Script for Grupo Security's Earnings Conference Call for 3Q21

Felipe Jaque (Chief Economist, Grupo Security)

Macroeconomic Recap 2021 (Slide 2)

Local growth has continued to rise to surprising levels in the past few months, approaching annual expansion of around 12% for 2021, supported by domestic demand with an elevated growth rate in the latter part of the year. However, the trade sector has tended to stabilize recently, growing close to 30% YoY in the third quarter, while service sectors are recuperating considerably with expansion of around 19% YoY in the same period, hand in hand with an increasingly normalized, post-pandemic economy. A relevant area still lagging is the labor market, with total employment still below pre-pandemic levels by around 800,000 jobs, which coincides with a more slowly recovering labor participation rate in some sectors.

These conditions, which are framed by a genuine recovery of activity in response to the post-pandemic reopening, together with a very favorable external cycle in terms of activity and raw material prices, have been firmly supported by fiscal and monetary stimulus packages, in addition to pension fund withdrawals and advances paid out on annuities. The flip side has been a sharp rise in inflation towards levels of 6% per annum, and even more relevant, two-year inflation expectations of around 4%, above the Chilean Central Bank's target range. Some of this inflation comes from external shocks, while the rest is explained by an elevated exchange rate and higher non-tradable goods prices, which have reported around 5% inflation for the year. This has occurred even with extremely contractionary monetary policy rate expectations for the 2022-2023 period, which have not yet managed to re-anchor market expectations.

Even so, amidst a still favorable external context for next year, the anticipated withdrawal of fiscal stimulus, the significant adjustment to the monetary policy rate and rising market interest rates, coupled with heightened uncertainty regarding regulatory, tax and labor changes, growth outlooks continue to be revised downward for 2022, with a market consensus around 2%, while our own estimate is at 1.5% YoY. This is accompanied by a certain deterioration in inflation towards year end to 4.5% for the year, while the main financial prices are forecast to remain under pressure for the medium term, with an average exchange rate of Ch$800/dollar, which assumes there is still a relevant deviation with respect to historical levels in a similar local and external context. In interest rates, we predict long-term nominal rates of around 5.5% and real rates of 2.2%, a bit more normalized with respect to current levels.

Fernando Salinas (Corporate Finance and Performance Manager)

Grupo Security Strategy (Slide 3)

In 2020, Grupo Security reviewed its expenses and structures in order to address the effects of the pandemic. This process involved significantly adjusting the organizational structure of all companies and cutting administrative and personnel expenses by 10%. In addition, the Bank and Vida began to deploy specific programs designed mainly to boost commercial revenue, with a focus on improving commercial relationship management, customer preference and digitization.

Similarly, in 2021 Grupo Security revised its corporate model and defined an integrated digital strategy with support from international consultants. To this end, the Corporate Digital and Data Department was created. Its objective is to implement digitization, integrated data governance and complement Grupo Security's offering of financial services through investments, partnerships or alliances with financial technology companies (Fintech).

In this context, Grupo Security purchased a stake in Monument Bank, an English bank with a license to operate recently approved by the Bank of England that offers a 100% digital experience to the mass affluent segment in the United Kingdom.

This investment represents an opportunity for Grupo Security to access cutting-edge technology and high standards in digital financial services. The Monument Bank team is made up of bankers with a successful international track record and a first-rate digital team, as well as a sound governance structure in one of the world's leading hubs for financial technology (Fintech and Open Banking).

The investment will also allow Grupo Security and Monument Bank to join forces to explore alternatives that complement its business model in Chile and the region.

Through different projects involving an omnichannel approach, digitization, commercial relationship management and service quality, Grupo Security hopes to continue enhancing its service, contributing to the community and achieving larger returns for shareholders in a sustainable manner over time.

Grupo Security Results (Slide 4)

Grupo Security reported profit of MCH$67,502 for 9M21, up 41.3% from the prior year, surpassing the MCH$65,146 obtained for the full year 2020. For the third quarter, this figure was MCH$26,959, or 66.5% above the MCH$16,191 recorded in the prior quarter.

