Melanie Carpenter

I-Advize

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9:00 AM CT

Operator: The following is a recording for Melanie Carpenter from I-Advize on Thursday, August 13, 2015, at 10:00 AM Central - IFS second quarter 2015. Good morning, and welcome to Intercorp Financial Services second quarter 2015 conference call. All lines have been placed on mute to prevent any background noise. After the presentation, we will open the floor for questions. At that time, instructions will be given as to the procedure to follow if you would like to ask a question. Thank you. It is now my pleasure to turn the call over to Rafael Borja of I-Advize Corporate Communications. Sir, please begin.

Rafael Borja: Thank you, George, and good morning, everyone. On today's call, Intercorp Financial Services will discuss its second quarter 2015 earnings. We are very pleased to have with us Mr. Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services, Mrs. Michela Casassa, Chief Financial Officer of Intercorp Financial Services, Mrs. Maria del Carmen Rocha, Chief Financial and Administrative Officer of Interseguro and Mr. Bruno Ferreccio of Inteligio. They will be discussing the results that were distributed yesterday. There is also a presentation to accompany these results. If you did not receive a copy of the presentation or the earnings report, it is now available on the Company's website, ifs.com.pe, to download a copy. Otherwise, for any reason if you need any assistance today, please call I-Advize in New York at 212.406.3653. I would like to remind you that today's call is for investors and analysts only. Therefore questions from the media will not be taken. It is now my pleasure to turn the call over to Mrs. Casassa, Intercorp's Chief Financial Officer, for her presentation. Mrs. Casassa, please go ahead.

Michela Casassa: Thank you. Good morning and welcome to Intercorp Financial Services' second quarter 2015 earnings presentation. Please turn to Page Number 2 to start the highlights of Intercorp Financial Services. The second quarter net profit was 246 million soles, a 22 percent increase year on year and 31.8 percent quarter on quarter. The yearly increase was driven by a strong operating performance of the three operating companies, where the quarterly growth was mainly explained by strong results at Inteligio and a release of technical reserves at Interseguro. The second quarter annualized ROE was 32 percent. At Interbank, the second quarter net profit was 201 million, a 13 percent growth year on year and 2.1 percent decrease quarter on quarter. The yearly performance was attributed to increases of 20 percent in net interest and similar income, 62 percent in other income and 7.4 percent in fee income, factors that were partially offset by a 45.5 percent growth in provisions. The quarterly decrease in net profit of 2.1 percent is mainly explained by one-up gains that were registered in the first quarter, which did not take place in the second quarter. Excluding such effects, Interbank's net profit would have grown around 7 percent quarter on quarter. Performing loans and deposits grew 10 percent and 3.9 percent year on year respectively, while recent deposits increased 17.1 percent year on year. NIM improved 72 basis points on a yearly basis to 6.83 percent in the second quarter, while the efficiency ratio improved 420 basis points year on year to 41.7 percent. The second quarter annualized ROE was 24.6 percent. At Interseguro, the second quarter net profit was 117.5 million, a 45.6 percent increase on a yearly basis and a more than threefold growth quarter on quarter. The bottom line result was supported by growth in interest and similar income and a positive discount rate impact on technical reserves. Net premiums decreased 12 percent on a quarterly basis, affected by a market contraction in annuities. Yet Interseguro remained as market leader, with 25.9 percent market share. The second quarter annualized ROE was 95.4 percent. At Inteligio, the second quarter net profit was 50 million soles, a 17.6 percent increase on a yearly basis, and 38.6 percent on a quarterly basis. The quarterly increase was mainly due to higher net interest and senior income and higher other income. Assets under management plus deposits increased 5.2 percent on a quarterly basis and 24.3 percent on a yearly basis. The annualized ROE was 38.2 percent.

