

## TRANSCRIPT OF A CONFERENCE CALL ON GRUPO SECURITY RESULTS AS OF DECEMBER 2015

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### ***Page 1 of the presentation:***

#### **Marcela Villafaña (Head of Investor Relations):**

We are here with Mr. Renato Peñafiel, Group CEO, who is going to comment on the company's results for 2015. Also here is Mr. Francisco Silva, Chairman of the company, people from each company and our accountants, so if you have any questions, the whole team is available to answer them.

#### **Mr. Francisco Silva (Chairman of Grupo Security)**

We believe that this is an important occasion for the Group. We are presenting the results for 2015 and suffice to say that it was a difficult year. It was complicated for business and for the general political and economic environment in Chile. Therefore, I believe that these results are a faithful reflection of the work that we have undertaken, and that despite all the difficulties encountered in the economy, we achieved better results than in 2014. Obviously they contain a mixture of results. The life insurance business had very good results, the Bank's results were lower than last year, and we have been developing other complementary businesses that could make a difference and produce results that exceed those for 2014.

I believe that the detail being presented will identify the high performing areas, and the areas with lower results. At the end of the day our results are positive, though we hope that you will form your own opinion based on today's presentation and ask questions at the end.

#### **Mr. Renato Peñafiel (CEO of Grupo Security)**

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The environment in 2015 was significantly different from 2014—a poor environment for the world and for finance. You have seen this in the figures. Despite this, our businesses in various industries and financial market segments performed well. However, the significantly deteriorating macro situation in Chile in 2015, aggravated by the international situation, will continue into 2016 and possibly 2017, so that the financial market will be subject to some kind of adjustment.

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We started 2015 with this projection, adjusting our risk-return ratios within each business, particularly on loans at the Bank, in the local and international asset management area, and at the insurance company.

Therefore, as Francisco mentioned the consolidated results for 2015 are very good, because they reflect an internal adjustment to confront the next two years (2016 and 2017), which we believe will definitely be worse. The Bank changed its risk structure as it has done on previous occasions. Here we have anticipated the future, and the provisions created last year did not relate to widespread portfolio deterioration, but to specific situations and an increase in precautions against risk under the expectation that the next few years will be complicated. Despite these higher expenses, we still achieved an increase in consolidated profit of 6.6% compared to the previous year.

At the same time, there were two or three important events that enabled the Group to look forward in other aspects. Firstly, we completed the acquisition of the Peruvian life insurance company Protecta, which will allow us to combine both local and international development of annuities and other insurance products. We now have a good opportunity to participate in the Peruvian market, and we expect to be successful. In fact, before we started discussions regarding the annuities market, which is fairly complex in Peru at the moment, the growth rate in the company's sales was already one of the best in the local market. We hope that this discrepancy in the Peruvian market can be resolved satisfactorily over the course of the next few months. We are developing other ways to share in the markets of neighboring Peru, which will help us to strengthen our international presence.

Secondly, also in insurance, was the sale of Penta-Security to Liberty. The majority shareholders received a very good offer, several times the book value of this company, and the cash received by the Group during this first quarter will probably be used to increase the capital of some of the companies that are growing and require equity finance.

Thirdly, we took advantage of a market opportunity to buy and absorb the asset management business of Penta. This took place in the middle of February and during March we will begin to see more assets. Consequently, we will see a change in the structure of our costs and revenue. We expect this transaction to immediately produce positive results during the first year.

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A process to increase the Group's capital was completed last year. History shows us that despite continual increases in the Group's equity base as measured by the number of shares, earnings per share has continued to grow. It was CH\$14.5 per share in 2011. Last year we finished with CH\$20.1 per share. Here profit has grown from 2011 to 2015, from CH\$41,883 million to CH\$65,022 million, which has resulted in earnings per share growing in the manner that I mentioned. This has been achieved without changing the dividend yield, which has always made our shares attractive. We hope to maintain the same policy in the future that we have developed over the past few years. This is a topic for discussion at the shareholders' meeting in a few months, but we hope that the market will share our vision.

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Here we have the growth rates for our business areas. Lending area profit fell by CH\$55,242 million to CH\$43,976 million. This primarily caused the fall in the Bank's profits, and the explanation is directly linked to higher provisions at the Bank last year. Its core business, which is basically lending within Commercial and Retail Banking, definitely contributed to the results. However, we created more provisions in accordance with very conservative criteria, which decreased this profit.

The asset management area had a significant change with profits rising from CH\$5,584 million to CH\$10,163 million, which was due to natural growth following the merger with Cruz del Sur. We believe that this business area is substantially consolidated and we hope to make some technological changes, which will enable us to increase efficiency in the future.

