# SCRIPT FOR GRUPO SECURITY'S EARNINGS CONFERENCE CALL FOR 4Q18 AND 2018

**Marcela Villafaña (Head of Investor Relations Grupo Security)**

Good morning and thank you for joining us. Welcome to Grupo Security's earnings conference call for the fourth quarter and year ended December 2018. I am here with Fernando Salinas, Planning and Development Manager for Grupo Security, the IR team and several executives from the Bank and Vida Security, who will help us with the Q&A session at the end of the presentation.

## Macroeconomic Recap 2018 *(Page 2 of the presentation)*

**Fernando Salinas (Planning and Development Manager at Grupo Security):**

The improved prospects for economic growth became a reality in 2018 thanks to better external conditions and a change in political cycle, which reduced regulatory uncertainty. In fact, GDP closed the year 2018 with growth of 4.0%, well above the 1.7% growth in 2017.

In this context, inflation reached 2.6% as of December 2018, and the Chilean Central Bank began the process of monetary normalization. In October, it raised the MPR for the first time since December 2015 with a hike of 25 bp As of December, it had reached 2.75%. Then in January it raised the MPR another 25 bp to 3%. Short-term market rates rose in line with the MPR and economic expectations, while long-term rates fell.

As you know, economic activity is one of the key drivers for the financial industry. In 2018, the loan growth rate more than doubled, shifting from an average of 5% in 2017 to 13% in 2018.

For 2019, we estimate GDP growth of around 3.8%, on the higher end of the general consensus, with stable unemployment of around 7%, and the Chilean Central Bank tempering the restrictive tone of its monetary policy. The MPR could rise once more this year. We believe bank loans will continue to grow around 10%, in line with greater economic activity.

## Significant and Subsequent Events *(Page 3 of the presentation)*

**Marcela Villafaña**

As for our milestones in 2018, on November 26th, Vida Security sold Protecta Security to Security Internacional for S./ 100 million. This transaction generated a one-time gain of CH $12,157 million for Vida Security, which was fully reversed at group level.

The change will help streamline the Group's structure and implement our strategic plans in Peru, in line with our vision for long-term development. We then added the International Business segment to the segment reporting note in the financial statements. This segment includes Protecta Security and Travex Security.

Protecta Security's business plan calls for strong growth in sales of annuities and private annuities. With this target in mind, in March 2018 we completed a capital increase of S./ 25 million at Protecta, and on November 19th we carried out a second capital increase of S./ 45 million.

Lastly, as of November 30, 2018, Grupo Security's stock was included on the MSCI Chile Small Cap Index. This reflects our efforts to increase the Company's earnings and improve the stock's depth and liquidity by incorporating new local and foreign investors; providing timely, quality information and maintaining a close relationship with the market.

## Grupo Security Earnings *(Page 4 of the presentation)*

### Fernando Salinas

Group Security reported a 7.8% increase in profit with respect to December 2017, with Banco Security performing particularly well with growth of 15.3% YoY.

Profit from business areas (lending, insurance, asset management, international business and other services) grew 28.1% over 2017. Upon deducting corporate expenses and finance costs, which grew 26.7% during the year, and reversing the one-time gain of CH $12,157 million on the transfer of Protecta Security, and other expenses, we attained a net result of CH $80,548 million.

## *Results by Business Area (Page 5 of the presentation)*

In our business areas, the lending area (factoring and the standalone bank excluding its subsidiaries) reported 17.5% growth in profit over 2017, thanks to stronger earnings from the standalone bank, up 18.7% from last year, explained by a strong performance from the commercial banking division (+13.8% YoY) and the retail banking division (+28.8% YoY), which offset weaker results from the treasury division.

Factoring Security reported an 8.7% increase in profit. Operating income grew +2.5% over December 2017, with a larger volume of loans, up 18.4% during the year, partially offset by a smaller spread.

The insurance area, which consists mainly of Vida Security, reported +127.5% growth in profit over 2017, driven by a one-time gain of CH $12,157 million on the transfer of Protecta

Security to Security Internacional. Vida Security reported good operating results across all business lines, with a stronger contribution margin than 2017, offset by weaker returns from equity investments.

The asset management area, which includes AGF Security and Valores Security, reported an 11.2% improvement in results over 2017, due to greater profit from Securitizadora Security from placing securitized bonds and their respective mezzanine series.

