

## Grupo Security Earnings Report

### **Grupo Security Reports Profit of CH\$57,823 Million for the First Nine Months of 2018 (+7.8% YoY), with 27.8% YoY Growth at Banco Security.**

- Starting November 30, 2018, Grupo Security's stock will be included on the MSCI Chile Small Cap Index, which will favor the stock's liquidity and help incorporate new local and foreign shareholders into the Group's shareholder base.
- On November 26, 2018, Security Internacional completed its acquisition of Vida Security's entire interest in Inversiones Security Perú S.A.C, the parent of Protecta Security, for S./ 100 million.
- On October 3, 2018, Grupo Security's board approved a dividend of CH\$4.5 per share.

**Santiago, Chile – November 29, 2018. Grupo Security S.A., (BCS: SECURITY; BBG: SECUR),** (“Grupo Security”), a niche Chilean-based diversified financial group offering banking, insurance, asset management and other services to large and medium-sized companies and individuals, today announced financial results for the three and nine months ended September 2018.

Renato Peñafiel, CEO of Grupo Security, commented, “For the nine months ended September 2018, Grupo Security posted profit of CH\$57,823 million (+7.8% YoY), driven by the Bank's earnings, which increased 27.8% YoY, with loans expanding 9.5% LTM, outperforming the industry at 8.5%. In addition, the Bank reported a strong efficiency ratio of 47.7% thanks to its long-term vision to maintain the ratio around 45%.”

He added that “Grupo Security's listing on the MSCI Chile Small Cap Index is the result of our efforts to increase the Company's earnings and improve the stock's depth and liquidity by incorporating new local and foreign investors, supplying the market with quality reporting and cultivating close, analysis-based relationships with our investors.”

Grupo Security Indicators <i>In MCH\$</i>	Sep-18	Jun-18	Dec-17	Sep-17	QoQ	% Chg YTD	YoY
Banco - Total Loans	5,182,434	5,070,827	4,834,290	4,732,916	2.2%	7.2%	9.5%
Industry - Total Loans <sup>1</sup>	156,592,324	153,759,956	146,250,331	144,338,460	1.8%	7.1%	8.5%
Inversiones - AUM Mutual Funds	2,699,356	2,726,097	2,558,301	2,497,739	-1.0%	5.5%	8.1%
Industry - AUM Mutual Funds	38,586,487	37,985,895	35,056,763	36,040,114	1.6%	10.1%	7.1%
Vida - Investment Portfolio	2,468,419	2,449,258	2,402,514	2,381,277	0.8%	2.7%	3.7%
Industry (life insurance) - Investment Portfolio	39,820,993	39,111,551	37,578,374	36,933,098	1.8%	6.0%	7.8%
Factoring - Factored Receivables	315,389	301,116	304,393	265,974	4.7%	3.6%	18.6%
<b>Operations</b>							
Employees (number)	3,892	3,784	3,839	3,816	2.9%	1.4%	2.0%

<sup>1</sup>Excludes loans and advances to banks and foreign subsidiaries of local banks.

Grupo Security Indicators Statement of Income	3Q18	2Q18	3Q17	% Chg		9M18	9M17	% Chg
				QoQ	YoY			
Banco - Net Interest Margin	41,753	43,525	38,691	-4.1%	7.9%	125,739	114,352	11.0%
Banco - Net Fees	16,188	17,948	16,551	-9.8%	-2.2%	51,498	47,155	15.4%
Banco - Operating Expenses	-33,157	-30,639	-29,949	8.2%	10.7%	-95,951	-94,292	-2.4%
Banco - Net Provision Expenses	-8,181	-12,939	-11,659	-36.8%	-29.8%	-27,569	-30,809	1.2%
Vida - Direct Premium	65,563	105,911	117,404	-38.1%	-44.2%	268,265	339,332	-8.7%
Vida - Claims Paid	-7,598	-41,528	-36,988	-81.7%	-79.5%	-85,027	-107,966	9.1%
Vida - Pensions Paid	-58,795	-48,837	-69,572	20.4%	-15.5%	-151,165	-164,467	-2.7%
Vida - Investment Income	32,069	19,146	34,480	67.5%	-7.0%	74,719	103,510	-38.2%
Factoring - Revenue	7,235	7,397	6,903	-2.2%	4.8%	21,948	21,883	-1.8%

Ratios	Sep-18	Jun-18	Dec-17	Sep-17	% Chg		
					QoQ	YTD	YoY
Grupo - Share Price (Ch\$)	308.1	298.8	280.1	270.0	-2.0%	6.7%	14.1%
Grupo - Number of Shares (millions)	3,695	3,695	3,683	3,683	0.0%	0.3%	0.3%
Grupo - ROE	11.1%	11.6%	11.6%	10.6%	-77 p	3 p	48 p
Banco (Consolidated) - ROAE	14.2%	14.2%	12.4%	11.7%	1 p	176 p	255 p
Factoring - ROE	20.9%	22.1%	22.3%	21.7%	120 p	-20 p	-80 p
Vida - ROAE	7.2%	3.1%	8.3%	12.4%	-452 p	-526 p	-516 p
Travel - ROE	26.7%	24.0%	32.6%	27.6%	490 p	-860 p	-90 p
Grupo - Leverage	35.5%	34.6%	29.3%	29.5%	-121 p	525 p	602 p
Banco - Efficiency	47.72%	46.51%	49.72%	51.12%	-160 p	-321 p	-340 p
Factoring - Efficiency	42.8%	42.8%	43.8%	44.0%	-140 p	-105 p	-111 p
Banco - Non-Performing Loans	1.42%	1.37%	1.38%	1.46%	-38 p	-1 p	-4 p
Banco - Risk Index	1.59%	1.65%	1.67%	1.78%	8 p	-2 p	-19 p
Factoring - Risk Index	2.5%	2.6%	2.5%	2.8%	-29 p	12 p	-24 p
Banco - BIS Tier I Ratio	7.9%	7.7%	8.1%	7.4%	-15 p	-38 p	57 p
Banco - BIS Tier II Ratio	13.5%	13.4%	14.0%	13.3%	-32 p	-61 p	21 p

ROAE: profit 12M over average equity

On March 1, 2018, at a meeting of the board of Vida Security, the directors agreed to issue 100,100,000 new nominative, single-series, common shares with no par value as part of the capital increase agreed by shareholders at the extraordinary meeting on December 18, 2017. The board also decided to place the first set of 30,000,000 shares at a subscription price of UF 0.01866583342 each, once the issuance was registered in the Securities Registry maintained by the Financial Market Commission (CMF), which occurred in June 2018 (CH\$15,151 million).

In March 2018, a capital increase of S./ 25 million was approved and carried out by Protecta in order to strengthen the company's solvency and sustain its path of commercial growth. Protecta Security's business plan for the next three years calls for strong growth in annuities, which will require future capital increases.

On March 15, 2018, Grupo Security issued the N1 series bond on the local market for UF 1.5 million, with total demand of UF 2.7 million, or 1.8 times the offering. This 25-year bond, with a 20-year grace period and a duration of 16.5 years, was placed at a rate of UF + 3.05%.

The issuance is part of a liability restructuring plan that Grupo Security began in 2017 in order to lengthen the duration of its liabilities, which rose from 11.3 in late 2016 to the current figure of 12.78. This restructuring plan also included a bond exchange in January 2017, by which UF1,189,000 in F bonds (originally UF 1,250,000) were exchanged for M bonds leaving a balance of UF61,000 in F bonds; and an issuance of long-term debt in December 2017 to replace bank loans in its intermediate holding, Inversiones Previsión Security. These 21-year bonds have a grace period of 10 years and raised UF 1,000,000.

On March 28, 2018, we sold 71,769,048 shares through an order book auction, comprised of 11,980,563 shares not subscribed during the capital increase in August 2017 and a secondary offering of 59,788,485 shares, attracting demand of 9 times the offering, equivalent to

more than US\$ 297 million. The cut-off price—the maximum with which the offering is completed—was CH\$290 per share. However, in order to attract new investors (particularly foreign) and expand the holdings of AFPs and local institutional investors, the Company decided to set a price of CH\$280 per share.

On April 12, 2018, Grupo Security shareholders approved a dividend payment of CH\$7.25 per share charged to profit for the year 2017. This dividend and the interim dividend distributed in November 2017 total CH\$11.6 per share, equivalent to CH\$42,810 million, or 57% of profit for the year 2017. The shareholders also approved the annual report and financial statements for the year 2017 at this meeting.

On July 24, 2018, at an extraordinary meeting of the shareholders of Seguros Security Previsión, they agreed to accept the offer made by Security Internacional to buy the company's shares in Inversiones Security Perú (99.99999%), which in turn owns 61% of Protecta Security. On July 27, 2018, the parties signed an agreement to purchase the shares of Inversiones Security Perú for S/100,000,000. The transaction is subject to a series of conditions that are customary for this type of transaction, including regulatory approvals. On November 16, 2018, these conditions were met and the closing documents for the deal were signed. The sales price for Inversiones Security Perú was paid and the transaction was closed. On November 19, 2018, shareholders agreed to a second capital increase in Protecta Security of S./ 45 million to be completed by year-end 2018 in order to strengthen its capital base and support the growth plan mentioned above. On November 28th, Inversiones Security Perú S.A.C made its respective contribution of S./ 27.45 million. The remainder will be contributed by Grupo ACP.

On October 3, 2018, Grupo Security's board approved a dividend of CH\$4.5 per share. This consists of an additional dividend of CH\$2.6 per share charged to profit for 2017 and an interim dividend of CH\$1.9 per share charged to profit for the current year.

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## GRUPO SECURITY EARNINGS REPORT FOR 3Q18

Grupo Security posted profit of CH\$57,823 million for the nine months ended September 2018 (+7.8% YoY and +53.2% QoQ). EBIDTA for the same period totaled CH\$93,940 million, +5.1% YoY and +53.4% QoQ.

The Group posted an ROAE as of September 2018 of 11.1%, +48 b.p. YoY and -77 b.p. QoQ. Profit from the Group's business areas was CH\$76,000 million, +12.9% YoY and +38.7% QoQ.

### EARNINGS CONTRIBUTION BY BUSINESS AREA

Earnings from Related Companies								
	3Q18	2Q18	3Q17	% Chg		9M18	9M17	% Chg
				QoQ	YoY			
<b>Lending Area</b>								
Banco Security (standalone)	15,700	16,101	13,962	-2.5%	12.4%	50,766	38,775	30.9%
Factoring Security	1,960	2,034	1,830	-3.7%	7.1%	6,019	5,578	7.9%
<b>Asset Management Area</b>								
Valores Security	575	809	430	-28.8%	33.8%	1,873	1,645	13.9%
AGF Security	1,608	1,556	1,570	3.3%	2.4%	4,601	4,362	5.5%
<b>Insurance Area</b>								
Vida Security	6,589	(1,576)	111	-	-	11,420	13,212	-13.6%
Servicios Security	147	262	177	-43.9%	-16.7%	451	315	43.0%
<b>Other Services</b>								
Inmobiliaria Security	(1,782)	(424)	103	-	-	(2,475)	956	-358.9%
Travel Security	1,243	894	1,107	39.0%	12.3%	2,762	2,966	-6.9%
Travex Security	167	145	178	15.3%	-6.0%	425	454	-6.5%
<b>Grupo Security Profit</b>	<b>20,728</b>	<b>13,528</b>	<b>17,704</b>	<b>53.2%</b>	<b>17.1%</b>	<b>57,823</b>	<b>53,661</b>	<b>7.8%</b>

(1) Subsidiary earnings correspond to 100% of their profits and differ from those used to prepare the segment note, which includes consolidation adjustments to account for Grupo Security's percent ownership in each of its respective subsidiaries.

## REVIEW OF OPERATIONS BY BUSINESS AREA

### LENDING BUSINESS AREA (68.6% of assets; 74.7% of profit from business areas as of September 2018)

The lending business area comprises the operations of Banco Security (excluding its asset management subsidiaries, AGF Security and Valores Security Corredores de Bolsa), and Factoring Security.

#### BANCO SECURITY

As of September 2018, Banco Security reported consolidated profit attributable to its owners of CH\$57,238 million, +27.8% YoY. Banco Security's stand-alone profit (excluding asset management subsidiaries AGF Security and Valores Security Corredores de Bolsa) was CH\$50,768 million, +30.9% YoY.

Banco Security's ROAE (profit LTM over average equity) was 14.2%, +255 b.p. YoY.

## Banco Security - Operating Segments

Banco Security Segment Note	Commercial Banking		Retail Banking		Treasury		Other		Total Bank		Subsidiaries		Total Consolidated	
	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17
	In Ch\$ Million													
Net interest margin	62,433	58,095	48,254	46,443	16,327	14,179	-999	-3,704	126,016	115,014	-277	-662	125,739	114,352
Δ% 9M18	7.5%		3.9%		15.1%		-73.0%		9.6%		-58.2%		10.0%	
Net Fees	14,303	11,781	17,068	17,005	-280	-386	-1,082	-976	30,009	27,424	21,489	13,990	51,498	41,414
Δ% 9M18	21.4%		0.4%		-27.4%		-		9.4%		53.6%		24.3%	
Net FX transactions and other income	5,326	7,617	1,887	1,733	10,074	16,902	-3,870	-10,700	13,417	15,552	6,086	11,350	19,503	26,902
Δ% 9M18	-30.1%		8.9%		-40.4%		-63.8%		-13.7%		-46.4%		-27.5%	
Loan losses and foreclosed assets	-9,767	-12,910	-17,680	-18,094	30	-16	-513	175	-27,930	-30,845	0	0	-27,930	-30,845
Δ% 9M18	-24.4%		-2.3%		-		-392.5%		-9.5%		-		-9.5%	
Total operating income, net of credit risk prov.	72,295	64,583	49,529	47,088	26,151	30,679	-6,464	-15,204	141,512	127,145	27,298	24,678	168,810	151,823
Δ% 9M18	11.9%		5.2%		-14.8%		-57.5%		11.3%		10.6%		11.2%	
Operating expenses	-27,673	-28,407	-41,889	-42,303	-9,078	-9,391	2,129	3,417	-76,511	-76,684	-19,440	-17,608	-95,951	-94,292
Δ% 9M18	-2.6%		-1.0%		-3.3%		-37.7%		-0.2%		10.4%		1.8%	
Net operating income	44,622	36,176	7,640	4,784	17,074	21,288	-4,335	-11,787	65,001	50,461	7,858	7,070	72,859	57,531
Δ% 9M18	23.3%		59.7%		-19.8%		-63.2%		28.8%		11.1%		26.6%	
Income tax expense	-9,781	-8,390	-1,675	-1,110	-3,742	-4,937	947	2,730	-14,251	-11,707	-1,385	-1,380	-15,636	-13,087
Δ% 9M18	16.6%		50.9%		-24.2%		-65.3%		21.7%		0.4%		19.5%	
Profit attributable to equity holders of the bank	34,841	27,786	5,965	3,675	13,331	16,351	-3,370	-9,036	50,768	38,775	6,470	5,999	57,238	44,774
Δ% 9M18	25.4%		62.3%		-18.5%		-62.7%		30.9%		7.9%		27.8%	

