

CONFERENCE CALL TRANSCRIPT GRUPO SECURITY RESULTS MARCH 2016

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Renato Peñafiel (CEO Grupo Security)

Good morning.

It is important to look at the macroeconomic context in which we are developing. Our vision is of a weak, fragile and low product, approximately 2%, and it's most probable that it will remain that way in the future. Even though the unemployment rate has been lagging, it has started to hit and affect us. We hope that in what remains of the year, it will average 7% and our estimate is that it will increase next year. Inflation is on its way to reach 3%, returning to its target range. This can be explained on an international level, as well as with the idle capacity that is being created. The exchange rate has been volatile, and we think it will continue this way. It is probable that the nominal exchange rate will be between 700 and 730 during the year, which means an appreciation of the dollar compared to previous years, which also has an impact on the inflation rate. During several months we speculated that the market rate could increase. Today, the market consensus is that the market rate will stay at current levels during the rest of the year.

All of this has a strong impact on the financial industry, regarding loans increase as well as changes in the asset mix of our investment portfolio. It also affects insurance demand. In regards to loans, we have been close to market growth in a 12 month period, us reaching a 9.8% versus the market reaching 12.4 %. On the other hand, for this first quarter, the decrease in the loans growth rate for the industry, as well as the decrease in our own loans growth rate, has been abrupt, and we do not expect any changes in the near future. This is directly related to lower levels of activity as well as an increase in unemployment.

This means consumer loans will deteriorate and risk levels will rise. If we look at the industry one cannot yet see a change in risk levels, although, thorough economic cycles, in one moment or another this should finally occur. It is a lagged process. The industry, as well as Banco Security, anticipated loan loss provision levels in order to manage in the best way possible the risk levels we are expecting.

This is the context for the entire financial industry. From regular to bad, low growth, probably lower employment at industry levels, personnel adjustments, which in our case are also taking place.

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As important events during last year and later events we can mention the purchase agreement of the AGF and Banco Penta's stockbrokerage. This has already taken place and the companies have merged. The people that were supposed to stay are incorporated. The assets have been consolidated in our figures, actually in a better perspective than its original estimate; in quantity as well as in price.

The Penta Security divestment took place in January, which reported extraordinary profits for the Group, which are indicated in the financial statements of this quarter. Profits after tax, and the effect on the last line of Grupo Security, are Ch\$ 14,937 million.

Due to these extraordinary profits, the consolidated profit of the Group is significantly higher than profit for equivalent periods of previous years. During this quarter, the results of the Group, excluding the effect of the Penta Security divestment, are good from the core business point of view of each of the business areas, but experiencing some financial impact, especially regarding the price of assets managed by the insurance company.

We held an annual general meeting, which approved the dividend and renewed the board of directors.

If we look at the relevant and later events under a business point of view, Vida Security was awarded 4 fractions of the disability and survival insurance (SIS). Last time we did not participate; yet in previous years we participated with good results. The fractions awarded are 2 men fractions and 2 women fractions. We believe that they have been awarded considering several crucial elements, such as future unemployment rates, interest rates levels, and such. We believe that this business will start reporting profits for Vida Security at the beginning of 2017. Normally the effects of SIS are noticed after 6 months, the first semester is considered more of an investment.

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Profits grew 68.6%. The purchase of Penta Security had a significant impact, Ch\$ 14,937 million. Profits went from Ch\$ 18,315 million as of March 2015 to Ch\$ 30,889 million as of March 2016, precisely due to the aforementioned impact.

The profits of the business areas grew 63.8%. The difference with the increase in profits of the Group is due to price-level restatements of CPI-indexed debt and the expenses associated to the Group operations. If one excludes the extraordinary profits, the nominal profits of the business areas are more or less stable and constant. The first quarter we had a relevant impact due to the insurance company's investment area. If this had not occurred, we would have maintained an interesting growth rate. We hope that the effects will be minimized during the year. Nonetheless, this is the obvious volatility to which insurance companies are exposed to regarding their investment area.

In regards to the Lending area, we grew 26.0%. This area considers the stand-alone bank, leaving out the investment area, in order to keep the analysis and figures clean, and the factoring company.

In relation to the factoring company, we do not have a significant change compared to the previous years. We can observe a market that is decreasing its growth, and when levels of activity drop so do the factored account receivables. Please keep in mind that our company is chemically pure, few like ours exist in the market.

