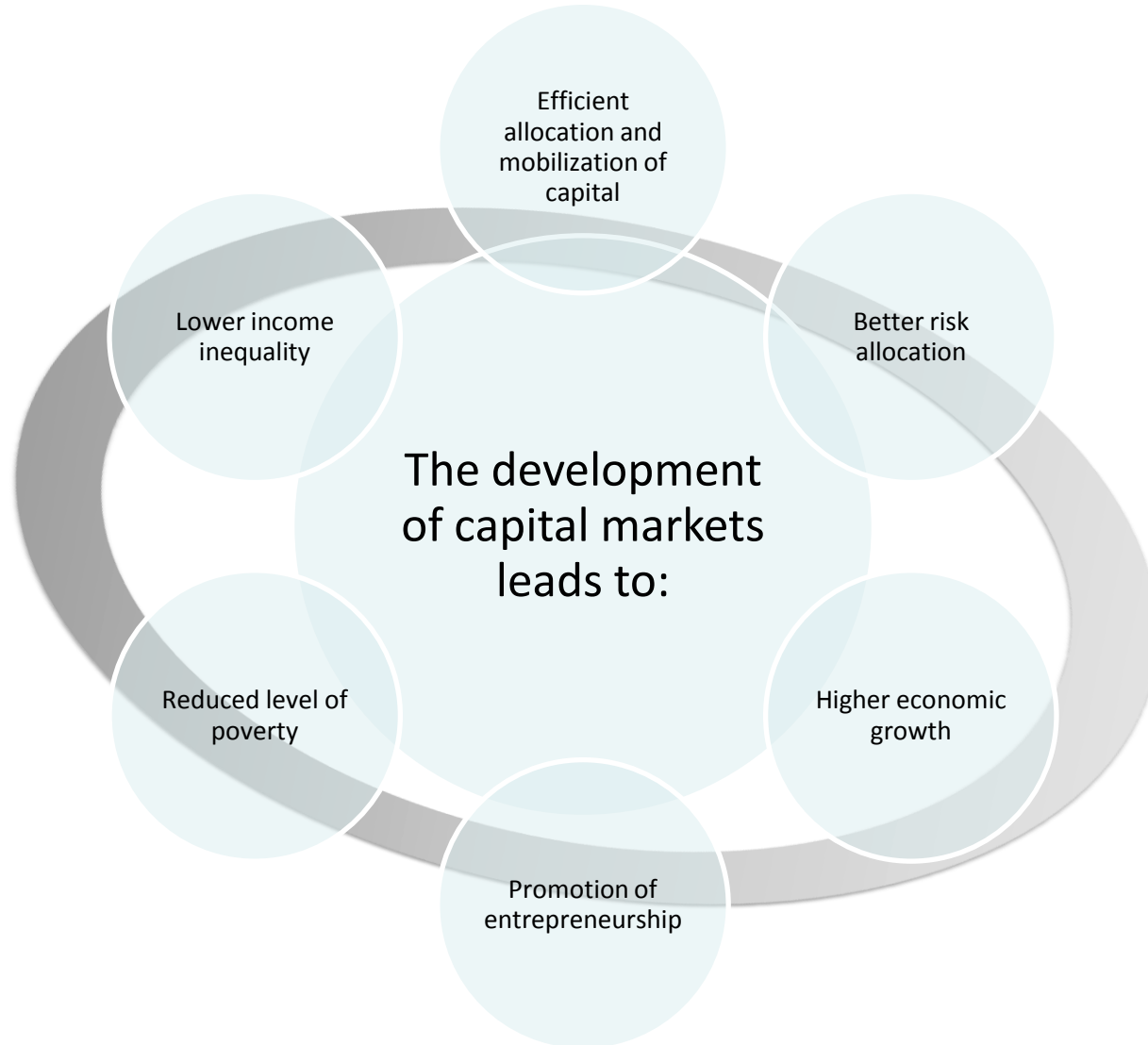




THE LATIN AMERICAN INTEGRATED MARKET

Introduction to MILA

Juan Pablo Córdoba
CEO, Colombian Securities Exchange
Chairman, World Federation of Exchanges





Exchanges face challenges that will alter the landscape

Emerging markets and exchanges will have to catch up and adapt faster

Basel III Capital Requirements

- Leverage and liquidity requirements have strengthened the capital position of banks
- Higher cost of capital affects trading activities and the ability to operate as market makers

Enhanced regulation of OTC derivatives markets

- Regulation geared at making OTC derivatives markets safer and more transparent
- Regulators are promoting OTC derivatives clearance in CCP, to ensure mitigation of risks

Reduced liquidity as a result of these requirements

- Lower overall demand for certain securities
- Shift in demand to fewer high-quality, liquid assets

Exchanges were not part of the problem, but they stand out as part of the solution

- Regulatory changes will continue to shape the development of financial markets:
 - More concentrated financial industry
 - Fewer liquidity centers
 - Limited access to financial products by smaller clients