Business area results were 48.5% higher for 9M20, with corporate expenses and finance costs stable in relation to 2020. However, there was a negative effect from indexed assets and liabilities due to higher inflation of 3.5% YTD in September versus 4% for the same period last year, as well as increased debt issuances by Grupo Security and Inversiones Security Previsión in September 2020, and an absence of tax effects this year.

By business area, for the nine months ended September 2021, the lending area reported profit of MCH$52,827, 10.2% higher than the prior year. These increased earnings can be explained by improved results from the Bank's Treasury Division, which will be discussed later by Nicolás Ugarte, Banco Security's Finance Division Manager. This was offset partially by increased LLP expenses in the Commercial Banking Division, to be explained in greater detail by Alberto Oviedo, the Bank's Risk Manager. For the third quarter of 2021, the Bank's results were 49% higher than the immediately preceding quarter, due to strong performances from the Commercial Banking Division and the Bank's subsidiaries.

The asset management area reported profit of MCH$6,565, up 122.2% from 9M20. Last quarter, the asset management area reported greater revenue, along with lower total expenses due to structural adjustments.

In the insurance area, Vida Security reported profit of MCH$38,122, or 131% greater than the same period last year. This improved result is attributable to a strong performance from its investment portfolio, which will be discussed shortly by Juan Pablo Cofré, Investment Manager for the life insurance company.

In the other services area, profit was MCH$2,473 vs MCH$660 for 9M20, with Travel Chile and Travel Peru reaching the break-even point and Inmobiliaria Security reporting weaker results.

Finally, in the international business area, Protecta Security reported profit of MS./ 11.6, with record high premiums and increased investment income.

Grupo Security – Consolidated Expenses (Slide 5)

As we mentioned at the beginning of this presentation, in 2020 we took a close look at our expenses and the structures of all companies in order to better deal with the effects of the pandemic and the economic slowdown.

To monitor compliance with the savings objectives we set, we built a governance structure to monitor, control and capture revenue and efficiencies, thus ensuring that our set objectives are achieved.

Consequently, for 9M21 Grupo Security's consolidated expenses totaled MCH$169,965, down 10.2% from the same period last year. Payroll expenses reached MCH$83,285 for the period, or MCH$17,339 less than 9M20, which includes more than MCH$4,000 in termination benefits at the Bank and its subsidiaries paid during the second quarter of 2021 after the structural adjustments.

Eduardo Olivares (CEO, Banco Security)

Banco Security, Consolidated (Slide 6)

- Banco Security consolidated profit: MCH$51,297 for 9M21, +16% YoY, despite LLP expenses of MCH$58,556 (+24% YoY) (net of recovered loans) and termination benefit payments of more than MCH$4,000.

- Strong performances from the Treasury Division and asset management subsidiaries, offset by greater LLP expenses in the Commercial Banking Division and lower revenue in the Retail Banking Division.

- Annualized ROAE for Banco Security: 10.18%
    - Peer banks: 13.1%
    - Industry: 15.8%

Total loans: BCH$6,542 for 9M21 (+3.6% YoY) (+5.2% YoY for industry excluding foreign subsidiaries)

Commercial loans: BCH$5,338, +3.8% YoY (+2.1% industry)

- This growth in loans was not driven by FOGAPE instruments, where Banco Security is underrepresented in terms of its market share, but rather is based on commercial growth with customers.

Retail loans: BCH$1,202, +2.9% YoY (+8.6% industry)

- Consumer loans: -11.3% YoY (+0.3% industry)
- Mortgage loans: +12.4% YoY (+12.0% industry)

The ratio of net interest margin to loans has remained stable over time at around 3.1% of loans.

Banco Security's consolidated efficiency ratio: 44.6% as of September 2021

- Peers: 42.4% (Sept-21)
- Industry: 42.8% (Sept-21)
- The Bank's efficiency ratio for 3Q21 was 41.0%, among the highest efficiency ratios in its history.

Banco Security – Results by Business Area (Slide 7)

We have managed to sustain our net interest margin, despite a drop in income from liabilities, with higher spreads and increased loans.

