year 2016. This dividend and the interim dividend paid in November are equal to a total dividend of CH$12.0 per share, equivalent to CH$39,100 million, or 52% of profit for the year 2016.

Grupo Security's dividend yield, calculated as dividends per share, divided by the average share price when each dividend was distributed for the corresponding year, amounted to 5.18% in 2016. For the first half of 2017, Grupo Security's stock reported a return of +5.6%, underperforming the IPSA (+14.4%) and the banking sector index (+12.4%).

## 2Q17 EARNINGS CONFERENCE CALL

Grupo Security's second quarter earnings report will be explained in a conference call led by Mr. Renato Peñafiel, the company's CEO, on Thursday, September 07, 2017. A transcript of the call will be available on our website. For more information, please contact the Investor Relations Team at relacioninversionistas@security.cl.

## GRUPO SECURITY

**Grupo Security S.A.** is a niche Chilean-based diversified financial group offering banking, insurance, asset management and other services to large and medium-sized companies and high-income individuals. Through a differentiated and innovative offering of financial products and services tailored to its niche, the group leverages operational and financial synergies through organic growth and acquisitions.

## Safe Harbor

This report contains forward-looking statements based on the intentions, beliefs and expectations of the management of Grupo Security S.A. regarding the future functioning of the different business units. These forward-looking statements are not guarantees of future results and are subject to significant risks and uncertainty. Actual results may differ from those contained in forward-looking statements as a result of a number of unforeseen factors such as changes in global economic conditions, changes in market conditions, regulatory changes, actions by competitors and operational and financial risks inherent to the financial services business.

# APPENDICES

## 1. Financial Statements and Indicators - Assets

| Assets<br>In Ch$ Millions | December 31, 2016 | June 30, 2017 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 510,335 | 575,520 |
| Other financial assets, current | 3,110,270 | 3,015,309 |
| Other non-financial assets, current | 20,375 | 20,805 |
| Trade and other receivables, current | 4,969,605 | 5,135,199 |
| Accounts receivable from related parties, current | 29,783 | 31,688 |
| Inventories | 71,986 | 73,666 |
| Current tax assets | 27,416 | 21,969 |
| **Total current assets other than assets or disposal groups classified as held for sale or held for distribution to owners** | **8,739,770** | **8,874,156** |
| Non-current assets or disposal groups classified as held for sale or held for distribution to owners | 2,456 | 2,184 |
| **Total non-current assets classified as held for sale or held for distribution to owners** | **2,456** | **2,184** |
| **Total current assets** | **8,742,226** | **8,876,340** |
| **Non-current assets** | | |
| Other non-financial assets, non-current | 74,736 | 74,136 |
| Equity-accounted investments | 795 | 3,202 |
| Intangible assets other than goodwill | 43,624 | 39,763 |
| Goodwill | 119,067 | 119,067 |
| Property, plant and equipment | 74,846 | 65,170 |
| Investment property | 144,615 | 160,344 |
| Deferred tax assets | 128,036 | 116,583 |
| **Total non-current assets** | **585,719** | **578,265** |
| **Total assets** | **9,327,945** | **9,454,605** |

## 2. Financial Statements and Indicators - Liabilities and Equity

| Liabilities and Equity<br>In Ch$ Millions | December 31, 2016 | June 30, 2017 |
|---|---|---|
| Other financial liabilities, current | 5,423,193 | 5,370,946 |
| Trade and other payables | 2,322,866 | 2,473,110 |
| Accounts payable to related parties, current | 2,587 | 2,187 |
| Other short-term provisions | 115,158 | 116,923 |
| Current tax liabilities | 26,897 | 17,337 |
| Employee benefit provisions, current | 8,297 | 7,877 |
| Other non-financial liabilities, current | 136,495 | 160,847 |
| **Total current liabilities** | **8,035,493** | **8,149,227** |
| **Non-current liabilities** | | |
| Other financial liabilities, non-current | 518,402 | 512,115 |
| Accounts payable, non-current | 97,426 | 111,368 |
| Accounts payable to related parties, non-current | 1,299 | 1,481 |
| Deferred tax liabilities | 69,610 | 59,885 |
| **Total non-current liabilities** | **686,737** | **684,849** |
| **Total liabilities** | **8,722,229** | **8,834,076** |
| **Equity** | | |
| Issued Capital | 302,406 | 335,616 |
| Retained earnings | 278,548 | 294,069 |
| Shaere premium | 33,210 | 0 |
| Other reserves | (28,536) | (28,404) |
| **Equity attribuable to equity holders of parent** | **585,628** | **601,281** |
| Non-controling interests | 20,087 | 19,248 |
| **Total equity** | **605,715** | **620,529** |
| **Total liabilities and equity** | **9,327,945** | **9,454,605** |

