Script for Grupo Security's Earnings Conference Call for 1Q20

Marcela Villafaña (Head of Investor Relations, Grupo Security)

Good afternoon and thank you for joining us. First, Felipe Jaque, the Chief Economist for Grupo Security, will give us a brief summary of outlooks for the local and international macroeconomic environment.

Felipe Jaque (Chief Economist, Grupo Security)

Macroeconomic Recap 2020 (Page 2)

After the shock to local activity towards the end of last year because of the social unrest that peaked in October, the economy managed to recover considerably during the last two months of last year and the first two months of this year. However, the Coronavirus outbreak and accompanying isolation measures to combat it drastically changed the outlook. This year, GDP is projected to drop 4% assuming the economy begins reopening in June/July.

Macroeconomic Recap 2020 (Page 3)

The labor market is reflecting the impact of the economic shutdown. The number of jobs lost rose significantly, increasing unemployment (9% according to the INE, 15.6% according to Universidad de Chile), which will keep consumption and inflationary pressures contained. However, the outlook for investment is not very favorable given the local context and greater uncertainty due to regulatory issues in different economic sectors and normalization of activity at an aggregate level.

It is worth noting that global financial markets begun recovering in April and May as the first countries to adopt containment measures (China, Europe) show signs of reopening. This has helped moderate levels of volatility, risk aversion by investors, and risk premiums in general, weakening the dollar and driving up the price of raw materials, including copper.

Macroeconomic Recap 2020 (Page 4)

In terms of inflation, the wider output gap brought more moderate inflation expectations at different horizons and annual variation in the CPI, which peaked in February. This was despite additional depreciation in the exchange rate, which reached CH$870 this quarter. Measurements of core inflation have remained more contained, a reflection of weaker internal demand, which continues to exert downward pressure on corporate margins. Moving forward, the reopening of the economy, rise in the price of raw materials (primarily fuel) and some foods should bring inflation back to about 2.7% by year end. These factors will be partially offset by appreciation in the exchange rate, which has recently hit levels even below CH$800, as well as internal demand that will remain weak for a more prolonged period.

Macroeconomic Recap 2020 (Page 5)

In monetary policy, the Chilean Central Bank acted swiftly and strongly, slashing the MPR by 1.25 bps to its technical minimum of 0.5% and announcing that it would remain there for a prolonged period, which we estimate will be all of 2021. Furthermore, the Chilean Central Bank implemented a series of non-conventional measures to provide liquidity in the financial system and relieve financial tension. The government also acted forcefully with measures that primarily consisted of providing funds to guarantee loans, supporting SMEs and passing a law to protect employment.

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

Grupo Security Results (Page 6)

Grupo Security reported profit of MCH$6,500 in 1Q20, down 69.3% from the previous year. This is attributable to business area profits that were down 35% from last year, totaling MCH$17,377, as well as higher corporate expenses.

This quarter, corporate and support area expenses were MCH$4,984, primarily reflecting an increase in employee termination benefits. Furthermore, finance costs and indexed assets and liabilities reached MCH$6,186, exceeding 1Q19 figures largely as a result of higher inflation during the period.

In terms of business areas, for 1Q20, the lending area posted profit of MCH$17,647, down 7.8% due to lower profit from the Standalone Bank, which totaled MCH$16,495, 12.7% less than the previous year. This is a result of a low basis of comparison in provision expenses for the commercial banking division in 2019, which was partially offset by better results from the treasury division, up 72.4% over the previous year thanks to growth in operating income.

On the other hand, the insurance area reported a loss of -MCH$708 as a result of lower returns on financial investments at Vida Security. It is important to mention that insurance is operating in line with projections for the year.

In the asset management business area, profit totaled MCH$471, below 1Q19, due to lower returns on proprietary trading positions at AGF and Valores. These were partially offset by higher operating income.

The other services business area recorded a loss of -MCH$8 as a result of the impact of the current public health crisis on Travel Security and the lag in legal titles transfered by the real estate company. There is a lag between a sale and revenue recognition. Under IFRS, revenue is recognized once legal title to the property has been transferred. The company expects this effect to be reversed during the year as it transfers ownership on units that have already been sold.

Finally, in the international business area, Protecta Security had a particularly strong performance with profit of 5.9 million soles, versus 1.1 million soles in 1Q19, thanks to higher investment income. Nevertheless, converting results in soles to IFRS in Chile resulted in a smaller accounting profit.

