Script for Grupo Security's Earnings Conference Call for 9M20

Renato Peñafiel (CEO, Grupo Security)

Thank you very much for joining us and for your interest in participating today. We are presenting the financial statements as of September. I just want to touch on what I believe you have all seen throughout the year. The first few months of the year were very complex, both locally and internationally, and the major impact during the first half of the year was on investment returns in our portfolio and on financial assets held by the insurance company. That impact has somewhat been eliminating or closing the gap and I would dare to say that, now, as of September, as the figures show, there has been an important recovery after that plunge and this trend will likely continue over the next few months, such that the company's results return to pre-pandemic levels.

That means good results compared to prior years. The second thing I would like to mention is that this year the entire financial industry also felt the effects of the social unrest in October of last year, plus the effects of the pandemic. This has been significantly more important in the sense of altering economic activity, both locally and internationally, and the resulting effects on the economy's real sector (i.e. on companies and people).

Along those lines, during the year we implemented several initiatives to support customers, such as renegotiating loans, accessing credit lines offered by the Chilean Central Bank and using facilities from the government to support companies and employment. Despite the above initiatives, which have helped a lot, we, as a Bank and as an industry, have considerably increased provisions.

You can discuss further with Alberto Oviedo, but as Marcela already said in September and even into October we have made provisions on large portfolios. And I would venture to say that, unless there is some particular disaster, from here until the end of the year there should not be any additional surprises in these companies and businesses, and the Bank, to date, is already practically provisioned and will continue to record provisions on the rest of the portfolio to the extent necessary. Alberto Oviedo will go into more depth. It is important for you to know our provision and collateral levels since sometimes they lead to less accurate readings.

The rest of the companies have stayed on course. I think that Factoring will end the year well, with growth above last year, despite the effects of the pandemic, and the rest of the companies will be pretty much in line with about what we had budgeted. The Asset Management Area, which is consolidated by the Bank, has shifted resources from local funds to international funds because of effects other than the pandemic that you are very familiar with. September results for Valores and the AGF, which are both consolidated by the Bank, are in line with the market, are not considerably different.

Our AUM has grown less than expected, but part of those are outside Chile. That has meant that the Group's earnings have gone from less to more and we are positive that this quarter will also be beneficial for the Group. We should end the year with lower revenue than last year but significantly more than the first few months of this year.

That's the message I would like to convey. You can discuss the details with Fernando, and in greater depth with Alberto, who oversees risk, and with Juan Pablo Cofré from the life insurance subsidiary's investment area.

Thanks for being here and I hope you have a productive discussion with our team. Thank you very much.

Felipe Jaque (Chief Economist, Grupo Security)

Macroeconomic Recap 2020 (Page 2)

After GDP bottomed out during the second quarter (down 14.1% YoY), the economy has begun to recover as mobility restrictions are lifted. During the third quarter, the YoY drop improved to -9.1%, but, more importantly, it grew 6% with respect to the second quarter. Recovery has been stronger in the hardest-hit sectors like retail and services, aided by income support measures, 10% withdrawals from pension funds and a boost from global reactivation. We anticipate continued recovery in the seasonally-adjusted, month-to-month measurement, and are still forecasting that GDP will close the year with a drop of 5% and recovery of 6% in 2021, in line with a healthier global economy.

Macroeconomic Recap 2020 (Page 3)

Economic recovery has been accompanied by an improved labor market, which saw its worst figures in July with a loss of 1 million 840 thousand jobs, driving the unemployment rate to 13.1%. That figure would have been much higher without the 700 thousand people furloughed under the Employment Protection Act, in addition to a rise in the economically inactive population (those that leave the workforce). However, in recent months 200 thousand jobs have been created, pushing the unemployment rate down to 12.3%.

The labor market will continue to be significantly impacted in upcoming quarters because, to the extent the economy continues to recover, people that had left the workforce will gradually return, which should keep the unemployment rate high (around 10%). Thus, the outlook for private consumption is one of gradual recovery, definitely mitigated by household income support measures, while waiting for measures designed to reactivate public and private investment to generate a sharp recovery in employment over the next few quarters.

Macroeconomic Recap 2020 (Page 4)

In terms of inflation, despite larger output gaps in the economy, the market has been surprised by rising inflation in recent months, explained by the speed of economic recovery, along with stock shortages in some products, as well as the pass-through of a higher exchange rate over the past few months, compounded by a rise in volatile prices (perishables, fuel). Thus, short- and medium-term inflation expectations have tended to stabilize around 3% for the year, which we anticipate will persist in upcoming quarters.