Banco Security Segment Note	Commercial Banking		Retail Banking		Treasury		Other		Total Bank		Subsidiaries		Total Consolidated	
	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18
	In Ch\$ Million													
Net interest margin	21,796	20,795	16,136	16,091	4,278	7,123	-292	-506	41,919	43,503	-166	22	41,753	43,525
Δ% 3Q18	4.8%		0.3%		-39.9%		-42.3%		-3.6%		-854.5%		-4.1%	
Net Fees	4,355	4,893	5,027	6,569	-82	-108	-21	-731	9,279	10,623	6,909	7,325	16,188	17,948
Δ% 3Q18	-11.0%		-23.5%		-		-		-12.7%		-5.7%		-9.8%	
Net FX transactions and other income	1,507	1,743	458	801	2,715	1,616	-7,680	7,094	4,620	3,634	2,106	1,893	6,726	5,527
Δ% 3Q18	-13.5%		-42.9%		68.0%		-208.3%		27.1%		11.3%		21.7%	
Loan losses and foreclosed assets	-3,189	-5,690	-5,265	-6,786	9	-10	-74	-767	-8,518	-13,253	0	0	-8,518	-13,253
Δ% 3Q18	-44.0%		-22.4%		-		-		-35.7%		-		-35.7%	
Total operating income, net of credit risk prov.	24,470	21,740	16,356	16,675	6,921	8,621	-447	-2,528	47,300	44,507	8,849	9,240	56,149	53,747
Δ% 3Q18	12.6%		-1.9%		-19.7%		-82.3%		6.3%		-4.2%		4.5%	
Operating expenses	-9,504	-8,593	-14,373	-14,091	-3,043	-2,677	-89	1,129	-27,009	-24,231	-6,148	-6,408	-33,157	-30,639
Δ% 3Q18	10.6%		2.0%		13.7%		-107.9%		11.5%		-4.1%		8.2%	
Net operating income	14,966	13,147	1,983	2,584	3,878	5,944	-536	-1,399	20,291	20,276	2,701	2,832	22,992	23,108
Δ% 3Q18	13.8%		-		-34.8%		-61.7%		0.1%		-4.6%		-0.5%	
Income tax expense	-3,382	-2,700	-454	-532	-895	-1,223	128	282	-4,604	-4,173	-513	-479	-5,117	-4,652
Δ% 3Q18	25.3%		-14.7%		-26.8%		-54.6%		10.3%		7.1%		10.0%	
Profit attributable to equity holders of the bank	11,583	10,447	1,529	2,052	2,982	4,722	-399	-1,109	15,696	16,111	2,187	2,352	17,884	18,463
Δ% 3Q18	10.9%		-25.5%		-36.8%		-64.0%		-2.6%		-7.0%		-3.1%	

### Commercial Banking

Banco Security's commercial banking division targets companies with annual sales above US\$ 1.2 million. While Banco Security's core business targets large companies, efforts have been made in recent years to strengthen the medium-sized company segment by tailoring services to its needs. This strategy is designed to diversify our customer base and improve returns in each segment.

As of September 2018, commercial loans had expanded +10.1% YoY and 8.4% YTD, totaling CH\$4,091 billion. Industry wide, commercial

loans grew +8.5% YoY and +8.0% YTD. Including foreign subsidiaries, the industry's commercial loans grew +9.7% YoY and +9.3% YTD. The Bank boasts market share of 6.3%<sup>1</sup> in its target segment of medium and large companies as of September 2018. The commercial banking

Commercial Loans by Economic Sector	Sep-18	% Total
Construction and real estate	940,581	23.0%
Financial services and insurance	745,243	18.2%
Real estate investors and corporate services	537,743	13.1%
Wholesale and retail trade	509,872	12.5%
Manufacturing	371,400	9.1%
Transportation	249,271	6.1%
Social services	241,862	5.9%
Utilities	176,564	4.3%
Agriculture and livestock	127,010	3.1%
Fishing	78,710	1.9%
Mining	73,239	1.8%
Telecom	33,250	0.8%
Forestry	6,093	0.1%
<b>Total commercial loans</b>	<b>4,090,837</b>	<b>100%</b>

<sup>1</sup> This includes companies with annual sales over CH\$800 million, only in the regions of Chile where Banco Security has offices. Source: Chilean Internal Revenue Service (SII).

division had 8,869 customers as of September 2018 (+6.6% YoY).

The commercial banking division posted profit of CH\$34,841 million for 9M18 (+CH\$7,056 million, +25.4% YoY). This is explained by a larger net interest margin of CH\$62,433 million for 9M18, (+CH\$4,338 million or +7.5% YoY) due to increased commercial loans (+10.1% YoY). It also reported reduced risk expenses of CH\$9,767 million for 9M18 (-24.4% YoY), due to a stronger portfolio performance. The division reported greater net fees of CH\$14,303 million for 9M18 (+CH\$2,522 million and +21.4% YoY), due to increased commercial activity. Operating expenses fell to CH\$27,673 million (-2.6% YoY) for 9M18 as a result of reduced expenses for technology projects, depreciation and amortization, which are distributed across all the standalone Bank's business segments. The above effects were not offset by the drop in net TX transactions and other income, which totaled CH\$5,326 million (-30.1% YoY), explained by reduced income from structured products.

The division posted profit of CH\$11,583 million for 3Q18 (+CH\$1,136 million, +10.9% QoQ), mainly because of reduced risk expenses, which totaled CH\$3,189 million (-44.0% QoQ) due to a better performing portfolio. The division also recorded a greater net interest margin, which reached CH\$21,796 million, +CH\$1,001 million from 2Q18 (+4.8% QoQ), due to increased loans (+2.8% QoQ). These effects were not offset by increased operating expenses of CH\$9,504 million (+10.6% QoQ), because of technology projects implemented and contributions paid to regulators, which are distributed across all the standalone Bank's segments. Net fees totaled CH\$4,355 million (-11.0% QoQ), due to a drop in commercial activity, while net FX transactions and other income reached CH\$1,507 million (-13.5% QoQ).

## **Retail Banking**

Banco Security's retail banking division targets high-income individuals. In recent years, the retail division has focused on expanding consumer products while conservatively managing risk, resulting in average annual growth of 15% since 2013.

As of September 2018, the Bank had total retail loans (consumer + mortgage) of CH\$1,091 billion (+7.1% YoY and +3.0% YTD), driven primarily by consumer loans (+15.6% YoY and +9.7% YTD) and, to a lesser extent, by mortgage loans (+1.2% YoY and -1.7% YTD). For the industry, retail loans increased +9.2% YoY and +6.0% YTD, driven by mortgage loans (+9.3% YoY and +6.4% YTD) and, to a lesser extent, consumer loans (+9.0% YoY and +5.0% YTD). Including foreign subsidiaries, the industry's retail loans grew +10.0% YoY and +7.0% YTD. The Bank boasts market share of 5.7%<sup>2</sup> in its target segment of high-income individuals as of September 2018. The retail banking division had 70,685 customers as of September 2018 (+0.7% YoY).

The retail banking division reported profit of CH\$5,965 million for 9M18 (+CH\$2,291 million or +62.3% YoY), explained by a larger net interest margin of CH\$48,254 million (+CH\$1,811 million, +3.9% YoY), due to greater loans (+7.1% YoY). Operating expenses fell to CH\$41,889 million (-1.0% YoY) as a result of reduced expenses for technology projects, depreciation and amortization, which are distributed across all the standalone Bank's business segments. Provision expenses rose to CH\$17,680 million (-2.3% YoY), due to the Bank's efforts to strengthen its risk and collections structure, partially offset by impairment of a few entrepreneur banking customers in 2Q18. Net FX transactions and other income totaled CH\$1,887 million for 9M18, (+CH\$154 million or +8.9% YoY), while net fees totaled CH\$17,068 million (+CH\$63 million or +0.4% QoQ).

It reported profit of CH\$1,529 million for 3Q18 (-25.5% QoQ), explained by smaller net fees of CH\$5,027 million (-23.5% QoQ), due to decreased sales of supplementary loan insurance products. There was also a drop in net FX transactions and other income, which totaled CH\$458 million (-42.9%). Operating expenses reached CH\$14,373 million (+2.0% QoQ), because of technology projects implemented and contributions paid to regulators, which are distributed across all the standalone Bank's segments. These effects were partially offset by

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<sup>2</sup>This division includes individuals between 24 and 65 years of age in the middle and high-income segments (ABC1) with a risk/return profile similar to Banco Security's customers, only for regions where Banco Security has offices. Source: Superintendency of Banks and Financial Institutions (SBIF).

reduced loan losses of CH\$5,265 million (-22.4% QoQ), because of a high basis of comparison due to impairment of a few entrepreneur banking customers in 2Q18. The net interest margin totaled CH\$16,136 million for 3Q18 (+CH\$45 million or +0.3% QoQ).

## **Treasury**

As of September 2018, this division posted profit of CH\$13,331 million (-18.5% YoY), due to a decrease in financial income (net financial operating income (loss) + gain from FX transactions + other income), which amounted to CH\$10,074 million in 9M18 (-40.4% YoY) due to a drop in structured products distributed as a result of macroeconomic uncertainty. Bear in mind that September 2017 represents a high basis of comparison because of increased income from structured products. The division reported a larger net interest margin of CH\$16,327 million for 9M18 (+CH\$2,148 million or +15.1% YoY), due to growth in the Bank's assets, a favorable funding structure, the use of accounting hedges, and the renewal of liabilities under better financial conditions. In addition, operating expenses fell to CH\$9,078 million (-3.3% YoY) for 9M18 as a result of reduced expenses for technology projects, depreciation and amortization, which are distributed across all the standalone Bank's business segments.

For 3Q18, the treasury reported profit of CH\$2,982 million (-36.8% QoQ) due to a smaller net interest margin of CH\$4,278 million in 3Q18 (-39.9% QoQ), because of increased debt issued by the Bank (+6.0% QoQ), and a rise in nominal interest rates toward year end, which impacted liabilities more quickly than assets. It also recorded higher operating expenses of CH\$3,043 million (+13.7% QoQ), because of technology projects implemented and contributions paid to regulators, which are distributed across all the standalone Bank's segments. These effects were not offset by increased net FX transactions and other income of CH\$2,715 million in 3Q18 (+CH\$1,099 million or +68.0% QoQ).

The treasury division consists of trading, investment, distribution and asset and liability management (ALM) operations. The ALM desk manages financial investments used to stabilize the net interest margin, manage interest rate risk in the balance sheet, manage liquidity and efficiently fund the bank's loan portfolio. As of September 2018, ALM represented 61.9% of treasury income. The investment and trading desks manage the Bank's own portfolio of primarily Chilean Central Bank notes and corporate bonds and represent 18.1% of treasury income. The remaining 20.0% of treasury income comes from the distribution desk, which brokers specialized products for commercial banking customers (currency, forwards and structured products).

## Banco Security - Consolidated Statement of Income

<i>In Ch\$ Million</i>	3Q18	2Q18	3Q17	% Chg		Sep-18	Sep-17	% Chg
				QoQ	YoY			
Net interest margin	41,753	43,525	38,691	-4.1%	7.9%	125,739	114,352	10.0%
Net Fees	16,188	17,948	16,551	-9.8%	-2.2%	51,498	47,155	9.2%
Net financial Operating Income	6,039	5,018	10,385	20.3%	-41.8%	14,711	27,063	-45.6%
Net foreign exchange transactions	-205	485	-2,318	-	-	4,439	-2,758	-
Recovery of charged-off loans	1,713	1,494	665	14.7%	157.6%	4,688	1,806	159.6%
Other net operating income	555	-290	-275	-	-	-8	-3,180	-
<b>Gross operating income</b>	<b>66,043</b>	<b>68,180</b>	<b>63,699</b>	<b>-3.1%</b>	<b>3.7%</b>	<b>201,067</b>	<b>184,438</b>	<b>9.0%</b>
Credit risk provisions	-9,894	-14,433	-12,324	-31.4%	-19.7%	-32,257	-32,615	-1.1%
Administrative expenses	-33,157	-30,639	-29,949	8.2%	10.7%	-95,951	-94,292	1.8%
<b>Net operating income</b>	<b>22,992</b>	<b>23,108</b>	<b>21,426</b>	<b>-0.5%</b>	<b>7.3%</b>	<b>72,859</b>	<b>57,531</b>	<b>26.6%</b>
Income attributable to investments in other companies	9	9	34	-	-74.3%	18	332	-94.6%
<b>Profit before tax</b>	<b>23,001</b>	<b>23,117</b>	<b>21,460</b>	<b>-0.5%</b>	<b>7.2%</b>	<b>72,877</b>	<b>57,863</b>	<b>25.9%</b>
Income tax expense	-5,117	-4,652	-5,503	10.0%	-7.0%	-15,636	-13,087	19.5%
<b>Profit for the period</b>	<b>17,884</b>	<b>18,465</b>	<b>15,957</b>	<b>-3.1%</b>	<b>12.1%</b>	<b>57,241</b>	<b>44,776</b>	<b>27.8%</b>

For 9M18, the Bank reported a net interest margin of CH\$125,739 million (+10.0% YoY), explained mainly by greater total loans (+9.5% YoY). Interest and indexation income reached CH\$276,126 million (+12.4% YoY), due to a rise in total loans and higher inflation than last year. Interest and indexation expense totaled CH\$150,387 million for 9M18 (+14.4% YoY), due to 8.6% YoY growth in the Bank's total liabilities and higher inflation.

