

TRANSCRIPT OF A CONFERENCE CALL ON GRUPO SECURITY RESULTS AS OF SEPTEMBER 2016

Marcela Villafaña (Head of Investor Relations)

Good afternoon. We are here with the investor relations team and the Bank and Group accounting teams in case you have more specific questions. I would like to introduce you to Mr. Fernando Salinas, our Planning and Development Manager. Unfortunately, Mr. Renato Peñafiel could not be here today, but rest assured that we can answer any question you may have.

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

Good afternoon, it is a pleasure to be with you again. You may notice that we have made some changes to the conference and introduced a more efficient connection. Today we have support from Nasdaq.

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The first thing I want to mention is the macroeconomic environment. We expect that 2016 will close with GDP growth fluctuating between 1.7% and 2%. Our research department expects this growth to improve next year to reach around 2.5%, and we have recently finished preparing budgets for all Group companies based on this assumption.

We see average unemployment around 6.6% by the end of 2016 and at around 7.1% in 2017. Inflation was at 4.8% at the beginning of 2016, and we expect that it will be under 3% by the close of the year. Therefore, there was a contraction in the last period of the year. We also expect that it should remain within the target range of 3% set by the Central Bank for 2017.

At the beginning of the year we thought that the Chilean peso / US dollar exchange rate was going to rise. This led to decisions within the asset management companies that we later had to amend. This exchange rate appreciated to CH\$650 by the end of October 2016, and we believe it is going to fluctuate around CH\$660 during 2017.

We expect the MPR to stay the same or decrease slightly, given the latest changes that have taken place in the world. It is difficult to accurately predict what will happen, especially after the election of Mr. Trump.

Bank loans grew by 8.2% across the market as of September 2016, compared to 12.2% for the previous year. We expect this growth to be between 5% and 6% next year.

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Business area profits are the sum of our subsidiary's profits and grew by 9.4% to reach CH\$78,047 million at the close of the period, compared to CH\$71,350 million last year. Group profit was CH\$59,373 million as of September 2016, up 15.8% on the same period last year. This result is partly due to an extraordinary transaction, which was the sale of Penta Security.

The business area profit of Ch\$78,047 million was reduced by Group operating and support expenses of CH\$7,591 million, finance costs of CH\$8,601 million, indexation adjustments, mostly price-level restatement of Group bonds, of CH\$4,008 million, and other income of Ch\$1,526 million, which resulted in the final Group profit of CH\$59,373 million.

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The Lending Area incorporates the Bank (standalone) and factoring subsidiary. It produced a profit of CH\$39,355 million as of September 2016, which is 2% less than last year's figure of CH\$40,172 million.

Profit for the Insurance Area reached CH\$30,944 million, compared to CH\$17,234 million last year, explained by the sale of Penta Security, and offset by a fall in business volumes, which we will describe later on.

The Asset Management Area incorporates the general funds manager and the stock brokerage subsidiaries. These are banking subsidiaries for legal purposes, but are regarded as a separate asset management business area. Profit for this area was CH\$5,170

million, compared to CH\$8,511 million last year, which was a significant fall. However, last year's figure included the sale of a share of the Santiago Stock Exchange, which produced an exceptional result that was not repeated this year.

The Services Area incorporates the travel agency "Travel Security" and the real estate company. Its profit fell well short of expectations. This fall was principally caused by the real estate company, but it is not a surprise and these results are no worse than we had planned.

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Profit at the largest business areas for the 12 months to September 2016 include the standalone Bank at CH\$35,986 million, Factoring at CH\$7,176 million, the general fund manager at CH\$7,193 million, and the life insurance company at CH\$26,020 million.

Including the extraordinary sale of Penta Security, these business areas are included in the Group profit for 12 months of CH\$73,142 million, which is the highest profit in the history of the Group.

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We now address the indicators. The Group's consolidated profit over 12 months was CH\$73,142 million. The price of our shares was CH\$221 in September and is now trading at around CH\$240. Our market cap is around CH\$718,632 million. Earnings per share reached CH\$22.45, and the Price/Earnings ratio is 9.83 times. Our leverage is 34.35%, with a covenant of 40%. Our ROE is around 12.9% as of September 2016. Therefore, we are within historical averages for the company.