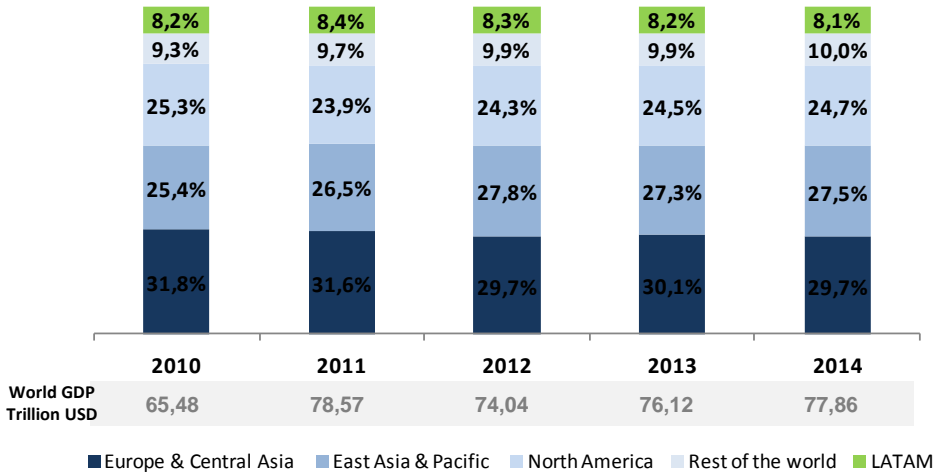




LATAM: Overview

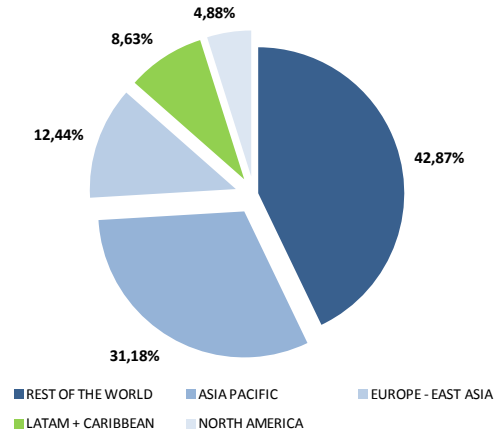
A region with significant potential for growth - opportunity for LATAM capital markets

GDP participation per region 2010 - 2014



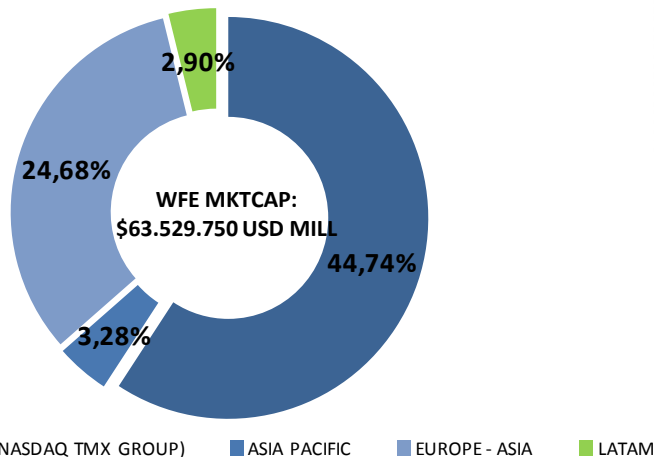
Source: World Bank DATABANK- WORLD DEVELOPMENT INDICATORS

World Population 2014



Source: World Bank DATABANK- WORLD DEVELOPMENT INDICATORS

Market Capitalization WFE Members 2014



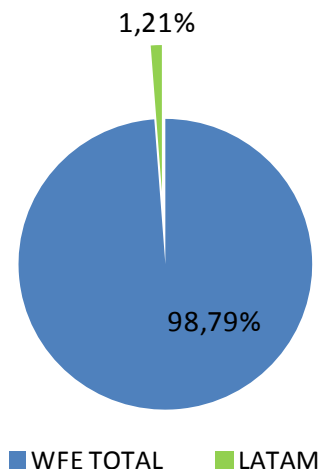
WFE MONTHLY REPORTS DEC 2014

LATAM Capital Markets

Country	Market Cap 2014 -USD Millions	Volume 2014 - USD Millions	
		Equities	Fixed Income
Brazil	843.894	728.403	120
Mexico	480.245	156.574	256
Chile	233.245	28.834	217.164
Colombia	146.746	24.490	674.970
Peru	78.840	3.818	839
Argentina	60.142	4.803	60.049
LATAM	1.843.113	946.923	953.400
WFE TOTAL	63.529.751	78.029.503	18.718.995

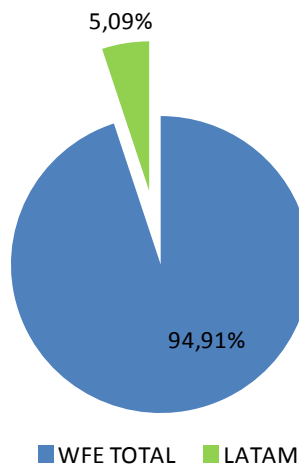
WFE MONTHLY REPORTS DEC 2014

Participation of total WFE equity trading 2014



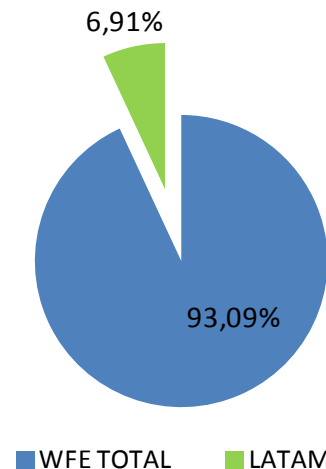
- Brazil stands out as a regional leader in the equity market
- Chile, Colombia, Mexico and Peru make up the second-largest bloc
- The rest of the LATAM markets show lower levels of development

