

Transcript of a Conference Call on Grupo Security Results as of December 2014

Marcela Villafaña (Head of Investor Relations):

Hello good afternoon. I'm Marcela Villafaña, Head of Investor Relations at Grupo Security. Let us begin the conference in order to explain our results. I'm with the investor relations team, which includes Fernando Salinas, Planning and Development Manager at Grupo Security, Pedro Bralic, also Investor Relations, Manuel Widow, Planning and Management Manager at Banco Security, and Rodrigo Guzman, CFO at Vida Security, who will respond to more specific inquiries regarding the companies. If you have a question, please can I ask you to write it down, so we can address them in an orderly fashion at the end of the conference.

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

Hello, how are you? This is Fernando Salinas. I hope you can all see the presentation. We're going to follow it in an orderly manner and we are going to report the results for the year. At the end we have a small explanation regarding our investment in Peru, which we reported as a material event for the Group today, and was only signed yesterday in Lima.

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I will start by trying to summarize the major events of last year, and will do so quite quickly because most of you already know them. Last year we focused on completing the operational merger with the AGF companies which was authorized in October, and on December 19, 2014, the insurance companies Cruz del Sur and AGF Security merged. So from December 31 we were operating with the two merged companies, as Bank subsidiaries, which means that the financial results for 2015 will contain the full year effect of the AGF merger. Previously, the insurance companies Cruz del Sur and Vida had merged on March 31. The results for Cruz del Sur for the year were in part recognized through equity as of March 31, which Rodrigo will explain when we come to the results. The company is now totally merged, although we still have work to do on some technological and operational systems. Is that correct Rodrigo?

Rodrigo Guzman (CFO at Vida Security):

What remains is basically the technological merger of individual insurance policies.

Fernando Salinas:

And there remain some synergies that we are going to explain a little later. Meanwhile, another important event for us was a bond issuance, where we placed UF 3,000,000, one of our largest placements over the last 30 years. This has enabled us to change the duration of total Group liabilities from 10.18 to 13.49, and reduced our average interest rate from 4.25% to 4.02%, which gives us a far more comfortable liability structure, while securing a cash-flow structure that

matches our assets and took advantage of lower interest rates this year. But you already knew this. The placement was very successful. Furthermore, we paid a total dividend of Ch\$3.5 pesos per share.

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Taking a high-level view of the business areas, we finished the year with profit of Ch\$62,970 million pesos, which compares positively with the 2013 profit of Ch\$50,971 million, an increase of 23.5%. This was due to significant increases in profit within all our business areas, from Ch\$64,070 million to Ch\$98,965 million, an increase of 54.5%, and in particular (all areas performed well) the lending and treasury area, which includes the Bank and Factoring, with an increase in profit of 62.6% from related companies, from Ch\$33,982 million to Ch\$55,242 million. The insurance area, from Ch\$22,862 million to \$29,569 million, an increase of 29.3%. This includes the gain on the sale of 60% of a subsidiary, so it is not strictly operational, but we shall clarify this a little later. The asset management area, which is the AGF and Stock Brokerage subsidiaries, with profit of Ch\$5,612 million for 2014. These are kind of pro forma figures because these companies were still not merged for accounting purposes. The other services area, where we have basically the Travel and Real Estate subsidiaries, had a spectacular year, with Travel Security posting excellent results, which we're going to see in more detail later. But also with an exceptional result at the Real Estate subsidiary, due to improved project execution, and excellent results in some of our real estate projects, in particular in the Chicureo area and others.

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Before examining each business in detail, here we see summarized results compared between each particular business. First the bank and its subsidiaries with an increase of 70%, which was reported to the SBIF. Retail Banking grew by 80%, and we will also see a little later on the main reasons for this. Factoring grew by 14%. The asset management area, which I mentioned earlier, needs to be viewed separately because we still had periods last year that included results from the Cruz del Sur companies. Therefore, it is important to view the results as a whole, which are the pro forma results reported earlier, rather than by each area. It is worth mentioning that AGF Security is broadly in line with results, and Valores had higher results by legal entity, but the asset management area as a whole increased by the percentage that I told you earlier. The life insurance company (Vida) had reported a profit of Ch\$19,286 million as of December 2013, whereas this year it was Ch\$26,793 million, which is partly explained by the sale of a subsidiary. Penta Security reported a 57% increase in profit, where we have a minority interest of 29.55%, making us passive shareholders. As already mentioned the Real Estate subsidiary posted profit of Ch\$4,008 million. Travel Security posted Ch\$3,671 million, and our investment in Peru, Travex, which is our smallest travel agency, has already generated Ch\$487 million, also in line with budget, which is our first attempt at this market.