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Examining the results by area, we will now turn to the results of Banco Security. Without its asset management subsidiaries, profit at the Bank was CH\$33,928 million, a decline of 2.8% year-on-year. Loans grew by 8.0% year-on-year, and 2.1% quarter-to-quarter.

Profit at Commercial Banking grew by 88.0% year-on-year to CH\$34,588 million. This is explained by lower risk losses, compared to the high risk expense for the previous period, due to changes to the Bank's risk policies and restructuring of specific cases during 2015. This is leading us to an exceptionally low risk result this year, particularly in Commercial Banking. Furthermore, we have secured better financial margins, which explains the growth in commercial loans.

Profit at Retail Banking was CH\$5,047 million as of September 2016, up 4.9% year-on-year, where we have been helped by higher sales of insurance policies that complement our loans. The bancassurance business has been developing quite vigorously. Financial margin increases have helped us, along with an increase in loan volumes. Although this increase is considerably less than in previous years, it still contributes to growth. Consumer spreads have been a little lower, due to reductions in growth rates. We have also seen some small declines in risk losses. Although these are not very significant, they indicate that risk has been more complicated in Retail Banking. Our Retail Banking customers are mostly high-income individuals, so we have not been affected by lower segments.

Our financial margins in Treasury are lower compared to last year, due to MPR increases at the end of 2015. This has been offset by a very good performance from foreign exchange hedges, and by a recovery in the value of impaired bonds, due to improved country risk.

The Bank should produce an exceptional result, due to the good risk results within Commercial Banking. However, this year we are changing our capitalization criteria and facing intangible asset impairment associated with terminating the core technological project. We are recognizing intangible asset impairment of CH\$17,344 million in the period, due to obsolete technological systems, which will leave the Bank's base capital quite healthy, and in a position to absorb the Basel 3 Convention requirements. In this context, such impairment is practically a capital increase. The technological project ended on October 1 when the core system was transferred to production. The Bank's new technological system is now operating.

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The Bank's efficiency ratio now stands at 55.03%. If we remove the intangible asset impairment as it is a one-time adjustment, our efficiency ratio would have been around 49.6% this year, which is the efficiency ratio for recurring costs.

The risk ratio is 1.85%. Our Core Capital is currently around 7.4%, and Basel I (Equity/RWA) is around 13.6%. Intangible asset impairment has helped us with our Basel 3 indices, which we have not yet calculated for the public.

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Banco Security has gross operating income over total assets of 3.67% as of September 2016, which compares relatively well with our competitor banks and is obviously much lower than the market, given the segments in which we participate.

Our efficiency ratio of 55.03% was obviously higher than our peer banks, which average 51.57%. However, our ratio includes intangible asset impairment on an exceptional basis this period. The industry is at 49.44%. Therefore, when we adjust our efficiency ratio for intangible asset impairment in the period, it is aligned with the market.

Our risk ratios are currently around 1.94% as of September 2016, compared to 1.81% as of September 2015, and always aligned with our numbers.

Our ROAE is 10.11%, and has been affected by intangible asset impairment. We expect that there will no impairment next year. Therefore, ROAE will be higher at around 14% to 15%.

Manuel Widow (Planning and Management Manager at Banco Security):

I would like to mention the portfolio's good behavior in terms of risk. Despite the macroeconomic context, our portfolio has performed very well. We have noticed a slight increase in consumer risk, but nothing out of control, always as expected and in accordance with the macroeconomic context. The corporate portfolio has behaved very well, even better than expected. I think that we are harvesting what we planted a long time ago, as we are now strictly making provisions in advance when we perceive potential deterioration may occur in the future.

We have also recognized intangible asset impairment this year, which has had a significant effect on results. Fortunately, our results this year have enabled us to recognize this impairment, and we have not had to change our plans, nevertheless we have significantly reduced the Bank's intangible assets. The commissioning of our new core technological platform has resulted in many intangible assets and software becoming obsolete.