## 3. Financial Statements and Indicators - Consolidated Statement of Income

| Consolidated statement of income (MCh$) | jun-16 | jun-17 |
|---|---|---|
| Revenue | 457,088 | 590,224 |
| Cost of sales | (296,935) | (416,358) |
| **Gross profit** | **160,153** | **173,866** |
| Other income | 1,285 | 1,001 |
| Distribution costs | 0 | 0 |
| Administrative expenses | -100,804 | -111,161 |
| Other expenses | (12,544) | (5,185) |
| Other gains | 1,199 | 1,939 |
| Finance income | - | - |
| Finance costs | (6,329) | (6,647) |
| Share of profit (loss) of associates and joint ventures, equity-accounted | 19,279 | -36 |
| Exchange differences | -14,487 | -1,018 |
| Gain (loss) on indexed assets and liabilities | 6,138 | -3,065 |
| Gains arising from the difference between the prior carrying amount and the fair value of financial assets reclassified at fair value | 1,067 | (1,551) |
| **Profit before tax** | **54,956** | **48,142** |
| Income tax benefit (expense) | (8,881) | (12,211) |
| **Profit (loss) from continuing operations** | **46,075** | **35,931** |
| Profit (loss) from discontinued operations | 0 | 0 |
| **Profit (loss) for the period** | **46,075** | **35,931** |
| **Profit (loss) attributable to** | | |
| Profit (loss) attributable to equity holders of the parent | 45,416 | 35,958 |
| Profit (loss) attributable to non-controlling interests | 659 | -27 |
| **Profit (loss) for the period** | **46,075** | **35,931** |
| Depreciation and amortization | 5,798 | 4,633 |
| **Ebitda** | **67,083** | **59,422** |