The insurance area had significant profit, despite some investment imbalances, given what happened last year, particularly in equities. Nevertheless, the company achieved a good return for the year.

The profit for the other services area increased by 44.3%, reaching CH\$10,184 million, driven particularly by profits from the real estate subsidiary. About three years ago, we made the strategic decision to double the size of this business, which has been very successful over the past two years.

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If we examine the Bank's consolidated profit in detail, its subsidiaries contributed 20% in 2015. Retail Banking made a negative contribution initially, but contributed 13% of consolidated profits last year. Commercial Banking contributed 100% initially, but now contributes 38%, and Treasury 29%. Our strategic vision is for these areas to contribute equally to the Bank's results in the near future.

Perhaps I should mention that within the Treasury area, a significant portion of revenue is now repeat business. A few years ago we had some difficulties with our subsidiaries, which meant that we had to change our strategy. This strategy is based on strengthening recurring revenue. So Retail Banking should be contributing more than 20% in the very near future. The Treasury area used to be very significant, but here our strategic policy was to reduce the relative participation that was very volatile, and within that participation strengthen recurring revenue. Therefore, our vision for the Bank's business is to achieve far more stability and growth than it had 5 years ago. This means that we can face these cycles without anxiety. This results in our consolidated Group results becoming less volatile.

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The Bank has continued its organic growth and development policy. In fact, loans grew by 9.2% compared to the market. We have always pursued a growth and development policy that is aligned with the industry. Our commercial loans make up the largest proportion of lending within the Bank, and grew by 10%. That is our core business, our competitive edge over the market. Commercial loans grew by 6.4% in the industry.

In contrast, mortgage loans grew by 15% in the industry, while we grew by just 4.3%. This is not an accident. We chose this growth, because the returns on mortgage lending are low. Our analysis of the risk-return ratio and the use of capital indicates which business areas to develop and grow.

Consumer lending is a business that we have recently started to develop, as Retail Banking has strengthened, and now represents a significant share. We have found a significantly different segment within the industry. The rate of return on this segment is important to us. It contributed 13% of profits in 2015, and we expect this to be over 20% over the next few years.

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We introduced a policy three years ago regarding Bank financing, to reduce the participation of the institutional market, and increase the retail share. Therefore, as Retail Banking strengthens, it will also lead to greater diversification.

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We are constantly concerned with improving our efficiency indicators. We exceeded 53% in 2011 and 2013. Over the last two years we have been under 50%, and we expect this to continue. A 1% improvement in efficiency at the Bank represents a 0.5% improvement in ROE, leaving gross operating income constant. A 400 bp improvement in efficiency, can result in a 200 to 300 bp improvement in ROE over the long-term.

When the Basel III Convention is implemented, which will increase the capital base, these figures tend to change. We want to sustain our efficiency indicators and risk-return ratio. We are preparing to do this and we have to improve in order for these tougher capital requirements to not deteriorate our desired medium-term return on equity.

To the extent that the relative proportion of lending provided by Retail Banking increases, as it has done over the past two to three years, the composition of the overall risk index has to be amended, because this segment carries different risks and is contributing a larger proportion. Risk increased in 2015, not so much because of Retail Banking, but due to more conservative provisions for Commercial Banking. During periods of increased stability, not in the negative cycle that we are facing, we should return to a risk index of 1.6%.

We have declared Bank dividends payable to the Group of 30% of profits, which is the legal minimum. However, the Group has subsequently increased the Bank's capital. Therefore, we had a temporary capital increase in March, which meant returning almost the entire 30%. In summary, we are going to retain virtually all the Bank's earnings for 2015, which enables us to manage our growth and the higher capital requirements that are scheduled for the future.

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Our Basel indicator is at 12.1%, similar to peer banks, and similar to the market. Given the capitalization policy which we have pursued over the past few years, the Basel Convention exercises undertaken by the industry have enabled us to comfortably forecast our ability to comply with such capital requirements once the corresponding legal framework has been put in place. We expect that a bill of this nature should appear during this year. However, I believe that as the months pass by and parliamentary processes remain complex, it is likely that such a bill may be delayed a little.

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Increased provision costs in Commercial Banking during 2015 were due to 5 or 6 companies, and those issues will probably be resolved during 2016. Greater provisions were made by the whole industry in some cases. I refer particularly to some sectors, for example, employee benefits institutions, and given the reprogramming scheme probably some of these resources will be released. During the first quarter of this year the Bank will create practically no new provisions. This is a result of our analysis last year.