Participation of total WFE bond trading 2014



- Public debt is the most important market in the region
- Corporate debt is still underdeveloped in the region in terms of size, volume and number of issuers
- Corporate debt markets are more established in Chile and Mexico

Participation of total WFE derivatives trading 2014



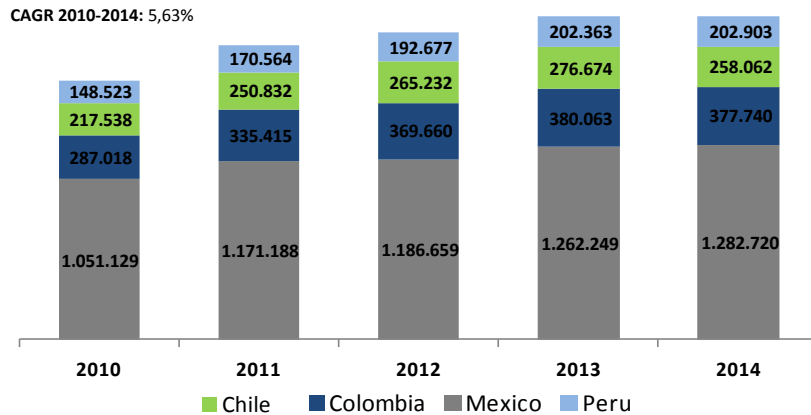
- Brazil dominates the derivatives market in the region
- 3 countries have options markets: Brazil, Argentina and Mexico



Chile, Colombia, Mexico and Peru: the Pacific Alliance and MLA

Four countries with macroeconomic stability and openness to investment and trade

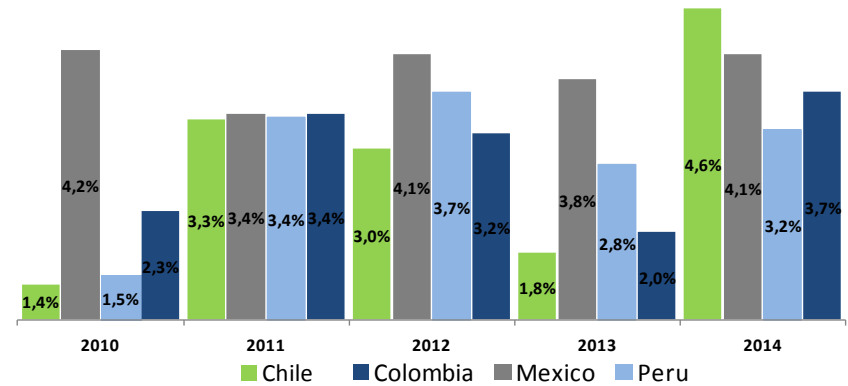
Gross Domestic Product



USD MILLION
SOURCE: WORLD BANK DATABASE

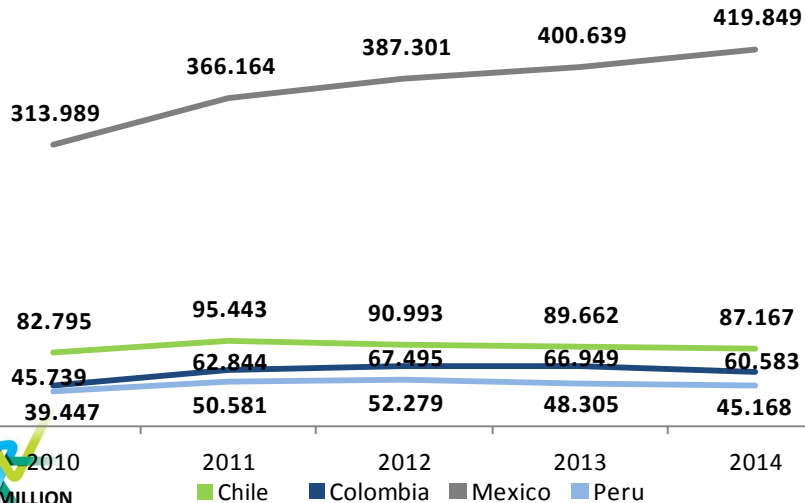
CAGR 2010-2014 Emerging markets: 8,67%
CAGR 2010-2014 World: 4,42%

Inflation



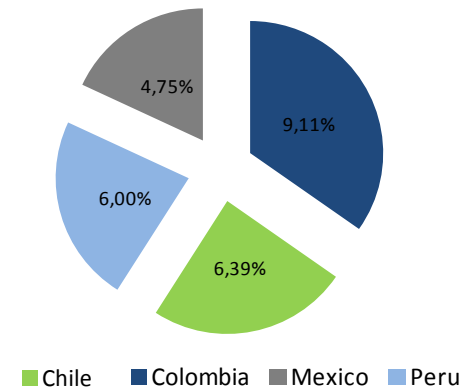
SOURCE: WORLD BANK DATABASE

Exports of goods and services



USD MILLION
SOURCE: WORLD BANK DATABASE: World Bank national accounts data, and OECD National Accounts data files.