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We are now going to look at the Bank in a little more detail. As you already know and saw in the earnings report, the Bank increased its profit by 70.4% in comparison to last year, very much in line with the growth in loans. Loans across the industry increased by 10.9%, while we grew by 12.2%, and in mortgage-consumer loans, we grew by 14%, while the industry grew by 12%. Therefore, our consumer growth was very strong.

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In particular, consumer loans currently total Ch\$325 billion pesos, representing 8.8%, which has meant significant growth for the Bank, in particular the Retail Banking area, which we are going to see a bit later. Commercial loans represent 76.9%, and our mortgage sector 14.3%. Profit by banking area are Ch\$27,298 million from Commercial Banking, 46.8%, Ch\$5,480 million from Retail Banking, which is 9.4% of the total profit. Treasury generated Ch\$25,613 million last year under very exceptional circumstances that will be explained in more detail, which represents 43.9%, so this was obviously a highly exceptional year compared to a normal year.

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The trend in the growth of loans was 11.5%, in particular in Commercial Banking, with an interest margin that behaved quite well, although we did have some events that consumed provisions during last year.

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

The overall portfolio behaved fairly positively during the year. However, towards the end of last year, in particular during the last 2 or 3 months, we had to address specific cases that are known throughout the market. The case of Transportes San Pablo, some issues with customers in La Serena, and the case of Invermar, where we had to make some additional provisions. Obviously, these had an impact on results towards the end of the year, but as mentioned, these were isolated cases and the remainder of the portfolio has performed well, which has continued through into this year. The take-over bid at Invermar already clears up the picture looking forward, and we may even recover some of our provisions.

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Fernando Salinas:

Continuing with Retail Banking, as I was saying, here we had spectacular results, led primarily by an increase in the consumer sector, where our stock grew by 23.1%.

Marcela Villafaña:

This is consumer and mortgage loans. In fact, our consumer loans grew by 32.4% compared to last year.

Manuel Widow:

By far the greatest growth in the consumer lending industry.

Fernando Salinas:

Indeed we also reduced provision expenditures, as presented, due to a methodological change that had a positive effect. What is interesting for our Retail Banking project, as we have said several times, is that our bottom line result was Ch\$5,480 million, and we hope that this will continue over the next few years, since the project has well surpassed its break-even point, which gives us a stable revenue base.

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Manuel Widow:

As you probably already know, this was a very successful year for the treasury industry in general. All the banks had very good results, essentially due to two factors. First, inflation. For the best part of the year it was surprisingly high, which generated higher indexation earnings for banks, as they are normally unbalanced and have more assets in UF¹ than liabilities in UF1, so higher inflation naturally produces a gain. Furthermore, the fact that we have been surprised by inflation throughout the year, which reached levels higher than the market was expecting, also generated opportunities to take some positions, obviously always within limits and monitored by the financial risk area, which also allowed us to make some capital gains on various financial instruments. Secondly, the other factor that significantly influenced results was the fall in interest rates during the year, which allowed us to improve the financial margin of the Bank's balance sheet, given that liabilities in general have a shorter duration than assets. We refinanced liabilities at rates that were progressively falling, while assets were held at higher rates, which significantly improved our financial margins, and generated extraordinary income that can only be captured when rates are falling. These were the two major phenomena, which clearly will not be repeated this year, but we were able to capture last year.

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Fernando Salinas:

Thank you, Manuel. So how was the Bank by December 31? In summary, we have a market share of 3.0%, which is around our usual figure, our equity is currently Ch\$379 billion, and consolidated profit is Ch\$56 billion.

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Our efficiency ratio is 48.95%, with an exceptional result from treasury. However, we have continued to work on efficiency with the aim of achieving between 48% and 50% in normal years

¹ UF: Chilean CPI-Indexed Unit of Account

over the long-term, not just for this exceptional year, and that is why we hope that over the course of the next few years this will become a hard index for us to monitor. The Bank's ROE is currently 16.27%, which continues to be comparatively low for the industry, but follows a good annual result for all banks last year, and our NIM is 3.18%, a little lower than the industry average, although obtained at a much lower risk index, given our market niches². Our Basel index as of December 31 was 12.56%. In summary, as already mentioned, the Bank had a very good year. The outlook for this year, as Manuel already reported, is that the market will contract, due to both tax and inflation conditions. At the moment, without daring to say anything, we haven't seen a significant contraction in lending. Lending has continued to grow more or less vigorously. Neither have risks given us any particular concerns during these first two months. Therefore, except for the exceptional financial results, we report that these first two months have started relatively in line with budget, obviously remembering that last year's performance was strong, thus creating a high basis of comparison. This finalizes the presentation for the Bank.