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Factoring is within the Lending Business Area. Profit at Factoring increased to CH\$5,430 million, up 3.3% year-on-year, in spite of a depressed market where growth has been substantially lower than we have seen in previous periods.

Our average spread is around 0.69% per month, 5 basis points lower than last year. This is due to a fall in sales, as other factoring companies have been more aggressive in order to capture those invoices.

The Factoring risk ratios have not been affected by the economic situation, which is comforting. The Factoring risk ratio reached 3.1% as of September 2016, 5 basis points higher than September 2015. The Factoring efficiency ratio was 44.7%, and is aligned with our target set at the beginning of the year.

We expect that receivables should continue to grow at a fairly limited rate next year, and even if the spread falls a little, the risk is contained as the Factoring portfolio is well atomized and risks are spread out across the portfolio.

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Profits in the Insurance Area need to be separated between the life insurance company profit and the additional gain from the sale of Penta Security. In particular, Vida Security achieved a profit of CH\$15,253 million, with a year-on-year decline of 9.7%. The sale of Penta Security resulted in an extraordinary gain after tax for Grupo Security of CH\$14,937 million.

We have seen significant growth in the commercial area selling CUI products. These are insurance policies with savings and additional voluntary pension contributions, and they have grown by more than 24.4% year-on-year. Furthermore, the fifth Disability and Survivor Insurance contract became effective, which provided direct premiums of CH\$39,341 million just during 3Q16. So far we have recorded higher claims for this product than the estimate in our proposal to win the contract. However, there is no significant change in the results for this business that particularly concern us over the two years.

Investment income is up 24.2% year-on-year, to reach CH\$86,074 million, due to the low comparison base last year where international market factors resulted in poor portfolio performance.

Technical reserves have grown by 34.8% year-on-year, reaching CH\$52,214 million as of September 2016. Investment performance from CUI and APV insurance policies has an impact on technical reserves, which partially offsets the net profit.

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Another comment about the life insurance company is that administrative costs are 11% of direct premiums as of September 2016. We have taken advantage of all the synergies arising from Cruz del Sur and the company is becoming very efficient.

Furthermore, direct premiums are comprised of annuities with 17%; group policies with 22%; individual insurance policies with 42%; disability and survivor insurance (SIS) with 17%, and family protection with 2%.

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Investment returns measured over 12 months reached 5.4% as of September 2016, compared to 4.8% for the previous period, where the main cause is the low performance of variable income investments last year.

Our investment portfolio in the life insurance company contains CH\$1,601,117 million in fixed income investments, which represents 72% of the portfolio. Variable income investments represent a far lower percentage at 16%, mostly in mutual and investment funds.

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Vida Security has an ROE of 12.4%, compared to an average ROE of 11.3% amongst its competitors. Our administrative expenses are 10.6% of direct premiums, compared to an average of 7.4% among our peers, and 10.8% for the industry. Our combined ratio, or the money used to produce insurance sales, is 97.5%, while our competitors are much higher at 111.5%.

Paulina Guerra (Corporate Management Control Manager)

I would like to highlight the ROE at about 12.4% year-on-year, compared our competitors with an average of 11.3%.

Our return on investments is aligned with the industry, in fact one basis point above. This year we achieved 5.2%, compared to 5.1% achieved by our competitors and the industry.

Our leverage is well below the limit permitted by regulations, which is 20 times liabilities/equity. We currently have 13.19, our competitors have 12.65 and the industry 9.90. All the company's indicators are aligned, and well above those for our competitors, and even above the industry in some cases.

Fernando Salinas

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Protecta is our investment in an insurance company in Peru. Its profit was US\$ 3.38 million this year versus US\$ 3.29 million last year.

The most significant event was a fall in premiums on the Peruvian annuities market after changes to the law that governs it. Although the market has fallen by 34.0% as can be seen as of September 2016, Protecta has fallen by only 9.1%, as the company has been increasing its market share. This has been a very complex issue for larger companies in Peru, nevertheless our business plan continues to produce interesting figures, although somewhat delayed.