## 4. Segment Note - Grupo Security YoY

| Segment Note - Grupo Security *In MCH$* | Lending and Treasury jun-16 | Lending and Treasury jun-17 | Asset Management jun-16 | Asset Management jun-17 | Insurance jun-16 | Insurance jun-17 | Other Services jun-16 | Other Services jun-17 | Consolidation Adjustments, Support Areas and Group Expenses jun-16 | Consolidation Adjustments, Support Areas and Group Expenses jun-17 | Total Grupo Security jun-16 | Total Grupo Security jun-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 219,780 | 224,165 | 25,056 | 25,948 | 199,078 | 320,067 | 17,892 | 23,511 | -4,719 | -3,467 | 457,088 | 590,224 |
| Cost of sales | -116,448 | -123,139 | -6,823 | -6,611 | -166,597 | -275,136 | -6,734 | -11,034 | -333 | -438 | -296,935 | -416,358 |
| Gross profit | 103,332 | 101,025 | 18,233 | 19,337 | 32,481 | 44,932 | 11,158 | 12,477 | -5,051 | -3,905 | 160,153 | 173,866 |
| Other income | 21 | 23 | 207 | 320 | 475 | 324 | 370 | 173 | 211 | 160 | 1,285 | 1,001 |
| Administrative expenses | -53,228 | -58,311 | -14,228 | -15,005 | -25,030 | -28,237 | -7,959 | -8,466 | -360 | -1,143 | -100,804 | -111,161 |
| Other expenses | -11,655 | -4,570 | -663 | -296 | -118 | -139 | -109 | -179 | 0 | 0 | -12,544 | -5,185 |
| Other gains (losses) | 0 | 0 | 190 | 188 | 286 | 164 | 309 | 219 | 414 | 1,369 | 1,199 | 1,939 |
| Finance income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance costs | 0 | 0 | -1 | -157 | -220 | -291 | -563 | -564 | -5,546 | -5,635 | -6,329 | -6,647 |
| Share of profit (loss) of associates and joint ventures, equity-accounted | 0 | 0 | 0 | 0 | 19,073 | -25 | -7 | -13 | 212 | 1 | 19,279 | -36 |
| Exchange differences | -4,181 | -238 | -466 | -201 | -9,682 | -697 | 27 | 256 | -186 | -139 | -14,487 | -1,018 |
| Gain (loss) from indexed assets and liabilities | 13 | 11 | 7 | 34 | 8,782 | -967 | 184 | 35 | -2,849 | -2,177 | 6,138 | -3,065 |
| Gains (losses) arising from the difference between the prior carrying amount and the fair value of financial assets reclassified at fair value | 783 | -1,393 | 284 | -158 | 0 | 0 | 0 | 0 | 0 | 0 | 1,067 | -1,551 |
| **Profit (loss) before tax** | 35,086 | 36,547 | 3,562 | 4,062 | 26,049 | 15,063 | 3,412 | 3,939 | -13,154 | -11,470 | 54,956 | 48,142 |
| Income tax benefit (expense) | -6,048 | -7,989 | -542 | -504 | -2,754 | -2,296 | -787 | -1,165 | 1,251 | -258 | -8,881 | -12,211 |
| Profit (loss) from continuing operations | 29,038 | 28,559 | 3,020 | 3,558 | 23,296 | 12,767 | 2,625 | 2,774 | -11,903 | -11,728 | 46,075 | 35,931 |
| **Profit (loss) attributable to** | | | | | | | | | | | | |
| Profit (loss) attributable to equity holders of the parent | 29,038 | 28,559 | 3,009 | 3,558 | 23,230 | 13,178 | 2,221 | 2,396 | -11,903 | -11,728 | 45,416 | 35,958 |
| Profit (loss) attributable to non-controlling interest | 0 | 0 | 11 | 0 | 66 | -411 | 403 | 378 | 180 | 6 | 659 | -27 |
| Profit (loss) for the period | 29,038 | 28,559 | 3,020 | 3,558 | 23,296 | 12,767 | 2,625 | 2,774 | -11,903 | -11,728 | 46,075 | 35,931 |