Macroeconomic Recap 2020 (Page 5)

After the swift monetary policy response to the pandemic, taking the MPR to its technical minimum of 0.5%, no significant changes should be expected over the next 24 months. The Chilean Central Bank should maintain a highly expansionary stance and unconventional measures to support financial market liquidity, as well as to cope with potential adverse effects of a new series of withdrawals from pension funds. Short-term rates stabilized around the MPR, while long-term rates are being driven upward by the deteriorating fiscal outlook. In fact, the BCP 10 has risen from 2% in June to 2.7% in November.

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

Grupo Security Results (Page 6)

Grupo Security reported profit of MCH $47,772 for 9M20, down 22% from the previous year.

However, during the third quarter we saw a change in earnings trends, with April-June being the weakest quarter. For the third quarter, this figure was MCH $30,445, 181% above the prior quarter's MCH $10,828 due to upswings in the insurance and real estate companies.

Profit from business areas was 19% lower than 9M19, with a one-time increase in corporate and support company expenses due to larger expenditures on termination benefits. These effects were partially offset by positive tax effects.

Commented [ED1]: ¿Esto es lo que querían decir?

By business area, for the nine months ended September 2020, the lending area reported profit of MCH $47,917, 25% less than the year before. The decline can be explained by greater provision expenses mainly in the commercial banking division, as we will explain later. For 3Q20, the Bank's results improved 14% in relation to figures for 2Q20, due to a strong performance from the treasury division, offset by greater provision expenses, which will be explained in greater detail by Alberto Oviedo, Risk Manager at Banco Security.

The asset management area reported profit of MCH $2,957, up 171% from 9M19. In the last quarter, the asset management area incurred greater expenses to implement the transformation project.

The insurance business area, in turn, had profit of MCH $16,865. Vida Security reported profit of MCH $16,475, with a significant improvement in 3Q20, reverting the 2Q20 loss of -MCH $1,035 thanks to an upturn in investment income, which will be discussed later by Juan Pablo Cofre, Investment Manager for the life insurance company.

The other services business area recorded profit of MCH $660 as a result of ownership being transferred on numerous units during the quarter by the real estate subsidiary, which offset weaker results from the travel agency.

Finally, in the international business area, Protecta Security reported profit of MS./ 9.9, with lower premiums and investment income. The following slide provides a consolidated outlook for the Group to understand the main variables behind these results.

Fernando Salinas

Grupo Security, Consolidated (Page 7)

Grupo Security's consolidated income is made up of bank revenue, insurance company premiums and returns on its financial investments, as well as revenue generated by the factoring and other subsidiaries.

From a consolidated perspective, the Group's operating income was down 8.6%, mainly due to lower investment income and a lower volume of premiums at Vida Security, compounded by lower operating income from the Bank.

However, quarterly operating income was up thanks to strong investment returns from Vida Security, resulting in a 39% variation in consolidated revenue in 3Q20.

Consolidated administrative expenses, in turn, were up 3.7% compared to the previous year. Payroll expenses were 12% higher due to termination benefits because of structural adjustments made at several companies. The line item other administrative expenses decreased 4.0% with respect to 2019, reflecting the first savings from the organization-wide efficiency plan.

Banco Security Consolidated Indicators (Page 8)

Banco Security reported consolidated profit of MCH $44,220 for the nine months ended September 2020, 25% less than September 2019 because of higher provision expenses and reduced revenue in the retail banking division. This trend was partially reversed in 3Q20, thanks to strong results from the treasury division.

The banking industry experienced a 61.7% decline in profit for the same period (9M20), also explained by increased provision expenses throughout the system.

Return on average equity for Banco Security was 9.3%, compared to 10.5% for our peer banks and 4.9% for the industry.

Banco Security had total loans of BCH $6,312 as of September 2020, representing YoY growth of 8%, driven by 12% growth in commercial loans, on par with the industry at 12%. However, this growth is due almost entirely to government-backed (FOGAPE) loans. In effect, excluding FOGAPE loans, commercial loans for the industry grew merely 4%. We had less FOGAPE-related growth, giving an adjusted loan growth figure of 11% for Banco Security.

In contrast, retail loans (mortgage + consumer) at Banco Security were down 5% YoY, due to a 13% drop in consumer loans. The industry, in turn, reported an 11% decline in consumer loans.

In this context, the ratio of net interest margin to loans has remained stable over time at around 3.3% of loans.