<b>Net Interest Margin</b> <i>In Ch\$ Million</i>	3Q18	2Q18	3Q17	% Chg		9M18	9M17	% Chg
				QoQ	YoY			
Interest and indexation income	94,489	94,329	73,023	0.2%	29.4%	276,126	245,759	12.4%
Interest and indexation expenses	-52,736	-50,804	-34,332	3.8%	53.6%	-150,387	-131,407	14.4%
<b>Net interest margin</b>	<b>41,753</b>	<b>43,525</b>	<b>38,691</b>	<b>-4.1%</b>	<b>7.9%</b>	<b>125,739</b>	<b>114,352</b>	<b>10.0%</b>
Interest margin net of provisions	31,859	29,092	26,367	9.5%	20.8%	93,482	81,737	14.4%
<b>Net interest margin / total loans</b>	<b>3.22%</b>	<b>3.43%</b>	<b>3.27%</b>	<b>-21 p</b>	<b>-5 p</b>	<b>3.24%</b>	<b>3.22%</b>	<b>1 p</b>
<b>Net interest margin net of provisions / Total loans</b>	<b>2.46%</b>	<b>2.29%</b>	<b>2.23%</b>	<b>16 p</b>	<b>23 p</b>	<b>2.41%</b>	<b>2.30%</b>	<b>10 p</b>

Net fees totaled CH\$51,498 million for 9M18 (+9.2% YoY), because of increased commercial activity in the commercial banking division and greater fund management and brokerage income from the asset management subsidiaries.

Financial income, which is the sum of net financial operating income (loss) and the net gain from FX transactions, totaled CH\$19,150 million (-21.2% YoY), due to heightened macroeconomic uncertainty. The first nine months of 2017 represent a high basis of comparison due to a strong performance from currency derivatives and increased income from structured products.

For 9M18, recovery of written-off loans was up +CH\$2,882 million, reaching CH\$4,688 million, due to a stronger collections process in the retail banking division. Credit risk provision expenses for 9M18 totaled CH\$32,257 million (-1.1% YoY), due to a well-performing commercial portfolio and a fortified risk structure in the retail banking division.

Operating expenses reached CH\$95,951 million (+1.8% YoY), due to higher expenses at asset management subsidiaries because of increased commercial activity, partially offset by reduced expenses for technology projects, depreciation and amortization.

Other net operating income amounted to -CH\$8 million, +CH\$3,172 million YoY, due to intangible assets impaired in 9M17.

Income tax expense for 9M18 totaled CH\$15,636 million (+19.5% YoY), due to a larger profit before tax (+25.9% YoY).

Banco Security reported consolidated profit of CH\$17,884 million for 3Q18, reflecting a decrease of 3.1% over 2Q18. The net interest margin totaled CH\$41,753 million for 3Q18 (-4.1% QoQ) explained by an increase in debt issued (+6.0% QoQ) and higher nominal interest rates during the quarter. Net fees totaled CH\$16,188 million for 3Q18 (-9.8% QoQ), because of decreased commissions from supplementary loan insurance products by the retail banking division. Financial income (net financial operating income (loss) + net gain from FX transactions) totaled CH\$5,834 million (+6.0% QoQ). Credit risk provision expense for 3Q18 totaled CH\$9,894 million (-31.4% QoQ) due to a well-



performing commercial portfolio and a stronger risk structure in the retail banking division. Operating expenses reached CH\$33,157 million (+8.2% YoY), because of technology projects implemented and contributions paid to regulators.

### **Banco Security - Operating Expenses and Efficiency**

<i>In Ch\$ Millions</i>	3Q18	2Q18	3Q17	% Cgg		9M18	9M17	% Chg
				QoQ	YoY			
Personnel	-14,133	-13,943	-12,972	1.4%	9.0%	-42,673	-38,525	10.8%
Administrative expenses	-17,549	-15,401	-15,543	13.9%	12.9%	-49,286	-51,377	-4.1%
Depreciation and amortization	-1,475	-1,295	-1,434	13.9%	2.9%	-3,992	-4,390	-9.1%
<b>Total operating expenses</b>	<b>-33,157</b>	<b>-30,639</b>	<b>-29,949</b>	<b>8.2%</b>	<b>10.7%</b>	<b>-95,951</b>	<b>-94,292</b>	<b>1.8%</b>
<b>Operating expenses / Gross operating income</b>	<b>50.2%</b>	<b>44.9%</b>	<b>47.0%</b>	<b>527 p</b>	<b>319 p</b>	<b>47.7%</b>	<b>51.1%</b>	<b>-340 p</b>

Banco Security's efficiency ratio, measured as operating expenses + other operating expenses over total operating income, totaled 47.7% as of September 2018 (-340 b.p. YoY). This ratio compares to 47.3% for the banking system and 43.9% for peer banks<sup>3</sup> as of September 2018.

The Bank reported operating expenses of CH\$95,951 million (+1.8% YoY) for 9M18. For the period ended September 2018, personnel expenses amounted to CH\$42,673 million, +10.8% YoY, related to increased commercial activity. It reported administrative expenses of CH\$ 49,286 million (-4.1% YoY), because of reduced expenses for technology projects, depreciation and amortization. Depreciation and amortization expense reached CH\$3,992 million, -9.1% YoY, as several intangible assets reached the end of their useful lives in 2017.

Operating expenses in 3Q18 increased 8.2% QoQ to CH\$33,157 million in comparison to 2Q18. Personnel expenses reached CH\$14,133 million in 3Q18, +1.4% QoQ. Administrative expenses reached CH\$17,549 million (+13.9% QoQ), because of technology projects implemented and contributions paid to regulators. This brings the efficiency ratio to 50.2% for 3Q18, above the figure of 44.9% in 2Q18.

### **Banco Security Loan Portfolio**

Total loans reached CH\$5,182,434 million as of September 2018, +9.5% YoY and +7.2% YTD. For the industry, loans increased +8.5 % YoY and +7.1% YTD. Including foreign subsidiaries, this figure increased +9.7% YoY and +8.3% YTD. Commercial loans grew +10.1% YoY and +8.4% YTD, to CH\$4,090,837 million (78.9% of Banco Security's total loan portfolio), while retail loans (consumer + mortgage) reached CH\$1,090,955 million as of September 2018, +7.1% YoY and +3.0% YTD. The 20 largest borrowers represent 10.5% of the Bank's total loan portfolio.

<b>Total Loans</b>		Sep-18	Jun-18	Dec-17	Sep-17	% Chg		
<i>In Ch\$ Millions</i>						QoQ	YTD	YoY
<b>Consumer</b>	Loans	482,790	469,450	440,241	417,552	2.8%	9.7%	15.6%
<b>Mortgage</b>	Loans	608,165	616,741	618,630	601,230	-1.4%	-1.7%	1.2%
<b>Mortgage + Consumer</b>	Loans	1,090,955	1,086,191	1,058,871	1,018,782	0.4%	3.0%	7.1%
<b>Mortgage + Consumer</b>	No. Customers	70,758	70,646	70,182	69,182	0.2%	0.8%	2.3%
<b>Commercial</b>	Loans	4,090,837	3,979,463	3,775,419	3,714,088	2.8%	8.4%	10.1%
<b>Commercial</b>	No. Customers	8,830	8,646	8,319	8,213	2.1%	6.1%	7.5%
<b>Total Loans</b>		<b>5,182,434</b>	<b>5,070,827</b>	<b>4,834,290</b>	<b>4,732,916</b>	<b>2.2%</b>	<b>7.2%</b>	<b>9.5%</b>
<b>Market Share</b>		<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>1 p</b>	<b>0 p</b>	<b>3 p</b>

  

<b>Interest and indexation income</b>		Sep-18	Jun-18	Sep-17	% Chg		Sep-18	Sep-17	% Chg
<i>In Ch\$ Millions</i>					QoQ	YoY			YoY
<b>Consumer</b>		13,300	13,245	12,527	0.4%	6.2%	39,597	37,511	5.6%
<b>Mortgage</b>		9,689	9,819	5,136	-1.3%	88.6%	28,835	22,443	28.5%
<b>Mortgage + Consumer</b>		22,989	23,064	17,663	-0.3%	30.2%	68,432	59,954	14.1%
<b>Commercial</b>		63,717	62,542	47,679	1.9%	33.6%	183,486	161,947	13.3%

<sup>3</sup> Peer banks: Average for BICE, Consorcio and Security

## Asset Quality

Given Banco Security's exposure to corporate and high-income customers, its risk ratios are among the lowest in the industry.

In Ch\$ Million	Sep-18	Jun-18	Dec-17	Sep-17	% Chg		
					QoQ	YTD	YoY
<b>Total Loans</b>	<b>5,182,434</b>	<b>5,070,827</b>	<b>4,834,290</b>	<b>4,732,916</b>	<b>2.2%</b>	<b>7.2%</b>	<b>9.5%</b>
Nonperforming loans - consumer	6,455	5,835	5,457	5,748	10.6%	18.3%	12.3%
Nonperforming loans - mortgage	5,468	5,491	6,267	5,956	-0.4%	-12.7%	-8.2%
Nonperforming loans - commercial	61,495	58,173	55,005	57,353	5.7%	11.8%	7.2%
<b>Total nonperforming loans</b>	<b>73,418</b>	<b>69,499</b>	<b>66,729</b>	<b>69,057</b>	<b>5.6%</b>	<b>10.0%</b>	<b>6.3%</b>
Non-performing loans - consumer	1.34%	1.24%	1.24%	1.38%	9 p	10 p	-4 p
Non-performing loans - mortgage	0.90%	0.89%	1.01%	0.99%	1 p	-11 p	-9 p
Non-performing loans - commercial	1.50%	1.46%	1.46%	1.54%	4 p	5 p	-4 p
<b>Total nonperforming loans</b>	<b>1.42%</b>	<b>1.37%</b>	<b>1.38%</b>	<b>1.46%</b>	<b>5 p</b>	<b>4 p</b>	<b>-4 p</b>
Gross provisions	111,518	102,001	122,134	109,488	9.3%	-8.7%	1.9%
Write-offs	(29,365)	(18,416)	(41,626)	(25,280)	59.5%	-29.5%	16.2%
<b>Credit risk provisions</b>	<b>82,153</b>	<b>83,585</b>	<b>80,508</b>	<b>84,208</b>	<b>-1.7%</b>	<b>2.0%</b>	<b>-2.4%</b>
Provisions - consumer (% total)	19,333	19,036	17,490	16,885	1.6%	10.5%	14.5%
Provisions - mortgage (% total)	1,093	1,070	1,265	1,368	2.1%	-13.6%	-20.1%
Provisions - commercial (% total)	61,727	63,479	61,753	65,955	-2.8%	0.0%	-6.4%
<b>Credit risk provisions</b>	<b>82,153</b>	<b>83,585</b>	<b>80,508</b>	<b>84,208</b>	<b>-1.7%</b>	<b>2.0%</b>	<b>-2.4%</b>
Coverage - consumer	299.5%	326.2%	320.5%	293.8%	-2673 p	-2100 p	575 p
Coverage - mortgage	20.0%	19.5%	20.2%	23.0%	50 p	-20 p	-298 p
Coverage - commercial	100.4%	109.1%	112.3%	115.0%	-874 p	-1189 p	-1462 p
<b>Coverage - total nonperforming loans<sup>1</sup></b>	<b>111.9%</b>	<b>120.3%</b>	<b>120.6%</b>	<b>121.9%</b>	<b>-837 p</b>	<b>-875 p</b>	<b>-1004 p</b>
Provisions / loans	1.59%	1.65%	1.67%	1.78%	-6 p	-8 p	-19 p
Provision expenses <sup>2</sup> / loans	0.71%	0.76%	0.87%	0.87%	-6 p	-16 p	-16 p

<sup>1</sup> Stock of credit risk provisions / Stock of nonperforming loans

<sup>2</sup> Credit risk provisions net of recovery of charged-off loans

As of September 2018, Banco Security had a risk ratio of 1.59%, down from 1.67% as of December 2017, due to a strong performance from the commercial portfolio and advanced write-offs of medium-sized commercial banking customers.

The nonperforming loan portfolio reached 1.42%, which is slightly above the 1.38% recorded as of December 2017, which is a customary, seasonal effect seen in September.

The ratio of provisions net of recovery to total loans for 9M18 was 0.71% (-16 b.p. YoY) due to a well-performing commercial portfolio and a stronger risk and collections structure in the retail banking division.

It is also important to mention that the risk expense for 1Q17 includes a one-time effect of CH\$1,969 million for an adjustment to the provisioning model for consumer loans implemented in January 2017, and, therefore, is a high basis of comparison.

	Credit Risk (%)								
	Provisions / Loans					Over 90 Day Nonperforming Loans			
	Mortgage	Consumer	Total	Commercial	Total	Mortgage	Consumer	Commercial	Total
Banco Security	0.18	4.00	1.87	1.51	1.59	0.90	1.34	1.50	1.42
Medium Banks*	0.22	3.05	1.21	1.59	1.53	0.54	0.98	0.76	0.74
Banking system	0.78	6.58	2.61	2.27	2.40	2.42	2.07	1.71	1.94

\*Average for BICE, Security, Consorcio

## Banco Security - Funding Sources

Funding Sources <i>In MCH\$</i>	Sep-18		Jun-18		Dec-17		Sep-17		% Chg		
									QoQ	YTD	YoY
Demand deposits	599,065	8.8%	622,933	9.2%	673,475	10.5%	616,393	9.9%	-3.8%	-11.0%	-2.8%
Time deposits	2,852,541	42.0%	2,959,357	43.6%	2,927,755	45.5%	2,817,907	45.3%	-3.6%	-2.6%	1.2%
Total deposits	3,451,606	50.8%	3,582,290	52.8%	3,601,230	55.9%	3,434,300	55.2%	-3.6%	-4.2%	0.5%
Bonds	2,078,394	30.6%	1,959,746	28.9%	1,786,574	27.7%	1,753,029	28.2%	6.1%	16.3%	18.6%
Interbank loans	221,016	3.3%	224,650	3.3%	188,346	2.9%	189,952	3.1%	-1.6%	17.3%	16.4%
Other liabilities*	390,755	5.8%	466,646	6.9%	312,019	4.8%	351,062	5.6%	-16.3%	25.2%	11.3%
<b>Total Liabilities</b>	<b>6,141,771</b>	<b>90%</b>	<b>6,233,332</b>	<b>92%</b>	<b>5,888,169</b>	<b>91%</b>	<b>5,728,343</b>	<b>92%</b>	<b>-1.5%</b>	<b>4.3%</b>	<b>7.2%</b>
Equity	567,497	8.4%	554,948	8.2%	553,214	8.6%	494,074	7.9%	2.3%	2.6%	14.9%
<b>Liabilities + Equity</b>	<b>6,709,268</b>	<b>100%</b>	<b>6,788,280</b>	<b>100%</b>	<b>6,441,383</b>	<b>100%</b>	<b>6,222,417</b>	<b>100%</b>	<b>-1.2%</b>	<b>4.2%</b>	<b>7.8%</b>

\*Includes transactions in the course of payment, repurchase agreements, derivative instruments, other financial obligations, current taxes, deferred taxes, provisions and other liabilities.