Stable commissions and increased financial results (financial operating income plus net FX transactions). Increased LLP expenses, partly offset by reduced expenses.

Results by area:

Commercial Banking: Profit of MCH$19,767 for 9M21, MCH$6,400 less despite an increase of MCH$13,800 in LLP expenses, which totaled MCH$44,200 for 9M21

- Net interest margin: MCH$73,970 (-2.3% YoY) due to lower income from liabilities, offset partially by a higher average spread and 3.8% increase in commercial loans.
- Support expenses: -11.1% YoY, because of lower commercial performance bonuses and savings from the structural adjustments carried out in 2020
- Financial operating income, net FX transactions and other income: MCH$6,447 (-2.3% YoY) due to fewer prepayments.
- Net fee and commission income: MCH$16,236 (+11.9% YoY) due to increased business.

Retail Banking: Loss of -MCH$2,557 for 9M21 (versus a loss of -MCH$3,336 for 9M20)

- Net interest margin: -19.9% YoY, due to a 11.3% contraction in consumer loans.
- Net fee and commission income: -17.1% YoY, due to a decline in supplementary loan insurance products.
- LLP expenses: MCH$11,544 (-46.7% YoY) due to a drop in consumer loans and a 29.7% decrease in the consumer NPL portfolio in light of the government's relief plans and withdrawals from pension funds.
- Support expenses: -7.9% YoY, related to reduced business and cost-cutting efforts rolled out in 2020.

Retail Banking: we were expecting difficult conditions because of the transformation process.

I will now turn you over to Nicolás Ugarte, the Bank's Finance Division Manager, who will give you more details on the Treasury Division's results.

Nicolás Ugarte (Finance Division Manager, Banco Security)

Banco Security – Treasury (Slide 8)

Treasury: Profit of MCH$33,926, +37.5% YoY

- Balance Sheet Desk: Revenue of MCH$29,019 (58% of which was Treasury Division revenue), +MCH$2,051 YoY, principally due to:
    - UF 21 million in bond placements in 2020 and 2021, before the rate hike in the last few months.
    - Intensive use of accounting hedges with inflation insurance
    - Increase in mismatch in third quarter given inflation expectations
    - Efficient management of Central Bank financing facilities
- Investment Desk: Revenue of MCH$16,051 (32% of which was Treasury Division revenue), +MCH$1,800 YoY, principally due to:
    - Sales strategies for longer-duration local and foreign portfolios between January and August.

    - Good spread and spread management.
- Distribution Desk: Revenue of MCH$4,875 (10% of which was Treasury Division revenue), -MCH$1,218 YoY, principally due to:
    - Complex year for structured deals
    - Increased focus on spot and forward business, benefited by market volatility

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 (Risk Division Manager)

Banco Security – Risk (Slide 9)

LLP expenses for 9M21 totaled MCH$58,556 (+22.5% greater than 9M20), explained by higher loan loss provisions for commercial loans of MCH$51,671 for 9M21, equivalent to +98.3% YoY, offset by lower loan loss provisions for consumer loans of MCH$5,197 for 9M21 (74.4% less than 9M20). Expense levels as of September 2021 were equivalent to 1.19% of total loans, below the figure of 1.30% as of June 2021, as a result of a slower pace of expenditures in the third quarter.

Despite the significant increase in the loan portfolio, LLP expenses net of recovered loans totaled MCH$17,994 for 3Q21, 10.5% less than the prior quarter, because of the smaller NPL portfolio.

In addition, the risk rating of a mutual guarantee society was downgraded in June 2021, which involved recording additional provisions for loans backed by that company. In July the company's risk rating recovered, which enabled us to reverse a portion of the new provisions for companies up to date on their payments.

Efforts were also made to record additional provisions during 3Q21, accumulating MCH$2,700 during the year 2021.

The NPL portfolio reached MCH$99,263 as of September 2021, contracting 17.1% during the quarter as some commercial customers' circumstances normalized. To date, the NPL portfolio represents 1.52% of loans. The ratio has stayed under 2% since 4Q20, the target established for fiscal year 2021. As a result, the NPL coverage ratio has been strengthened, reaching 1.50 as of September 2021.