Banco Security's consolidated efficiency ratio was 48.6% as of September 2020, 85 basis points higher than last year, with gross operating income in line with 2019 and support expenses up 2.3%, mainly due to termination benefits paid following structural adjustments. It boasted an efficiency ratio of 45.7% for the quarter because of higher gross operating income in 3Q20.

Banco Security (Page 9)

By division, the commercial banking division reported profit of MCH $25,957 for 9M20, 39% below the previous year. This weaker result can be explained by higher provision expenses, as Alberto will discuss later on. This was only partially offset by the net interest margin, up 8%, in line with 12% growth in commercial loans. As we already mentioned, the industry grew at a similar pace. However, most of that increase was from the FOGAPE program, with these loans explaining 2/3 of the system's growth.

In the retail banking division, loans to individuals were down 5% YoY, driven by 2% growth in mortgage loans and a 13% decrease in consumer loans attributable to the public health crisis's effect on the economy and restrictions in the division's risk policies. On an industry level, retail loans were up 2% because of 9% growth in mortgages and an 11% fall in consumer loans.

The retail banking division reported a loss of MCH $3,224 for the first nine months of the year, versus profit of MCH $4,246 last year. The net interest margin was down 9% YoY due to contracting consumer loans, while net fees fell 29% due to decreased sales of supplementary loan insurance products. In addition, provision expenses totaled MCH$ 21,659, up 13% over the past year.

The treasury division reported profit of MCH $24,868, up 42% from 2019, due to growth in the proprietary trading portfolio. Similarly, revenue was up due to bond sales, higher income from prepayments and structured products and the effects of MPR cuts.

For the quarter, the treasury division reported profit of MCH $14,029 (+140% QoQ), explained by increased net operating income of MCH $21,822, (+102% QoQ), greater fixed-income trading by the money desk, greater prepayments and refinancing of maturing instruments at lower rates.

Now Alberto Oviedo, Credit Risk Division Manager for Banco Security, will explain the Bank's strategy and results for the period in detail.

Alberto Oviedo

Banco Security - Risk Area (Page 10)

Banco Security focuses on corporate customers and high-income individuals, which is reflected in its risk ratio, measured as provisions over loans, of 1.83% versus 2.68% for the banking industry. The Bank's strategy for the commercial portfolio has centered around supporting customers in long-term businesses with adequate guarantee coverage, which is valued using conservative standards.

Credit risk provision expenses reached MCH $50,765 for 9M20, up 57% from the prior year. Although the LTM ratio of provision expenses to loans has increased 20 basis points YoY, compared with the industry's 55 basis points, it continues to be favorable.

This difference is partly explained by the portfolio mix. As of September 2020, the Bank's loan portfolio is comprised of 82% commercial loans, 11% mortgage and 7% consumer. Its commercial portfolio has high coverage consisting of guarantees and provisions. The individual commercial portfolio has regulatory provisions based on each customer's rating and the percentage of exposure not secured by guarantees. At Banco Security, the portion of the impaired portfolio that is not secured by guarantees or provisions fell from 8% to 6% during the quarter.

While the pandemic has led to a deterioration in economic activity and the resulting rise in the indicator for the impaired commercial portfolio, high guarantee coverage at Banco Security has considerably moderated the impact on risk expenses versus other industry players.

In the retail banking division, from 2Q20 to 3Q20 the NPL portfolio shrunk from MCH \$9,504 to MCH \$7,216, explained by an active effort to strengthen containment and collections. This compares favorably to the industry, with a nonperforming consumer loan portfolio of 1.87%, versus 1.54% for Banco Security.

Marcela Villafaña

Asset Management Area (Page 11)

For the first nine months of the year, 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 \$2,955, up 171% from last year. It reported lower operating revenue due to lower fund income because of a drop in AUM. Furthermore, non-operating income was 40% lower due to weaker returns from proprietary trading. These effects were more than offset by lower total expenses related to a high basis of comparison in 2019 due to operational risk expenses.

Asset Management Area (Page 12)

The asset management area had assets under management of BCH \$4,076, representing a YoY drop of 13%, because of decreases in mutual and investment funds under management.

In a YoY comparison, the composition of AGF Security's AUM has shifted towards a lower percentage of domestic funds (-40.6%) and growth in balanced (35.5%), international (55.1%) and dollar money market (263%) funds.

The area experienced a drop in operating income of 5% YoY, mainly because of lower fund management revenue as a result of a 7.6% decline in volumes under management.

It also had lower non-operating income (-40%) due to weaker returns from proprietary trading, affected by low interest rates during the year, which turned around during 3Q20.