### ○ Demand and Time Deposits

As of September 2018, deposits totaled CH\$3,451,606 million, +0.5% YoY and -4.2% YTD. For the industry, loans fluctuated +6.5% YoY and +2.8% YTD. Including foreign subsidiaries, this figure varied +8.2% YoY and +5.1% YTD. Banco Security's time deposits consisted of 34.6% retail deposits and 65.4% institutional deposits. The 15 largest depositors<sup>4</sup> represent 23% of the Bank's total deposits. The loan to deposit ratio was 150% as of September 2018, compared to 138% as of September 2017.

Banco Security has a strategy to diversify funding sources using sales incentives to increase its retail deposit base. Banco Security strictly controls and monitors liquidity risk<sup>5</sup>, striving to diversify funding sources while applying strict limits to asset/liability mismatches, maintaining liquid assets and lengthening liabilities to increase funding terms. It is important to note that the Bank's exposure from asset and liability mismatches is among the industry's lowest. As of September 2018, the ratio of long-term interest rate risk to regulatory capital was 1.98%<sup>6</sup>. As of September 30, 2018, liquid assets<sup>7</sup> represented 48% of demand and other time deposits.

<sup>4</sup> Excludes stock brokerage companies.

<sup>5</sup> Liquidity risk represents the possibility of not fulfilling obligations when they mature as a result of the inability to liquidate assets or funds, or not being able to dispose of them easily or offset exposure without significantly reducing prices due to insufficient market depth (Grupo Security Annual Report, note 35).

<sup>6</sup> This measures the exposure to changes in interest rates as a percentage of equity. Exposure to long-term interest rates is calculated as the sum of the differences by time band and currency of cash flows from banking books assets and liabilities, including amortization and interest, adjusted by a sensitivity factor as per table 2 of appendix 1 of Chapter III.B.2.2 of the Chilean Central Bank's compendium of financial standards.

<sup>7</sup> Includes cash and cash deposits, transactions pending settlement and the portfolio of financial instruments.

## ○ Debt Issued

Series	SBIF Registration Number	SBIF Registration Date	Currency	Amount	Annual Interest Rate	Duration (Years)	Maturity
H1	3/2007	25-Jan-07	UF	3,000,000	3.00	23	1-Dec-29
M1	1/2009	19-May-09	UF	3,000,000	3.00	10.5	1-Jul-19
N1	1/2009	19-May-09	UF	3,000,000	3.00	10.5	1-Jul-19
R1	10/2011	6-Oct-11	UF	3,000,000	3.00	10	1-Jun-21
K2	1/2012	14-Mar-12	UF	4,000,000	3.25	10	1-Nov-21
K3	1/2013	26-Feb-13	UF	4,000,000	3.50	10	1-Nov-22
K4	10/2013	6-Nov-13	UF	5,000,000	3.60	10	1-Oct-23
B3	14/2014	9-Oct-14	UF	5,000,000	2.50	5	1-Jun-19
K5	14/2014	9-Oct-14	UF	5,000,000	2.75	10	1-Jun-24
B4	05/2015	1-Apr-15	UF	5,000,000	2.25	5	1-Jun-20
K6	05/2015	1-Apr-15	UF	5,000,000	2.75	10	1-Mar-25
K7	05/2015	1-Apr-15	UF	5,000,000	2.75	10	1-Sep-25
Z1	10/2015	1-Sep-15	CLP	75,000,000,000	5.25	5	1-Jul-20
B5	11/2016	3-Oct-16	UF	5,000,000	2.40	5	1-Aug-21
K8	12/2016	3-Oct-16	UF	5,000,000	2.80	10	1-Oct-26
Z2	13/2016	3-Oct-16	CLP	75,000,000,000	5.30	5.5	1-Feb-22
B6	6/2017	11-Jul-17	UF	5,000,000	2.25	5.5	1-Oct-22
X1	2/2018	2-Feb-18	USD	50,000,000	3.50	5	15-Jan-23
Z3	8/2018	7-Jun-18	CLP	75,000,000,000	4.80	5.5	1-Jun-23
K9	8/2018	7-Jun-18	UF	5,000,000	2.75	10.5	1-Jul-28
B7	8/2018	7-Jun-18	UF	4,000,000	2.20	5.5	1-Aug-23

## Banco Security - Capitalization

As of September 2018, Banco Security's equity attributable to the owners totaled CH\$567,440 million (+14.9% YoY, +2.6% YTD). For some years now, Banco Security has been preparing for the implementation of Basel III. In line with this objective, on December 21, 2017, Banco Security completed a capital increase of CH\$50,000 million, issuing 17,523,256 new shares at a value of approximately CH\$2,853 per share.

In Ch\$ Million	Sep-18	Jun-18	Dec-17	Sep-17	QoQ	% Chg YTD	YoY
Capital	302,047	302,047	302,047	252,047	0.0%	0.0%	19.8%
Reserves and valuation accounts	26,689	26,659	30,204	34,029	0.1%	-11.6%	-21.6%
Retained earnings	238,703	226,184	220,716	207,942	5.5%	8.1%	14.8%
<b>Equity attributable to equity holders of bank</b>	<b>567,440</b>	<b>554,890</b>	<b>552,967</b>	<b>494,018</b>	<b>2.3%</b>	<b>2.6%</b>	<b>14.9%</b>
Tier I (core capital)	567,440	554,890	552,967	494,018	2.3%	2.6%	14.9%
Regulatory capital	765,787	752,517	751,457	693,805	1.8%	1.9%	10.4%
Minimum required capital	452,570	448,957	428,810	419,512	0.8%	5.5%	7.9%
Risk-weighted assets	5,657,126	5,611,957	5,360,129	5,243,901	0.8%	5.5%	7.9%
BIS ratio	13.54%	13.41%	14.02%	13.32%	13 p	-48 p	21 p
Core capital / total assets	7.95%	7.72%	8.10%	7.37%	22 p	-15 p	57 p

The Bank's capital adequacy ratio as of September 2018, calculated as regulatory capital over risk-weighted assets, reached 13.54% (with a regulatory minimum of 8%), +13 b.p. YoY and +31 b.p. YTD. The ratio of core capital to total assets reached 7.95%, +47 b.p. YoY and +22 b.p. YTD. Both ratios improved YoY due to the Bank's recent capital increase of CH\$50,000 million and its increased retained earnings.

## **FACTORING SECURITY**

For 9M18, Factoring Security reported profit of CH\$6,019 million (+7.9% YoY), due to reduced operating expenses of CH\$6,041 million (-3.0% YoY), and greater operating income of CH\$21,948 million, (+0.3% YoY), due to a larger loan volume (CH\$315,389 million as of September 2018, +18.6% YoY), partially offset by a smaller spread.

It reported profit of CH\$1,960 million for 3Q18, due to reduced operating income (-2.2% QoQ) because of a smaller average spread despite the 4.7% QoQ increase in loans. Operating expenses totaled CH\$1,917 million for 3Q18, -18.4% QoQ, due to reduced bank and bond interest because of improved funding conditions.

The efficiency ratio reached 42.8% as of September 2018, -111 b.p. YoY. The risk ratio, measured as provisions over total loans, was 2.54% as of September 2018, -24 b.p. YoY and -7 b.p. QoQ.

In Ch\$ Million	3Q18	2Q18	3Q17	% Chg		9M18	9M17	% Chg
				YTD/ QoQ	YoY			
Factored receivables	315,389	301,116	265,974	4.7%	18.6%	315,389	265,974	18.6%
Provisions	8,002	7,865	7,381	1.7%	8.4%	8,002	7,381	8.4%
Gross operating income	7,235	7,397	6,903	-2.2%	4.8%	21,948	21,883	0.3%
Operating expenses	-1,917	-2,347	-1,715	-18.4%	11.8%	-6,041	-6,227	-3.0%
Support expenses	-2,944	-3,003	-2,887	-2.0%	2.0%	-8,740	-8,734	0.1%
<b>Profit for the period</b>	<b>1,960</b>	<b>2,034</b>	<b>1,830</b>	<b>-3.7%</b>	<b>7.1%</b>	<b>6,019</b>	<b>5,578</b>	<b>7.9%</b>
Efficiency ratio	43.0%	41.4%	44.3%	155 p	-133 p	42.8%	44.0%	-111 p
Risk ratio	2.54%	2.61%	2.78%	-7 p	-24 p	2.54%	2.78%	-24 p

In November 2017, Factoring Security placed UF 1.5 million (US\$ 63.07 million) in bonds to refinance the company's short- and long-term liabilities and finance working capital and new loans. The notes (E series) were bullet bonds that mature in 4 years and 11 months. They were rated A+ by Fitch and AA- by ICR Chile, and placed on the Santiago Stock Exchange at an IRR of 2.47%.

## **INSURANCE BUSINESS AREA (27.7% of assets; 15.4% of profit from business areas as of September 2018)**

The insurance business area reported profit of CH\$11,734 million. This area includes the insurance subsidiary Vida Security, which consolidates 61% of Protecta beginning in September 2015, and Servicios Security, the holding that groups the insurance brokerage (Corredora de Seguros Security) and assistance business (Europ Assistance).

## **VIDA SECURITY**

For 9M18 Vida Security reported profit of CH\$11,420 million (-13.6% YoY). Gross written premiums reached CH\$268,265 million, (-20.9% YoY), due to the expiration of contract No. 5 of Disability and Survivor Insurance (DSI), which was not renewed for new fractions awarded as part of contract No. 6<sup>8</sup>, and a reduction in gross written premiums for individual insurance with savings components and decreased annuity sales.

During the first nine months of 2018, the subsidiary recorded a smaller variation in technical reserves (-CH\$10,262 million versus -CH\$64,993 million for 9M17), particularly in individual insurance, due to weaker returns in the CUI and APV portfolios, increased claims paid (surrenders and transfers from CUI and APV accounts) and decreased gross written premiums. Claims and pensions paid totaled CH\$236,192 million (-13.3% YoY), explained by the expiration of DSI contract No. 5 and fewer pensions paid because of decreased annuity sales, which were not offset by an increase in surrenders and transfers from CUI and APV accounts. Finally, underwriting expenses totaled

<sup>8</sup> See page 17, section "Disability and Survivor Insurance" for more details on this product line.

CH\$12,669 million (+11.0% YoY), reflecting increased sales of group insurance and increased commercial activity in the individual product line.

These factors together explain the improved contribution margin as of September 2018 (-CH\$30,112 million versus -CH\$61,215 million for 9M17).

The above was more than offset by reduced investment income of CH\$74,719 million (-27.8% YoY), attributable to weaker returns on equity investments due to greater volatility and market corrections. In addition, the first nine months of 2017 represent a high basis of comparison for investment income due to strong market performances during that period. The subsidiary reported administrative expenses of CH\$29,471 million (+4.9% YoY), reflecting increased commercial activity. Finally, exchange differences totaled CH\$447 million (CH\$2,007 million for 9M17), due to reduced exposure to foreign currency risk, while the gain (loss) on indexed assets and liabilities was -CH\$2,813 million for 9M18, up from -CH\$1,140 million for 9M17, because the Bank had more indexed liabilities than indexed assets and inflation was higher in 2018.

In MCHS	3Q18	2Q18	3Q17	% Chg.		9M18	9M17	% Chg.
				QoQ	YoY			
Gross written premiums	65,563	105,911	117,404	-38.1%	-44.2%	268,265	339,332	-20.9%
<b>Net premiums written</b>	<b>64,880</b>	<b>86,757</b>	<b>99,668</b>	<b>-25.2%</b>	<b>-34.9%</b>	<b>229,004</b>	<b>287,073</b>	<b>-20.2%</b>
Variation in technical reserves	-7,424	-2,408	-14,027	208.3%	-47.1%	-10,262	-64,993	-84.2%
Claims paid	-7,598	-41,528	-36,988	-81.7%	-79.5%	-85,027	-107,966	-21.2%
Pensions paid	-58,795	-48,837	-69,572	20.4%	-15.5%	-151,165	-164,467	-8.1%
Underwriting expenses	-4,712	-4,208	-4,230	12.0%	11.4%	-12,669	-11,415	11.0%
Medical expenses	-14	-15	-19	-6.6%	-26.7%	-36	-38	-4.0%
Insurance impairment	5	273	284	-98.0%	-98.1%	42	590	-92.8%
<b>Contribution Margin</b>	<b>-13,657</b>	<b>-9,966</b>	<b>-24,884</b>	<b>37.0%</b>	<b>-45.1%</b>	<b>-30,112</b>	<b>-61,215</b>	<b>-50.8%</b>
Administrative expenses	-9,910	-10,005	-9,791	-1.0%	1.2%	-29,471	-28,086	4.9%
Investment income	32,069	19,146	34,480	67.5%	-7.0%	74,719	103,510	-27.8%
Exchange differences	637	-899	-87	-	-	447	2,007	-77.7%
Gain (loss) on indexed assets and liabilities	-1,152	-731	131	57.7%	-	-2,813	-1,140	146.8%
<b>Profit for the period</b>	<b>6,589</b>	<b>-1,576</b>	<b>111</b>	<b>-</b>	<b>-</b>	<b>11,420</b>	<b>13,212</b>	<b>-13.6%</b>
<b>Administrative ratios</b>								
(1) (Claims paid + pension paid)/ Net written premiums	102.3%	104.2%	106.9%	-183 p	-458 p	103.1%	94.9%	824 p
(2) Administrative expenses/ Net written premiums	15.3%	11.5%	9.8%	374 p	545 p	12.9%	9.8%	309 p
(3) Underwriting expenses/ Net written premiums	7.3%	4.9%	4.2%	241 p	302 p	5.5%	4.0%	156 p
Combined Ratio (1) + (2) + (3)	124.9%	120.5%	121.0%	433 p	389 p	121.5%	108.7%	1288 p
(4) Profit / Net written premiums	10.2%	-1.8%	0.1%	1197 p	1005 p	5.0%	4.6%	38 p

In 3Q18, Vida Security posted profit of CH\$6,589 million, up from -CH\$1,576 million for 2Q18. Gross written premiums reached CH\$65,563 million (-38.1% QoQ), because of the expiration of DSI contract No. 5, which was not renewed in the bidding process for contract No. 6. This effect was not offset by greater gross written premiums for individual insurance policies with CUI and annuities. The third quarter saw a larger variation in technical reserves (-CH\$7,424 million in 3Q18 versus -CH\$2,408 million in 2Q18) because of improved investment returns in the CUI and APV portfolios, reduced claims paid (surrenders and transfers from CUI and APV accounts) and greater gross written premiums for CUI and APV policies. This was partially offset by fewer reserves recorded for DSI policies due to the expiration of contract No. 5. In addition, the subsidiary recorded a drop in claims and pensions paid (-26.5% QoQ), due to the expiration of DSI contract No. 5 and fewer surrenders and transfers from CUI and APV policies, which was partially offset by a rise in pensions paid due to increased sales. Underwriting expenses totaled -CH\$4,712 million for 3Q18 (+12.0% QoQ), explained by increased commercial activity in individual insurance. Investment income totaled CH\$32,069 million, (+67.5% QoQ), with a low basis of comparison in 2Q18. Finally, exchange differences totaled CH\$637 million for 3Q18, up from -CH\$899 in 2Q18, while the gain (loss) on indexed assets and liabilities was -CH\$1,152 million for 3Q18, up from -CH\$731 million for 2Q18, because the Bank had more indexed liabilities than indexed assets.