Unemployment rate 2014



SOURCE: WORLD BANK DATABASE

Regional integration

Strategic objectives



The Pacific Alliance



Regional integration initiative established by Chile, Colombia, Mexico and Peru in 2011

Economic integration through the free movement of goods, services, resources and people

Drive competitiveness of the four economies, achieving greater well-being and social inclusion

Political economic and commercial platform, with emphasis on the Asia-Pacific region

Main Strengths

Eighth economic power and the eighth export force worldwide

Represents 38% of regional GDP, 50% of total trade and attracts 45% of the foreign direct investment.

217 million population which is mainly young and qualified





MILA: Latin American Integrated Market

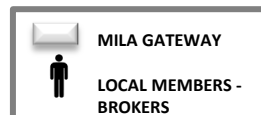
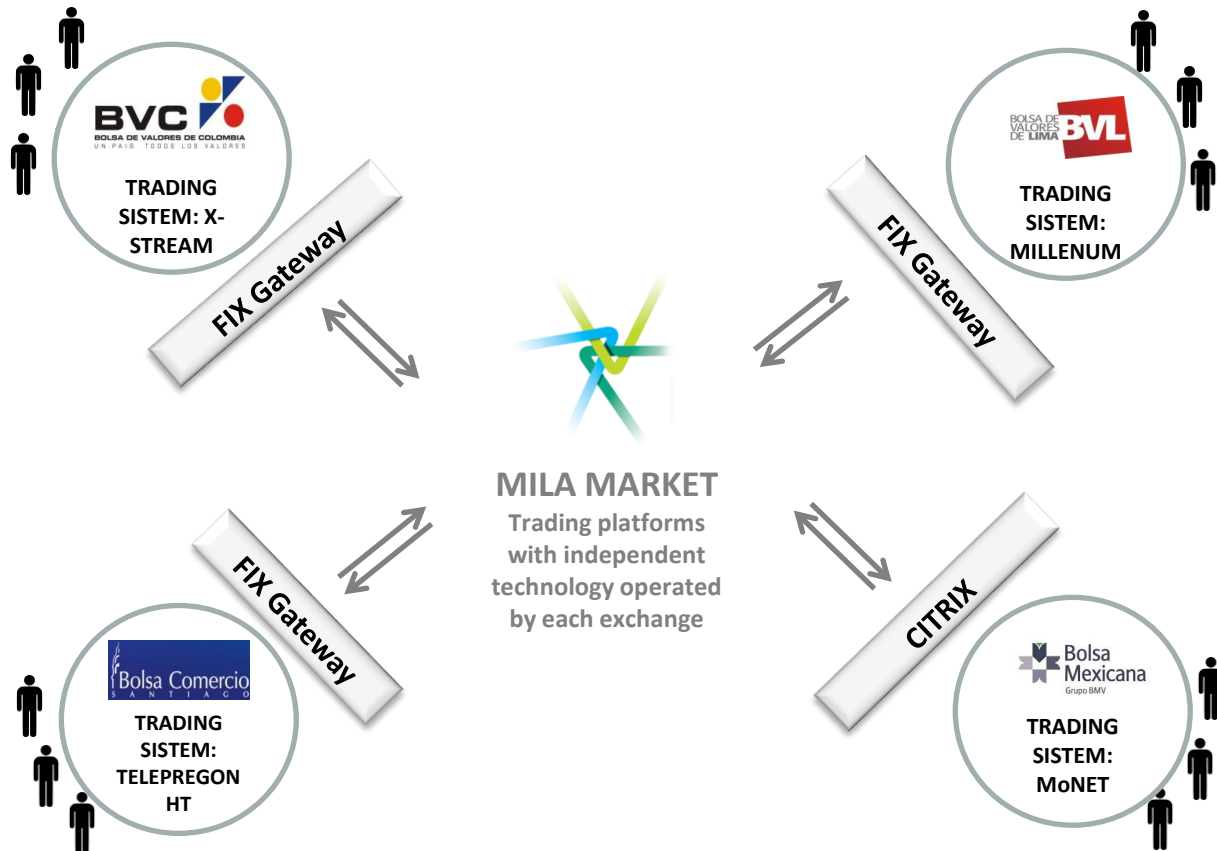
The interconnected securities markets of four countries



- MILA, is a cross-border initiative that integrates the securities markets of Chile, Colombia, Mexico and Peru.
- MILA has been made possible through the coordinated efforts of the stock exchanges, central securities depositories and regulators of its four member countries
- MILA is, by number of listed companies, the largest market in Latin America and the second largest in terms of market capitalization and trading volume.
- MILA began secondary trading of equities in 2011

Pillars







Growth cycle of MILA leads to:

- Economies of scale
- Efficient access
- Development of new products
- Regulatory changes
- Joint marketing, positioning and visibility



ISSUERS

- A single listing process for four markets
- Access to a broader investors base
- Enhances and promotes the visibility of companies from the region

REGULATORS

- Arrangements in place for monitoring and control in the four countries (MOUs)
- Issuer supervision is left to the authorities of the market where the security is registered

INVESTORS

- Single point of access to four markets
- Diversification opportunity
- Eligible for all types of investors
- Taxation according to the country of origin of each security

BROKERS

- Simple and efficient access to four markets
- MILA brokers have additional trading tools
- Capability of develop of new products
- Driving technology toward international standards