In relation to the bank, there has been an increase in profits. Last year began a provisions constitution process to face higher levels of risk, and due to the fact that we anticipated this, we have not seen them (i.e. higher levels of risk). Therefore we have been growing, situation that is not the same for the rest of the industry.

In regards to the Insurance area, it is basically made up by the insurance company. The insurance brokerage company and Europe Assistance both contribute positively, but the profits of the Insurance area are closer to Vida Security. What has happened during the quarter? The financial markets have not performed according to our expectations, locally and internationally.

We do see a change in the Asset Management area. Everything is consolidated regarding the acquisition of the asset management business of Banco Penta, but we appear with a negative growth rate. This is mainly because of some extraordinary profits from last year, and because nonetheless we have maintained the level of assets under management, investors have changed the composition of their portfolios from higher risk assets to lower risk assets. This has been going on throughout the entire market and implies that the profitability for managing assets will slightly decrease.

Regarding the Other Services area, we have the real estate area and the travel agency consolidated with Peru. This year the fall is mainly related to the real estate area.

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Then, what is the evolution of the group? We always like to look at things from a long term point of view. We have figures starting December 2011 until March of the present year. Profits of the group have been systematically increasing during each period. Our goal is to increase nominal profits by 10% each year; this is our internal goal. Sometimes we surpass it; sometimes we are close but never significantly distant from said 10%. In fact, if you look at the compound rate of growth from 2011 you will see that the rate is 12%.

In relation to each of the companies, the bank seems a bit low during 2015 compared to 2014. The explanation is basically due to a higher constitution level of provisions. Thus this year, 2016, we intend to surpass 2015. Actually our goal is to surpass 2014, meaning, recuperate the grow rate that the bank had.

In relation to the factoring company, we are very close to what was 2015 and 2014. We can foresee reasonably stable profits, but we are facing basically a market problem. The spread has fallen and the level of activity has decreased. Factoring is a good predictor of the economic activity. We have been managing for some time the levels of risk, which have stayed constant, and the factoring company external credit rating has improved, precisely because of this.

In relation to Valores, after the adjustment we made post the 2007-2008 crisis, the company has already recovered. Conceptually for us Valores is a taxpayer ID which operationally does what the law allows. The AGF is another taxpayer ID that manages assets. Our strategic vision is a consolidation of both companies, and in that consolidation we have grown.

In relation to Insurance, due to the disappearance of Penta Security, life insurance will be the main activity, and the rest of the businesses of this area will remain at a very controlled level. What is important is the trend and our vision is to grow significantly, in efficiency levels as well as profits and higher levels of assets.

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The summary of these last years is contained in some of the ratios that are here. The return on consolidated assets is close to 1%, which is quite good. The return on equity has fluctuated between 12% and 14%. This depends a great deal on the profitability of the subsidiaries and in particular of the profitability of the bank. We are involved in a project to bring the bank closer to a ROE of 15%.

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In relation to the bank, from a strategic point of view, we manage it in terms of the business and its control divided in 3 areas: Commercial Banking, Retail Banking and Treasury.

In relation to Commercial Banking we have had an increase in profits of 98.3%. I'm not saying that we are going to maintain those levels during the rest of the year. What I can tell you is that during this year we expect that Commercial Banking, net of risk, will increase its profits; in other words, it will increase its profit net of loan loss provision expenses. We believe that we have certain sectors that are more anticipated in terms of risk. This does not mean that during the year we won't have losses, but we don't believe that we will see a reduction of the profit rate in that area in relation to last year.

Regarding Retail Banking, the first quarter is impacted, as is the rest of the industry, by increased loan loss expenses as a result of legal changes regarding Mortgage loans. This affected us in approximately Ch\$ 1,000 million. It is not a relevant figure for us; the rest of the industry was relatively more affected. Regardless of this, we estimate a positive growth of profit for Retail Banking for this year, even considering higher levels of provisions.

In relation to the Treasury, it is consolidated in four areas: Balance Sheet, Distribution, Investment and Trading. Treasury registered a 15.2% decrease in profits in relation to last year, although it grew importantly when compared to the last quarter. Once again this is result of the market. The market is much more volatile and changing than the loans business. Therefore, any comparison considering different periods is a bit misleading. We had an elevated comparison basis in 12 months, with a good financial margin, which means a decrease of 15.2% in relation to March of last year.

For the sum of these 3 areas, we should observe an increase in the bank's profits, nonetheless adversity. By this I mean a growth in profits, nonetheless the significantly lower growth rates of loans and increased risk rates at the industry level.