These effects were offset by lower total expenses due to a high basis of comparison from operational risk expenses during the prior year.

Factoring Security (Page 13)

At Factoring Security, factored receivables totaled BCH $329 for the nine months ended September 2020, reflecting a drop of 12% YoY due to economic slowdown, greater liquidity because of assistance programs and loan renegotiations.

Profit for the first nine months of 2020 was MCH $7,400, up 9% from the same period last year because of greater operating income, where lower volumes of factored receivables were more than offset by a larger spread, since the company managed to transfer the higher economic risk to its prices.

Furthermore, efficiency was 42.2% versus 41.6% in 9M19, while the risk index, calculated as provisions over total loans, was 2.29%, up 10 basis points from 9M19, also impacted by the effects of the crisis on its customers.

Vida Security (Page 14)

Vida Security reported profit of MCH $16,475, down 11% from last year. Profit for 3Q20 was MCH $18,467 due to improved investment income from proprietary trading, thereby recovering losses from the first and second quarter.

In aggregate, gross written premiums totaled MCH $167,008, 14% below the previous year as a result of lower annuity and group insurance sales, offset by growth in individual policies.

The individual insurance product line's contribution margin was a loss of -MCH $1,850, with growth of 23% in direct premiums written and lower investment income from the CUI and APV portfolio. In addition, claims paid were up 19%, explained by increased surrenders and transfers from CUI and APV policies. Meanwhile, one-year permanence of funds from insurance with savings components (CUI) has averaged 88.5% over the last twelve months (+130 bps YoY).

As for family protection products, the contribution margin was 52% greater due to a drop in claims paid and a lower underwriting expense rate, in line with reduced business.

For group policies, the contribution margin grew 56% YoY due to a lower claims rate in group health products explained by a drop in elective procedures because of the pandemic.

Meanwhile, the contribution margin for annuities was a loss of -MCH $44,321. Over the last 12 months, the annuity sales rate for the entire market has averaged 1.8%, while the calculation rate for scheduled withdrawals has been 3.6%, thus driving industry-wide sales sharply downward. As a result, Vida Security reported direct premiums written of MCH $8,552, down 83% from the previous year. This was offset by lower reserve requirements due to lower sales volumes, reflected in a decrease in annuities paid.

The contribution margin for Disability and Survivor Insurance (DSI) was a loss of -MCH $3,364 for 9M20, in line with last year's figure.

These effects resulted in a contribution margin of -MCH $19,691, versus -MCH $58,122 for 9M19.

Next, Juan Pablo Cofré, Investment Manager for Vida Security, will explain the main effects on investment income.

Juan Pablo Cofré

Vida Security - Investment Income (Page 15)

Vida Security had investment income of MCH $63,291 for 9M20, down 44% from 2019.

Specifically, the proprietary trading portfolio generated income of MCH $53,553, down 33% from September 2019, due to weaker returns on real estate funds and domestic and international equity instruments. The returns on this portfolio during the quarter totaled MCH $29,901, or 126% above the prior quarter, due to recovery in international equity instruments and private equity funds.

Fernando Salinas

International Business Area - Protecta Perú (Page 16)

In the international business area, Protecta Security recorded profit of MS./ 9.9 in the first nine months of September 2020, down 11% from last year.

Total premiums written were down 3% YoY due to a contracting annuity market in Peru. However, the company still attained market share of 24% based on sales flows. The company reported MS./ 112 in private annuities and market share of 18%.

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

Other Services Area (Page 17)

Travel Security, our travel agency, has been profoundly affected by the public health crisis's impact on the travel and tourism industry, reflected in a YoY drop of 74% in billing. During the quarter, the company continued to have very low sales levels.

Consolidated with its similarly impacted subsidiary in Peru, Travel Security reported a loss of -MCH $4,275 for the first nine months of the year. Individually, Travel Perú posted a loss of -MUS $1.9.

In view of the medium- and long-term impacts on the industry, the company has adjusted its structure. From here on out, the company expects to use a primarily digital sales model.

As for the real estate subsidiary, as quarantines lift municipal offices are once again approving projects, thus resuming transfer of ownership.

This subsidiary recorded profit of MCH $3,238 with legal title transfered on 114 units, 96 of which occurred during the third quarter. Real estate assets under management fell 2.2%, in line with the aforementioned ownership transfers.

Evolution of Grupo Security - Indicators (Page 18)

Lastly, here we show Group indicators over a longer period of time.