MILA: Timeline and achievements







Francis Stenning
CEO, Lima Stock Exchange



MILA scope and size

The MILA market is comparable to Brazil

MILA Markets 2014

						
	Colombia BVC	Chile BCS	Peru BVL	Mexico BVM	MILA	Brazil BOVESPA
Market Cap (USD Billions)	147	233	79	480	939	844
Average Daily Traded Volume (USD Millions)	100	116	15	681	912	2937
Number of Issuers	74	307	263	147	791	363
Gross Domestic Product (USD Billions)	377	258	203	1.283	2.121	2.353
GDP per capita (USD)	7.910	14.477	6.458	10.715	9.790	11.604
Population (Millions)	48	18	31	120	217	203
Inflation Rate	3,66%	4,64%	3,22%	4,10%		6,41%
Unemployment Rate	9,11%	6,39%	6,00%	4,75%	-	4,84%
Credit Rating	BBB	AA-	BBB+	BBB+	-	BB+
Sovereign Risk (S&P)						
Number of Exchanges	1	3	1	1	6	1

Source: WFE, MILA Markets Review, World Bank





The Santiago Stock Exchange, the Colombian Securities Exchange and the Lima Stock Exchange started the process of setting up a regional market to trade equities from the three countries

May 2011: MILA began operating, opening up opportunities for investors and brokers from Chile, Colombia and Peru

2011 – 2013:
MILA established as a regional trading platform for equities

December 2014: the entry of Mexico to MILA was made official, with the inclusion of the Mexican Stock Exchange and Indeval

2010

2011

2012

2013

2014

2015

- MILA began with the secondary trading of cash equities, and aims to incorporate debt markets and derivatives
 - MILA expects to consolidate an integrated capital market with the highest standards of transparency for investors and intermediaries
 - MILA is in constant evolution and development, working to meet the needs of its customers, both local and foreign
 - Looking forward, one of the main challenges of MILA is an improvement in the structural and institutional practices with financial regulators and capital markets





Brokers and Alliances

- In 2011 MILA had 39 agreements between brokerage firms
- Currently, 51 agreements have been signed to enable operation among 38 active brokers authorized to operate within the infrastructure

Mutual Funds that follow MILA

Mutual Funds that follow MILA	
Fund	Assets (USD)
BANCHILE - PACÍFICO ACCIONARIO	\$ 543.036
BBVA - MILA	\$ 265.070
BCI - SELECCIÓN ANDINA	\$ 413.682
BICE - LATAM PACÍFICO	\$ 3.009.056
BTG PACTUAL - BTG ANDINO	\$ 598.519
ITAÚ - LATAM PACIFIC	\$ 14.456.732
LARRAIN VIAL - ANDES	\$ 7.362.908
SURA - ALIANZA PACÍFICO	\$ 930.592
Total in Chile	\$ 27.579.595
SERFINCO MERCADOS GLOBALES	\$ 70.846
COMPASS GROUP - SMALL CAPS ANDINO	\$ 8.838.462
Total in Colombia	\$ 8.909.308
BBVA LATAM PACÍFICO	\$ 2.164.224
SURA MERCADOS INTEGRADOS	\$ 563.058
BGP ACCIONES CONDOR	\$ 2.231.783
Total in Peru	\$ 4.959.065
Total Assets	\$ 41.447.968



**CREDICORP CAPITAL
+IM TRUST +CORREVAL**

- In 2012, the main financial group in Peru, acquired the 60.6% of a stock brokerage from Chile: IM Trust in USD \$100 million
- In the same year, Credicorp acquired the 51.5% of Correval, a brokerage firm from Colombia, in USD \$150 million



CORPBANCA + SANTANDER

- In 2012 Corpbanca (Chile) acquired Banco Santander Colombia in \$ 1,225 million and Helm Bank Colombia for USD \$ 1,278 Million
- The merger ITAÚ + CORPBANCA is in the process of approval and is estimated in USD 2,300 million