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Now we will turn quickly to Factoring, and summarizing the other operating businesses. Profits at Factoring were Ch\$7,444 million, an increase of 14.1% over the previous year. Our stock of factored receivables reached Ch\$249,708 million, and the average level of receivables throughout 2014 was about Ch\$215,569 million, an increase of 10.5% over 2013. During this period we have kept the spread relatively close, which is a combination of better commercial programming, and in spite of average spreads remaining the same, lower spreads have been registered in large or medium-sized enterprises, and a lot of work has been done with SMEs that have better spreads. Therefore, while the average spread has remained the same, the spreads by segment reveal that we have better spreads in the smaller areas, and lower spreads with medium-sized companies, and our efficiency remains at 41.6%. Factoring is a very good thermometer of activity, and the truth is that it continues at risk with provisions over factored receivables at 2.5%, as you can see in the graph, even in one of the lowest periods that we have recently encountered. So far this year, risk remains contained and fairly fragmented, so we have not seen any big cases. The truth is that the beginning of the year for Factoring has been more difficult from the point of view of commercial growth. Receivables are no longer growing at double-digit rates, but less than that, maybe around 8% to 9%, during the first few months. We are not looking at a significant change in this business that would allow us to change our current profitability trends in this environment. We continue to report developments, therefore we closed a good year, and the first two months of this year are going reasonably well.

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The asset management area includes the AGF companies and our Stock Brokerage subsidiary, and obviously the most important event for us was the merger, which will enable us to have sufficient Assets Under Management (AUM) to place us fourth in the market ranking, after BCI, though this

² Large and medium-sized companies and high-income individuals

is before the possible merger between Itau and CorpBanca, which would take us down a notch. You already know the important events, the stock market has been complicated. Therefore, the Stock Brokerage subsidiary in particular has been severely affected by the fall in equity transactions on the Stock Exchange. That was largely offset by savings generated by the merger, which have enabled us to install a more efficient management structure for the company's size, and face a decline in basic revenues from the stock market with savings, and also with AUM performing very well, as our funds have continued to grow, as seen in the graph. AUM grew 26.8%, while share trading fell by 33.5%. You already know that in this business we offer our customers various investment products, which include mutual funds, currency, stock broking, etc., and although the Stock Brokerage subsidiary is basically one legal entity, the business is reviewed as a whole.

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I think that this is the last time that we are going to show this slide regarding the merger. The actual savings as of November 11 in the asset management area were Ch\$3,680 million, and they are going to reach around Ch\$4,000 million. This should enable us to achieve a bottom line result for the asset management area of about Ch\$9,500 million this year, compared to Ch\$5,612 million for 2014, assuming there are no significant changes in economic conditions, but this result will basically be driven by savings falling out of the merger, which have surpassed our original forecast when we performed due diligence on Cruz del Sur.

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Turning to Vida, and here I'm going to alternate with Rodrigo who will explain the details. The bottom line result as of December 2014 was Ch\$26,793 million.

Rodrigo Guzman:

The merger of Vida Security with Cruz del Sur occurred on March 31, 2014. That meant that the entire Cruz del Sur result for the first quarter January-February-March was taken directly to equity at Vida Security. Consequently, the aggregate result for 2014 is the combination of the results for Vida Security alone from January to March, and for the merged company from April to December. Part of the income and expenditure result was taken directly to equity; therefore, the number is a little acid. The quarter that is missing represents about Ch\$1,306 million, which has been taken directly to equity. This explains the result as of December of Ch\$26,793 million.

Fernando Salinas:

What is important to understand here is that the Ch\$26,793 million includes the gain on the sale of companies, which should be subtracted from the improved result, as reported in the earnings report.

Rodrigo Guzman:

A gain of Ch\$5,390 million net of tax arose on the sale of the AGF companies and brokerage subsidiary, included in those results. If that gain is subtracted, we are left with a net profit of Ch\$21,705 million.

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Our market position did not change after the merger, and we remain in sixth place by investment portfolio size with Ch\$1,988 billion pesos. The investment portfolio is distributed as it appears here. The Ch\$1,988 billion comprise 71% in fixed income instruments, 12% in variable income instruments, 9% in real estate investments, and 8% in other investments, some funds and investments abroad. Portfolio profitability was 5.47% for the year ended December 2014. Basically the type of investment that performed best was fixed income instruments. Variable income instruments performed lower than the original budget estimate, for both local and foreign equities. However, this was offset by fixed income and real estate investments that performed better than budget; also the saving plans (Unique Investment Accounts) that are sold along with individual insurance coverage were also well above original estimates, which helped offset lower profitability from the variable income instrument portfolio.

