Melanie Carpenter

I-Advize - IFS

August 11, 2016

9:00 AM CT

Operator: The following is a recording for Melanie Carpenter from I-Advize on Thursday, August 11, 2016 at 9:00 AM Central Time. This is the IFS second quarter 2016 Conference Call. Good morning and welcome to Intercorp Financial Services second quarter 2016 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, you may begin.

Rafael Borja: Thank you, and good morning everyone. On today's call, Intercorp Financial Services will discuss its second quarter 2016 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, Mr. Gonzalo Basadre, Chief Executive Officer of Interseguro, Mr. Juan Pablo Segura, Chief Financial Officer of Interseguro, Mr. Reynaldo Roisenvit, Chief Executive Officer of Inteligo Group, and Mrs. Claudia Valdivia, Chief Financial Officer of Inteligo Group. They will be discussing the results that were distributed on Tuesday, August 9th. There is also a presentation to accompany these results. If you did not receive a copy of the presentation of the earnings, it is now available on the Company's website www.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 212-406-3693. 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 IFS second quarter Earnings Call. We will start on page number 3 of the presentation when we will be discussing a summary of IFS's results and the main extraordinary items in this second quarter.

IFS net profits for the quarter was S/ 178 million, almost 200 percent increase quarter on quarter, but a 48.6 percent decrease year on year.

IFS bottom line result was mainly affected by three extraordinary items. The first one at Interseguro, related to the higher requirement of technical reserves due to a lower discount rate used in the calculation of the overall stock of reserves as per IFRS accounting methodology with a negative impact of S/ 55.5 million in the quarter which compared with a positive impact of S/ 92.7 million in the second quarter of the previous year.

Second, at Interseguro, a negative impact on the investment portfolio of S/ 5.8 million coming mainly from impairment which has been partially compensated with gains on the sale of other investments, and the third one, foreign exchange losses, coming from the evolution of Soles vs US Dollar exchange rate to a lower extent than what we had on the previous quarter.

Excluding previously mentioned extraordinary items, IFS second quarter net profits would have been S/ 229.9 million, a 10 percent increase both quarter on quarter and year on year.

At Interbank, the second quarter net profit was S/ 199.8 million, a 0.6 percent increase year on year mainly due to lower net gains on foreign exchange transactions which decreased 44 percent year on year. Excluding such effect, net income would have grown 13.4 percent year on year.

At Interseguro, the second quarter result was a loss of S/ 55.8 million compared to profits of S/ 170.2 million in the second quarter of the previous year. The bottom line result was mainly affected by the two extraordinary items previous mentioned and by the reduction of retirement annuities sales due to the new law. Excluding the extraordinary items, the second quarter net profit was S/ 5.5 million up S/ 19 million quarter on quarter and relatively flat year on year.

At Inteligo, the second quarter net profit was S/ 53.7 million, a significant recovery quarter on quarter of 76.7 percent and year on year of 7.3 percent.

On page 4, you can see a summary of the key quarterly indicators for IFS.

Net interest and similar income increased 0.3 percent quarter on quarter and 7.8 percent year on year. The quarterly and yearly increases are mainly driven by Interbank and Inteligo, partially offset by Interseguro.

Fee income from financial services increased strongly by 4.3 percent on a quarterly basis, mainly due to strong performances at Inteligo and Interbank, and increased 11.1 percent on a yearly basis.

NIM improved at IFS 10 basis points quarter on quarter to 5.6 percent with NIM at Interbank improving 50 basis points to 6.0 percent. PDLs increased 20 basis points on a quarterly basis to 2.5 percent at IFS level and cost of risk increased 10 basis points quarter on quarter to 3.1 percent mainly due to a loan mix effect at Interbank as the commercial loan portfolio increased 0.9 percent on a quarter basis while the retail loan portfolio increased 2.6 percent with credit cards growing 3.6 percent. Credit card PDL ratio increased 40 basis points in the second quarter in line with the increase registered at the system level and has continued to show a better containment of loan delinquency especially in the shorter correction period. Coverage ratios continue to be strong at more than 175 percent at Interbank.

Efficiency ratio was 39.4 percent and has been impacted on Interseguro's results on the high level of technical reserves due to a negative impact of interest rates. Excluding such effect, efficiency ratio would have been 37.3 percent below last quarter and the same quarter of the previous year. Capitalization ratio for Interbank remains strong at 16.2 percent.

Please turn to the following page for a brief overview of the quarterly net earnings of IFS' three segments.

On page 7, before entering into the details of Interbank's results, we'd like to give you a short update of the banking industry which is impacting the bank's results but which has, at the same time, allowed us to gain market share in many of our products.

There has been a slowdown in loan growth at system levels, with loans growing only 0.8 percent year-to-date and 8.3 percent year on year as of June 2016. Retail loans grew 2.5 percent year-to-date and between 8-9 percent year on year while commercial loans decreased 0.6 percent year-to-date and increased 7.5 percent year on year.