Consolidated profit for 9M20 was MCH $47,772, with return on average equity of 8.0% for the period. The Group's price to earnings ratio was 8 and its market to book ratio was 0.63 as of November 17, 2020.

As we have explained throughout this presentation, this quarter represented a recovery in earnings trends for the Group, reaching LTM profit of MCH $67,902, driven by an upturn in investment income at Vida Security, strong results from the Bank's treasury division and the real estate subsidiary's success in transferring ownership on several units.

In line with improved local and international macroeconomic indicators, we expect business volumes and results to remain stable for the rest of the year. In addition, we have worked hard on efficiency programs to reduce structural and administrative expenses across all units, expecting savings above 10%.

These efforts, combined with GDP growth of around 5% for next year, should favorably impact our results in 2021.

Questions and Answers

1. Carlos Herrera: "Could you comment on the expectations for the 4th quarter, for what is left of this year and the beginning of next year, in terms of the main performance metrics?"

Fernando Salinas: Along the same lines we were saying earlier, on instructions from the Board, we have been very intensively reviewing the structures of all the companies to build a zero-based budget with a methodology applied to all companies, in order to review our spending structure in light of the pandemic. We have areas where we believe we can aim for 10% savings in total Group expenses next year and that will be distributed quite evenly across the companies, which will enable us to at least guarantee that costs will be much lower than pre-crisis levels. We think this is quite realistic and believe that it has been addressed very directly with the companies, with decisions that are not pleasant or easy, but things are underway and we are cognizant that we have to prepare ourselves for a period where efficiency is going to be critical.

2. How do you see the impact of a second COVID wave on GDP, nonperforming loans and investments in general?

Felipe Jaque: First, it is important to consider the second wave currently happening in the United States and Europe and those governments' responses of quarantine and mobility restrictions that clearly put a downward bias on growth in those two economies. But these quarantines and restrictions are more focused and contained than during the second quarter of this year. In the rest of the world, which is largely relevant for Chile's case of a second wave, we believe that this new outbreak will be offset by measures that are a little more moderate, more limited in terms of restrictions on these economies and, the second thing, which is very relevant for the region, is that China still has well controlled flare-up levels and, in that scenario, as things stand now Chile should fare pretty well. Locally speaking, the same is expected. If we have a new outbreak, eventually, given all the government spending and all the measures taken, we should see more moderate quarantines that in some way balance the public health crisis with economic closure. So, while it is true that risk is falling for 2021 numbers, at the 6% growth figure we have been working with, as a base scenario, with those risks falling, we believe they are more contained. This is based on the experiences of economies with flare-ups, currently Europe and the US, and the true capacity that the economy has to close down once again given the efforts that the government, the Central Bank and the private sector have made in 2020.

Alberto, would you like to comment a bit on nonperforming loans for the next year? I'd also like to add another question along the same lines about what we are expecting in terms of provision expenses for the rest of this year and the first half of next year and when we expect to see this indicator reach normal levels.

Let's start with the latter, which is a little closer. What we are seeing is that the fourth quarter of this year is going to have risk expense similar to the third quarter. The past-due portfolio should be a little better. It will peak during the third quarter. Next year we expect, measured as a 12-month moving figure, a maximum recovery, closer to the first quarter in terms of risk expense, but definitely below the industry at around 1.2% to 1.25%, consistent with the last three months, and then it should gradually start to fall during the year to end next year at around 1%. The past-due portfolio should recover a little faster and it should peak in the third quarter, as a result of several judicial reorganization agreements, all of which are being formalized. The most well-known is Corona. We had some other milestones that have been formalized as agreements in the last few months that should lead to a significant decrease of at least 10 billion pesos and 15 billion in the past-due portfolio towards the third quarter and from there we should start returning to normal to end the year above 1.5 but below 2%.

Regarding a potential new outbreak and the consequences this could have, we are constantly performing stress tests on the portfolio and they are based on an extremely tough scenario, not the scenario Felipe mentioned. They show a significantly smaller impact from what we've had this year because not only has the loan portfolio been adapting but the economy in general. However, in a gentler scenario, more similar to what we have had this year, we should be all right, reducing the past-due portfolio and provision expenses, probably not ending close to 1 but 10 basis points up, but not much more than that and maintaining a difference with the system of around 10 basis points, which is what we expect in upcoming months.

In general, we use three indicators to measure portfolio performance: interest and indexation income generated by the portfolio, market share and provision expenses and cash losses. We think we have been doing comparatively well in these indicators versus our competitors and next year there should be a slight reduction in provisions for loan losses, and a slight increase in revenue.