The other services area, which includes the travel subsidiary (Travel Security) and the real estate subsidiary (Inmobiliaria Security), recorded a 63.1% drop in profit as compared to 2017. This can be explained mainly by reduced results from the real estate subsidiary, which fluctuate with the investment and sales cycles for our stock of real estate assets. The year 2018 was planned as development stage rather than sales stage.

Lastly, the new business area, international business, which includes Protecta Security and Travex Security, reported profit of CH $1,429 million, in line with Protecta Security's operating performance after its transfer to Security Internacional.

## Banco Security (standalone) *(Page 6 of the presentation)*

The Bank's standalone profit increased 18.7% over December 2017, explained by a strong performance from its two banking divisions: commercial and retail.

In particular, the commercial banking division's profit improved 13.8% over December 2017. This is explained by an 8.5% rise in the net interest margin, driven by growth of 12.0% YoY in commercial loans. The commercial banking division reported an increase of 21.5% in net fees, thanks to greater commercial activity. These effects were only partially offset by increased credit risk provision expenses (+9.5% YoY), due to impairment of some customers in the electric power sector late in the year, and a 19.3% drop in net FX transactions and other income.

In the retail banking division, profit was up 28.8% over last year, thanks to a greater net interest margin, which grew 3.4% YoY due to a 4.6% increase in retail loans. In addition, provision expenses fell by 5.9%, due to fortified risk and collections processes and structures. Operating expenses rose 2.4% YoY, because of higher personnel expenses due to increased commercial activity. The retail banking division reported a 0.5% increase in net fees over 2017, representing 25.2% of the division's income as of December 2018.

The treasury division reported an 18.3% drop in profit over last year due to a 30.8% reduction in net FX transactions and other income. Although the division enjoyed increased income from distributing structured products, driven by greater commercial activity towards year end, it is important to remember that last year is a high basis of comparison due to strong performances from foreign currency derivatives.

This was only partially offset by a 6.6% rise in net interest margin, explained by growth in the Bank's assets thanks to a favorable funding structure, the use of accounting hedges and liabilities that matured in late 2017 and early 2018 being renewed under better financial conditions.

### Marcela Villafaña

As of year-end 2018, the Bank's total loans were up 10.6% YoY, with market share of 3.3%. The Bank reported particularly strong growth in commercial loans (+12% YoY), with market share in its target segment of medium and large companies of 6.5%. Commercial loans represented 79.1% of total loans.

Of the Bank's retail loans, consumer loans were up 12.8% over last year and accounted for 9.3% of the Bank's total loans. Lastly, mortgage loans decreased 1.1% over 2017, and represented 11.4% of the Bank's total loans.

Our risk ratio reached 1.69% during the year and the NPL portfolio indicator was 1.50%. This gave an NPL coverage ratio of 112.5%.

## Banco Security Consolidated Indicators *(Page 7 of the presentation)*

Banco Security's net interest margin has remained steady over time at around 3.3%, in line with a stable loan mix and spread.

As we have commented on previous calls, we are reaping the benefits of adjustments we made to our operations and technology structures, and are aiming for a long-term efficiency ratio of just below 47%. As of the close of December 2018, we had an efficiency ratio of 47.7%, thanks to this long-term vision.

The ratio of provision expenses to loans reached 0.87% in 2017, with slightly higher risk expenses due to regulatory changes to the mortgage model in the first quarter of the year, and a restructuring of models and processes for consumer products. As of December 2018, the ratio of provisions net of recovery to total loans was 0.78%.

The growth of 15.3% in the Bank's consolidated profit for 2018 resulted in ROAE of 12.8%, above the 12.4% recorded in 2017.

## Banco Security vs Peer Banks vs Chilean Banking System *(Page 8 of presentation)*

### Fernando Salinas

In comparing Banco Security to its peer banks and the industry, our efficiency ratio totaled

47.7% as of December 2018, below last year's 49.7%. This figure is on par with the industry's 47.6% as of December 2018.

The ratio of total operating income, which does not include credit risk provisions, to total average assets, reached 4.0%, above our peers at 3.2% and approaching the industry figure of 4.4%.

We posted ROAE of 12.8%, outperforming both our peers and the industry with 11.9% and 12.2%, respectively. I would like to highlight that this improved return on capital was achieved even with the same or improved capital adequacy indicators. Core capital to total assets was 7.8%, above our peers and the industry with 7.6% and 7.6%, respectively.