**BTG PACTUAL
+ CELFIN + BOLSA Y RENTA**

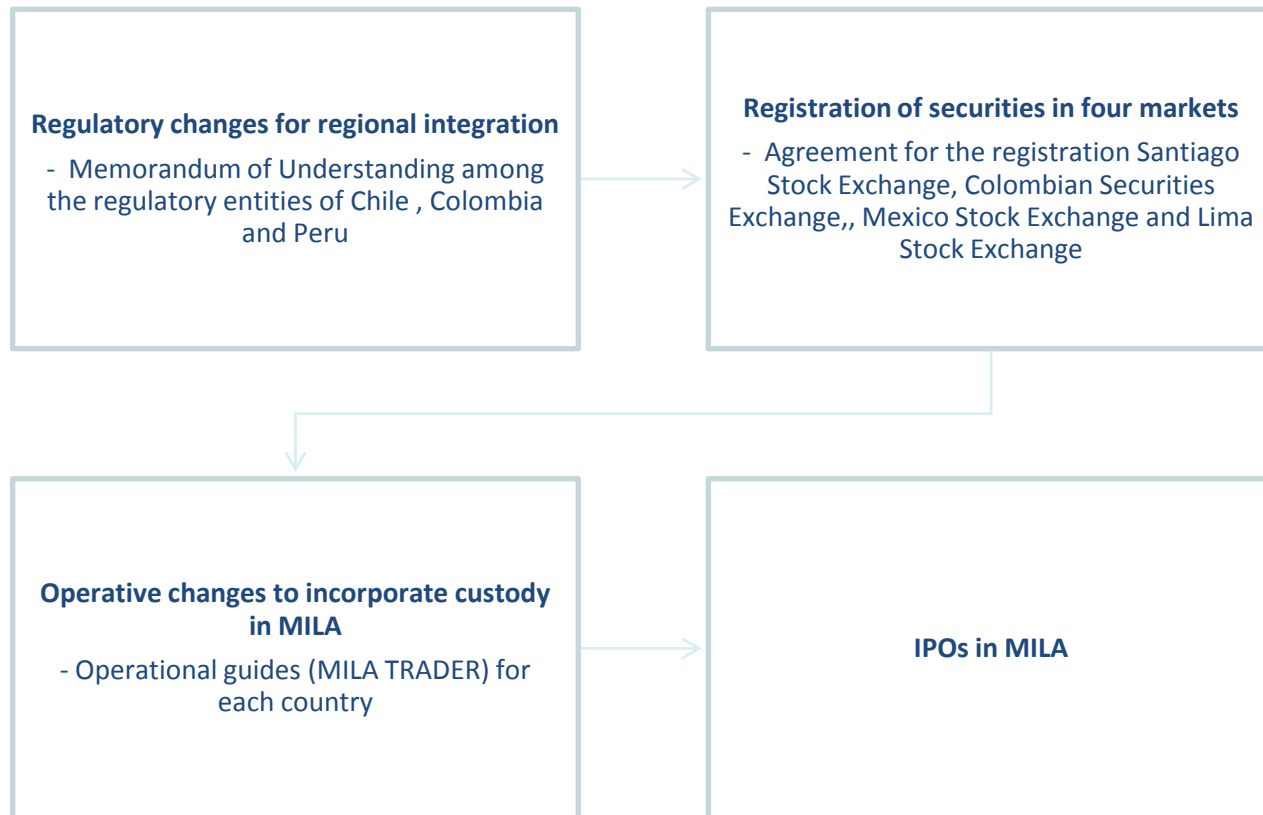
- Giving the final step for the consolidation of the biggest asset manager in LATAM, BTG PACTUAL acquired Celfin Capital (Chile)
- In 2014, BTG consolidated the presence in Colombia, acquiring 100% of Bolsa y Renta



LARRAIN VIAL

- In 2013 Larrain Vial with presence in Chile and Peru was authorized to start operations in Colombia

Regulatory improvements for MILA positioning

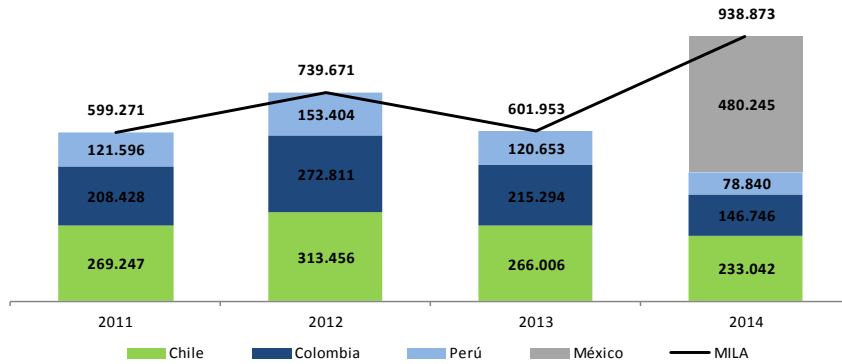




MILA Markets: Performance

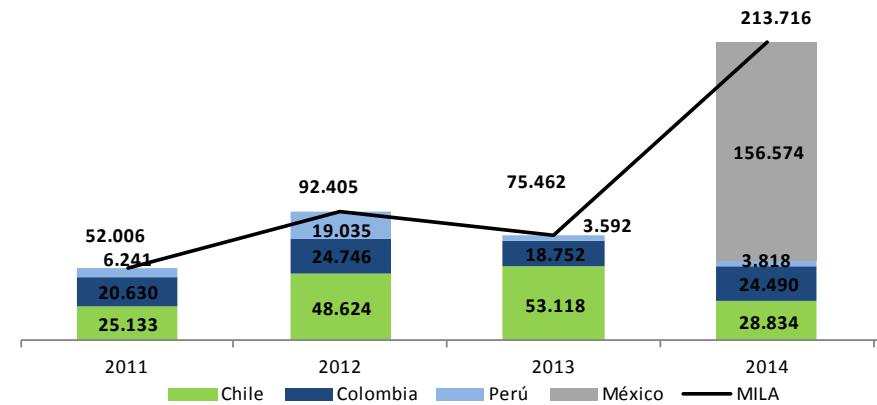
MILA fundamentals have improved since inception