Cost of risk at system levels has increased 20 basis points to 2.1 percent as of June at system levels, and results from financial operations has decreased 14 percent year on year at system levels, with a strong decrease in foreign exchange trading gains impacting most of banks' results of financial operations results.

Interbank profits reached S/ 199.8 million in the second quarter, a decrease of S/ 2 million quarter on quarter and S/ 1.2 million year on year or 0.6 percent.

The quarterly reduction was mainly due to increases of S/ 10.6 percent million in provisions and S/ 8.5 million in other expenses, factors that were partially offset by growths of S/ 19.3 million in net interest and similar income and S/ 3.5 million in fee income from financial services.

Interbank's ROAE was 21.3 percent in the second quarter of 2016. NIM increased 50 basis points in this quarter to 6.0 percent with NIM on loans relatively stable at 9.8 percent. The improvement in NIM is mainly due to a better mix of interest-earning assets with higher returns on the investment portfolio, in addition to lower dollar deposits which have a higher reserve requirement with low returns.

On page 8, this quarter, we have seen a recovery of loan growth at Interbank, especially in the retail book, with performing loans growing 1.8 percent quarter on quarter due to increases of 2.6 percent in retail loans and 0.9 percent in commercial loans.

Retail loans increased due to growth of 3.6 percent in credit cards, 2.9 percent in other consumer loans and 1.6 percent in mortgages.

Commercial loans grew mainly due to higher trade finance loans and short- and medium-term loans partially offset by lower leasing operations. On a yearly basis, performing loans grew 8.1 percent due to increases of 9.9 percent in retail loans and 6.2 percent in commercial loans.

Retail loan growth was driven by increases of 12.6 percent in other consumer loans, 11.7 percent in mortgages and 4.7 percent in credit cards. Commercial loans grew mainly due to increases in short- and medium-term lending partially offset by lower trade finance loans and leasing operations.

Our market share on total loans increased 20 basis points on a quarterly basis and 10 basis points on a yearly basis to 11.3 percent as of June.

On page 9, Interbank's total funding base decreased 6.1 percent quarter on quarter, decline that was due to decreases of 8 percent in deposits, 2 percent in bonds and 1.4 percent in due to bank and Interbank funds.

The quarterly decline in deposits was mainly explained by reductions of institutional and commercial deposits, both effects largely concentrated in dollar deposits, yet partially offset by a 1.7 percent growth in retail deposits.

The bank's total funding base increased 8.2 percent on a yearly basis, due to growth of

10 percent in deposits, 4.5 percent in due to bank and Interbank's funds and 2.8 percent in bonds. The yearly growth in deposits was explained by growth of 27 percent in commercial deposits and 13.4 percent in retail deposits, partially offset by a 20 percent decline in institutional deposits. The portion of deposits to total funding increased from 67.7 percent in the second quarter of the previous year to 69 percent in the second quarter of 2016. Our total deposit market share increased 20 basis points on a yearly basis, retail deposits growing 40 basis points. The increase in cost of funds of 20 basis points in the quarter is mainly due to the dollar-sol mix which is also reflected in our higher loan-to-deposit ratio due to a higher component of Soles in our loan and deposit portfolio when compared to the system.

At page number 10, when looking at SBS comparable figures to the system, Interbank's past due loan ratio was 2.7 percent in the second quarter of 2016. The coverage ratio remains strong at 175.4 percent in the second quarter, and the same trends are valid for the IFRS PDL figures.

When looking at the PDLs breakdown, we can see within retail that the overall consumer credit PDLs has increased 20 basis points in the quarter to 3.7 percent, while the system average has increased 30 basis points with 3.8 percent. Credit card PDLs increased 40 basis points to 5.2 percent in line with the system average increase of 40 basis points reaching 5 percent. Mortgages increased PDL ratio 20 basis points to 3.1 percent also in line with increase of the system of 20 basis points. Within the commercial portfolio PDLs remained well below the system average in medium-sized companies, and has registered an increase in small companies of 20 basis points up to 8.2 percent in line with the system average increase.

The annualized ratio of provision expense to average loans has increased 30 basis points to 3.1 percent in the second quarter. This ratio remains above the system average of 2.3 percent mainly due to the mix of the portfolio with a higher incidence of retail and credit cards when compared to the system and to the other big three banks. Normalizing the effect of our portfolio mix our ratio will be in line with the system average. When looking at IFRS cost-of-risk figures, the increase in the ratio is only 10 basis points but it reaches 3.3 percent.

On the following page, we are including the trend of the de-dollarization of our loan portfolio in the last 12 months. When compared to the industry, as of the second quarter, our portfolio is more de-dollarized with 73.8 percent of our portfolio in Soles versus 68.8 percent of the industry. This is mainly due to two factors: First, that we have a higher share of retail loans which are more soles-based than commercial loand; and second, we have a higher soles-base component in our mortgage portfolio within retail loans. Moreover, we have been able to de-dollarize more than 5 additional percentage points in the last 12 months.