## 5. Segment Note - Grupo Security QoQ

| Segment Note - Grupo Security<br>*In MCH$* | Lending and Treasury 1Q-17 | Lending and Treasury 2Q-17 | Asset Management 1Q-17 | Asset Management 2Q-17 | Insurance 1Q-17 | Insurance 2Q-17 | Other Services 1Q-17 | Other Services 2Q-17 | Consolidation Adjustments, Support Areas and Group Expenses 1Q-17 | Consolidation Adjustments, Support Areas and Group Expenses 2Q-17 | Total Grupo Security 1Q-17 | Total Grupo Security 2Q-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 109,337 | 114,827 | 12,871 | 13,078 | 154,638 | 165,429 | 12,697 | 10,814 | -1,747 | -1,720 | 287,797 | 302,428 |
| Cost of sales | -61,132 | -62,007 | -3,207 | -3,404 | -132,209 | -142,927 | -6,390 | -4,644 | -186 | -252 | -203,124 | -213,234 |
| Gross profit | 48,205 | 52,820 | 9,664 | 9,673 | 22,430 | 22,502 | 6,307 | 6,170 | -1,933 | -1,972 | 84,673 | 89,193 |
| Other income | 4 | 20 | 11 | 309 | 180 | 144 | 79 | 94 | 83 | 76 | 357 | 643 |
| Administrative expenses | -29,752 | -28,559 | -7,586 | -7,420 | -12,836 | -15,400 | -4,091 | -4,374 | -885 | -257 | -55,150 | -56,011 |
| Other expenses | -2,315 | -2,255 | -128 | -168 | -70 | -69 | -55 | -124 | 0 | 0 | -2,568 | -2,617 |
| Other gains (losses) | 0 | 0 | 160 | 28 | 90 | 74 | 75 | 144 | 480 | 889 | 805 | 1,135 |
| Finance income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Finance costs | 0 | 0 | -26 | -131 | -126 | -165 | -256 | -307 | -2,726 | -2,909 | -3,134 | -3,513 |
| Share of profit (loss) of associates and joint ventures, equity-accounted | 0 | 0 | 0 | 0 | -14 | -10 | 0 | -13 | 66 | -65 | 52 | -88 |
| Exchange differences | 404 | -642 | -185 | -16 | -540 | -157 | 132 | 124 | -56 | -83 | -245 | -774 |
| Gain (loss) from indexed assets and liabilities | 1 | 10 | 11 | 23 | 264 | -1,232 | -11 | 46 | -881 | -1,296 | -616 | -2,449 |
| Gains (losses) arising from the difference between the prior carrying amount and the fair value of financial assets reclassified at fair value | -1,039 | -354 | -22 | -136 | 0 | 0 | 0 | 0 | 0 | 0 | -1,061 | -490 |
| **Profit (loss) before tax** | 15,508 | 21,040 | 1,900 | 2,162 | 9,376 | 5,687 | 2,180 | 1,759 | -5,851 | -5,619 | 23,113 | 25,029 |
| Income tax benefit (expense) | -3,100 | -4,888 | -365 | -139 | -2,055 | -241 | -753 | -412 | 528 | -786 | -5,745 | -6,466 |
| Profit (loss) from continuing operations | 12,408 | 16,151 | 1,535 | 2,024 | 7,321 | 5,446 | 1,427 | 1,347 | -5,324 | -6,404 | 17,367 | 18,563 |
| **Profit (loss) attributable to** | | | | | | | | | | | | |
| Profit (loss) attributable to equity holders of the parent | 12,405 | 16,154 | 1,534 | 2,024 | 7,412 | 5,766 | 1,282 | 1,115 | -5,324 | -6,404 | 17,310 | 18,648 |
| Profit (loss) attributable to non-controlling interest | 3 | -3 | 1 | -1 | -91 | -320 | 145 | 233 | -1 | 7 | 57 | -84 |
| Profit (loss) for the period | 12,408 | 16,151 | 1,535 | 2,024 | 7,321 | 5,446 | 1,427 | 1,347 | -5,324 | -6,404 | 17,367 | 18,563 |

## 6. Grupo Security Consolidated Statement of Cash Flows

| Statement of Cash Flows | jun-16 | jun-17 |
|---|---|---|
| **For the periods ended June 30, 2017 and 2016** | **MM$** | **MM$** |
| Net cash flows provided by (used in) operating activities | (62,833) | 156,400 |
| Net cash flows used in investing activities | (29,447) | (7,468) |
| Net cash flows used in financing activities | (43,225) | (83,731) |
| **Increase (decrease) in cash and cash equivalents before effect of exchange rate changes** | **(135,505)** | **65,202** |
| Effect of changes in exchange rates on cash and cash equivalents | 9,241 | (17) |
| Net increase (decrease) in cash and cash equivalents | **(126,264)** | **65,185** |
| **Cash and cash equivalents at beginning of period** | **626,758** | **510,335** |
| **Cash and cash equivalents at end of period** | **500,493** | **575,520** |

## 7. Quarterly Statement of Income

| Quarterly Earnings | | 2Q17 | 1Q17 | 4Q16 | 3Q16 | 2Q16 | 1Q16 |
|---|---|---|---|---|---|---|---|
| Revenue | M Ch$ | 302,428 | 287,797 | 285,425 | 284,177 | 232,791 | 224,297 |
| Cost of sales | M Ch$ | (213,234) | (203,124) | (206,437) | (197,577) | (153,970) | (142,964) |
| Gross profit | M Ch$ | 89,193 | 84,673 | 78,989 | 86,599 | 78,821 | 81,332 |
| Administratie expenses | M Ch$ | (56,011) | (55,150) | (64,778) | (54,100) | (51,468) | (49,336) |
| Operating income | M Ch$ | 32,343 | 28,117 | 9,021 | 25,945 | 17,523 | 31,766 |
| Finance costs | M Ch$ | (3,513) | (3,134) | (3,430) | (3,714) | (3,114) | (3,215) |
| Profit before tax | M Ch$ | 25,029 | 23,113 | 14,264 | 19,732 | 15,955 | 39,001 |
| Profit attributable to equity holders of parent | M Ch$ | 18,648 | 17,310 | 15,149 | 13,957 | 14,527 | 30,889 |
| EBITDA[1] | M Ch$ | 30,830 | 28,592 | 26,094 | 27,637 | 22,035 | 45,048 |