## Results by Product Line

### Individual Insurance

Individual insurance policies are contracted by individuals to cover certain risks (life, health, credit life, etc.). Depending on the terms of the policy, policyholders may be able to allocate part of the gross written premiums to an individual investment account that invests in mutual funds or portfolios managed by the company. Based on figure 601 in the financial statements of Vida Security, it includes product lines 101-112 and 425 and excludes line 107. As of September 2018, direct premiums from family protection insurance represented 29.7% of Vida Security's total direct premiums.

The contribution margin totaled -CH\$2,671 million for the period ended September 2018, an increase of CH\$22,064 million over September 2017. Gross written premiums reached CH\$79,565 million as of September 2018 (-28.7% YoY) due to lower gross written premiums from insurance with savings components as compared to 2017. The variation in technical reserves was -CH\$10,018 million versus -CH\$65,830 million for 9M17, due to weaker returns on investments in the CUI and APV portfolios, increased claims paid (surrenders and transfers from CUI and APV accounts) and decreased gross written premiums. Claims paid totaled -CH\$62,123 million (+11.7% YoY), explained by increased surrenders and transfers from CUI and APV policies. Underwriting expenses totaled -CH\$7,920 million for 9M18 (+14.2% YoY), explained by increased commercial activity.

As of September 2018, CUI and APV policies represent 89.7% of total individual insurance premiums.

Individual Insurance In MCH \$	3Q18	2Q18	3Q17	% Chg.		9M18	9M17	%Chg.
				QoQ	YoY			
Gross written premiums	30,102	27,809	31,293	8.2%	-3.8%	79,565	111,631	-28.7%
<b>Net premiums written</b>	<b>29,683</b>	<b>27,408</b>	<b>31,151</b>	<b>8.3%</b>	<b>-4.7%</b>	<b>78,190</b>	<b>110,397</b>	<b>-29.2%</b>
Variation in technical reserves	-9,286	-2,870	-13,138	223.6%	-29.3%	-10,018	-65,830	-84.8%
Claims paid	-21,744	-23,165	-21,141	-6.1%	2.9%	-62,123	-55,614	11.7%
Pensions paid	-233	-81	-2,305	188.8%	-89.9%	-769	-4,048	-81.0%
Underwriting expenses	-3,081	-2,554	-2,496	20.6%	23.4%	-7,920	-6,937	14.2%
Medical expenses	-11	-12	-16	-	-	-30	-32	-
Insurance impairment	0	0	0	-	-	0	0	-
<b>Contribution Margin</b>	<b>-4,672</b>	<b>-1,274</b>	<b>-7,944</b>	<b>266.8%</b>	<b>-41.2%</b>	<b>-2,671</b>	<b>-22,064</b>	<b>-87.9%</b>
Claims rate (1)	74.0%	84.8%	75.3%	-1078 p	-123 p	80.4%	54.0%	2639 p
Underwriting expense rate (2)	10.4%	9.3%	8.0%	106 p	237 p	10.1%	6.3%	385 p

(1) Claims paid/ Net w ritten premiums

(2) Underw riting expense/ Net w ritten premiums

In 3Q18, the contribution margin from individual insurance was a loss of -CH\$4,672 million, down from -CH\$1,274 million for 2Q18. Gross written premiums rose 8.2% QoQ to CH\$30,102 million due to greater gross written premiums from CUI and APV policies. The variation in technical reserves was -CH\$9,286 million for 3Q18 versus -CH\$2,870 million for 2Q18, due to stronger returns on investments in the CUI and APV portfolios, reduced claims paid (surrenders and transfers from CUI and APV accounts) and increased gross written premiums from CUI and APV policies. In addition, this product line reported claims paid of CH\$21,744 million for 3Q18, -6.1% QoQ, explained by a drop in surrenders and transfers from CUI and APV funds. Underwriting expenses totaled -CH\$3,081 million for 3Q18, +20.6% QoQ, explained by increased commercial activity.

### Family Protection

Family protection insurance covers the insured party's family group in the event of death or disability, depending on the terms of the policy. Based on figure 601 in the Vida Security financial statements, it includes product line 107. As of September 2018, direct premiums from

family protection insurance represented 1.8% of Vida Security's total direct premiums.

Family Protection In MCH\$	3Q18	2Q18	3Q17	% Chg.		9M18	9M17	%Chg.
				QoQ	YoY			
Gross written premiums	1,586	1,604	1,642	-1.1%	-3.4%	4,871	4,933	-1.2%
<b>Net premiums written</b>	<b>1,586</b>	<b>1,605</b>	<b>1,623</b>	<b>-1.2%</b>	<b>-2.3%</b>	<b>4,871</b>	<b>4,878</b>	<b>-0.1%</b>
Variation in technical reserves	34	7	-46	-	-	36	-49	-
Claims paid	-385	-236	-885	62.7%	-56.5%	-1,035	-1,277	-19.0%
Pensions paid	0	0	0	-	-	0	0	-
Underwriting expenses	-607	-583	-536	4.2%	13.3%	-1,671	-1,645	1.6%
Medical expenses	0	-1	0	-	-	-1	0	-
Insurance impairment	0	0	0	-	-	0	0	-
<b>Contribution Margin</b>	<b>628</b>	<b>792</b>	<b>157</b>	<b>-20.7%</b>	<b>300.4%</b>	<b>2,200</b>	<b>1,907</b>	<b>15.4%</b>
Claims rate (1)	24.3%	14.7%	54.5%	953 p	-3023 p	21.2%	26.2%	-495 p
Underwriting expense rate (2)	38.3%	36.3%	33.0%	197 p	528 p	34.3%	33.7%	59 p

(1) Claims paid/ Net written premiums

(2) Underwriting expense/ Net written premiums

The contribution margin was CH\$2,200 million for 9M18 (+15.4% YoY), and CH\$628 million in 3Q18 (-20.7% QoQ). Gross written premiums totaled CH\$4,871 million for 9M18 (-1.2% YoY), and CH\$1,586 million in 3Q18 (-1.1% QoQ). Claims paid reached -CH\$1,035 million for 9M18 (-19.0% YoY), and -CH\$385 million for 3Q18 (+62.7% QoQ). Underwriting expenses totaled -CH\$1,671 million for 9M18 (+1.6% YoY), and -CH\$607 million in 3Q18 (+4.2% QoQ).

## ○ Group Insurance

Group Insurance In MCH\$	3Q18	2Q18	3Q17	% Chg.		9M18	9M17	%Chg.
				QoQ	YoY			
Gross written premiums	17,278	18,151	17,538	-4.8%	-1.5%	52,180	49,781	4.8%
<b>Net premiums written</b>	<b>16,850</b>	<b>17,609</b>	<b>16,945</b>	<b>-4.3%</b>	<b>-0.6%</b>	<b>50,768</b>	<b>48,010</b>	<b>5.7%</b>
Variation in technical reserves	161	470	-432	-	-137.4%	287	-1,026	-128.0%
Claims paid	-11,032	-10,972	-11,766	0.5%	-6.2%	-32,011	-33,408	-4.2%
Pensions paid	0	0	0	-	-	0	0	-
Underwriting expenses	-868	-940	-920	-7.6%	-5.6%	-2,686	-2,296	17.0%
Medical expenses	-2	-2	-3	-	-	-5	-5	-
Insurance impairment	5	273	284	-	-	42	590	-
<b>Contribution Margin</b>	<b>5,114</b>	<b>6,438</b>	<b>4,108</b>	<b>-20.6%</b>	<b>24.5%</b>	<b>16,396</b>	<b>11,866</b>	<b>38.2%</b>
Claims rate (1)	65.5%	62.3%	69.4%	316 p	-397 p	63.1%	69.6%	-653 p
Underwriting expense rate (2)	5.2%	5.3%	5.4%	-18 p	-27 p	5.3%	4.8%	51 p

(1) Claims paid/ Net written premiums

(2) Underwriting expense/ Net written premiums

Group insurance is contracted by a company for its employees and may include life, health or credit life coverage, depending on the terms of the policy. Based on figure 601 in the financial statements of Vida Security, it includes product lines 202-213 and 302-313. As of September 2018, direct premiums from group insurance represented 19.5% of Vida Security's total direct premiums.

The contribution margin for 9M18 totaled CH\$16,396 million (+38.2% YoY), thanks to greater gross written premiums (CH\$52,180 million for 9M18, +4.8% YoY), mainly from health policies, and a drop in claims paid (-CH\$32,011 million for 9M18, -4.2% YoY) on life and health policies. Underwriting expenses totaled -CH\$2,686 million, +17.0% YoY, in line with increased sales.

For 3Q18, the contribution margin reached CH\$5,114 million (-20.6% QoQ), because of reduced gross written premiums of CH\$17,278 million (-4.8% QoQ), mainly from health insurance policies, and greater claims paid (-CH\$11,032 million for 3Q18, +0.5% QoQ) because of



a higher claims rate for health insurance policies, partially offset by a lower claims rate for credit life policies.

### ○ Annuities

Workers that choose an annuity upon retirement turn over their retirement funds to an insurance company and receive in exchange a fixed, inflation-indexed monthly payment for the rest of their life and survivor pensions for their legal beneficiaries. Based on figure 601 in the financial statements of Vida Security, it includes product lines 421, 422 and 423<sup>9</sup>. As of September 2018, direct premiums from annuities represented 13.9% of Vida Security's total direct premiums.

When an annuity is sold, a reserve must be recognized in the company's liabilities, equivalent to the present value of the obligations to the retiree, which is recorded within the line item pensions paid. This results in an accounting loss in the income statement.

Annuities In MCH\$	3Q18	2Q18	3Q17	% Chg.		9M18	9M17	%Chg.
				QoQ	YoY			
Gross written premiums	15,734	11,462	24,647	37.3%	-36.2%	37,186	44,943	-17.3%
<b>Net premiums written</b>	<b>15,734</b>	<b>11,462</b>	<b>24,647</b>	<b>37.3%</b>	<b>-36.2%</b>	<b>37,186</b>	<b>44,943</b>	<b>-17.3%</b>
Variation in technical reserves	0	0	128	-	-	0	0	-
Claims paid	0	0	0	-	-	0	0	-
Pensions paid	-32,183	-26,728	-40,326	20.4%	-20.2%	-84,528	-90,981	-7.1%
Underwriting expenses	-156	-131	-279	18.6%	-44.3%	-391	-538	-27.3%
Medical expenses	0	0	0	-	-	0	0	-
Insurance impairment	0	0	0	-	-	0	0	-
<b>Contribution Margin</b>	<b>-16,604</b>	<b>-15,397</b>	<b>-15,830</b>	<b>7.8%</b>	<b>4.9%</b>	<b>-47,732</b>	<b>-46,576</b>	<b>2.5%</b>

Underwriting expense rate (1)	1.0%	1.1%	1.1%	-16 p	0 p	1.1%	1.2%	0 p
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(1) Claims paid/ Net written premiums

The contribution margin for annuities was -CH\$47,732 million for 9M18 (+2.5% YoY) and -CH\$16,604 million in 3Q18 (+7.8% QoQ). Gross written premiums totaled CH\$37,186 million for 9M18 (-17.3% YoY), and CH\$15,734 million in 3Q18 (+37.3% QoQ). Pensions paid totaled -CH\$84,828 million for 9M18 (-7.1% YoY) and -CH\$32,183 million for 3Q18 (+20.4% QoQ), in line with the annuity sales for each period.

### ○ Disability and Survivor Insurance (DSI)

DSI In MCH\$	3Q18	2Q18	3Q17	% Chg.		9M18	9M17	%Chg.
				YoY				
Gross written premiums	863	46,885	42,283	-98.0%		94,463	128,043	-26.2%
<b>Net premiums written</b>	<b>1,026</b>	<b>28,672</b>	<b>25,302</b>	<b>-95.9%</b>		<b>57,989</b>	<b>78,845</b>	<b>-26.5%</b>
Variation in technical reserves	1,666	-15	-540	-		-567	1,912	-
Claims paid	25,563	-7,154	-3,197	-		10,141	-17,667	-
Pensions paid	-26,378	-22,028	-26,941	-2.1%		-65,868	-69,438	-5.1%
Underwriting expenses	0	0	0	-		0	0	-
Medical expenses	0	0	0	-		0	0	-
Insurance impairment	0	0	0	-		0	0	-
<b>Contribution Margin</b>	<b>1,877</b>	<b>-524</b>	<b>-5,375</b>			<b>1,695</b>	<b>-6,348</b>	

Claims Rate (1)	79.4%	101.8%	119.1%	-3,967	96.1%	110.5%	-1,438
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(1) Claims and Pensions Paid/ Net written premiums

Disability and survivor insurance is mandatory for all individuals with pension accounts at Pension Fund Management Companies (AFPs)

<sup>9</sup> This also includes line 424 from the SVS, which corresponds to the old Disability and Survivor's system defined in Circular 528 (C-528). As of September 2018, this line contributes to Vida Security only CH\$1,074 million in pensions paid.

and is directly contracted collectively by the AFPs for these individuals through semi-annual public bidding processes. It is financed by employers throughout a member's active work life with a fraction of the additional amount charged by the AFP<sup>10</sup>. It provides protection to the insured and his or her family group in the event of disability or death of the insured party. Based on figure 601 in the financial statements of Vida Security, it includes product line 420.

This table of pensions paid includes disability and survivor payments to insured retirees. Claims paid includes a reserve for the present value of the obligation with the insured parties. The variation in technical reserves corresponds to reserve adjustments required after applying regulatory tests.

In the 5th DSI bidding process organized by the AFPs, Vida Security was awarded two fractions for men and two for women for the period from July 2016 to June 2018. The 6th tender for DSI insurance for the next 24-month period (July 1, 2018 to June 30, 2020) was concluded on April 26, 2018, and Vida Security was not awarded any fractions. As of September 2018, direct premiums from DSI insurance represented 35.2% of Vida Security's total direct premiums.