Domestic Market Capitalization of MILA Markets



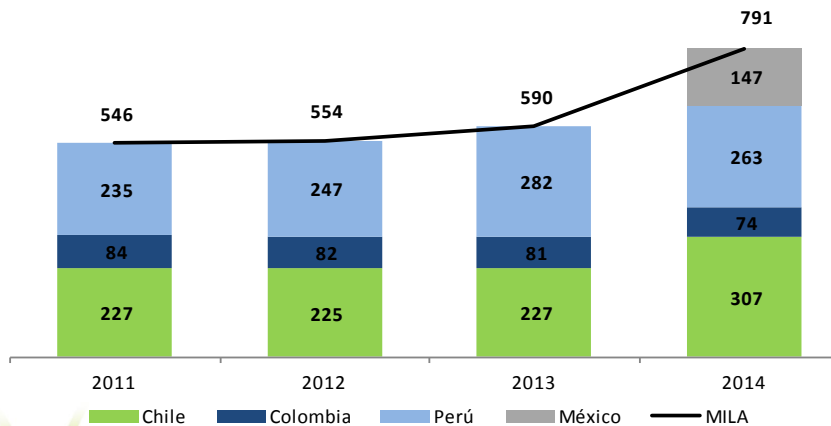
Million of USD
Source: WFE Monthly Reports

Traded Volume



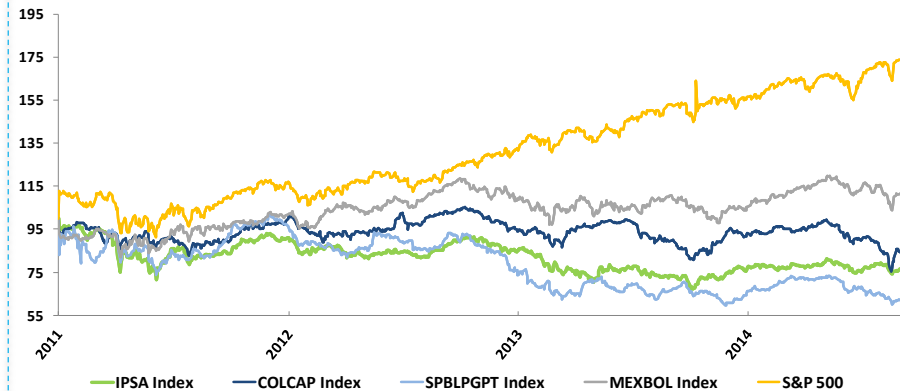
Million of USD
Source: WFE Monthly Reports

MILA Number of Issuers



Source: WFE Monthly Reports

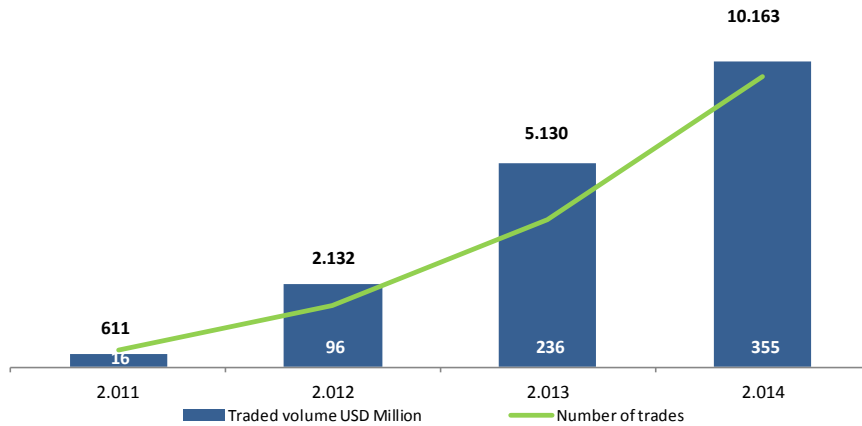
MILA Indexes



Source: Bloomberg

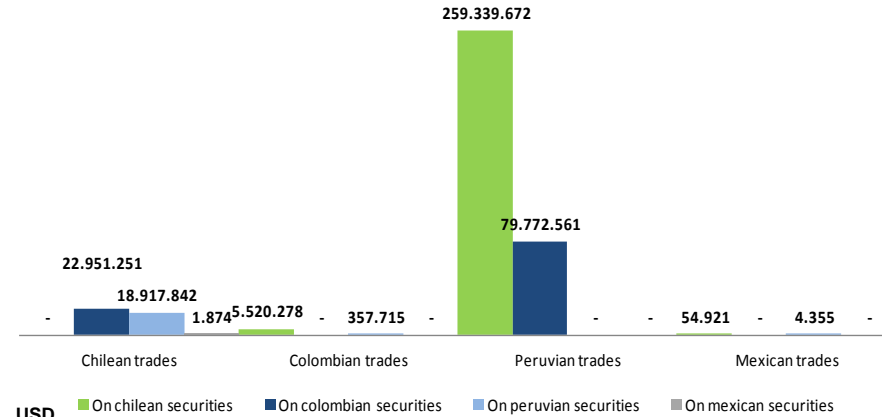


Traded Volumes in MILA (Aggregate)