Our increased market share partly offset the fall, within a far more restrained market. Over the past two months, the annuity market has apparently stabilized, and further declines in premiums have not been observed on a month-to-month basis. So we are now less anxious about future market developments.

Fernando Salinas

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The Asset Management Area reported a drop in profit of 39.3% year-on-year, to CH\$5,170 million as of September 2016. This is due to the exceptional gain on the sale of the Stock Market share last year, and also to higher expenses this year caused by the merger with the asset management business of Banco Penta.

The most important commercial event was the successful incorporation of the asset management business of Banco Penta. This is already complete, and has given us a market share of 6.0% in mutual funds as of September 2016.

There has also been a significant change in the composition of assets under management, towards fixed-income funds, which have a lower return than variable income funds. This has brought the average returns on our funds down, which results in less commission income. This was exacerbated during the first 9 months of 2016. However, we have now seen some groups of people moving to variable income funds, despite their volatility.

Next year we will probably have relatively restrained growth in AUM, as we are facing high volatility and considerable uncertainty in the market. It is not easy to identify the drivers between now and the early days of the Trump government. However, I believe that once he has taken office, his policies will be easier to define.

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The Other Services area contains Travel and Real Estate.

Profit at Travel is CH\$3,097 million as of September 2016, down 3.0% compared to last year. Commercial indicators for the industry report that sales have fallen by 14%, very much in line with the economic slowdown. We have also faced a substantial fall in the price of airline tickets, which results in lower commissions for the agency. The weakening competitive position of LAN in Chile has allowed other airlines to enter the market, which has triggered significant price falls. However, given the size of its market, Travel has been able to obtain good commissions with some airlines, which has allowed us to maintain profitability compared to last year in spite of this drop in sales. This is exceptional for the industry, which has been punished by lower ticket sales volumes, due to the economic cycle and companies reducing their corporate travel.

Meanwhile, Travel has improved the handling of its ground product sales, and achieved significant growth in sales using its web page. Our agency has almost become an online agency, as it now directly competes in terms of features with other online travel agencies such as Despegar.

As already mentioned, the real estate business had a significant fall in profitability, but this was planned. Real estate profits were very high last year, because we were selling many projects in our portfolio. This year we are managing real estate assets of CH\$68,943 million, and we have several projects in development. The process of transferring title and sales of current projects has been slower than last year, but not particularly slower than we had budgeted. We do not expect the contraction in the real estate sector to be very large, and we shall continue with our current portfolio of projects.

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In summary, the Bank's loans are growing at 8.0% year-on-year, above growth across the industry at 4.2% (8.2% including projects abroad).

Factored receivables grew by 10.5%, well above the industry. In fact, growth amongst ACHEF members (i.e. a Chilean factoring association) decreased.

Mutual funds have grown by 9.9% (including the effect of absorbing the asset management business of Banco Penta), while this industry grew by 6.1%. Therefore, we have grown by more than the industry, although this is explained by the purchase of assets through the acquisition of Penta.

Our direct premiums have grown well above the industry at 30.3%, compared to 18.6% for the industry. This is explained by two causes: significant growth in the sale of insurance with savings components (CUI and APV), and the winning of the Disability and Survivor Insurance contract (SIS).

We expect that loan growth will continue to moderate by the end of 2016. We believe that growth will finish up around an annual nominal rate of 4% to 5%. We also believe that growth in mutual funds will close between 6% to 7% in line with the industry. Growth in direct premiums in the insurance market should be on the order of 16% to 17%.

Despite this year being very complicated from an economic perspective, in general the Group has managed to grow almost all its commercial indicators by more than the industry. Excluding the effect of the extraordinary gain from the sale of Penta Security (which could be eliminated from continuing operations as it is non-recurring) and reversing the intangible asset impairment at the Bank, the Group has performed extremely well this year with respect to the bottom line.