The contribution margin for DSI totaled CH\$ 1,695 million for the period ended September 2018 (versus -CH\$ 6,348 million for 9M17). For 9M18, net premiums written totaled CH\$57,989 million (-26.5% YoY), claims and pensions paid reached CH\$55,727 million (-36.0% YoY), and the variation in technical reserves was -CH\$567 million (CH\$1,912 million for 9M17), all attributable to the expiration of contract No. 5.

The contribution margin for DSI totaled CH\$ 1,877 million for 3Q18 (versus -CH\$ 524 million for 2Q18). For 3Q18, net premiums written totaled CH\$1,026 million (-95.9% QoQ), claims and pensions paid reached -CH\$815 million (-97.2% QoQ), and the variation in technical reserves was CH\$1,666 million (-CH\$15 million for 2Q18), all attributable to the expiration of contract No. 5.

### Administrative Expenses - Vida Security

<i>In MCH\$</i>	3Q18	2Q18	3Q17	% Chg		9M18	9M17	%Chg.
				QoQ	YoY			
Payroll	-3,459	-3,635	-3,375	-4.9%	2.5%	-10,475	-9,914	5.7%
Distribution Channel expenses	-802	-956	-1,039	-16.2%	-22.9%	-3,035	-3,153	-3.8%
Other	-5,649	-5,414	-5,376	4.4%	5.1%	-15,962	-15,018	6.3%
<b>Total administrative expenses</b>	<b>-9,910</b>	<b>-10,005</b>	<b>-9,791</b>	<b>-1.0%</b>	<b>1.2%</b>	<b>-29,471</b>	<b>-28,086</b>	<b>4.9%</b>

For 9M18, Vida Security reported administrative expenses of CH\$29,471 million (+4.9% YoY) because of an increase in other administrative expenses, which totaled CH\$15,962 million for 9M18 (+6.3% YoY), due to increased collection expenses. Distribution channel expenses totaled CH\$3,035 million (-3.8% YoY), while payroll expenses reached CH\$10,475 million (+5.7% YoY).

For 3Q18, Vida Security reported administrative expenses of CH\$9,910 million (-1.0% QoQ), explained by lower personnel expenses of CH\$3,459 million (-4.9% QoQ) and reduced distribution channel expenses of CH\$802 million (-16.2% QoQ), partially offset by an increase in other administrative expenses, which totaled CH\$5,649 million for 3Q18 (+4.4% QoQ).

### Investment Income - Vida Security

Investment income for 9M18 totaled CH\$74,719 million, down -CH\$28,790 million YoY, attributable to weaker returns on equity investments due to greater volatility and market corrections. In addition, the first nine months of 2017 represent a high basis of comparison

<sup>10</sup> <http://www.spensiones.cl/portal/orientacion/580/w3-article-3024.html>

for investment income due to strong market performances during that period.

Investment results from equities and indexes reached CH\$9,640 million for 9M18, down -CH\$22,710 million YoY, due to a series of external events that have negatively impacted emerging economies in recent months, affecting both the subsidiary's proprietary trading portfolio and the investment portfolio for CUI and APV policies. (MSCI as of Sep-18 in US\$: Developed Countries -4.9%, Emerging Countries -7.5%, Chile -11.2%).

In addition, in September 2018, an adjustment of CH\$3,254 million was made to the Single Investment Account (CUI) investment portfolio, charged to investment income for this type of insurance, because of changes in the asset valuation model as per IFRS 9.

The investment portfolio for CUI and APV policies totaled CH\$498,138 million as of September 2018, +4.5% YoY and +3.8% YTD. It is important to note that reduced investment income from this portfolio of individual insurance with savings components has a positive effect on technical reserves.

Investment Stock Ch\$ Million	Sep-18	Jun-18	Dec-17	Sep-17	% Chg			Stock %
					QoQ	YTD	YoY	3Q18
Fixed Income	1,714,026	1,704,847	1,729,875	1,728,462	0.5%	-0.9%	-0.8%	69.4%
Equities and indexes	482,917	481,148	397,996	367,247	0.4%	21.3%	31.5%	19.6%
Real estate	230,670	229,874	229,827	229,376	0.3%	0.4%	0.6%	9.3%
Other investments	40,806	33,389	44,815	56,191	22.2%	-8.9%	-27.4%	1.7%
<b>Investment Stock</b>	<b>2,468,419</b>	<b>2,449,258</b>	<b>2,402,514</b>	<b>2,381,277</b>	<b>0.8%</b>	<b>2.7%</b>	<b>3.7%</b>	<b>100%</b>

  

Investment Income In Ch\$ Million	3Q18	2Q18	3Q17	% Chg				
				QoQ	YoY	9M18	9M17	% Chg.
Fixed Income	14,299	23,127	16,644	-38.2%	-14.1%	57,449	57,961	-0.9%
Equities and indexes	16,586	-6,111	12,946	-371.4%	28.1%	9,640	32,351	-70.2%
Real estate	3,675	3,193	3,331	15.1%	10.3%	10,000	9,828	1.8%
Other investments	-2,491	-1,063	1,559	134.4%	-259.8%	-2,369	3,371	-170.3%
<b>Investments Income</b>	<b>32,069</b>	<b>19,146</b>	<b>34,480</b>	<b>67.5%</b>	<b>-7.0%</b>	<b>74,719</b>	<b>103,510</b>	<b>-27.8%</b>

### Exchange Differences and Gain (Loss) from Indexation Adjustments

Exchange differences totaled CH\$447 million for 9M18 (CH\$2,007 million for 9M17) and CH\$637 million for 3Q18 (-CH\$899 million for 2Q18). The subsidiary posted a loss from indexed assets and liabilities of -CH\$2,813 million for 9M18 (-CH\$1,140 million for 9M17) and -CH\$1,152 million for 3Q18 (-CH\$731 million for 2Q18), because the Bank had more indexed liabilities than indexed assets and inflation was higher in 2018.

### Protecta Security

Protecta Security is a Peruvian life insurance company focused on annuities, which was acquired in September 2015, and marks Grupo Security's entrance into the Peruvian financial market. It is a subsidiary of Vida Security, which holds a 61% interest in the company.

For 9M18, Protecta Security posted a result of -S./ 1.6 million, down from S./ 15.4 million for 9M17.

This YoY reduction in profit can be explained by a larger variation in technical reserves, in line with greater annuity sales and an adjustment to the valuation method for the portfolio of real estate investments. Claims paid also increased as a result of growth in the mass insurance business and a rise in claims.

Protecta Security posted annuity sales of S./ 120.7 million for 9M18 (+46.5% YoY). In the same period, the Peruvian life insurance industry reported annuity sales of S./ 637.7 million (-10.8% YoY), impacted by a law approved in early 2016 that allows individuals paying into the

pension system to withdraw up to 95.5% of their savings when they retire. In this context, Protecta Security's rise in annuity sales has resulted in an increase in market share from 5.3% in September 2015 to 18.9% in September 2018. Investment income totaled S./ 66.8 million (-2.5% YoY) while administrative expenses reached S./ 23.5 million (-0.5% YoY).

Protecta Security's business plan for the next three years calls for strong growth in annuities, which will require future capital increases. Consequently, in March 2018, a capital increase of S./ 25 million was approved and carried out. In addition, on November 19, 2018, shareholders agreed to a second capital increase in Protecta Security of S./ 45 million to be completed by year-end 2018 in order to strengthen its capital base and support the growth plan mentioned above. On November 28th, Inversiones Security Perú S.A.C made its respective contribution of S./ 27.45 million.

## ASSET MANAGEMENT BUSINESS AREA (2.4% of assets; 8.5% of profit from business areas as of September 2018)

The asset management business area includes Administradora General de Fondos Security and Valores Security Corredores de Bolsa. It also includes Securitizadora Security, which manages securitized assets and their respective special purpose vehicles (SPVs). This business area complements the product range offered by the rest of the Group's companies, providing services tailored to the needs of each customer segment. The products and services offered by this business area include mutual funds, investment funds and voluntary pension savings (APV), foreign currency and forwards, stocks, portfolio management and international investments.

In Ch\$ Million	Sep-18	Jun-18	Dec-17	Sep-17	QoQ	% Chg YTD	YoY
Assets under management (AUM)	4,728,741	4,763,479	4,506,967	4,449,872	-0.7%	4.9%	6.3%
Mutual funds under management	2,699,356	2,726,097	2,558,301	2,497,739	-1.0%	5.5%	8.1%
Market share - mutual funds	7.0%	7.2%	7.3%	6.9%	-18 p	-30 p	7 p

In Ch\$ Million	3Q18	2Q18	3Q17	% Chg		9M18	9M17	% Chg
				QoQ	YoY			
Value of shares traded	622,389	825,842	798,166	-24.6%	-26.7%	2,202,152	2,290,096	-3.8%
Market share - equities brokerage	4.3%	5.0%	5.8%	-70 p	-93 p	4.8%	6.5%	-163 p
Operating income	9,714	10,530	10,264	-7.8%	-14.5%	30,717	28,972	6.0%
Non-operating income	1,309	1,074	529	21.9%	44.4%	3,346	2,644	26.5%
Total expenses	-8,309	-8,785	-8,012	-5.4%	0.6%	-26,278	-24,284	8.2%
Efficiency ratio	75.4%	75.7%	74.2%	-33 p	806 p	77.1%	76.8%	34 p
Fund management	1,608	1,557	1,569	3.3%	-30.2%	4,602	4,360	5.5%
Equity, currency and fixed income brokerage, portfolio mgt and Int'l business (*)	566	812	416	-30.3%	-35.4%	1,777	1,581	12.3%
Securitization	15	-32	570	-	-	56	170	-
<b>Profit - Asset Management</b>	<b>2,189</b>	<b>2,337</b>	<b>2,555</b>	<b>-6.3%</b>	<b>-37.9%</b>	<b>6,435</b>	<b>6,111</b>	<b>5.3%</b>

(\*) Includes results from support areas (Asesorías and Global Security)

The subsidiary's AUM as of September 2018 totaled CH\$4,728,741 million, +6.3% YoY and +4.9% YTD. Mutual funds under management totaled CH\$2,699,356 million, +8.1% YoY and +5.5% YTD, with a market share of 7.0%. The area reported total value of shares traded of CH\$2,202,152 million, with market share of 4.8%.

As of September 2018, the asset management area reported profit of CH\$6,435 million (+5.3% YoY), attributable to higher operating income of CH\$30,717 million (+6.0% YoY), reflecting increased income from mutual funds due to a larger volume of assets under management (+6.3% YoY). The subsidiary also reported a rise in non-operating income, which totaled CH\$3,346 million (+26.5% YoY), explained by better returns on the brokerage subsidiary's proprietary trading portfolio. The increased commercial activity was accompanied by higher total

expenses of CH\$26,278 million (+8.2% YoY).

For 3Q18, it reported quarterly profit of CH\$2,189 million (-6.3% QoQ). Operating income fell 7.8% QoQ to CH\$9,714 million for the quarter, due to reduced transactional income as a result of heightened macroeconomic uncertainty. Total expenses fell 5.4% QoQ to CH\$8,309 million, as a result of the drop in commercial activity.

## **OTHER SERVICES BUSINESS AREA** (1.4% of assets; 1.4% of profit from business areas as of September 2018)

This business area includes the operations of Travel Security and Inmobiliaria Security, which offer non-financial products and services that complement Grupo Security's offering and are directed towards the same target markets.

### **INMOBILIARIA SECURITY**

Inmobiliaria Security posted a loss of -CH\$2,475 million for 9M18, (-CH\$3,430 million YoY and -CH\$1,365 million QoQ) due to ownership being transferred on fewer units. Ownership was transferred on 19 units as of September 2018 versus 32 units as of September 2017. For 3Q18 and 2Q18, ownership was transferred on 6 units during each quarter. These results are in line with the company's business plan since 2018 is considered a development year. Inmobiliaria Security signed apartment purchase promise agreements totaling UF 913,000 for 9M18 (+81.5% YoY) and UF 442,000 in 3Q18 (+32.3% QoQ). It is important to note that there is a lag between a sale and revenue recognition. Under IFRS, revenue is recognized once legal title to the property has been transferred.

Real estate assets under management totaled CH\$82,912 million, +2.2% YoY and +5.9% QoQ, due to capitalization of projects under development.

<i>In Ch\$ Million</i>	3Q18	2Q18	3Q17	% Chg		9M18	9M17	% Chg
				QoQ	YoY			
Real estate assets under management	82,912	78,288	81,112	5.9%	2.2%	82,912	81,112	2.2%
Total income	150	-52	608	-	-	213	2,238	-90.5%
Total expenses	-1,999	-432	-526	362.6%	279.9%	-2,798	-1,315	112.7%
Profit before tax	-1,849	-484	81	-	-	-2,585	923	-
<b>Profit for the period</b>	<b>-1,782</b>	<b>-424</b>	<b>103</b>	<b>-</b>	<b>-</b>	<b>-2,475</b>	<b>956</b>	<b>-</b>

### **TRAVEL AGENCY: TRAVEL SECURITY**

Travel Security reported profit of CH\$2,762 million for 9M18, -6.9% YoY and +39.0% QoQ, explained by the CH\$27 YoY drop in the average CH\$/US\$ exchange rate. It also recorded lower airline commissions due to changes in the industry and the composition of sales.

Travex Security, Travel Security's Peruvian travel agency subsidiary, recorded profit of CH\$425 million for 9M18 (-6.0% YoY and +15.3% QoQ).

	3Q18	2Q18	3Q17	% Chg		9M18	9M17	% Chg
				QoQ	YoY			
Total sales - Travel (MUSD)	63	73	66	-14.2%	-5.5%	200	199	0.4%
Total sales - Travex (MUSD)	18	18	18	-0.7%	-1.4%	54	53	2.0%
Net operating income (MCH\$)	1,733	1,332	1,490	30.1%	16.3%	4,007	4,133	-3.1%
<b>Profit for the period - Travel (MCH\$)</b>	<b>1,243</b>	<b>894</b>	<b>1,107</b>	<b>39.0%</b>	<b>12.3%</b>	<b>2,762</b>	<b>2,966</b>	<b>-6.9%</b>

## RISK RATINGS

	Grupo Security	Banco Security	Vida Security	Factoring Security	Inv. Previsión Security
FitchRatings (local)	A+	AA-	AA-	A+	A+
ICR (local)	AA-	AA	AA	AA-	A+
Standard & Poors (international)		BBB/A-2			

## BONDS ISSUED BY GRUPO SECURITY

Series	Registration Number	Registration Date	Currency	Amount	Annual Interest Rate	Duration (Years)	Maturity
F	620	15/09/09	UF	53,375	4.50	23	15/09/32
K	763	30/06/13	UF	3,000,000	4.00	25	30/06/38
L 3	795	09/10/14	UF	3,000,000	3.40	21	15/11/35
M	842	25/10/16	UF	1,189,000	4.20	25	15/10/41
N1	885	31/01/18	UF	1,500,000	2.85	25	10/12/42
<b>Total</b>			<b>UF</b>	<b>8,742,375</b>			

For more information on debt issued by subsidiaries of Grupo Security, please see the financial liability notes in the financial statements.