Banco Security (Standalone) (Page 7)

The Bank's standalone profit was MCH$14,789, or 12.7% less than 1Q19.

In particular, the commercial banking division recorded profits of MCH$12,118 in 1Q20, 14.1% below the previous year. It is important to note that 1Q19 reflects recovery of previously provisioned loan amounts and, therefore, represents a low basis of comparison for provision expenses. This recovery was only partially offset by the net interest margin, which was 8.8% higher and in line with 16.6% growth in loans and slight improvement in the spread.

In the retail banking division, first quarter profit reached MCH$1,014, 15.0% below 1Q19, reflecting a 13.7% increase in provision expenses associated with a jump in the portfolio's nonperforming loans indicator. Furthermore, the net interest margin was down as a result of a smaller spread, which was partially offset by retail loan growth of 11.3%.

On the other hand, the treasury division recorded profit of MCH$4,986, 72.4% higher than 1Q19 thanks to growth of 37.3% in net operating income, which reflects greater accumulated inflation and the MPR cut in 1Q20. This was partially offset by lower prepayments.

Banco Security Consolidated Indicators *(Page 8)*

Banco Security had total loans of BCH$6,192 as of March 2020, representing YoY growth of 15.5%. The net interest margin has remained stable over time at around 3.3% of loans.

Banco Security's consolidated efficiency ratio was 51.9% for the first quarter of the year, given the 6.6% YoY increase in operating expenses that arose primarily from increased personnel expenses for commercial bonuses for good results in 2019.

In 1Q20, the ratio of loan loss provisions to total loans was 0.85%, compared to 0.39% for 1Q19, reflecting the low basis of comparison generated by recovery of previously provisioned loan amounts in the commercial banking division during the first quarter of last year.

Return on average equity was 10.4%, compared to 10.1% for our peer banks and 11.5% for the industry.

Factoring Security (Page 9)

Now let's take a look at Factoring Security, which is also part of the lending business area. It reported profit of MCH$2,862 for 1Q20, up 31.0% from the same period last year. The improved result is explained by increased operating income, in line with growth in factored receivables of 10.2% and a larger spread. Furthermore, efficiency was 39.7% versus 42.8% in 1Q19. Meanwhile the risk index, calculated as provisions over total loans, was 1.88%, 37 basis points below 1Q19.

Marcela Villafaña

Vida Security (Page 10)

On May 27th, Vida Security reported a deal to acquire Mapfre's annuity portfolio and Caja Reaseguradora de Chile's annuity reinsurance portfolio. This transaction will involve transferring MUF 3.33 in assets and will increase Vida Security's financial assets by 4.4% and its reserves by 6.3%.

In terms of results, the insurance area recorded a loss of -MCH$708 in 1Q20 and Vida Security recorded a loss of -MCH$957, compared to a profit of MCH$5,197 for 1Q19. The decrease is attributable to lower financial investment results.

In aggregate, gross written premiums totaled MCH$63,408, 4.5% below the previous year as a result of lower annuity and group insurance sales. On the other hand, claims and pensions paid remained steady YoY. There was also a positive variation of MCH$25,455 in technical reserves due to lower investment income on the CUI and APV portfolio.

These effects resulted in a contribution margin of MCH$16,559 for 1Q20, compared to -MCH$24,138 last year.

Upon reviewing results by product line, individual insurance recorded a contribution margin of MCH$28,248, with YoY growth of 53.9% in gross written premiums from insurance with savings components (CUI). There was also a positive variation of MCH$25,744 in technical reserves due to lower investment income on the CUI and APV portfolio. Meanwhile, claims paid totaled MCH$33,356, 84.5% higher than the previous year, due to increased surrenders and transfers from CUI policies.

The contribution margin for annuities was -MCH$15,642, which was comparable to the -MCH$17,232 recorded in 1Q19, with gross written premiums down 77.3% relative to the previous year as a result of market contraction in 1Q20. This was offset by lower reserve requirements due to lower sales volumes.

Disability and survivor insurance recorded a contribution margin of -MCH$2,408 for 1Q20, which was comparable to the -MCH$821 recorded in 1Q19, reflecting increased claims and pensions paid. It was also related to lower interest rates, which necessitate greater provisions for future payments.