On Page 3, you can see a summary of the key quarterly indicators for IFS. Net interest and similar income rose strongly at 9.8 percent quarter on quarter and 21.8 percent on a yearly basis, driven by strong results at the three operating companies. NIM at IFS improved also, 48 basis points on a quarterly basis and 58 basis points on a yearly basis, to 6.37 percent, with NIM at Interbank reaching 6.83 percent. Asset quality remained strong, with a slight deterioration in PDLs at IFS of 20 basis points at 2.3 percent, while cost of risk increased 20 basis points quarter on quarter to 2.8 percent, mainly due to the strong increase in the credit cash portfolio and the higher proportion within the Bank's portfolio, plus a slight deterioration of credit risk in retail banking. Insurance metrics remained very strong, despite a market contraction in premiums registered in April and May, which resumed in June. Efficiency ratio shows a very strong improvement on a quarterly basis of 350 basis points, and year on year of 572 points down to 35.3 percent. The capitalization ratio for Interbank remained strong at 16.5 percent.

On Page 4, you can see the breakdown of IFS quarterly profits by segment. The net profit was 646 million at 31.8 percent increase on a quarterly basis and 23 percent year on year. There is some performance, as previously mentioned at the three operating companies, as well as Interseguro and Inteligio on a quarterly basis. At Interbank, as previously mentioned, the quarterly decrease in net profits is mainly explained by one-up gains registered in the first quarter, which did not take place in the second quarter. Annualized ROE was 32 percent for IFS and 24.6 percent for Interbank.

Please turn to the following page for a brief overview of the quarterly net earnings of IFS' three segments. On Page 6, we start with Interbank. Interbank's profits reached 201 million, a 4.2 million decrease on a quarterly basis and 24.3 million increase on a yearly basis. The quarterly decreased was mainly explained by one-up gains registered during the first quarter, which totaled around 20 million soles, related to the sale of our credit card portfolio, as well as higher than normal FX transaction activity. Excluding tax effects, Interbank's net profit would have run around 7 percent on a quarterly basis. The annual growth in net profit was due to increases of 88 million in net interest and senior income, 43 million in other income and 11.8 million in fee income for financial services, which were partially offset by a 53.8 million increase in provision expense. NIM improved substantially to 6.83 percent from 6.27 percent in the first quarter, with NIM on loans improving from 8.99 in the first quarter to 9.12 in the second quarter, and from 8.62 in the second quarter of the previous year. NIM, net of cost of risk also improved on a quarterly basis, from 4.71 percent in the first quarter to 4.61 percent in the second quarter. ROE was 24.6 percent.

On Page 7, performing loans grew 4.2 percent on a quarterly basis, as a result of a 5.2 percent increase in retail loans and 3.1 percent growth in commercial loans. Retail loans increased due to growth of 8.5 percent in credit cards, 4.9 percent in other consumer loans and 2.9 percent in mortgage loans. In credit cards, the second quarter was the ninth consecutive quarter of solid growth, while the past due loan ratio remained below the system average in such products. Commercial loans grew in volume mainly due to an increase of medium-term loans and trade finance loans, partially offset by a reduction in leasing. Performing loans grew 10.3 percent year on year, due to increases of 17.9 percent in retail loans and 3.1 percent in commercial loans. Retail loans grew, driven by growth of 28 percent in credit cards on a yearly basis, 17.5 percent in other consumer loans and 10.9 percent in mortgage loans. Our market share on total loans increased 10 basis points on a quarterly basis, with an increase of 20 basis points in retail in a flat market share in commercial banking.

On Page 8, looking at Interbank's funding base, it grew 4.2 percent on a quarterly basis, mainly due to an increase of 42.2 percent in due-to banks, partially offset by a 4.7 percent decrease in deposits. The increase in due-to banks and Interbank funds was driven by higher funding provided by the Central Bank, while decreasing deposits was explained by decreases of 17 percent in institutional deposits and 4.3 percent in commercial deposits, partially offset by still strong growth in retail deposits of 3.8 percent. The Bank's total funding base increased 14 percent on a yearly basis. The increase was due to growth of 96 percent in due-to banks and Interbank clients, 11 percent in bonds and 3.9 percent in deposits. The yearly growth in due-to banks and Interbank funds was mainly due to an increase in the funding provided by the Central Bank again, while the increase in bonds was mainly explained by a 13.6 percent depreciation of the exchange rate during the last 12 months, which originated and increased the value of bonds into dollars. The yearly growth in deposits was attributed to a strong increase of 17.1 percent in recent deposits, partially offset by decreases of 5.5 percent in institutional deposits and 5.1 percent in commercial deposits. As a result, the proportion of retail deposits to total deposits increased from 40.5 percent in the second quarter of the previous year to 45.7 percent in this quarter. The funding mix has slightly change on a quarterly basis, with a higher contribution from retail deposits and Central Bank funds, and our cost of funds has remained stable on a quarterly basis at 3.1 percent.