3. What are we projecting in terms of loans and, in particular, commercial loans?

And, Alberto, if you can comment on how many voluntary provisions the Bank has recorded.

Manuel W: Good morning. Regarding the assumptions we are working with for next year in terms of commercial loan growth, at an industry level the estimates should be around 3%, resuming some level of activity and considering that this year has been strongly influenced by government-backed (FOGAPE) loans. Without this government-backed financing, really the industry would have had near-zero growth. Assuming that these plans no longer exist, for next year we expect growth of around 3% at industry level and our projections call for a figure slightly above that. This is considering, above all, that the real estate business has much more inertia. Evidently, given the importance this has within our commercial portfolio, it does not help resume growth more quickly but, even so, we calculate that we should report growth slightly above the industry.

Alberto O: As for additional provisions, as you know, Banco Security, did not have an additional provisions policy. During the past few months, it has recorded additional provisions and today has MCH$ 2000 in provisions despite the fact that the normal idea of additional provisions is to be countercyclical. We already have a policy and should be recording countercyclical provisions to the extent a change in cycle occurs. Until now we have provisioned MCH$ 2000 to start a fund within these portfolios.
Manuel, can comment a bit about the Bank's transformation plan? Fernando mentioned something about expenses and adjustments to the structure in the presentation but maybe comment a little about revenue that could be associated with this project.

In relation to the transformation process, which is occurring throughout the Bank, but with a particular focus on the retail banking division and the asset management business, this plan aims precisely to make an important shift in the commercial system, involving customer segmentation and the value offering for those customers. We are quite optimistic that the new focus for those two businesses will help us considerably strengthen the relationship with our customers and make that relationship with our customers profitable and, along those lines, we expect an important increase in revenue generation, both in retail banking at the Bank and in the asset management business. In all honesty, we are reviewing growth rates because we started all this before the pandemic crisis and, evidently, given the change in scenario, the expected impacts from this initiative have also been affected. However, we expect relevant growth in revenue generation in both businesses.

4. Daniel Mora: About the level of additional provisions recorded by the Bank up to now, are we satisfied or are we going to continue recording more provisions in the future?

R: Additional provisions must be made in countercyclical processes and I don't foresee a clear recovery in economic activity to continue aggressively making additional provisions.

It is true that, to the extent that the cycle starts to revert and that fund continues to receive additional funds, it will have a higher stock of additional provisions for upcoming cycles.

5. Eduardo Pérez: What future regulatory risks are we seeing in the insurance business, particularly for annuities, and can comment on what we expect to happen with the Jackson indication and how we believe this could affect the company's profitability?

R: Rodrigo Guzmán. Good morning. It is no mystery to anybody that we are experiencing, and have been for some time now, a stronger regulatory push. We have had several initiatives with more regulations, such as: risk-based capital; ORSA; the upcoming application of IFRS 17, which that applies to the company's accounting and technical part. In other words, several standards have been modifying the companies' legal regulatory structure. That is no mystery. However, in that same discourse there have been standards that have been adjusted. They were very old, such as sufficiency rules that were recently modified and that was very good for the market and for companies. In particular, there are some things that can be done, that are under debate, that have to do with this symmetry between scheduled withdrawals and annuities, because of the rate differences Marcela mentioned in the results presentation, which is something that needs to be done and is being discussed. There are also some initiatives that have to do with the 10% withdrawal and have been tempering the initial legislative ideas from parliamentarians. Today it would seem that they are doing away with the idea of withdrawals from annuities. They understand that is something different, that the funds do not belong to the retirees, but rather are part of the company's equity and are handed over to the company in exchange for transferring risk. Therefore, an annuity giving a person a monthly income is a slightly different beast. So, I think they will go more for initiatives like loans from Banco del Estado charged to these annuities. For the Jackson indications, I think the banks are going to work together to share the cost of the insurance. Truthfully, the issue has been discussed a lot and what is going to happen is that there will be a significant number of people that abandon formal banking. And, to the extent that it cannot be transferred to the rate/price, it is going to be difficult to keep those customers in the system. From the insurance companies' perspective, we see the matter with certain, albeit not great, concern, because we believe that the impact will be quite limited.

6. Daniel Mora: Can you give a little more detail on the performance of the proprietary trading portfolio and why it was so different from how the CUI portfolio performed in the third quarter?