In short, one can see a decrease in the pace of LLP expenses, even during a period in which voluntary additional provisions were recorded. In terms of portfolio quality, there have been improvements both in coverage and in the NPL portfolio. Coverage already surpasses 1.5 and the NPL portfolio fell below BCH$100 as of the end of September.

Marcela Villafaña (Investor Relations and Strategic Development Manager)

Asset Management (Slide 10)

The asset management area—comprised of the mutual fund subsidiary (AGF), the brokerage subsidiary (Valores) and Securitizadora Security—had assets under management of BCH$4,147, holding steady YoY, with greater domestic and foreign custody, offset by decreased UM in investment funds.

For 9M21, the area had profit of MCH$6,565, up 122.2% from last year, mostly because of increased operating income, reduced expenses and profit of MCH$801 for 9M21 from Securitizadora and Casa Nuestra, versus a loss of -MCH$547 for 9M20.

The area reported operating income of MCH$27,502 for 9M21, up 2.2% from last year due to greater income from fixed-income funds because of higher interest rates, while the volume of assets under management remained steady.

It also had non-operating income of MCH$1,717, down 37.5% due to weaker returns on local fixed-income investments in the AGF and Valores proprietary trading portfolios.

In addition, total expenses reached MCH$24,756, or 3.5% less than the year 2020, in line with savings efforts implemented in 2020.

Factoring Security (Slide 11)

Profit for 9M21 was MCH$7,187, or 2.9% below last year, due to lower operating income, mostly because of a tighter portfolio spread. This was partially offset by a greater loan volume of BCH$401, up 21.9% over September 2020, and increased income from indexed assets and liabilities due to higher inflation during the period. Evidence of the structural changes can also be seen at Factoring Security, with total expenses down 7.1% from last year due to lower payroll expenses.

As a result, efficiency was 41.8% as of September 2021, 39 bps less than September 2020, attributable to reduced expenses. Meanwhile the risk index, calculated as provisions over total loans, was 1.98%, 31 basis points below September 2020, because of write-offs in 2020.

I will now leave you with Rodrigo Guzmán, who will comment on the results of the insurance companies.

Rodrigo Guzmán (Finance and Administration Manager, Vida Security)

Vida Security (Slide 12)

Vida Security reported profit of MCH$38,122, versus profit of MCH$16,475 for 9M20, because of improved returns on the proprietary trading portfolio and a better technical result in disability and survivor insurance (DSI).

The company had 6.4% market share based on gross written life insurance premiums, positioning it 3rd in the industry with MCH$235,537, or 41% above 2020, mostly because of 749% growth in annuity premiums.

It is important to bear in mind that the annuity market has contracted in a context of low market interest rates during the first half of the year and a higher rate defined for calculating programmed withdrawals offered by pension fund managers, which has boosted retirees' preference for programmed withdrawals, thus reducing annuity sales industry wide. For example, during the first nine months of the year annuity sales rates averaged 2.83%, while the programmed withdrawal rate was 3.7%.

At the end of 2020, Vida Security adjusted some technical parameters to boost annuity sales and maintain expected returns. As a result, Vida Security achieved MCH$72,564 in gross written annuity premiums during the first nine months of the year.

It recorded a variation in technical reserves of a loss of -MCH$39,629 due to improved returns from CUI and APV investments, which were offset by reserves recorded.

Claims and pensions paid totaled MCH$228,764, or 51.2% more than 2020, because of an increase in annuity sales, advances paid on annuities and a higher loss ratio for group policies. These effects were partially counteracted by lower claims and pensions paid on DSI due to higher rates for calculating technical reserves during the year.

This explains the contribution margin of -MCH$47,184 for 9M21, compared to -MCH$19,691 for 9M20.

Now I'll turn things over to Juan Pablo Cofré, Investment Manager for Vida Security, who will explain the investment results.