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Retail Banking has performed well, both in terms of its assets and its rate of return. We expect it to continue to develop and grow in the future, and that its relative composition within the Bank will increase.

***Page 14 of the presentation:***

The Treasury area is now composed of three major areas, as at many other institutions. The Balance Sheet Desk, which represents 65.5% of Treasury's revenue. The Distribution Desk, which is predominantly recurring third-party revenue and represents 26.5% of Treasury's revenue. The Trading Desk, which covers buying and selling financial instruments and represents 8% of Treasury's revenue. Our policy has been to decrease their relative participation over time, to the extent that we can generate more recurring revenue.

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Factoring had a similar profit to last year, with a nominal decrease of 6%. We have been able to maintain our efficiency indicators between 40% and 45% during this period of greater difficulty. Risk indicators have remained at where they were in the past. Last year our primary focus was on growing the number of customers. The growth rate amongst Factoring customers this year is much higher than growth in the industry, and this provides us with a more comfortable commercial perspective for this business. It is not comparable with other companies or other banks in the sector, as we do not mix this business with the working capital business like some financial institutions do.

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Direct premiums in the life insurance area grew significantly in recent years. The insurance company has strengthened its annuities area this year, and has also been strengthening other businesses. As a result the financial value of the consolidated company is now significantly different to what it was 4 or 5 years ago. It has reached a significant relative size, and an ability to grow its commercial sales, particularly in the area of individual policies, annuities and group life and health insurance, which now make it unique. There are some large companies in the market that concentrate on a few products. Our company is far more diversified.

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You can see that direct premiums are composed of group policies that represented 22% last year, annuities with 25%, individual policies with 36%, and everything else with 17%. We have achieved a sales balance by not concentrating solely on annuities, and this diversification policy has enabled us to absorb the significant loss of the Disability and Survivors Insurance policies. Disability and Survivors Insurance represented 19% of sales in 2014 at CH\$45,693 million. These CH\$45,493 million were replaced during 2015 by other business. We got out at a good price. This business has performed badly for those who were awarded it, and we replaced it with better business.

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The size of the company after absorbing Cruz del Sur now means that we manage CH\$2,166 billion. Some years ago we were substantially much smaller. We are close to other large companies, and we hope to continue growing over the next few years. However, capital requirements mean that the insurance company will distribute 70% of its profits this year. Previously we distributed all the profit. We will distribute 70% under a capitalization process, similar to the Bank, that aims to increase its potential for commercial development.

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Here we have some market indicators, as you can see in the last line the return on investment for the market was strongly affected.

Non-representative investments change as financial instruments that support the reserves begin to deteriorate—essentially, paying obligations or pensions in the case of annuities. In a poor cycle, non-representative reserve investments in the insurance market grow. This means that the company requires some kind of adjustment. In our case, despite these non-representative investments growing, they are virtually all provisioned. This enables us to approach 2016 without anxiety, regardless of market cycles.

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The Peruvian company Protecta is subject to Peruvian accounting standards and regulations, and achieved a profit. However, there are regulatory differences in revenue recognition between Peru and Chile, which affected the consolidation of Protecta

into the life insurance company. We have a profit in Peru, but after the accounting adjustments in Chile, that profit disappeared and its contribution became practically zero. These adjustments are concentrated in certain real estate assets, where the present value of future lease cash flows is accounted for in Peru, which consequently changes profits. Nevertheless, I can assure you that over time all of these profits from the insurance company in Peru will be consolidated into the Chilean insurance company.

Furthermore, the return on annuities in Peru is greater than in Chile. Both the structure of investment returns and the structure of cost of sales for these instruments are appropriate. The net spread in Peru is higher than in Chile, which over time will result in each peso of capital invested generating a higher rate of return.

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Profits from the asset management area grew by 82%. This is explained partly by an increase in assets under management, and partly by efficiencies and synergies from previous years. Total AUM increased by 13.5%.

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It is interesting that this increase in profits is concentrated in funds, in managing third-party resources, so provided that AUM remains the same and prices do not change, this revenue will continue indefinitely.

***Page 23 of the presentation:***

The efficiency ratio has been falling since the merger, which is a permanent benefit, and hopefully we will be able to maintain this ratio or make it fall. The consolidation of AGF Security with Penta is upon us. The merger had not happened as of December 2015. This is only a preliminary projection, to get an idea of where we will be by March. We will remain in fifth place within the mutual fund industry in terms of assets under management, with CH\$1,851 billion in managed assets. These figures are as of December. We have continued to grow during these months, and I believe that we have already made substantial progress within the areas that we want to merge.