On Page 9, we are looking at (indiscernible 0:11:07.8) comparable figures to the system. Interbank's past due loan ratio was 2.4 percent in the second quarter, 50 basis points above the 1.9 reported in the previous year and 10 basis points above the 2.3 registered in the first half of this year. The coverage ratio remained strong at 178.3 percent. The same trends are valued for the IFRS PDL figures. When looking at the PDL breakdown by product and business, we can see within reason that other consumer credit PDLs have increased 20 basis points to 3.2 percent and remained below the system average of 3.5 percent. Credit card PDLs increased 30 basis points to 3.9 percent and also remained below the industry average of 4.3 percent. Mortgages deteriorated 30 basis points up to 2.7 percent, while the industry average deteriorated 10 basis points up to 1.6 percent. This is mainly due to the slower growth we are experiencing in this (indiscernible 0:12:09.0) versus the key competitors. Within the commercial portfolio, PDLs for the corporate clients improved 10 basis points to 0.3 percent, and for the medium-sized companies, remained stable at 3.4 percent and well below the industry average of 5.4 percent. In the smaller micro client group, where the Bank has still a small portfolio and low market share, the increase in PDLs to 6.4 percent is mainly related to an increase in the Bank of the portfolio. The average ratio of provision expense to average loans was 2.8 percent in the second quarter, above the 2.4 registered in the first quarter and the 2.3 reported in the second quarter of the previous year. This ratio is 50 basis points above the system average of 2.3 percent, mainly due to three reasons. First, our product mix, as we continue to grow stronger in retail and particularly in credit cards. Second, our small growth in corporate loans, which has a lower cost of risk. And third, our conservative approach we are pursuing as we continue to constitute specific provisions this year despite the fact that those provisions have been deactivated. And we're looking at IFRS cost of risk figures. The cause of deterioration in cost of risk was 30 basis points is mainly due to the same first two reasons previously explained, product mix and small growth in corporate loans.

On Page 10, on this page, we're including the trend of the de-dollarization of our portfolio over the last 12 months. When compared to the industry, Interbank's portfolio is more de-dollarized with 68.3 percent of our portfolio is already denominated in soles, compared to 64.2 percent of the industry as of the second quarter. This is mainly due to two factors. First, we have a higher share of retail loans, which are more soles-based than commercial loans; and second, we have a higher soles-based component in our mortgage portfolio within retail loans. Moreover, we have been able to de-dollarize eight additional percentage points in the last 12 months. On the deposit side, we have seen a slight de-dollarization of roughly 3 percent points in the last 12 months.

On Page 11, fee income from financial services decreased 1 percent on a quarterly basis, but increased 7.4 percent on a yearly basis. The quarterly performance was mainly explained by a decrease of 4.6 million in commission from banking services, which was a result of lower income for financial advisory and lower fees from savings accounts and transactions. The yearly increase in fee income from financial services was mainly attributable to increases of 12.6 million in fees for maintenance and minimum of accounts, interchange fees, transfers and credit and debit card services, 4.3 million in commission from banking services, 1.9 million in fees for indirect loans. The higher fees for maintenance and minimum account, interchange fees, transfer and credit and debit card services was due to a higher market share in credit cards, while increasing provisions for banking services was a result of higher insurance premiums sold, which in turn was partially offset by a 5.5 million increase in insurance-related expenses. Other expenses included 16.5 million on a quarterly basis of 4.6 percent and by 48 million on a yearly basis. The quarterly growth was mainly due to increases of 8 percent in administrative expenses, 2.1 percent in depreciation and amortization, partially offset by a 1.5 percent reduction in salaries and employee benefits. The yearly growth in other expenses was above our previous quarter's level, mainly due to seasonality factors and was a result of increases of 4.7 percent in administrative expenses, 8 percent in salaries and employee benefits and 5.5 percent in depreciation and amortization. The efficiency ratio was 41.7 percent in the second quarter, below the 42.3 percent reported in the first quarter and the 45.9 percent registered in the second quarter of the previous year.