[1] EBITDA: Defined as the sum of profit before tax, finance costs and depreciation

## 8. Consolidated Financial and Business Indicators

| Leverage Ratios | | 30-jun-17 | 31-mar-17 | 31-dec-16 | 30-sep-16 | 30-jun-16 | 31-mar-16 |
|---|---|---|---|---|---|---|---|
| Individual leverage ratio [1] | Times | 0.333 | 0.350 | 0.345 | 0.343 | 0.338 | 0.353 |
| Consolidated financial expenses[2] | Times | 8.24 | 8.37 | 7.60 | 8.44 | 9.68 | 13.13 |

| Profabilty | | 30-jun-17 | 31-mar-17 | 31-dec-16 | 30-sep-16 | 30-jun-16 | 31-mar-16 |
|---|---|---|---|---|---|---|---|
| Revenue | $ millions | 590,224 | 287,797 | 1,026,690 | 741,265 | 457,088 | 224,297 |
| Profit attributable to equity holders of the company | $ millions | 35,958 | 17,310 | 74,522 | 59,373 | 45,416 | 30,889 |
| EBITDA | $ millions | 59,422 | 28,592 | 120,814 | 94,720 | 67,083 | 45,048 |
| Return of equity [3] | % | 11.03% | 10.38% | 13.11% | 12.90% | 11.76% | 13.95% |
| Return on assets[4] | % | 0.72% | 0.68% | 0.83% | 0.85% | 0.80% | 0.95% |
| Earnings per share[5] | $ | 19.97 | 18.70 | 22.87 | 22.45 | 20.23 | 23.81 |
| Number of shares | $ millions | 3,258 | 3,258 | 3,258 | 3,258 | 3,258 | 3,258 |

1. Individual leverage ratio: Defined as the quotient between the sum of Grupo Security's individually considered indebtedness and total consolidated equity, defined in Note 38 to Grupo Security Consolidated Financial Statement.
2. Financial expense coverage: Defined as the the sum of profit before tax and finance costs divided by finance costs.
3. Return on equity: Defined as the quotient between profit attributable to controlled properties LTM and average equity attributable to controlled properties.
4. Return on assets: Defined as the quotient between profit attributable to controlled companies LTM and total average assets.
5. Earnings per share: Defined as the quotient between profit attributable to controlled companies LTM and the number of shares

Grupo Security's total consolidated assets were CH$9,454,605 million as of June 2017, +1.4% YTD. Of that total, 54.3% are trade and other receivables, primarily the Bank's loan portfolio. As of June 2017, this item reached CH$5,135,199 million, +3.3% YTD, in keeping with the 3.5% YTD growth in loans as explained on page 9.

Furthermore, 31.9% of total assets are other current financial assets. This line item primarily includes the investment portfolio for the insurance subsidiary's technical reserves and the Bank's portfolio of financial instruments. As of June 2017, other financial assets were CH$3,015,309 million, -3.1% YTD due to the drop in the Bank's stock of financial instruments held for trading, which fell to CH$121,140 million (-54.6% YTD). The Bank's available-for-sale investments were CH$582,367 million, -4.6% YTD, and the investment portfolio for the insurance subsidiary's technical reserves reached CH$2,096,985 as of June 2017, +4.2% YTD, in keeping with the growth of the business and the returns on the portfolio, as mentioned on page 18 of this report.

As of June 2017, total consolidated liabilities reached CH$8,834,076 million, +1.3% YTD. Of those, 60.8% are other current financial liabilities, which include the Bank's time deposits and current accounts, as well as debt issued by the Bank or the Group.