R: Juan Pablo Cofré: Basically, the difference has to do with the structure of the CUI portfolio. That portfolio's composition depends basically on movements by the customers themselves, and the asset management area does not intervene, but rather manages gaps with exposure determined by the customers. In essence, half of that portfolio is in guaranteed products while the other half is in mutual funds, let's just say, with exposure to variable-income instruments. So, if one looks at the third-quarter performance, the S&P was up around 8, almost 9% during the quarter, the IPSA fell 8%, local base interest rates rose 15 basis points and the dollar depreciated 4% with respect to the peso. All these variables have an impact. The mixture gives the outcome and exposure is going to depend on the customers.

The proprietary trading portfolio has a very important portion of fixed-income instruments that are not carried at market value and the margin is more closely linked to variable-income instruments, more so international, in our case. During the past few months, we have had practically insignificant exposure to domestic variable-income instruments. We have local stocks in the portfolio and all our variable-income exposure is from either ETFs or alternative funds. Alternative funds have a lag, so if, for example, in the second quarter the S&P 500 yielded around 20% returns, part of that recovery we felt in the third quarter with this lag I mentioned before in the alternative investment portfolio. So, as you can see it is a mix of several factors, structure and certain timing, in other words, in recognizing results.

7. In line with our first question, what would be a reasonable medium-term investment return for the insurance company and for the future of the industry?

R: Well, in the short term one could envisage that this patch, let's call it that, is going to continue through year-end. Visibility with respect to 2021 is fuzzier, harder to predict. However, as I was saying, an important part of our portfolio is not carried at market value and, therefore, we have a relevant base of recurring results and to the extent that it performs reasonably, with long-term returns on investments, that should keep us at historical levels. Obviously, there is a certain trend in the portfolio where fixed-income instruments are maturing and being renewed at lower rates, which is being replaced by income generating assets on the real estate financing side or real estate sales or alternative investments. These, to a certain extent, replace these returns, which in the past were found largely in local fixed-income markets.

8. Sebastian Gallegos: You all, and especially Alberto, are taking about the risk outlook. I would like to ask you something specific about collateral and how this helps protect against the recording of potential provisions. The specific question is: What kind of collateral does Banco Security have that allow you to feel so comfortable with that risk outlook and whether you are not somewhat concerned about the potential need to act on this collateral in a scenario like today's? That would be the first question and then I have another.

R: Alberto Oviedo: We are confident about the value of the collateral. As I mentioned in the presentation, we value collateral periodically and when we see either variations in property indexes or as part of regular processes, which occur every two or three years, at maximum. We have not seen a significant decline in asset value, or anything that could affect provisions. In general, our collateral consists of homes, land, buildings under construction in the real estate sector. We are seeing good prices, an upswing. We are not even seeing a new fall and we also have stock guarantees with market values that have been recovering in the past 30-35 days.

Collateral associated with real guarantees, real estate or transition projects has been maintained and we have not seen any indication that we will have devaluation problems or falling values over the next few months and the collateral consisting of financial instruments declined significantly in value during the third quarter, but values have been rallying in the last 30 days.

9. Sebastian Gallegos: Perfect. That explanation was very, very clear. The other two questions are on a different topic. During the presentation Fernando mentioned that you have been, as we have already commented on several occasions, using a strategy, especially in retail banking, beyond everything that is being done in terms of costs and streamlining structures. Could you update us a bit on the progress being made on that value offering or additional strategies to reverse that trend in retail banking?

R: Manuel Widow: In retail banking, one of the issues we are addressing with considerable commercial effort, which has been happening to us for a while now, is that our customers do not use us as their primary account. This applies to an important part of our portfolio. We get the leftovers from other banks, banks that are managing to be their customers' primary banks.

Our major effort involves changing the value proposition, the commercial system, from front office to back office, aiming for that value offering to turn us into our customers' primary bank and, thus, turn a higher profit on that customer portfolio. We are putting forth significant effort to resegment the portfolio, aiming precisely to, in those cases where we do not become their primary bank to at least have a much more efficient, more digital customer service model that allows us to make those customer relationships much more profitable.

10. Sebastian Gallegos: In a scenario where scheduled withdrawal is generating strong competition for annuities and additionally there is potential regulatory noise related to possible withdrawals from those funds, the insurance question is: what is the strategy being designed by Vida Security to mitigate those effects, beyond portfolio compensations, which can be volatile, like we saw this quarter and in other quarters?