On Page 12, to summarize Interbank's results, the Bank registered a strong quarter with net profit growing 13.7 percent on a yearly basis, with a solid analyzed ROE of 24.6 percent.

On Page 13, the ratio of regulatory capital to risk-weighted assets was 16.5 percent in the second quarter, above the 15.8 percent registered in the second quarter of the previous year. This ratio is well above the system average of 14.3 percent. The quarterly decrease in the capital ratio was due to 4.5 percent increase in risk-weighted assets, partially offset by a 3.5 percent growth in regulatory capital. The quarterly increase in risk-weighted assets was explained by a 4.4 percent growth in loans, while the increase in regulatory capital was mainly due to a 143.7 million capitalization and agreement of earnings and reserves during the second quarter of this year. As of the second quarter, the capital ratio of 16.5 percent 480 basis points above its risk-adjusted NIM and capital ratio requirement, established at 11.7 percent. The NIM to regulatory capital ratio requirement was 10 percent, while the additional capital requirement for Interbank was 1.7 percent as of the second quarter. Our core equity tier one ratio calculated on the Basel III principle stands between 7.8 and 8 percent.

Please turn to the following page to discuss Interseguro's results. Interseguro's net profit attributable to shareholders in the second quarter was 117.5 million, an increase of 83.9 million, or 250 percent on a quarterly basis, and 36.8 million or 45.6 percent on a yearly basis. The quarterly growth in profits was mainly due to 100 million decline in adjustment of technical reserves and 11.6 million increase in net interest and similar income and 6.9 million increase in net gain on sale of securities, parcels that were partially offset by a 24.7 million in net premiums and 6.1 million increase in impairment loss and available for sale investments. The yearly increase was mainly due a 49.7 million increase in total premiums earns and claims and benefits and a 13.8 million increase in net interest and senior income, driven by the growth of Interseguro's investment portfolio. This effect was partially offset by a 15 million decrease in profit from sale of investment property and 10.6 million increase in the impairment loss on available for sale investments. Annualized ROE for the second quarter was 95.4 percent, above the 34.2 percent reported in the second quarter of the previous year and 5.6 percent registered in the first quarter.

On Page 16, you can see a comparison of Interseguro's IFRS results with local GAAP results. Interseguro's net profit in the second quarter under IFRS was 117.5 million, and it was 25 million under local GAAP. The main difference between the IFRS and the local GAAP net profits are as follows: First, a lower adjustment of technical reserves under IFRS, as a result of the use of a highly weighted average discount rate to calculate technical reserves for annuities. Second, a higher net gain valuation of real estate investment. Under IFRS, they are considered as fair value. Third, lower profits from sale of investment property, as under IFRS, gains are mentioned against market value, whereas under SBS GAAP, gains are measured against cost. Fourth, a high impairment loss on available for sale investments, due to a more rigorous impairment policy under IFRS. And lastly, a higher net gain on sales of securities, as under local GAAP, certain bonds have registered as held to maturity, and thus gains from sales are amortized during the life of the bond.