## Returns and Dividends

On October 3, 2018, Grupo Security's board approved a dividend of CH\$4.5 per share. This consists of an additional dividend of CH\$2.6 per share charged to profit for 2017 and an interim dividend of CH\$1.9 per share charged to profit for the current year.

On April 12, 2018, Grupo Security shareholders approved a dividend payment of CH\$7.25 per share charged to profit for the year 2017. This dividend and the interim dividend distributed in November 2017 total CH\$11.6 per share, equivalent to CH\$42,810 million, or 57% of profit for the year 2017.

Grupo Security's dividend yield, calculated as dividends per share, divided by the average share price when each dividend was distributed for the corresponding year, amounted to 3.8% in 2017. For the first nine months of 2018, Grupo Security's stock reported a return of +12.5%, outperforming the IPSA (-5.1%).

## 3Q18 EARNINGS CONFERENCE CALL

Grupo Security's third quarter earnings report will be explained in a conference call led by Mr. Renato Peñafiel, the company's CEO, on December 5, 2018. A transcript of the call will be available on our website. For more information, please contact the Investor Relations Team at [relacioninversionistas@security.cl](mailto:relacioninversionistas@security.cl).

## GRUPO SECURITY

**Grupo Security S.A.** is a niche Chilean-based diversified financial group offering banking, insurance, asset management and other services to large and medium-sized companies and high-income individuals. Through a differentiated and innovative offering of financial products and services tailored to its niche, the group leverages operational and financial synergies through organic growth and acquisitions.

## Safe Harbor

This report contains results of the different business units, which are not guarantees of future results and are subject to significant risks and uncertainty. They may be affected by a number of unforeseen factors such as changes in global economic conditions, changes in market conditions, regulatory changes, actions by competitors and operational and financial risks inherent to the financial services business.

## APPENDICES

### 1. Financial Statements and Indicators - Assets

Assets In Ch\$ Millions	December 31, 2017	September 30, 2018
<b>Current assets</b>		
Cash and cash equivalents	599,767	546,291
Other financial assets, current	3,162,603	3,203,557
Other non-financial assets, current	27,138	29,838
Trade and other receivables, current	5,355,571	5,638,666
Accounts receivable from related parties, current	32,019	42,625
Inventories	72,113	101,057
Current tax assets	32,517	31,941
<b>Total current assets other than assets or disposal groups classified as held for sale or held for distribution to owners</b>	<b>9,281,728</b>	<b>9,593,974</b>
Non-current assets or disposal groups classified as held for sale or held for distribution to owners	3,641	1,692
<b>Total non-current assets classified as held for sale or held for distribution to owners</b>	<b>3,641</b>	<b>1,692</b>
<b>Total current assets</b>	<b>9,285,369</b>	<b>9,595,667</b>
<b>Non-current assets</b>		
Other non-financial assets, non-current	74,084	108,683
Equity-accounted investments	3,077	3,994
Intangible assets other than goodwill	38,518	38,766
Goodwill	119,067	119,067
Property, plant and equipment	65,088	64,402
Investment property	159,663	177,439
Deferred tax assets	96,435	50,851
<b>Total non-current assets</b>	<b>555,932</b>	<b>563,201</b>
<b>Total assets</b>	<b>9,841,301</b>	<b>10,158,868</b>

## 2. Financial Statements and Indicators - Liabilities and Equity

<b>Liabilities and Equity</b>	<b>December 31,</b>	<b>September 30,</b>
In Ch\$ Millions	2017	2018
Other financial liabilities, current	5,591,020	5,877,459
Trade and other payables	2,504,746	2,559,450
Accounts payable to related parties, current	1,949	3,435
Other short-term provisions	117,699	123,911
Current tax liabilities	24,881	15,048
Employee benefit provisions, current	8,708	8,402
Other non-financial liabilities, current	188,926	152,057
<b>Total current liabilities</b>	<b>8,437,929</b>	<b>8,739,763</b>
<b>Non-current liabilities</b>		
Other financial liabilities, non-current	540,756	576,461
Accounts payable, non-current	92,844	107,003
Accounts payable to related parties, non-current	1,948	3,284
Deferred tax liabilities	45,297	570
<b>Total non-current liabilities</b>	<b>680,845</b>	<b>687,318</b>
<b>Total liabilities</b>	<b>9,118,775</b>	<b>9,427,080</b>
<b>Equity</b>		
Issued Capital	429,040	431,784
Retained earnings	311,415	340,332
Share premium	0	611
Other reserves	(35,545)	(58,791)
<b>Equity attributable to equity holders of parent</b>	<b>704,910</b>	<b>713,936</b>
Non-controlling interests	17,616	17,852
<b>Total equity</b>	<b>722,526</b>	<b>731,787</b>
<b>Total liabilities and equity</b>	<b>9,841,301</b>	<b>10,158,868</b>



### 3. Financial Statements and Indicators - Consolidated Statement of Income

Consolidated Statement of Income (In Ch\$ Millions)		Sep-17	Sep-18
Revenue		880,172	804,181
Cost of sales		(625,807)	(550,876)
<b>Gross profit</b>		<b>254,365</b>	<b>253,305</b>
Other income		2,554	4,814
Distribution costs		0	0
Administrative expenses		-164,258	-167,177
Other expenses		(6,782)	(4,527)
Other gains		4,514	1,136
Finance income		-	-
Finance costs		(10,121)	(10,566)
Share of profit (loss) of associates and joint ventures, equity-accounted		-105	1,031
Exchange differences		-3,297	4,545
Gain (loss) on indexed assets and liabilities		-2,593	-7,100
Gains arising from the difference between the prior carrying amount and the fair value of financial assets reclassified at fair value		(1,978)	896
<b>Profit before tax</b>		<b>72,299</b>	<b>76,355</b>
Income tax benefit (expense)		(18,814)	(19,634)
<b>Profit (loss) from continuing operations</b>		<b>53,485</b>	<b>56,722</b>
Profit (loss) from discontinued operations		0	0
<b>Profit (loss) for the period</b>		<b>53,485</b>	<b>56,722</b>
<b>Profit (loss) attributable to</b>			
Profit (loss) attributable to equity holders of the parent		53,661	57,823
Profit (loss) attributable to non-controlling interests		-176	-1,102
<b>Profit (loss) for the period</b>		<b>53,485</b>	<b>56,722</b>
Depreciation and amortization		6,924	7,018
<b>Ebitda</b>		<b>89,344</b>	<b>93,940</b>

## 4. Segment Note - Grupo Security YoY

Segment Note - Grupo Security In MCH\$	Lending and Treasury		Asset Management		Insurance		Other Services		Adjustments, Support Areas and Group Expenses		Total Grupo Security	
	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18	Sep-17	Sep-18
	Revenue	324,654	342,427	40,242	43,178	488,873	401,679	31,818	24,917	-5,414	-8,021	880,172
Cost of sales	-171,918	-189,609	-10,050	-10,363	-429,070	-344,225	-13,891	-9,008	-879	2,330	-625,807	-550,876
Gross profit	152,736	152,818	30,192	32,814	59,803	57,454	17,927	15,909	-6,293	-5,691	254,365	253,305
Other income	30	25	983	1,746	503	533	384	591	654	1,920	2,554	4,814
Administrative expenses	-85,422	-85,254	-22,342	-24,544	-43,635	-45,396	-12,563	-13,446	-295	1,462	-164,258	-167,177
Other expenses	-5,899	-2,363	-391	-1,646	-204	-212	-238	-287	-50	-20	-6,782	-4,527
Other gains (losses)	0	-4	272	137	197	167	478	502	3,568	334	4,514	1,136
Finance income	0	0	0	0	0	0	0	0	0	0	0	0
Finance costs	0	0	-306	-536	-453	-36	-838	-1,119	-8,524	-8,875	-10,121	-10,566
Share of profit (loss) of associates and joint ventures, equity-accounted	0	0	0	0	-93	892	-14	-3	1	141	-105	1,031
Exchange differences	-2,311	6,908	-467	-173	-795	166	411	324	-136	-2,680	-3,297	4,545
Gain (loss) from indexed assets and liabilities	11	-2	26	-106	-521	-2,025	14	-9	-2,124	-4,957	-2,593	-7,100
Gains (losses) arising from the difference between the prior carrying amount and the fair value of financial assets reclassified at fair value	-1,681	771	-298	125	0	0	0	0	0	0	-1,978	896
<b>Profit (loss) before tax</b>	<b>57,464</b>	<b>72,899</b>	<b>7,669</b>	<b>7,818</b>	<b>14,804</b>	<b>11,542</b>	<b>5,561</b>	<b>2,462</b>	<b>-13,199</b>	<b>-18,366</b>	<b>72,299</b>	<b>76,355</b>
Income tax benefit (expense)	-13,117	-16,114	-1,554	-1,381	-2,142	-1,612	-1,542	-855	-458	329	-18,814	-19,634
Profit (loss) from continuing operations	44,347	56,785	6,115	6,437	12,662	9,930	4,019	1,607	-13,657	-18,037	53,485	56,722
<b>Profit (loss) attributable to</b>												
Profit (loss) attributable to equity holders of the parent	44,337	56,772	6,111	6,435	13,448	11,738	3,418	1,055	-13,657	-18,037	53,661	57,823
Profit (loss) attributable to non-controlling interest	11	13	4	2	-787	-1,808	601	552	-5	139	-176	-1,102
Profit (loss) for the period	44,347	56,785	6,115	6,437	12,662	9,930	4,019	1,607	-13,662	-17,898	53,485	56,722

## 5. Segment Note - Grupo Security QoQ

Segment Note - Grupo Security <i>In MCH\$</i>	Lending and Treasury		Asset Management		Insurance		Other Services		Consolidation Adjustments, Support Areas and Group		Total Grupo Security	
	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18	2Q-18	3Q-18
	Revenue	117,568	117,340	14,893	14,322	144,393	118,463	7,682	8,242	3,827	-9,705	288,363
Cost of sales	-70,429	-62,846	-3,540	-3,322	-130,496	-96,464	-2,275	-2,528	-572	3,162	-207,311	-161,998
Gross profit	47,139	54,493	11,353	11,000	13,897	22,000	5,408	5,713	3,255	-6,542	81,052	86,663
Other income	12	11	631	493	77	419	204	236	1,061	678	1,986	1,837
Administrative expenses	-27,233	-29,956	-8,067	-7,855	-15,646	-15,322	-4,616	-4,757	-6,045	7,290	-61,607	-50,600
Other expenses	-643	-889	-984	-363	-58	-68	-99	-107	-8	-11	-1,792	-1,438
Other gains (losses)	0	-4	53	37	34	91	167	218	-108	254	146	595
Finance income	0	0	0	0	-4	0	0	0	0	0	-4	0
Finance costs	0	0	-122	-323	-11	-18	-371	-352	-2,641	-3,553	-3,145	-4,245
Share of profit (loss) of associates and joint ventures, equity-accounted	3	-3	0	0	-100	883	-1	-1	-5	147	-103	1,025
Exchange differences	3,426	-731	106	-263	-361	485	120	67	-56	-2,572	3,235	-3,015
Gain (loss) from indexed assets and liabilities	-2	0	-39	-83	-621	-784	-79	95	-1,794	-1,837	-2,535	-2,610
Gains (losses) arising from the difference between the prior carrying amount and the fair value of financial assets reclassified at fair value	239	-59	-183	89	0	0	0	0	0	0	56	30
<b>Profit (loss) before tax</b>	22,941	22,862	2,749	2,731	-2,795	7,686	733	1,112	-6,341	-6,146	17,288	28,244
Income tax benefit (expense)	-4,803	-5,206	-411	-541	784	-1,572	-237	-385	374	-43	-4,293	-7,748
Profit (loss) from continuing operations	18,138	17,656	2,338	2,190	-2,011	6,114	497	726	-5,967	-6,189	12,995	20,496
<b>Profit (loss) attributable to</b>												
Profit (loss) attributable to equity holders of the parent	18,131	17,655	2,337	2,189	-1,287	6,723	318	487	-5,967	-6,189	13,528	20,728
Profit (loss) attributable to non-controlling interest	7	1	1	1	-724	-610	179	239	5	137	-533	-232
Profit (loss) for the period	18,138	17,656	2,338	2,190	-2,011	6,114	497	726	-5,967	-6,189	12,995	20,496

## 6. Grupo Security Consolidated Statement of Cash Flows

Statement of Cash Flows	Sep-17	Sep-18
For the periods ended September 30, 2018 and 2017	MCH\$	MCH\$
Net cash flows provided by (used in) operating activities	254,856	(36,641)
Net cash flows used in investing activities	(12,517)	(22,059)
Net cash flows used in financing activities	(139,041)	5,080
<b>Increase (decrease) in cash and cash equivalents before effect of exchange rate changes</b>	<b>103,298</b>	<b>(53,621)</b>
Effect of changes in exchange rates on cash and cash equivalents	(26)	144
Net increase (decrease) in cash and cash equivalents	<b>103,272</b>	<b>(53,477)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>510,335</b>	<b>599,767</b>
<b>Cash and cash equivalents at end of period</b>	<b>613,607</b>	<b>546,291</b>

## 7. Quarterly Statement of Income

Quarterly Earnings		3Q18	2Q18	1Q18	4Q17	3Q17	2Q17
Revenue	M Ch\$	248,661	288,363	267,157	297,596	289,948	302,428
Cost of sales	M Ch\$	(161,998)	(207,311)	(181,567)	(213,764)	(209,449)	(213,234)
Gross profit	M Ch\$	86,663	81,052	85,590	83,832	80,499	89,193
Administrative expenses	M Ch\$	(50,600)	(61,607)	(54,970)	(51,225)	(53,096)	(56,011)
Operating income	M Ch\$	37,058	19,784	30,708	33,469	29,934	32,343
Finance costs	M Ch\$	(4,245)	(3,145)	(3,176)	(2,989)	(3,474)	(3,513)
Profit before tax	M Ch\$	28,244	17,288	30,824	27,385	24,158	25,029
Profit attributable to equity holders of parent	M Ch\$	20,728	13,528	23,568	21,047	17,704	18,648
EBITDA <sup>1</sup>	M Ch\$	34,956	22,783	36,201	32,512	29,922	30,830