R: Rodrigo Guzmán: The company's strategy is not a model strategy. It has been around for a long time and has to do with diversifying its product line. We are not mono-product and, therefore, have a strong presence in traditional life insurance within individual life insurance products and a large market share in insurance with savings components (CUI) and APV, which is insurance with savings. We are also an important player in group insurance plans, especially health. All this means our portfolio of product lines does quite well when one of these lines is more complicated. We see these problems or potential threats to annuities as a transitory issue. So, we believe it is not a problem for the company's development because we have many products that are working very well. In fact, that is what happened this year. The other product lines at a technical margin level have worked quite well and we have sold very few annuities and that has served as covariance behavior with respect to the overall behavior across all lines.

In addition, we are also trying to streamline the company and have begun to see the first results. If we look at the figures that Marcela showed us, AUM as of the same date in 2019 was around 30,700 million and today, as of September 2020, is 5 billion lower. In other words, there is also a considerable efficiency effort in a commercially difficult period. So, we do not think it will be complicated and, as I was saying, we are in the middle of a regulatory issue but we do not see it as a problem. Obviously, it will involve higher costs, more work to meet regulatory requirements, however some of these regulations have been quite positive. For example, from the perspective of sufficiency. That has been very good for the entire market.

11. Cecil Diaz: As for other subsidiaries, particularly the real estate subsidiary, what can we expect in terms of ownership transfers for the rest of this year and next year?

R: Marcela Villafaña: At the real estate subsidiary, for completed projects ownership is being transferred and they are being sold. However, we don't have a very big portfolio of new construction projects. Our real estate subsidiary is small. It builds as opportunities arise and projects sell, but at this time the economy is on hold and waiting to resume activity, as Felipe was saying. If we see good news in terms of the economy, or a vaccine, or activity returning to normal, we will probably initiate a new cycle of construction. However, like you know, our real estate subsidiary has construction cycles and investment cycles, which are longer, followed by ownership transfer and sales, which is what reaches the bottom line. We are going to continue to transfer ownership on a large number of units during this last quarter and some will carry over to next year, but probably less than this year.

In terms of resources from the capital increase, they will mainly be used for the Bank. Some of the capital increase from here until year-end will be used to recapitalize the dividend distributed by the Bank and probably next year we will do a bit more to prepare the Bank for implementation of Basel 3, which has to be in place by the end of next year. We'll see what financing needs other companies have based on plans they present. That is going to be up to management and the board, which will determine how best to allocate resources, but the main thing is the Bank and preparing it for Basel 3.

Regarding the factoring subsidiary, to the extent the economy recovers next year, that is always positive for Factoring. It is a company that is closely linked to economic activity. As the economy picks up, there will be more activity and more invoices floating around and Factoring will benefit from that. Towards the end of the year, as Alberto was saying, we envisage that companies will stop suspending payments and begin to resume payments. There will probably be more activity and operating companies are likely to need financing, so we think that will benefit Factoring. We expect this year to end with better results than last year and next year's profit levels should be similar to this year, if things continue as they are. If the economy picks up, results will obviously be much better. Factoring is a very efficient company with a very diversified portfolio and well-contained risk levels. These advantages benefit it during these cycles because it is able to take advantage of things and move quickly while the economy recovers.

12. How sustainable are the quarterly results considering that the upturn in investments at the insurance company was so important and what medium-term returns could we see from here on out?

R: Most importantly, as the different teams were saying, this year in particular we were affected by very exceptional events, specifically the risk/credit issue, and also returns on financial investments and the whole pandemic and the effects it has had on the consumption sectors, especially on our retail banking division. What we have done this year is to prepare the organization on all levels across all companies, deepening information levels in terms of efficiency, creating a value offering that should put us on good footing as these effects are lifted, although they'll probably be around throughout 2021. As Albert was saying, the commercial risk issue will probably continue to accompany us for part of next year. In retail, the effects also might extend over the first half of next year, but we expect these effects to gradually return to normal and there to be more gains in efficiency. The Group can gradually approach profit levels more similar to what we earned in 2019 over the next 18 months, although maybe not for the 2021. On the other side, with the foundations we have laid across all companies, including the Transformation Office, efficiency levels and digitization issues, we believe that over a 2-3 year horizon the Group should recover profitability levels more in line with what we had before, of 10, 11 or 12%, with greater equity than today also as a result of conditions. But the most important thing, in my opinion, is that we have been able to make complex decisions. We have navigated important managerial changes, with new teams in charge, in order to recover profit levels after we overcome this crisis and this complex period. So, in a scenario (we hope) where the pandemic slowly becomes a thing of the past and little by little political instability starts to favor a more pro-business climate, we believe that we have made the necessary changes to be able to cope with a quite positive scenario of profits for the Group over the next 18 months.

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