In the case of the factoring company, we expect to reach profit levels similar to the previous year. There is a clear commercial slowdown. We have grown a 5.3% in loans in 12 months, even though in relation to the previous quarter we had a drop of 15.0%. Additionally spread is lower than previous periods.

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Here we have a few bank indicators. We hope to maintain the efficiency indicators at approximately 50%. This quarter seems a bit higher, but it is due to the circumstances we are mentioning. The risk index between March 2015 and December 2015 increased from 1.61% to 1.83%. With this adjustment, our NPL loan coverage index went from 95.2 % as of March of 2015 to 119% as of December 2015. Today we are at similar levels than the ones registered on December 2015, with a risk index of 1.86% and NPL loan coverage of 116%. We expect to maintain our NPL loan coverage index over 100%. The ROAE rate is at 12.27%. Additionally, our efforts through time have been focused on increasing our net interest margin, which is a common indicator on a local and international level. Today we are at 3.43% for the first quarter, at a similar level than last year.

Since 2011 to date we have been going through a process of better management and better use of capital. As a consequence, an increase in our medium term profitability has already begun to be clearly observed. This year, I sense that the industry will have larger spread due to higher risk levels.

In terms of Basilea, what we have done through time is to capitalize the bank. Thus, the bank has been in preparation, both in capital generation as well as in the internal management which is implied in the new regulation. If Secretary Valdes carries out what he mentioned regarding sending a draft bill, the probability of intense discussions during the next years is high, and we will observe a period of adjustments. There are some questions in relation to this issue. Not only regarding the Basilea ratios, but also in relation to the composition of risk weighed assets. The European banking industry has not been able to comply with Basilea. I believe this is because the European financial industry entered into a serious economic crisis, which has not yet healed, and second, because the implementation of the ratios should have not been carried out during these periods. I believe that in our case, although we have a financial industry without those ratios, we have a relatively stronger and more consolidated system, with a regulator that is on top of the industry and very well oriented.

Analyst 1

Do you think that, supposing the 6 year gradualism that has been commented, you will need a capital increase, or would you be able to comply maintaining the current profit retention policy? I know that there are several assumptions that are somehow included in the study that the reform commission made, but if one assumes the current Basilea III weightings, that there are no mitigators, a tax rate of 27% and a reduction of capital from goodwill, intangibles and derivatives. How much more capital do you estimate you would need, to what can be generated with the Bank's profits?

Renato Peñafiel

We have made several projections, from the most conservative to a more critical point of view. We always use the more critical point of view. So if we locate ourselves in that position, we believe that we should increase capital in the future, which shouldn't be more than 50% of the total demand that the bank would require in a the more critical view. The industry would require in an extreme case US\$ 4,000 million. We have 3% market share, therefore we should need US\$ 120 million. We should be able to complete US\$ 60 million dollars at least.

These estimates are made using a bank growth rate of 10% in loans, which has been our history and we think that we should continue this way. If the economy truly grows at the levels we have observed, we will not reach 10%. In the last 3 years, we have been able to retain the bank's profits and it is our intention to keep accumulating in that order.

Therefore it is not a relevant issue from the point of view of the capital. What I do believe is that the industry needs to adapt other profound things to be able to manage the Basilea regulations. I am referring to system changes that are significant. The larger the bank, it is my belief that the more complex it is to comply with norms and regulations. Albeit we began several years ago, due to internal management definitions, separating Commercial Banking, Retail Banking, assigning equity, aligning costs, an adequate allocation of indirect costs, calculating return and risk rates, etc. Basilea requires mucho more than that. I see that the industry not only has a challenge from the point of view of the equity. It also has the challenge of adjusting all its management indicators, its operational indicators, and this is an important challenge indeed.

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Vida is consolidating with Protecta, the life insurance company that we acquired in Peru. Protecta has had profits this quarter, but Peruvian accounting is different than Chilean accounting, because regulations are different. In relation to investment criteria, it is as conservative as the criteria of the local insurance company, but in relation to real-estate they have different criteria for the valuation of assets. What is considered in Peru as an asset financial valuation scheme (calculating the present value of the flow of income and sensitize it with the market interest rate), in our case, Chile, this has to be reversed and to be adjusted to local accounting standards. This means that part of the profits generated by investments in Protecta is not considered as local consolidated profits.