As of June 2017, other financial liabilities were CH$5,370,946 million, -0.96% YTD, due to the -4.5% YTD drop in total Banco Security deposits, which totaled CH$3,457,155 million in June 2017 as explained on page 11.

Of total liabilities, 28% were trade and other payables, which are primarily Vida Security's technical reserves.

As of June 2017, trade payables amounted to CH$2,473,110 million, +6.5% YTD, because of the +4.5% YTD rise in Vida Security's technical reserves. These reserves reached CH$2,220,776 million as a result of the increase associated with disability and survivor insurance and growth in the fund value reserve. As explained on page 15 of this report, the strong performance of the CUI and APV investment portfolio during the period also contributed.

Grupo Security's total equity amounted to CH$620,529 million as of June 2017, +2.5% YTD, because of profit for the period allocated to retained earnings.

The individual leverage ratio is defined in note 38 of Grupo Security's financial statements. Under the bondholder protection covenant, the individual leverage ratio may not exceed 0.4 measured on its quarterly standalone statement of financial position. Leverage is defined as the ratio of standalone financial liabilities, as presented in the FECU disclosures, and total equity. As of June 2017, this indicator was at 0.33, -114 b.p. YTD because of the 1.1% YTD reduction in Grupo Security's standalone financial liabilities as a result of a reduction in dividends payable, which was not fully offset by the effect of inflation on Grupo Security's stock of UF-denominated debt. On the other hand, Grupo Security's equity grew +2.4% YTD this year.

Consolidated financial expense coverage is the sum of profit before tax and finance costs, divided by finance costs. The majority of finance costs for this indicator are interest and indexation expenses for Grupo Security bonds. As of June 2017, consolidated financial expense coverage was 8.24 times, -14.9% YoY reflecting the 12.4% decrease in profit before tax, which was attributable to the absence of the before-tax gain of CH$18,979 million generated in 2016 on the sale of its minority interest in Penta-Security.

As of June 2017, revenue was CH$590,224 million, +33.5% YoY. Of this, 40% correspond to direct premiums from Vida Security, which grew +69.5% YoY as explained on pages 13 to 18. In addition, 29.6% of revenue was from interest on Bank loans, which grew 4.6% YoY, as explained on page 7. On the other hand, 11.9% of consolidated income corresponds to interest income earned on the Vida Security investment portfolio, which grew 62.5% YoY, reflecting the portfolio's growth and strong results, as mentioned on page 18 of this report.

In the first half of 2017, profit (loss) attributable to the owners of the parent was CH$35,958 million, -20.8% YoY primarily due to the absence of the before-tax gain of CH$18,979 million generated in 2016 on the sale of its minority interest in Penta-Security. Excluding that effect, after-tax profit attributable to the owners of the parent would have grown 18.0% with respect to June 2016, as indicated on page 1 herein.

As of June 2017, EBITDA reached CH$59,422 million, -11.4% YoY due to the absence of the before-tax gain of CH$18,979 million generated in 2016 on the sale of its minority interest in Penta-Security. Excluding that effect, EBITDA would have grown 23.5% YoY. This effect was not fully offset by lower depreciation and amortization, which fell 20.1% YoY, because of lower depreciation and amortization by the Bank, as explained on page 8.

As of June 2017, return on equity was 11.03%, -73 b.p. YoY, and return on assets was 0.72%, - 8 b.p. YoY, with earnings per share of 19.97, -1.3% YoY. Falling profitability indicators reflect the 20.8% YoY drop in profit attributable to the owners of the company, which reached CH$35,958 million as of June 2017, given the absence of the before-tax gain of CH$18,979 million generated in 2016 on the sale of its minority interest in Penta-Security.

## Market Information

Grupo Security is structured into four main business areas. Each area includes the subsidiaries and divisions that share common business objectives. These four areas are: lending, insurance, asset management and other services.