Juan Pablo Cofré (Investment Manager, Vida Security)

Vida Security - Investment Income (Slide 13)

The investment result, both in the CUI and proprietary trading portfolios, has recovered well YoY, totaling MCH$115,755 in the first nine months of 2021, +82.9% in comparison to September 2020.

The proprietary trading portfolio reported a gain of MCH$94,918, up 91.8% from 2020, due to improved returns from equities (S&P 500, IPSA, USD) and real estate funds. These effects more than offset the lower returns on fixed-income instruments (increase in ten-year corporate bonds).

Meanwhile, the CUI and APV portfolios posted income of MCH$20,837, +50.9% over 9M20, also associated with stronger returns on fixed-income instruments and, to a lesser extent, on variable-income instruments.

Marcela Villafaña (Investor Relations and Strategic Development Manager)

Protecta Security (Slide 14)

In the international business area, Protecta Security had profit of MS./ 11.6 for the first nine months of 2021, up 17% from last year. This improved result can be explained by greater investment income and a rise in total premiums written.

The premium volumes attained during the period are noteworthy, reaching MS./ 497, or 74.9% higher than last year, an all-time high for the company. This growth can be explained to a large extent by annuities, with premiums of MS./ 268.9, growth of 103.9% and market share of 23.1%. Meanwhile, private annuities increased 49.4%, to MS./ 168.1 and 17.2% market share.

Bear in mind that converting results from soles to IFRS used in Chile and adjusting for the varied accounting criteria used in each country results in a different book basis profit. Upon making these adjustments, Protecta Security reached profit of MCH$311 for 9M21, versus MCH$266 for 9M20.

Other Services Area (Slide 15)

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 17.8% in billing.

Consolidated with its similarly impacted subsidiary in Peru, Travel Security reported a gain of MCH$39 for the period. Individually, Travel Perú posted a loss of -MUS $0.33.

In 2020 we made an important adjustment to the company’s cost structure, recording positive results for the second straight quarter with consolidated profit of MCH$318 for the third quarter.

The real estate subsidiary reported profit of MCH$2,277, down 30% from September 2020, due to ownership transferred on a smaller number of units during the period, reaching 65 units during the year, or 43% fewer than September 2020. Real estate assets under management fell 26.6% YoY, in line with title transfers.

Fernando Salinas (Corporate Finance and Performance Manager)

Closing Slide (Slide 16)

In short, our businesses have reported strong earnings thus far this year, with profit of MCH$67,502 for 9M21, which surpasses the figure for the full year 2020.

The efficiency efforts rolled out in 2020, along with the company's newly launched specific programs to increase commercial revenue (*Origen* at the Bank and *Desafío* at Vida) and the monitoring structure to ensure objectives are met, left us well positioned to delve deeper into strategic work in all businesses.

Particularly on the digital front, our investment in Monument Bank is an especially relevant component of the Corporate Digital and Data Division's work, in conjunction with international consultants, to develop the integrated strategy.

Over the next few weeks, we will begin to work with the Monument team, which will give us access to cutting-edge technology operating in the United Kingdom, one of the world’s leading Fintech and Open Banking hubs. We hope that this relationship with the Monument team—comprised of bankers with a successful international track record and a first-rate digital team—will help us accelerate digitization at Grupo Security.

The work we have done left us on good footing to take advantage of any opportunities that may arise. We believe 2022 will be a more normal year in terms of credit risk, with higher inflation that we will leverage in the financial business. Accordingly, we project earnings will grow in relation to 2021, despite the difficult political backdrop.

We expect conditions for doing business in the financial industry to be favorable and for certainty and stability to prevail. A deep, stable capital market—where Grupo Security intends to continue actively participating—is necessary for the social and economic development of nations and is directly linked, for example, to improvements in pensions through efficient savings mechanisms, access to housing through affordable mortgage loans, industrial development through loans and investment, to name a few. These are aspects that the entire country needs to address in order to successfully move forward towards social and economic development.

We hope that the prevailing vision facilitates development so that Grupo Security can continue to contribute to Chile's development through our different business lines.

Questions and Answers

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