The second item I would like to comment is what is happening with the life annuity market in Peru. In Peru, Congress, which is now a unicameral Congress, can on its own, and without government indication, create laws as long as they do not affect the nation's budget. Thus, Congress passed a law that allows potential retirees when reaching age 65 (they do not differentiate between man and women) to withdraw up to 95.5% of their savings. The other 4.5 % correspond to mandatory health insurance. Today there is project

of a bill that if any person withdraws their funds, this 4.5% must go directly to health institutions that in Peru work as the Chilean Isapres (private health insurance system). What is being discussed today is the withdraw regulation of said 95.5%. It is to my understanding that the idea is to regulate it by tranches that can be withdrawn (i.e. 25%, 50%, 75%, 95.5%), and not for example to withdraw 38.75%, because that has associated high management costs.

What we think will happen is that a voluntary annuities market will develop, development for which we are preparing. There are already some indications suggesting this. The resources are there, and not necessarily all of them will go to time deposits. Therefore there will be more competition, and for us, having a low market share, competition is appealing. We are interested in a more competitive, and not a more concentrated market.

We began with less than 3% market share in the life annuity flow, and by March 2016 we have achieved a 6.2 % market share. This is in the segments of the company's, which we reinforced and changed. We will probably have a larger market share than the local insurance company, taking advantage of our resources, knowledge, systems, that can be perfectly integrated.

With that view, this company, nonetheless the difficulties I am mentioning, has a great deal of opportunities for good business, new products and insurance. We have added two products, and are leaders in relation to one of them, basically vehicle insurance, which was fostered here by the general insurance company. Over there it can be done by the life insurance company. Security was leader in this segment, and when we merged with Penta, that insurance became one of the most important products for Penta Security.

In relation to SIS, we were awarded with 2 fractions of men at 1.41%, and two of women at 1.01%. We had the support of very good reinsurance companies which guarantee, that even if that rate changes, we will still have profit. Only if the claims rate exceeds certain levels, due to our reinsurance, our profits could diminish. There is a significant difference between this rate and the rate that makes us reach the break-even point. There is a good margin; therefore there is no reason not to have good results over the next years. The SIS profits should be seen by 2017, and if any changes occur, we will inform them.

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What is happening this quarter with Vida Security?

Historically the ROE of the company has been higher than that of the industry, and for this quarter it was also like that. The profit for the period over gross premiums written was also better than the rest of the industry: 9.8% versus 7.7%. Claims and pensions paid are better, and we have competitive advantages in relation to the industry in some products. For us the individual insurance business is very solid. Our sales force and loss rates are very good. Our sales force is more productive than the industry's average. We sell more policies per executive than the rest of the industry and all of this knowhow is what we want to transfer to Protecta.

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In the investments area, we have an increase in assets under management, but also lower management fees. We are solidly at Ch\$ 2,215 billion in mutual and investment funds under management.

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For this year we expect a difficult period, macroeconomically speaking. Due to lower growth rates, which we are currently living, our focus is basically on profitability and cost control. The risk-return ratio is very important to us, it always has been, and these are periods where we can assign more resources to its optimization.

We want to consolidate Peru. Regarding the life insurance business we feel reasonably safe, and nonetheless the uncertainty, we have a strategic plan. These Sunday elections will somewhat define the macroeconomic view of Peru. I am very optimistic in the sense that Peru is growing at 4%, more than twice that Chile. I believe that whatever the political results, Peru will be a good internal actor, in the sense that the policies that can be developed will be better than the ones of the leaving government, and this will generate, and is generating, an additional program of investments, which will make 2 good years for Peru. Therefore, comparatively speaking, we are going to focus our efforts where profitability is higher, and where there is a higher certainty in the decisions to be made.

We have made great progress regarding the information that we inform about Grupo Security. If you visit our website, you will see that we have made changes to our presentation. This goes beyond its simple visualization, we have progressed towards international standards. This is our vision. In fact, our first impression, from the information that we have received directly, is that we have taken an important step forward, and I hope that in the near future new international participants become involved as shareholders.

Analyst 1

Are you thinking about this from a stock point of view, rather than issuing debt abroad?

Renato Peñafiel

We are thinking about it under a stock point of view. We have had visitors, as has the rest of the industry, to issue debt abroad. The truth is that if there is financing we will do it on a local basis, in local currency and with a longer term. Our concern is in relation to look for an additional alternative to provide a deeper and better public understanding of our stock.

Marcela Villafaña (Head of Investor Relations)

We are now going to upload this presentation on our website. This presentation has more information on each company, so we ask you to review it and if you have any questions or would like to talk about it, please feel free to schedule a meeting with our team to do so.

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