Source: MILA NEWS DEC 2014

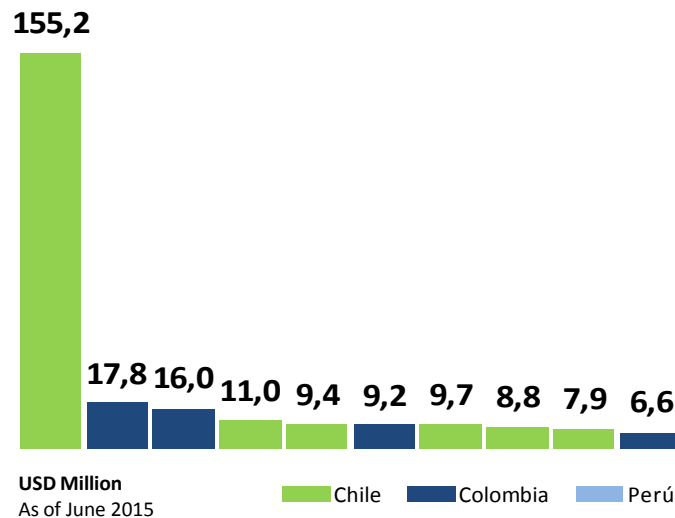
Traded Volumes in MILA by country



USD

Source: MILA NEWS DEC 2014

Most traded stocks in MILA



USD Million
As of June 2015

Chile Colombia Perú

- S.A.C.I Falabella
- Pacific Rubiales
- Ecopetrol S.A
- Aguas Andinas S.A
- Empresa Nal Telecomunica
- Grupo Nutresa
- E. CL S.A
- COLBUN S.A
- SONDA S.A
- PF Avianca Holdings S.A.





Deepening integration

José Antonio Martínez
CEO, Santiago Stock Exchange

- MILA was designed without any market losing its independence or its regulatory autonomy, therefore, deepening integration is addressed by four different regulations and policies

TOPICS TO BE ADDRESSED ARE:

- **TAX REGULATION**
- **CURRENCY POLICY**
- **CLEARING AND SETTLEMENT**
- **PENSION & MUTUAL FUNDS**





- **Different treatment for resident and non resident MILA investors**
- **Diverse tax regulations for dividend payment and capital gains**
- **Double taxation agreements need to be broadened**
- **Different tax regime for cross border investment of mutual funds**



- **Four different currencies lead to asymmetric FX regimes**
- **Low risk rating given by external entities to the region**
- **Absence of a cross-border FX regional market to avoid using the US dollar as an intermediate currency**



- **The region does not have a unified C&S mechanism for investors that allows easy access to investments under unique rules**
- **Lack of common regulation for clearing and settlement in order to have a clear framework for warranties, margins, cash transfer, regional custody, among other topics**
- **A broker has to understand the different regulations of the market, taxes, C&S, of each country to operate**
- **Additional back office steps are required to complete a transaction**



- **Limited activities of pension funds in the region, explained by regulatory restrictions and mandatory limits of investment**
- **Pension Funds in Chile have restrictions for investment on securities from countries with lower risk ratings**
- **Absence of cross border regulation for public offer and mutual recognition of mutual funds**





MILA: Next Steps

Pedro Zorrilla
COO, Mexican Stock Exchange

We aim to become the integrated securities market of the Pacific Alliance

Chile, Colombia, Mexico and Peru:

- ✓ Economies with greatest potential in Latin America
- ✓ Investment grade
- ✓ Integrated securities market



In time, MILA will consolidate:

- Investment opportunities in equities, fixed income, derivatives and structured products on more than 700 listed companies
- More than 60 interconnected brokers, trading securities and funds under harmonized standards, including tax treaties
- Easy, safe and cost-efficient settlement and clearing without duplication in each country
- Equal access to institutional and retail investors in the four countries with a single passport
- With the strength of:





Strategic approach to address challenges

Implement specific actions in infrastructure, intermediation and investment funds

Capital Market Development	Infrastructure	Brokers	Portfolio Managers
	<p>Product Development</p> <ul style="list-style-type: none">• Derivatives• Credit and risk markets <p>Enhance post - trading efficiency</p> <ul style="list-style-type: none">• CCPs• STP Processes <p>Develop market access mechanisms</p> <ul style="list-style-type: none">• FIX• DMA	<p>Foster price formation and increase liquidity of securities (Market Makers)</p> <p>Develop distribution channels for clients</p> <p>Increase market research availability</p> <p>Establish efficient mechanisms to allow cross border services</p>	<p>Face the low interest rates scenario through portfolio diversification</p> <p>Add to efficient portfolio management through regional investments</p> <p>Develop annuities markets</p> <p>Integration of investment funds markets within MILA</p>

Comprehensive, consistent and updated regulation that fosters the capital markets industry in Latin America





Strategic approach to address challenges

Improvements in trading

- ✓ One common **trading screen** for MILA infrastructure
- ✓ **Uniform trading rules** defined under international standards
- ✓ **New markets** (Fixed Income and Derivatives) for IPOs and secondary trading
- ✓ Direct access of **local intermediaries to other markets**

Clearance and Settlement

- ✓ A **single cross-border clearing and settlement process**
- ✓ **Global custody** services to make less complex the settlement of transactions .
- ✓ Automatic **exchange mechanism of the currencies of the four countries**

Harmonized regulation

- ✓ Securities registered in the integrated market, should be treated **as local investment**, including tax treatments, especially for the pension funds and other institutional investors
- ✓ Promote **cost competitiveness and accessibility** versus investment in ADRs

Alliances for brokers

- ✓ **Recognition of intermediaries** to operate in other member markets
- ✓ **Monitoring MILA markets** in the areas of economic research of the four countries
- ✓ **Promotion of MILA market**, enhancing regional and global visibility of the members markets





Four countries working in tandem

MILA countries have taken concrete steps to meet the challenges of convergence