On Page 17, net premiums in the second quarter were 179.6 million, a 12.1 percent decrease on a quarterly basis and a 1.5 percent increase on a yearly basis. The quarterly decrease was mainly due to a temporary market contraction in annuities, due to a change in law, which included a way in which customers can adopt premiums. The year-on-year growth mainly attributable to higher sales on individual life. Annuities market share in the second quarter was 25.9 percent, which positioned Interseguro as the market leader. Adjustment in technical reserves during the second quarter was 956.5 million, a 7.39 percent decrease on a quarterly basis and 56 percent decrease on a yearly basis. The quarter-on-quarter decrease was mainly driven by lower sales and the user of a higher weighted average discount rate to calculate technical reserve priorities. The yearly decrease is driven by changes in the weighted average discount rate. As of the second quarter, these changes led to a release of technical reserves higher than the release of reserves during the second quarter of 2014. Net claims and benefits incurred in the second quarter were 64.3 million, a 0.7 percent increase on a quarterly basis and 72.1 percent increase on a yearly basis. The yearly growth was mainly explained by the growth of annuities pension and 12.5 million reversal of claims provision for disability and survival ship insurance policies that were determined to be unclaimable in the second quarter of the previous year. Considering the factors previously explained, those are premiums earned less claims and benefits resulted in 62.9 million in the second quarter, an increase of 74.9 million on a quarterly basis and an increase of 49.9 million on a yearly basis.

On Page 18, in the second quarter, Interseguro's investment portfolio reached 4,747 million soles, an increase of 2.8 percent on a quarterly basis and 17.4 percent on a yearly basis.

Results from investments in the second quarter were 93.5 million, which represented an 8 percent return Interseguro's investment portfolio, above the 7.3 percent reported in the first quarter, but below the 10.6 reported in the second quarter of the previous year. The quarterly increase was largely expensed by an increase of 11.6 million in net interest and senior income, an increase of 2.8 million in other income, partially offset by an increase of 6.1 million in impairment loss on available for sale investments. The increase in net interest was mainly explained by a high inflation rate. The inflation increased from 1.24 in the first quarter to 2.55 in the second quarter, leading to an increase in net interest of our inflation-indexed bonds, which represent approximately a fifth of fixed income portfolio. The increase in other income was due to 600 million in net gains on sales of securities, partially offset by a decrease 2.4 million in net trading results and 1.3 million in deposits from sales of investment property. The increase in net gain on sales of securities was due to higher profits in fixed income investments, partially offset by lower gains from equity. The decrease in profits from sale of investment property was related to the sale of Sullana's participation in the second quarter. The yearly increase was largely explained by an increase of 19.3 million in other income and 6.3 million increase in expenses, partially offset by an increase of 13.8 million in net interest and senior income. The yearly decrease in other income was mainly explained by the decreases of 15 million in profit from sale of investment property, 5.4 million in valuation gain from investment property and 4.6 million rental income for real estate investments, partially offset by a 6.5 million increase in net gains on sales of securities.

On Page 20, we will start the discussion on Inteligio's results. Inteligio's second quarter performance showed slow growth in interest and senior income, with 61.2 percent on a quarterly basis and 46.9 percent on a yearly basis. The quarterly result is attributable to higher income on investments available for sale from its investment portfolio, particularly fixed income and alternative investments as well as higher dividend income. Client related interest income grew as a result of a 7.4 percent on a quarterly basis and 27.2 percent on a yearly basis growth in the size of our loan portfolio. Fee income from financial services declined 2.5 percent on a quarterly basis, but was up 20.4 percent on a yearly basis. The quarterly decline was explained by a change in clients' investment product mix for the second quarter, which derived (ph 0:25:14.7) in a lower average commission rate. Other income grew 10.3 million on a quarterly basis, but declined 5.6 million on a yearly basis. The quarterly result was attributable to a higher net gain on sale of securities on its investment portfolio, where the yearly result is mainly attributable to a lower net trading gain on the comparing periods. Other expenses increased 23.8 percent on a quarterly basis, due to higher salaries and employee benefits, as well as administrative expenses, while the yearly expenses declined 2 percent. As a result, Inteligio's net profit in the second quarter was 50 million, a 13.9 million or 38.6 percent increase on a quarterly basis and 7.4 million or 17.6 percent increase on a yearly basis.