## Factoring Security *(Page 9 of the presentation)*

In 2018, Factoring Security's profit grew by 8.7% over 2017,
with a 2.5% increase in operating income due to a larger loan volume, partially offset by a smaller spread. Operating expenses were up 6.9%.

At Factoring Security, factored receivables as December 2018 grew 18.4% YoY, driven by greater commercial activity in line with a stronger economy.

## Vida Security *(Page 10 of the presentation)*

Vida Security reported a 127.5% increase in profit for 2018 as compared to 2017, driven by the one-time gain of CH $12,157 million on the transfer of Protecta Security to Security Internacional, which was fully reversed at group level.

The subsidiary reported good operating results, with a stronger contribution margin than 2017, partially offset by weaker returns from equity investments.

Gross written premiums fell 24.8% over December 2017 as a result of the expiration of contract No. 5 for disability and survivor insurance. The company was not awarded new fractions under contract No. 6. Other contributing factors included reduced premiums from individual insurance with savings components and decreased annuity sales.

Claims and pensions paid fell 17.9% YoY, explained by the expiration of DSI contract No. 5 and a drop in pensions paid because of decreased annuity sales.

The variation in technical reserves was -CH $3,463 million as December 2018, below the -CH $69,418 million recorded last year, mainly because of individual insurance, which saw a drop in investment income, increased surrenders and transfers on individual insurance with savings components and a decrease in gross written premiums.

The contribution margin reached -CH $25,486 million as of December 2018, versus -CH $73,258 million as of December 2017.

## Vida Security - Profit and Investments *(Page 11 of the presentation)*

**Marcela Villafaña**

Vida Security reported a 22.2% drop in investment income as compared to December 2017, due to high volatility and market corrections and a high basis of comparison after markets performed well last year. In particular, as of December 2018, the benchmarks for our portfolios have decreased 17.39% in returns in developed countries, 14.3% in emerging countries and 18.6% in Chile.

In addition, in September 2018, an adjustment of CH $3,254 million was made to the Single Investment Account (CUI) investment portfolio, charged to investment income for this type of insurance, because of changes in the asset valuation model as per IFRS9.

These effects were partially offset by a one-time gain of CH $12,157 million on the transfer of Protecta Security, recorded in other investments, which was fully reversed at group level.

## Asset Management Area *(Page 12 of the presentation)*

**Marcela Villafaña**

The asset management area, which includes the fund management and brokerage subsidiaries, reported an 11.2% rise in profit over last year, explained by strong results from Securitizadora and Inmobiliaria CasaNuestra, (+319.8% YoY), due to the placement of preferential securitized bonds and their respective mezzanine series.

The area also reported greater income because of a larger average volume of mutual funds during the year, greater income from the sale of foreign funds with alternative investment strategies and improved returns on fixed-income instruments in Valores Security's proprietary trading portfolio.

Inversiones Security reported CH $4,383 billion in assets under management as of December 2018, ranking sixth in the industry with 6.6% market share.

## International Business Area - Protecta Security *(Page 13 of presentation)*

**Fernando Salinas**

As we have mentioned before, our long-term goal is to develop Grupo Security's businesses in Peru. More specifically, earlier this year we set the goal of doubling the size of Protecta Security over the next three years. In this spirit, during the first quarter of the year, we increased Protecta Security's capital by S./ 25 million, almost US$ 7 million, and on November 19th, we completed a new capital increase of S./45 million, nearly US$ 13 million.

The company has consistently gained market share in annuity sales, from 5.3% as of September 2015 to 19% as of December 2018. During the first quarter of 2016, a law was passed in Peru that allowed individuals paying into the private pension system to withdraw up to 95.5% of their savings. This sharply impacted annuity sales across the industry. In fact, sales for 2018 represented only 39.1% of sales for the same period in 2015, before the law was passed. In this context, Protecta Security had increased its annuity sales by 41.2% as December 2018, while industry sales fell by 7.0%.

Recently, the company has also begun selling private annuities, which offers an alternative similar to annuities, but under a private contract, in order to meet the pension needs of retirees in the Peruvian system. As of December 2018, we had gross written premiums of S./ 45.3 million Peruvian soles for this product.

## Other Services Area *(Page 14 of the presentation)*

As of December 2018, Travel Security saw a 7.4% reduction in profit as compared to last year, due to a falling exchange rate during the period, since an important part of the company's income is in dollars. We have also seen a drop in airline commissions due to industry changes following the entry of low-cost airlines.