On the other hand, the group insurance and family protection lines recorded contribution margins of MCH$5,656 and MCH$705, respectively, both of which are in line with projections for the period.

Vida Security - Investment Income (Page 11)

Vida Security recorded investment losses of -MCH$13,212 in 1Q20, which compared negatively to the MCH$40,319 recorded in 1Q19. Investment results for the quarter are attributable to lower returns on equity investments, in both the CUI and APV portfolios as well as the proprietary trading portfolio. This reflects the impact of the current public health crisis on Chilean and international financial markets.

For example, the MSCI All Cap World Index recorded losses of -21.4% while the IPSA had losses of -34.3%, all measured in US dollars. On the other hand, real estate asset and fixed-income instrument performance was in line with 1Q19.

Investment Area (Page 12)

The asset management area, which includes the fund management (Administradora General de Fondos or AGF), brokerage (Valores Security) and securitization (Securitizadora) subsidiaries, reported profit of MCH$471, down from MCH$1,453 last year. The lower result is explained by the 53.0% drop in non-operating income, which reflects lower results in the subsidiaries' proprietary trading positions as well as higher expenses for employee termination benefits.

This was partially offset by greater operating income for the area. At the AGF, higher ROA from mutual and investment funds more than offset the YoY decrease of 6.5% in managed funds. On the other hand, operating income at the stock brokerage subsidiary was in line with the previous year.

Lastly, Securitizadora Security and Inmobiliaria CasaNuestra reported a loss of -MCH$385 versus -MCH$224 last year.

International Business Area - Protecta and Travex (Page 13)

In the international business area, Travex, the Group's Peruvian travel agency, reported sales of US$12 million and a loss of -US$166,000 for 1Q20.

Protecta Security reported profit of 5.9 million soles for 1Q20, up from 1.1 million soles for 1Q19 thanks to improved investment income.

For 1Q20, annuity sales were up 36.9% YoY and the subsidiary had a market share of 26.0%. The company reported 34.2 million soles in private annuities and market share of 14.3%.

Note that converting results in soles to IFRS in Chile results in a smaller accounting profit.

Fernando Salinas

Other Services Area (Page 14)

Travel Security recorded profit of MCH$90 in 1Q20 due to the impact of the current public health crisis on the travel and tourism industry. Consequently, we laid off 32% of the workforce as we streamline our structure and shift to a digital sales model. The company will also implement a commercial and operations model that is completely integrated between Chile and Peru.

The real estate company recorded a loss of -MCH$168 with legal titles transfered for 13 units and UF 214,000 in signed purchase promise agreements, up 20.1% from the previous year. On the other hand, real estate assets under management rose 46.2%. As previously mentioned, there is a lag between a sale and revenue recognition. Revenue is recognized once legal title to the property has been transferred. The company expects this effect to be reversed during the year as it transfers ownership on units that have already been sold.

Evolution of Grupo Security - Indicators (Page 15)

Lastly, here we show Group indicators over a longer period of time. Consolidated profit for 1Q20 was MCH$6,500, with return on average equity of 3.4% for the quarter. The dividend yield was a noteworthy 6.4% and on March 31, 2020, the market to book ratio was 0.69x, among the lowest in the Group's history.

Regarding the capital increase, the CMF made an observation requesting that the share placement price be set at the annual general meeting, not by the Board, because the term for extending authority to set the price had expired. In light of that, the Board agreed to call an extraordinary shareholders' meeting for June 22, 2020, in order to set the final placement price for the issued shares.

In the context of the current public health crisis, Banco Security has joined the government's COVID-19 lending program to support its customers, regardless of their industry. The process requires companies to meet conditions defined by the program and the Bank's risk policies. It includes a personalized service model and case-by-case review. To date, more than 80 loans have been granted and another 200 loans are approved and awaiting disbursement. Furthermore, payment schedules for more than 13,000 mortgage, consumer loans and commercial loans have been renegotiated.

We are currently conducting a thorough review of the Group's different businesses, estimating year-end results and assessing the appropriate action for each. At the same time, we are reviewing the companies' organizational structures in order to optimize them for each business model. It is to that end that we have made the aforementioned adjustments to the travel area as we aim to shift to a digital sales model.

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

Investor Relations Contact: relacioninversionistas@security.cl

Marcela Villafaña, Head of Investor Relations

Alfonso Vicuña, Investor Relations Analyst

Daniela Fuentes, Investor Relations Analyst