Grupo Security is the parent company of a conglomerate of diversified companies engaged in the main sectors of the Chilean financial industry. Its subsidiaries Banco Security and Factoring Security provide lending services to companies and individuals. The subsidiary Seguros de Vida Security Previsión, Corredora de Seguros Security and Europ Assistance operate respectively in the life insurance and life annuity, insurance brokerage and travel assistance industries. Valores Security Corredora de Bolsa, Administradora General de Fondos Security and Securitizadora Security, complement the Group's offering of financial services by developing and distributing specialized financial products and personalized investment and asset management services.

Grupo Security's other services business area includes two subsidiaries engaged in the real estate (Inmobiliaria Security) and travel and tourism (Travel Security) industries. In addition, since 2001 the subsidiary Invest Security provides all group companies with shared services such as accounting, business risk and control, corporate culture, research and corporate IT services to support their development and technological requirements. In December 2014, Invest Security merged with Capital S.A., a wholly-owned subsidiary of Grupo Security.

## BANKING INDUSTRY

As of June 2017, the Chilean banking industry was made up of 20 financial institutions, including 1 state-owned bank (Banco Estado), 14 domestic banks and 5 branches of foreign banks. As of that date, industry loans totaled CH$154,929,272 million (CH$145,640,422 million excluding foreign subsidiaries). Equity totaled CH$17,925,735 million while profit for the first half of 2017 was CH$1,240,731 million, with return on average equity of 12.3%. The industry reported an efficiency ratio of 48.1%, measured as operating expenses over gross operating profit, and 2.15%, measured as operating expenses over total assets. The banking system posted a risk ratio of 2.49%, measured as loan loss provisions to total loans, and 1.86%, measured as 90-day nonperforming loans to total loans. As of June 2017, Banco Security had total loans of CH$4,620,365 million, positioning it 8th in total loans with 3.0% of the Chilean market (3.2% excluding foreign subsidiaries).

## FACTORING INDUSTRY

Factoring has become an important source of alternative financing to complement traditional bank lending for small- and medium-sized companies. This service allows customers to receive advances on receivables via a discount on their invoices, checks, promissory notes or other similar documents. It provides them immediate liquidity and reduces costs and inefficiencies by handing the collections process over to the factoring service provider. Although the industry is still maturing, several situations and regulatory changes have boosted growth recently, making it one of the financial sector industries with the best domestic and international outlook.

## MUTUAL FUND INDUSTRY

As of June 2017, the mutual fund industry reported average assets under management of CH$35,903,443 million and 2,334,061 investors. Administradora General de Fondos Security boasted average assets under management of CH$2,396,620 million as of June 2017, giving it a market share of 6.7% and a fifth-place industry ranking among the 20 fund managers operating in the market.

## STOCK BROKERAGE INDUSTRY

During the first half of 2017, market activity measured as traded equity volumes rose 33.3% in comparison to the first half of 2016, reaching CH$21,735 billion. Value of shares traded for Valores Security Corredores de Bolsa for the same period totaled CH$1,492 billion with market share of 6.9%. Market share is calculated based on transactions on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange.

## LIFE INSURANCE INDUSTRY

As of June 2017, there were 36 life insurance companies in Chile. Total direct premiums for the industry were CH$2,858,360 million for the six months ended June 2017. The life insurance industry posted profit of CH$312,569 million for the period ended June 2017. As of June 2017, Vida Security had market share of 7.8% based on direct premiums.

# Differences Between Book Values and Economic Values and/or Market Values of Principal Assets

Grupo Security participates in the insurance and services businesses through its investments in related companies, mainly Europ Assistance and in private investment funds through Inmobiliaria Security. As of June 2017, investments accounted for using the equity method in the Consolidated Statements of Financial Position represent approximately 0.03% of total assets.

Goodwill, which represents the difference between the acquisition cost and the fair value of assets and liabilities, totaled CH$119,067 million as of June 2017, equivalent to 1.26% of total assets.

Given the varying natures of the companies considered investments in related companies, their market value is normally higher than their carrying amount, which depends on the industry and the economic conditions they face.

# Risk Factors

## DEPENDENCE ON SUBSIDIARY DIVIDENDS

Grupo Security is the ultimate parent company of a conglomerate of companies; as such, it receives its income from subsidiary dividends. As a result, the Company's earnings depend considerably on the performance of its subsidiaries.