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We had a synergy estimate of Ch\$4,794 million for 2014. This estimate was Ch\$5,014 million by November. However, the final result was far in excess of this, and savings of around Ch\$7,000 million were achieved. What happened is that synergies forecast in the original project that evaluated the purchase of Cruz del Sur had projected synergies for both 2014 and 2015. However, we were able to bring forward the 2015 synergies, and achieved savings of around Ch\$7,000 million in 2014.

Fernando Salinas:

And that was far more than our forecasts at the outset of the merger.

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Finally profit at Travel came to Ch\$3,671 million, as already mentioned, an increase of 21.5%. Here we have a special situation. While sales have fallen, we had two favorable aspects that offset the fall in travel sales. Firstly, the exchange rate, which improved the result. Secondly, the drop in sales in the airline industry gave us a better negotiating position with the airlines, which played to the strengths of our business model at Travel, since Travel is already the second largest operator in the market. As mentioned, Travex reported sales of US\$ 69 million, an increase of 8.5%. Profit was around US\$ 854,000, an increase of 16.5%. In particular, the Real Estate subsidiary enjoyed a year that recognized the fruit of the last three years' work investing in projects, which produced results of Ch\$4,088 million. These are explained by an acceleration in sales and also the excellent results and prices obtained during this period of rising real estate values. The Real Estate

subsidiary has now taken on a size that we hope to maintain over the coming years, while maintaining investment levels, and always focusing on projects with extremely limited risks within our target markets.

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Before we make room for questions, let me tell you a little about today's material event regarding the investment in Peru. The first thing to say is that we are going to have a special meeting over the course of the next two weeks, a conference, probably including Renato³, certainly with people from the insurance company, to explain in a little more detail what we expect within the Peruvian market, and why we are making this investment. But here we simply want to give you our strategic view, describe what we have been working on for quite some time, and why we are interested in this transaction.

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This first graph demonstrates our vision of the international insurance market in comparison to Chile and Peru, and is the result of discussions at many board meetings. The current level of penetration by the insurance market in Peru is similar to what it was in Chile in 2000, and at the same time insurance regulations are very similar to the Chilean market. In fact, in some respects it is more advanced, so we believe that over the next few years the Peruvian market is going to experience in one form or another the growth seen here several years ago. Therefore, our vision of incorporating Grupo Security into the Peruvian market has to be a long-term vision, to potentially replicate in the Peruvian market what the Group has done over the past 20 years, as we believe it is beginning to develop. In particular, we have analyzed various opportunities over quite a long time, and an attractive opportunity arose with this company called Protecta, with partners that have a similar approach to business, and we believe it is a very good platform from which to launch the Company in Peru.

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I would just like to show you this and leave further detail to the next meeting. When we look at the trend in direct premiums, to the left-hand side in red is the evolution of the Peruvian insurance market, direct premiums over the course of time and their growth rate. On the right-hand side in blue is the Chilean insurance market, the premiums, and underneath the investment. The first obvious point is that the Peruvian market has grown over the past few years at around 14% pa, which is double-digit. Investment grew at a rate of 16%, while Chile was already growing at significant though lower single-digit rates. When investment in the Peruvian insurance market is compared with other economies that in absolute terms are similar in size, but with lower penetration, investments in Peru are US\$ 8,900 million, while in Chile they are US\$ 48,000 million. Therefore, we believe that there is a potential upside over the next few years in the Peruvian market, and we would like to participate in that. We believe that we could probably replicate part

³ Renato Peñafiel, CEO of Grupo Security

of the model that we have developed here. Moreover, there are a couple of additional considerations. In particular, pension annuities are traded with better spreads in the Peruvian market. There are 30-year Peruvian Treasury Bonds that provide a much better match for assets, which we cannot do in Chile. Therefore, this will allow us to potentially break into other markets. We are going to hold a conference call on this topic during the next two weeks, to give you a little more detail, describe the company, and report what we are expecting with clearer deadlines. Today the purchase agreement is subject to conditions precedent, in particular to approval by both the Chilean and Peruvian industry regulators.

Marcela Villafaña

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Any questions? I would like to ask that if you have a question, please start with your name and where you are calling from.

If there are no further questions, you can always contact us by e-mail or by telephone, and we are going to inform you of the special meeting to report a little more about the insurance industry in Peru. The Peruvian Superintendency of Banks and Insurance has a lot of information regarding the industry and their companies. There is a lot of historical information that can be downloaded very easily. So if you want to understand the numbers a little, their information is very clear and well reported. If you need help with this, please call us or send us an e-mail. I would like to thank you for joining us. The presentation is already on the Group web site, in the section on information for investors, under corporate presentations. If you have any further questions, please contact us, and we will inform you of the meeting to report on the investment in Peru.

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