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This is a projection of the effect on profits by incorporating Penta. The growth in AUM and revenue has seen them gradually recovering their original sizes. When Penta had its difficulties a fall was observed. Signing the agreements in June last year stabilized this fall and we are now recovering these accounts, all of which adds value to the transaction.

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Travel is consolidated with Travex Peru. Its profits grew by 9% last year. Peru contributed to this consolidated growth.

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Profits from the real estate area climbed from CH\$4,008 million in 2014 to CH\$6,868 million, an increase of 71%. This is exclusively due to higher sales of square meters built. According to IFRS, we can only earn profits once the corresponding sales contracts have been signed. Therefore, these are actual sales. We are not allowed to earn profits based on sales commitments. This is very sound and conservative information.

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Unfortunately, we expect a disappointing growth rate for this product in 2016. While we are growing at under 2%, the loan growth rate shrinks. Probably the nominal growth rate last year as an industry of 8% is going to fall to between 6% and 5% in 2016. We have observed this pattern throughout all participants in this industry. Commercial and consumer lending has already been affected. Mortgage lending was busier due to the taxation and interest rate conditions last year, but it will also fade over time. We hope that the unemployment rate will be around 7% this year, with inflation at around 3.5%. This makes the local and international macro-economic context less favorable.

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What are we doing about that context? We are focusing on rationalizing our cost structure, and in a better commercial risk-return ratio for the Bank. We have a far more conservative approach to our own and third-party financial investment portfolios.

Assuming that risk adjustments have already been made and that there is no further deterioration, our focus on productivity leads us to expect improvements in the Bank's profits for 2016, despite this adverse context in terms of asset growth.

Furthermore, we expect profit to remain the same in the businesses associated with the insurance company, an improvement in profits in the asset management area (which consequently improves the Bank's consolidated profits), and profits to remain the same or grow at a nominal rate close to inflation at the other companies. We should also add an increase in profits during the first quarter, due to the sale of Penta Security, which is likely to result in the Group's profit for 2016 growing significantly.

### **Francisco Silva**

Looking back, the Group has only had successes and interesting numbers to present over the past 5 years. We have practically doubled the profitability of our related companies over the past 5 years. We have increased Group profit by 55%, paid taxes and interest, and ultimately this company has grown in an environment where the world is falling to pieces. China has ceased to be the engine of the world economy, Europe has serious problems, and the U.S. is entering a complex political crisis according to its neighbors. Yet in spite of all that, as Renato said, we have re-structured, we have found new businesses, we have streamlined the company and protected it from the Bank's credit risk, and expanded across the continent through investments in Peru in tourism and in insurance. Therefore, I would like to remind you that we have a positive outlook for our business, and of course time will confirm these assumptions.

### **Analyst 1**

Do you have a plan to increase the liquidity of your shares?

### **Renato Peñafiel**

We hope that profit increases will result in greater market depth in the long run. It is a very interesting question. We have placed almost 30% of the company on the market. In the past we thought that the greater the float, the greater the market depth for our shares. But, due to an attractive dividend yield, more predictable revenue, better risk management, and the size of our companies, our shareholders treat our shares as buy-and-hold investments. So it is a good question, whether we want to be constantly traded in the short term, or do we project ourselves as a long-term investment.

### **Analyst 1**

You mentioned that you expect to maintain an attractive dividend yield, continuing your performance to date. But it was not clear whether you will maintain your dividend policy or increase it.

### **Francisco Silva**

The Group has paid more than 50%, almost 60% of its profits as dividends. These dividends are fed by dividends received from our related companies, which are variable. The Bank paid a percentage, the insurance company paid another, smaller companies sometimes pay all, but at the end of the day they combine to produce a dividend of over 50%, which is the policy approved by the shareholders. Page 4 of the presentation shows the proportion that dividends represent of profits. In 2011 it was 68.8%, in 2012 it was 59.8%, in 2013 it was 51.3%, and in 2014 it was 54.5%. The shareholders will have to decide the dividend for 2015 next month, but it has always been over 50%.

### **Analyst 1**

I noticed a detail regarding the quality of the Bank's portfolio, which is the NPL ratio. We can see a decrease in overdue loans over total loans, but the NPL have increased. Does that mean that renegotiations have increased, or does it mean something else?

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

Aligned with what Renato said, some of the specific cases that we had last year had a larger associated portfolio than we had historically experienced within our overdue loan portfolio. That led to an increase in the indices for the NPL. But, as Renato said, this is not associated with a more generalized deterioration of the portfolio. It is a very focused issue.