On Page 21, assets under management flat deposits reached 11,980 million soles in the second quarter, showing a 5.2 percent increase on a quarterly basis and a 24.3 percent increase on a yearly basis. Inteligio's loan portfolio stood at 1,600 million in the second quarter, a 7.4 percent increase on a quarterly basis and 27.2 percent increase on a yearly basis. Revenues generated by Inteligio reached 72 million, a 33.3 percent increase on a quarterly basis and 10.6 percent increase on a yearly basis. The quarterly result is attributable, as previously mentioned, by some performance in net interest and similar income as well as in other income. Inteligio Bank fee income divided by assets under management stood at 1.3 percent for the second quarter, showing a slight decline quarter on quarter and year on year. Net profit of 50 million in the second quarter and ROE of 38.2 percent, above the 29.1 percent reported in the previous quarter and the 34.2 percent reported in the second quarter of the previous year.

To finalize the presentation, on Page 23, we conclude that IFS registered solid second quarter results, with strong operating performance in all three segments, with strong asset quality and high profitability levels. At Interbank, 22.4 percent yearly growth in consumer loans and 17.1 percent yearly growth in retail deposits, 2.4 percent PE ratio, below the system's 2.7 percent, 420 basis points improvement in the efficiency ratio year on year, down to 41.7 percent. At Interseguro, it remains the market leader in annuities for consecutive years as of the second quarter, with an 11.5 percent yearly growth on the investment portfolio. At Inteligio, assets under management plus deposits increased 5.2 percent on a quarterly basis and 24 percent on a yearly basis. Loans grew 7.4 percent on a quarterly basis and 27.2 percent on a yearly basis. High profitability at IFS – 23 percent yearly growth in net profits and 31 percent on a quarterly basis, with the second quarter 2015 annualized ROE of 32 percent. Now we welcome any questions you may have.

Operator: Thank you. At this time we will open the floor for your questions. If you would like to ask a question, please press the star key, followed by the one key, on your touchtone phones now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the questioning queue, just press star two. Again, if you would like to ask a question, please press start one now. And we now have our first question coming from Mauricio Restrepo from BTG Pactual.

Mauricio Restrepo: Hi, good morning, thanks for the call. My first question is on provisions on NPLs. Can you tell us what are your expectations for the coming quarters? And the second is on Interseguro's results. If you can comment on what are the expectations on ROE for the next two quarters, taking into account that slowly – the premiums on higher claims on the quarter are going to be offset by increasing in technical reserves, or what can we expect for the next two quarters? Thank you.

Michela Casassa: Okay, maybe just two comments on provisions and NPLs, let me just guide you again as to Slide Number 9, okay? What we have seen in this quarter is a slight deterioration in PBLs. PBLs for the Bank have increased 10 basis points, and as I previously explained, it is coming mainly from the fact that we continue to grow strongly on retail, especially on credit cards. We expect this trend to continue in the next quarter, as the mix, the proportion of credit cards in our portfolio will most likely continue to grow, as we expect retail banking loans to continue to grow faster than commercial banking loans. So most likely our figure of PBL will be growing more close to the system of 2.7 percent than to the 2.4 percent that we have as of today. In terms of Interseguro, I think there are two different scenarios that will impact ROE. The first one is that premiums should recover, so the growth should resume for the next quarter, as the decrease that we have had in the quarter is mainly due to a contraction of the market in April and May that when we see the numbers in June, it has started to grow back again at the levels that we were growing in previous months. So that should help ROE. On the other hand, the level of technical reserve will be highly impacted by the development of rate , so we can see there – I mean, I cannot give you a number now, because as you have seen in this quarter, we have had a very strong positive impact from the increase in the discount rate, and that number will be impacted to what happens with rates going forward. If rates continue to go up, we will see again positive results, and we will see again high ROE levels as we have seen this quarter.

Mauricio Restrepo: Okay, thank you.

Operator: Thank you. Again, if you would like to ask a question, please press star one on your touchtone phones now. Again, that is star one if you would like to ask a question. Again, if you would like to ask a question, please press star one now. At this time, I'm showing no further questions, I would now like to turn the call back over to Mrs. Casassa, CFO, for closing remarks.

Michela Casassa: Okay, thank you very much, everybody, for attending this conference call, and we will see everybody back in the third quarter conference call. Thank you, everybody.

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