The real estate subsidiary, as I mentioned, has cyclical earnings, related to the stock of real estate assets under development versus the stock already developed and ready to sell. The year 2018 was a period of real estate development. We should see profits return in 2019 and 2020.

## *Page 15 of the presentation: Trends for Grupo Security - Indicators*

Looking at our indicators over a longer span of time, consolidated profit is at its highest point in the series at CH $80,548 million. Our returns on equity reached 11.2%, thanks to our earnings figures and the capital increase in 2017 of almost CH $100,000 million.

Our projections for 2019 call for continued returns for our shareholders, through sustained growth in our businesses in Chile and Peru, with conservative risk management and the seal of excellence that has characterized Grupo Security since its formation.

Once again, thank you for joining our earnings call. Our team is now available to answer questions.

### *Question and Answer Segment*

### Analyst 1

In relation to the Bank, could you tell us about the technology initiatives you have planned for this year and what impact these might have on the long-term efficiency objective of 47%?

Also in relation to the Bank, this is a complicated year for the Chilean banking industry, with lower inflation and higher provisions. How do you plan to address this and, in this context, what type of profitability might we see at the Bank?

For my last question, regarding the expansion or growth plans for Protecta, including some capital increases. Do you see the need at a group level for new capital increases to potentially, as you say, double the size of Protecta in Peru?

### Manuel Widow (Chief Planning and Operations Officer at Banco Security):

Regarding the Bank, first I'll talk about the technology investments. The Bank has continued to work on the lag developed when we replaced our core banking software a few years ago. We have been working to get all our systems up to speed to reduce the gap we have with respect to the rest of the industry. Additionally, we are also working on digitalization and artificial intelligence, which will allow us to move forward in line with what the entire industry is experiencing at present. We are working along those lines, considering a small bank like ours has to be very careful where we place the chips we want to play.

As for your second question, about how we see the Bank's results given the macroeconomic conditions we are facing, with lower inflation, and rates rising a little slower than the market expected.

Obviously, in this scenario, we are affected. We are going to have an impact on the net interest margin involved with asset & liability management, and that is considered in our plans. We believe that the growth of the rest of the business areas is going to help entirely offset this negative effect from the Bank's results and we hope, even with that impact, to see earnings grow.

### Analyst 1

Could you quantify the technological investments? When would we see the impact on efficiency, on that 47% figure that you set? And regarding the impact of lower inflation on the net interest margin, what will that ultimately translate into in terms of ROAE for the Bank?

**Manuel Widow**

Our calculations call for an investment level similar to last year, around 10 million dollars in technology investments overall.

**Fernando Salinas**

In addition, these amounts are quite far from the peak spending for the core project. Therefore, we are basically talking about OPEX. Today we are not really involved in anything very major in relation to what we had been doing up until now and we envisage no large projects on par with CORE volumes.

**Analyst 1**

Can you talk about what type of returns are projected this year for the Bank under the current conditions?

**Manuel Widow**

According to our plan, something around 13%.

**Fernando Salinas**

Regarding the capital increase, in Protecta last year we completed a capital increase of 45 million soles, which are major investment amounts for companies in Peru, but for the Group are not that relevant. Protecta's future growth can probably be addressed with the Group's cash generation capacity.

Any more relevant capital increases would be related more to greater-than-expected growth at the Bank. We are expecting growth of around 9%-10% at the Bank, which would be good news if it happened, because it would imply profitability levels. Another issue, which is a developing story, is regarding life insurance companies, related to risk-based capital. Today, with the unification process occurring at the Superintendency level, we are not very clear as to the final timeline.

**Rodrigo Guzmán (CFO, Vida Security)**

There is no clarity as to the final regulation on RBC, risk-based capital. Those have been only exercises up to now. However, the Group has been preparing for that potential capital adjustment and, therefore, in late 2017 it approved a capital increase of 50 billion pesos, of which 15 billion have been carried out.

In addition, strictly from the point of view of Vida Security, and with the same perspective of adjusting its capital structure to a potentially higher requirement, last year we completed the sale of Protecta Security to Security Internacional, which leaves a higher availability of net capital for Vida Security.

**Fernando Salinas**

And depending on how capital regulations finally turn out, eventually we could go to the market.

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