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The central risks to our budget for 2017 that we have recently prepared with the business areas, to our detailed plans and business plans for the next three years, are concentrated in weak economic growth. We believe that the investment environment is very uncertain owing to the issue of elections and the international situation. It is currently very difficult to take a position regarding anything that is happening. We have seen U.S. stock markets rising; while we are waiting for protectionist measures to be introduced in the U.S. and taxes reduced. We will have to wait and see how this situation unfolds. The only healthy approach is to find a little platform, and watch what is happening after governments have taken office. In particular we believe that the outcome of the elections in Chile may give some impetus to economic growth, to initiate a cycle that is a little different in political terms.

The internal measures to deal with this period are the same as in 2016, with a particular focus on commercial productivity. This is being examined in detail by each company, in order to increase our base revenue per account executive, rather than add salespeople, and prepare for more productive business areas, given a low growth environment. We will not add branch offices and we are not thinking of recruiting more employees. We intend to tackle these periods by increasing our profitability, rather than by adding to employees or expenses. Expense efficiency can be addressed now that the core technological platform is functioning. In particular, an important task at the Bank is to examine ways to reduce operating costs. Group corporate expenses are also being significantly adjusted, in order to maximize trademark synergies and the technology behind each of the processes that support the business.

We are cautious with our investment portfolios, in terms of avoiding significant variations in their returns because of volatility. We have been very conservative with regard to decision-making and avoided significant risks, particularly at the life insurance company, which manages the largest investment portfolio, and also in our recommendations regarding the third-party assets of our customers.

However, we are expecting moderate growth in industry loans next year. We believe that Banco Security should be able to grow by more than the industry.

We expect the mutual fund industry to grow by 7% to 9%, and we are working on business plans that increase our market share.

Direct premiums in the life insurance market are likely to grow at 9% to 10%. Although we want to grow by more than this market, we believe that we are not going to see premiums grow by 30.3% again, as we have already been awarded the SIS insurance contracts, and growth in CUI insurance policies will be limited, because we already have a significant share of that market. Our total premiums mean that we are ranked in seventh place in the market. In particular, we are ranked in third place in the market for insurance policies with savings components (CUI).

Analyst 1

I have a question regarding operating costs for the new core systems. How much further can the intangible assets be impaired? Has most of the impairment already been recognized? Or is there a large pending expense regarding this issue?

Manuel Widow

The Bank has been heavily investing in systems development—both small systems for solving problems and improving routine tasks, and other more strategic projects. This had been continually adding to intangible assets within the Bank. When we found that these assets were well above the average for the industry, we began to analyze our accounting criteria as compared to the criteria used by other banks, and the decision was made to tighten our policies.

This has resulted in recognizing impairment of CH\$17,344 million so far this year, and accelerating depreciation faster than we had initially planned. So far this year we have recognized nearly CH\$24 billion of extra expenses under this concept.

Looking forward, there are very few remaining small projects. Hence we have defined general criteria that will only capitalize a cost when it is genuinely merited, and we are probably going to depreciate it over more or less 3 years. Routine costs regarding regulations, reports, etc., will probably be directly expensed.

Rodrigo Carvacho (Corporate Accounting Manager)

From an accounting point of view, we will apply IAS 38 on Intangible Assets. We have only capitalized intangible assets that we believe will generate financial value in the future. We perform regular reviews and eliminate all those that may be obsolete, unused or about to be replaced by another asset.

Therefore, we have recognized most of the potential impairment, and we now perform regular analyses in accordance with the standard. Our policies are far more aligned with those in the market with respect to the useful lives of intangible assets. Therefore, regarding how much remains, our response is that we now continually review the remaining useful lives of our intangible assets.

Fernando Salinas

Manuel, do you believe that a further large impairment will be recognized between now and the end of the year?

Manuel Widow

There could be between CH\$3,000 million to CH\$4,000 million remaining this year.

Marcela Villafaña

We would like to conclude the conference now. Thank you for connecting, and if you have any additional questions, you have our contact details and the investor relations email, so that any of us can answer your questions. Thank you very much.

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