### **Renato Peñafiel**

In some cases, our policy was perhaps more conservative than the industry, and our provisions were higher than the average for the industry regarding many of these loans. We have already completed some restructuring this first quarter, which has allowed us to re-adjust positively some of the decisions made last year. We do not want to be going back and forth, nor up and down, because it is not our policy. We had some very specific cases where we wanted to eliminate all risk for 2016.

### **Francisco Silva**

This issue is presented in the third line of page 9. Coverage of the overdue portfolio was 103.9% five years ago, and is now 119% as of December 31. So there is a margin, a coefficient of greater protection with respect to loan risks in the future.

### **Analyst 1**

It has improved substantially. Regarding those same credit-risk provisions, could you please comment this year change in the model for mortgage provisions?

### **Francisco Silva**

This is already reflected in the results that you are going to see for January. We have added CH\$1,070 million in additional provisions under the new model for mortgage provisions, which will be reflected in the Bank's results for January.

### **Analyst 1**

A change is also expected in the provisions for the other portfolios. Do you have any news of when that would be?

### **Renato Peñafiel**

The industry was supposed to deal with the mortgage portfolio first, followed by the other portfolios, consumer loans, but we haven't seen a perception of change on the table today. In fact I believe that these changes may be postponed a little.

### **Francisco Silva**

The largest banks are constantly refining their provision models for their own portfolios, based on their past experience and future projections, and each bank has its own particular approach. Obviously the largest banks have larger portfolios and more experience, and that is also reflected in their models. But the Superintendency still has to review what they do.

### **Analyst 2**

Page 24 presents the merger with the former Penta subsidiaries. The last bullet point contains an estimate in respect of AUM of CH\$800 billion. Has this figure already been incorporated into the CH\$1,851 billion on page 23, in the Security-Penta sum?

### **Francisco Silva**

Assets under management are not strictly mutual funds. There is also wealth management, asset custody, and others. The CH\$1,851 billion mentioned incorporates only the portion of mutual funds of the total AUM considered in the former asset management subsidiaries of Banco Penta.

## **Analyst 2**

Do you expect to fully recover the CH\$800 billion of assets managed by Penta? This graph that starts with more or less CH\$1,000 billion and is now approximately CH\$800 billion in September.

## **Francisco Silva**

In fact it has already been recovered, following the announcement and conclusion of the transaction.

## **Analyst 2**

So this is the internal analysis that you performed for this project? So there is value of approximately CH\$10 billion in the transaction?

## **Renato Peñafiel**

Exactly.

## **Analyst 2**

Do the dividends of CH\$29,053 million paid by the asset management subsidiaries on March 16, 2016, remain at the Bank?

## **Renato Peñafiel**

When we were negotiating, we noticed that Banco Penta's asset management subsidiaries had excess equity. We didn't want to buy money with money, so we adjusted these equities. However, capital decreases require many very complex regulatory steps. It was easier on day one to pay a higher cash price, and on day two to distribute those profits, which we did.

## **Analyst 1**

How are you going to meet the objective of increasing retail deposits to 30% as a proportion of total deposits?

## **Francisco Silva**

This will be achieved through hard work, creativity, business plans, executive incentives, customer incentives, regular review of objectives, although at the end of the day, there is no single prescription. Obviously, it would be very easy to raise interest rates and pay customers more. But we must carefully watch the average cost of the institution's funds. In fact we have been following this path for several years and we believe that we have been successful.

## **Renato Peñafiel**

The acquisition of Cruz del Sur and Penta not only provided us with added value due to their AUM in our asset management area, but provided added value as the duplication of customers between these two companies was very low, and they bring funds under management. We want to permanently incorporate a significant number of these customers into the Bank as part of our diversification process. There is a clear source of business generation and commercial integration by approaching customers who did not belong to the Group. We are also doing the same with the other companies.

Technology has also helped us. In the past it was very difficult to conceive of diversification unless you had a broad branch network. Technology is encouraging investors to participate in various channels, in a process that is generating greater information, greater transparency and greater competition.

## **Analyst 1**

You said that you expected to improve the Bank's profitability through efficiency improvements. But I imagine that this new capital regulation will create more competition in the future. What is the target ROE?

## **Francisco Silva**

Our target is 15% based on the size of the Bank, as we do not have the competitive advantages of the largest banks, with their customer recruitment networks, current account funding, etc.

## **Marcela Villafaña**

If you have any further questions, please contact us by telephone and email. We are available to answer your questions, we thank you for your participation, and we will be in touch.

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