As of June 2017, Banco Security had distributed CH$20,236 million in dividends to Grupo Security. Factoring Security distributed CH$5,112 million in dividends (70% of profit for the year 2016) to Grupo Security. Inversiones Seguros Security distributed earnings of CH$9,611 million to Grupo Security.

Lastly, it is important to point out that Grupo Security controls its main subsidiaries with an ownership interest of more than 90% in each subsidiary, which gives it flexibility in setting their dividend policies based on its requirements. This is especially true because of the vast diversification of the Company's revenue sources, with subsidiaries in various sectors of the financial industry.

## OTHER RISK FACTORS

### Risks Associated with General Economic Performance

The performance of the Grupo Security subsidiaries is correlated to economic and financial conditions that, in turn, are dependent on monetary policy, which results in reduced growth of income and profit under restrictive conditions and the opposite under expansionary conditions.

### Competition in All Group Business Areas

The industries in which the Group competes are known for being highly competitive, especially the banking and insurance industries, and trending toward decreased margins. The mergers and alliances that arise between competitors are proof of the competition that Group companies face. Despite the potential challenges to the companies, the possible negative effects of competition are deemed to be offset by Grupo Security's solid brand image in its target market, strong customer loyalty and the niche strategy that drives the Group's development. This has allowed Grupo Security to earn a favorable market position with which to face future competition.

### Regulatory Changes

The banking and insurance industries in which the Group does business are government-regulated and are consequently subject to potential regulatory changes over time. However, this risk is estimated to be low thanks to market transparency, the considerable development of these industries and their excellent global reputation.

## RISKS ASSOCIATED WITH THE FINANCIAL BUSINESS

### Credit Risk

Credit risk is dependent on monetary policy, which ultimately determines a customers' payment capacity. In early 2008, a general deterioration was seen in the system's loan portfolio, which was reflected in higher risk and delinquency ratios. In the third quarter of 2011, trends in risk ratios began to shift, with an improvement in risk levels. Within this framework, Banco Security has consistently posted risk levels below industry averages.

### Market Risk

The main market risks facing the Chilean banking industry are inflation and interest rate risk. As a result, Grupo Security has established market risk policies, procedures and limits to manage its maturity and exchange rate exposure in accordance with its own objectives and regulatory limits. In particular, the bank, its subsidiaries and the insurance companies have implemented a special system for controlling interest rate risk that also allows ongoing monitoring of their medium- and long-term investment portfolios.

### Risks Associated with International Financial Market Volatility

The Chilean economy and its markets generally operate within international markets and may be affected by external shocks. The volatility of world financial markets and changes in global economic conditions can negatively affect the performance of local and international assets and risk premiums demanded by investors.

### Interest Rate Risk

As of June 30, 2017, the company has loans at reasonable rates based on current market conditions.

### Foreign Exchange Risk

Grupo Security has implemented the policy of matching foreign currency transactions with financial institutions to sales transactions in the same currency.

### Commodity Risk

As of June 30, 2017, Grupo Security does not have any significant assets or liabilities in commodities.

## RISKS ASSOCIATED WITH THE INSURANCE BUSINESS

### Local Financial Risks

Decreases in medium- and long-term interest rates could affect the performance of life annuity-backing assets and guaranteed-return investment accounts when investments with shorter maturities must be made, creating a medium-term operating deficit.

### Mortality and Morbidity Rates

Increases in morbidity rates could cause the number of catastrophic claims to rise in the medium-term and the number of medical reimbursement claims to increase in the short term. If companies do not adjust to the new structure of the mortality curves, the decrease in adult mortality rates could negatively affect the income expected from the annuities area.

### Industry Structure

The large number industry players can lead to company closures and mergers. Consequently, the current industry structure may vary, triggering adjustments to the structure of sales and operating margins.

### Re-insurance Industry

The current trend toward concentration of re-insurance companies could affect the variety of coverage options and could prevent the reinsurance of risks that are currently backed thanks to the strong competition that until recently had existed in this market.

## Grupo Security Corporate Structure