<sup>1</sup> EBITDA: Defined as the sum of profit before tax, finance costs and depreciation

## 8. Financial and Business Indicators

Activity levels		30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Jun-17
Cash (Grupo Security Standalone)	\$ millions	40,538	61,088	102,046	30,719	102,187	7,738
Total Assets	\$ millions	10,158,868	10,156,853	9,931,584	9,841,301	9,678,785	9,454,605
Total Liabilities	\$ millions	9,427,080	9,433,211	9,201,314	9,118,775	8,954,456	8,834,076
Total Equity	\$ millions	731,787	723,642	730,270	722,526	724,329	620,529

Leverage Ratios		30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Jun-17
Individual leverage ratio <sup>1</sup>	Times	0.355	0.346	0.358	0.293	0.295	0.333
Consolidated financial expenses <sup>2</sup>	Times	8.23	8.61	10.71	8.60	8.14	8.24

Profitability		30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Jun-17
Revenue	\$ millions	804,181	555,520	267,157	1,177,768	880,172	590,224
Profit attributable to equity holders of the company	\$ millions	57,823	37,095	23,568	74,708	53,661	35,958
EBITDA	\$ millions	93,940	58,984	36,201	121,856	89,344	59,422
Return of equity <sup>3</sup>	%	11.11%	11.61%	12.38%	11.58%	10.63%	11.03%
Return on assets <sup>4</sup>	%	0.80%	0.77%	0.84%	0.78%	0.74%	0.72%
Earnings per share <sup>5</sup>	\$	21.35	20.77	22.86	21.75	20.67	19.97
Number of shares	\$ millions	3,695	3,695	3,695	3,683	3,683	3,258

1. Individual leverage ratio: Defined as the quotient between the sum of Grupo Security's individually considered leverage and total consolidated equity, defined in Note 38 to Grupo Security's Consolidated Financial Statement.
2. Financial expense coverage: Defined as the sum of profit before tax and finance costs divided by finance costs.
3. Return on equity: Defined as the quotient between profit attributable to controlled properties LTM and average equity attributable to controlled properties.
4. Return on assets: Defined as the quotient between profit attributable to controlled companies LTM and total average assets.
5. Earnings per share: Defined as the quotient between profit attributable to controlled companies LTM and the weighted average number of shares LTM.

Grupo Security's total consolidated assets were CH\$10,158,868 million as of September 2018, +3.7% YTD. Of that total, 55.5% are trade and other receivables, primarily the Bank's loan portfolio. As of September 2018, this item reached CH\$5,638,666 million, +5.3% YTD, driven by 7.2% YTD growth in loans as explained on page 9.

Furthermore, 31.5% of total assets are other current financial assets. This line item primarily includes the investment portfolio for the insurance subsidiary's technical reserves and the Bank's portfolio of financial instruments. As of September 2018, other current financial assets totaled CH\$3,203,557 million (+1.3% YTD), as a result of the 2.8% YTD increase in the investment portfolio for the insurance subsidiary's technical reserves, which totaled CH\$2,200,027 million as of September 2018, in keeping with business growth and portfolio returns. The above was not fully offset by a decrease in the Bank's current financial assets, which fell to CH\$862,136 million (-5.3% YTD).

As of September 2018, total consolidated liabilities reached CH\$9,427,080 million, +3.9% YTD. Of those, 62.3% are other current financial liabilities, which include the Bank's time deposits and current accounts, as well as debt issued by the Bank or the Group. As of September 2018, other current financial liabilities reached CH\$5,877,459 million, +5.1% YTD, because of an increase in current bonds and bank obligations that was not fully offset by the decrease in the Bank's deposits and current accounts. Both effects are part of the Bank's funding strategy.

Of total liabilities, 27.1% were trade and other payables, which are primarily Vida Security's technical reserves. As of September 2018, trade payables totaled CH\$2,559,450 million (+2.2% YTD), as a result of the +2.4% YTD increase in Vida Security's technical reserves, which totaled CH\$2,432,295 million, in keeping with business growth. This was partially affected by weaker returns on investments in the CUI and APV portfolio and a drop in sales of individual policies during the period, as explained on pages 13, 14 and 15 of this report.

Grupo Security's total equity amounted to CH\$731,787 million as of September 2018, +1.3% YTD, because of profit for the period allocated to retained earnings and the placement of 11,980,563 shares left over from the capital increase approved in 2017. These elements were not offset by larger reserves.

The individual leverage ratio is defined in note 38 of Grupo Security's financial statements. Under the bondholder protection covenant, the individual

leverage ratio may not exceed 0.4 measured on its quarterly standalone statement of financial position. Leverage is defined as the ratio of standalone financial liabilities, as presented in the FECU disclosures, and total equity. As of September 2018, this indicator reached 0.36, +621 YTD, explained by the increase in non-current financial liabilities due to the recent placement of the N1 bond for UF 1,500,000, as explained on page 2.

Consolidated financial expense coverage is the sum of profit before tax and finance costs, divided by finance costs. The majority of finance costs for this indicator are interest and indexation expenses for Grupo Security bonds. As of September 2018, consolidated financial expense coverage was 8.23 times, +1.0% YoY reflecting the 5.6% YoY increase in profit before tax.

As of September 2018, revenue was CH\$804,181 million, -8.6% YoY. Of this, 38.0% corresponds to gross written premiums from Vida Security, which decreased 16.1% due to the reduction in gross written premiums at Vida Security (standalone) and the expiration of contract No. 5 for Disability and Survivor Insurance, as explained on pages 13 to 18 of this report. In addition, 31.4% of revenue was from interest and indexation on Bank loans, which grew 12.4% YoY, as explained on page 8. On the other hand, 5.5% of consolidated income corresponds to other income from interest earned mainly on Vida Security's investment portfolio, which did not perform well as a result of high volatility and corrections in global markets, as mentioned on page 18 and 19 of this report.

For 9M18, profit attributable to the owners of the parent was CH\$57,823 million, +7.2% YoY, while EBITDA was CH\$93,940 million, +5.1 YoY. As of September 2018, return on equity was 11.11% (+48 b.p. YoY) and return on assets was 0.80% (+5 b.p. YoY) with earnings per share of CH\$21.4 (+3.3% YoY). These results can be explained by the results of each subsidiary, which are presented in detail throughout this report.

## Market Information

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Grupo Security is structured into four main business areas. Each area includes the subsidiaries and divisions that share common business objectives. These four areas are: lending, insurance, asset management and other services.

Grupo Security is the parent company of a conglomerate of diversified companies engaged in the main sectors of the Chilean financial industry. Its subsidiaries Banco Security and Factoring Security provide lending services to companies and individuals. The subsidiary Seguros de Vida Security Previsión, Corredora de Seguros Security and Europ Assistance operate respectively in the life insurance and life annuity, insurance brokerage and travel assistance industries. Valores Security Corredora de Bolsa, Administradora General de Fondos Security and Securitizadora Security, complement the Group's offering of financial services by developing and distributing specialized financial products and personalized investment and asset management services.

Grupo Security's other services business area includes two subsidiaries engaged in the real estate (Inmobiliaria Security) and travel and tourism (Travel Security) industries. In addition, since 2001 the subsidiary Invest Security provides all group companies with shared services such as accounting, business risk and control, corporate culture, research and corporate IT services to support their development and technological requirements. In December 2014, Invest Security merged with Capital S.A., a wholly-owned subsidiary of Grupo Security.

### **BANKING INDUSTRY**

As of September 2018, the Chilean banking industry was made up of 20 financial institutions, including 1 state-owned bank (Banco Estado), 13 domestic banks and 6 branches of foreign banks. As of that date, industry loans totaled CH\$171,056,527 million (CH\$156,592,324 million excluding foreign subsidiaries). Equity totaled CH\$19,150,292 million while profit for the first nine months of 2018 was CH\$1,807,430 million, with return on average equity of 12.2%. The industry reported an efficiency ratio of 47.3%, measured as operating expenses over gross operating profit, and 2.0%, measured as operating expenses over total assets. The banking system posted a risk ratio of 2.40%, measured as loan loss provisions to total loans, and 1.94%, measured as 90-day nonperforming loans to total loans. As of September 2018, Banco Security had total loans of CH\$5,182,434 million, positioning it 8th in total loans with 3.0% of the Chilean market (3.3% excluding foreign subsidiaries).

### **FACTORING INDUSTRY**

Factoring has become an important source of alternative financing to complement traditional bank lending for small- and medium-sized companies. This service allows customers to receive advances on receivables via a discount on their invoices, checks, promissory notes or other similar documents. It provides them immediate liquidity and reduces costs and inefficiencies by handing the collections process over to the factoring service provider. Although the industry is still maturing, several situations and regulatory changes have boosted growth recently, making it one of the financial sector industries with the best domestic and international outlook.

### **MUTUAL FUND INDUSTRY**

As of September 2018, the mutual fund industry reported average assets under management of CH\$38,586,487 million and 2,716,599 investors. Administradora General de Fondos Security boasted average assets under management of CH\$2,699,356 million as of September 2018, giving it a market share of 7.0% and a sixth-place industry ranking among the 20 fund managers operating in the market.

## **STOCK BROKERAGE INDUSTRY**

During 9M18, market activity measured as value of shares traded grew 28.6% in comparison to 9M17, reaching CH\$45,563 billion. Value of shares traded for Valores Security Corredores de Bolsa for the same period totaled CH\$2,202 billion with market share of 4.8%. Market share is calculated based on transactions on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange.

## **LIFE INSURANCE INDUSTRY**

As of September 2018, there were 36 life insurance companies in Chile. Total gross written premiums for the industry were CH\$4,566,052 million for the period. The life insurance industry posted profit of CH\$324,503 million for the period ended September 2018. As of September 2018, Vida Security had market share of 5.9% based on gross written premiums.

## **Differences Between Book Values and Economic Values and/or Market Values of Principal Assets**

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Grupo Security participates in the insurance and services businesses through its investments in related companies, mainly Europ Assistance and in private investment funds through Inmobiliaria Security. As of September 2018, investments accounted for using the equity method in the Consolidated Statements of Financial Position represent approximately 0.04% of total assets.

Goodwill, which represents the difference between the acquisition cost and the fair value of assets and liabilities, totaled CH\$119,067 million as of September 2018, equivalent to 1.17% of total assets.

Given the varying natures of the companies considered investments in related companies, their market value is normally higher than their carrying amount, which depends on the industry and the economic conditions they face.

## **Risk Factors**

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### **DEPENDENCE ON SUBSIDIARY RESULTS**

Grupo Security is the ultimate parent company of a conglomerate of companies and receives its income from subsidiary profits. As September 2018, Grupo Security had received the following dividends from subsidiaries: CH\$37,803 million (60% of 2017 profit) from Banco Security and CH\$3,751 million from Factoring Security (50% of 2017 profit).

It is important to point out that Grupo Security controls its main subsidiaries with an ownership interest of more than 90% in each subsidiary, which gives it flexibility in setting each subsidiary's investment policies based on growth requirements. This situation enables Grupo Security to increase its economic value by reinvesting its subsidiaries' profits while maintaining a flow of dividends to Grupo Security, which enables it to meet its financial obligations and pay dividends to its shareholders. This is especially true because of the vast diversification of the Company's revenue sources, with subsidiaries in various sectors of the financial industry.

### **OTHER RISK FACTORS**

#### **Risks Associated with General Economic Performance**

The performance of the Grupo Security subsidiaries is correlated to economic and financial conditions that, in turn, are dependent on monetary policy, which results in reduced growth of income and profit under restrictive conditions and the opposite under expansionary conditions.



### **Competition in All Group Business Areas**

The industries in which the Group competes are known for being highly competitive, especially the banking and insurance industries, and trending toward decreased margins. The mergers and alliances that arise between competitors are proof of the competition that Group companies face. Despite the potential challenges to the companies, the possible negative effects of competition are deemed to be offset by Grupo Security's solid brand image in its target market, strong customer loyalty and the niche strategy that drives the Group's development. This has allowed Grupo Security to earn a favorable market position with which to face future competition.

### **Regulatory Changes**

The banking and insurance industries in which the Group does business are government-regulated and are consequently subject to potential regulatory changes over time. However, this risk is estimated to be low thanks to market transparency, the considerable development of these industries and their excellent global reputation.

## **RISKS ASSOCIATED WITH THE FINANCIAL BUSINESS**

### **Credit Risk**

Credit risk is dependent on monetary policy, which ultimately determines a customers' payment capacity. In early 2008, a general deterioration was seen in the system's loan portfolio, which was reflected in higher risk and delinquency ratios. In the third quarter of 2011, trends in risk ratios began to shift, with an improvement in risk levels. Within this framework, Banco Security has consistently posted risk levels below industry averages.

### **Market Risk**

The main market risks facing the Chilean banking industry are inflation and interest rate risk. As a result, Grupo Security has established market risk policies, procedures and limits to manage its maturity and exchange rate exposures in accordance with its own objectives and regulatory limits. In particular, the bank, its subsidiaries and the insurance companies have implemented a special system for controlling interest rate risk that also allows ongoing monitoring of their medium- and long-term investment portfolios.

### **Risks Associated with International Financial Market Volatility**

The Chilean economy and its markets generally operate within international markets and may be affected by external shocks. The volatility of world financial markets and changes in global economic conditions can negatively affect the performance of local and international assets and risk premiums demanded by investors.

### **Interest Rate Risk**

As of September 30, 2018, the company has loans at reasonable rates based on current market conditions.

### **Foreign Exchange Risk**

Grupo Security has implemented the policy of matching foreign currency transactions with financial institutions to sales transactions in the same currency.

### **Commodity Risk**

As of September 30, 2018, Grupo Security does not have any significant assets or liabilities in commodities.

## **RISKS ASSOCIATED WITH THE INSURANCE BUSINESS**

### **Local Financial Risks**

Decreases in medium- and long-term interest rates could affect the performance of life annuity-backing assets and guaranteed-return investment accounts when investments with shorter maturities must be made, creating a medium-term operating deficit.

### **Mortality and Morbidity Rates**

Increases in morbidity rates could cause the number of catastrophic claims to rise in the medium-term and the number of medical reimbursement claims to increase in the short term. If companies do not adjust to the new structure of the mortality curves, the decrease in adult mortality rates could negatively affect the income expected from the annuities area.

### **Industry Structure**

The large number industry players can lead to company closures and mergers. Consequently, the current industry structure may vary, triggering adjustments to the structure of sales and operating margins.

### **Re-insurance Industry**

The current trend toward concentration of re-insurance companies could affect the variety of coverage options and could prevent the reinsurance of risks that are currently backed thanks to the strong competition that until recently had existed in this market.

## Grupo Security Corporate Structure