On the following page, fee income from financial services increased 1.8 percent quarter on quarter mainly explained by reductions of S/ 5.7 million in other expenses and S/ 1.4 million in expenses related to the sale of insurance. These effects were partially offset by a S/ 3.8 million decrease in commissions from banking services.

Fee income from financial services increased 12.4 percent year on year, mainly due to increases in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services, and in commissions from banking services.

Other expenses increased by S/ 8.5 million quarter on quarter or 2.4 percent and by S/ 6.4 million year on year, or 1.8 percent. The quarterly growth in other expenses was mainly due to increases of 4.1 percent in salaries and employee benefits and 3.6 percent in administrative expenses, while the annual growth in other expenses was explained by increases of depreciation and amortization and administrative expenses partially offset by lower provisions for tax and legal contingencies.

The efficiency ratio was 41.7 percent in the second quarter, above the 41.2 percent registered in the first quarter but the same as reported in the second quarter of the previous year. Despite the decrease in total income coming from foreign exchange trading income, we have been able to control costs as to maintain the efficiency ratio which had strongly improved last year.

On the following page, the ratio of regulatory capital to risk-weighted assets for the bank was 16.2 percent above the 15.5 percent registered in the fourth quarter. As of the second quarter of this year, Interbank's capital ratio of 16.2 percent was 440 basis points above the risk adjusted minimum capital ratio requirement established at 11.8 percent. The minimum regulatory capital requirement was 10 percent while the additional capital requirement for the bank was 1.8 percent.

Please turn to the following page to discuss Interseguro's results. Interseguro's net results attributable to shareholders in the second quarter was a loss of S/ 56.6 million which compares to a loss of S/ 175.5 million in the first quarter and a profit of S/ 117.5 million in the second quarter of the previous year.

The quarterly improvement in profits was mainly due to a S/ 92.5 million decline in adjustments of technical reserves and S/ 64 million increase in net gain on sale of securities registered as other income. This factor was partially offset by a S/ 47 million decline in net premiums and a S/ 34.3 million increase in impairment loss on available-for-sale investments registered as other expenses.

The yearly decline was mainly due to S/ 79 million increase in adjustment of technical reserves, a S/ 49 million decrease in net premiums and S/ 45 million increase in impairments loss on available-for-sale investments, and a S/ 14.7 million increase in net gains and benefits incurred. These effects were partially offset by a S/ 20.5 million increase in profits from sale of securities. Excluding the extraordinary items mentioned at the beginning of the presentation, the second quarter net profit was S/ 5.5 million, up 19 million quarter on quarter and relatively flat year on year.

On the following page, you can see a comparison with local GAAP results. Interseguro's results in the second quarter was a S/ 57 million loss under IFRS but a S/ 28 million profit under local GAAP. The main differences between the IFRS and the local GAAP net profit are as follows: First, a higher adjustment of technical reserves under IFRS as a result of the use of a lower-weighted average discount rate to calculate technical reserves for annuities which, in this quarter, accounts for S/ 69 million. Second, a higher net gain on valuation of real estate investments as under IFRS they are considered at fair value. Third, a lower profit from sale of investment property as under the IFRS gains are measured against market value, whereas local GAAP gains are measured against cost. Fourth, a higher impairment loss on available-for-sale investments due to a more rigorous impairment policy under IFRS. And last, a higher net gain on sale of securities as under local GAAP certain bonds are registered as held to maturity and thus gains for sale are amortized during the life of the bonds.

On the following page, looking at net premiums in the second quarter they reached S/ 130.1 million, a 26.6 percent decrease quarter on quarter, and 27.6 percent decrease year on year, both decreases explained by a contraction in the market of annuities due to a new law that allows retirees to withdraw 95.5 percent of their retirement funds upon retirement. Annuities market share in the second quarter was 23.1 percent which positioned Interseguro as the market leader. Adjustment of technical reserves in the second quarter was S/ 135.5 million, a 40.6 percent decrease quarter on quarter, and 140 percent increase year on year. The quarterly decrease was mainly driven by lower sales while the yearly increase is driven by the changes in the weighted average discount rate as in the second quarter of this year, these changes led to a constitution of technical reserves higher than the release of reserves occurred in the second quarter of the previous year.

Net claims and benefits incurred in the second quarter was S/ 75 million, a 2.0 percent decrease quarter on quarter and 24 percent year on year increase. The yearly growth was mainly explained by the growth of annuities pensions. Considering the factors previously explained, total premiums earned less claims and benefits resulted in S/ -80.4 million in the second quarter, an increase of S/ 47 million quarter on quarter and a decrease of S/ 143 million year on year.

On the following page, looking at the Interseguro investment portfolio it reached S/ 5,329 million as of the second quarter, increasing 4.3 percent quarter on quarter, and 12.3 percent year on year.

The results from investments in the second quarter was S/ 67.1 million which represented a 5.1 percent return on Interseguro's investment portfolio above the 2.4 percent reported on the previous quarter, but still below the 8 percent reported in the second quarter of the previous year. The quarterly improvement was largely explained by an increase of S/ 64.6 million in net gain in sale of securities and an increase of S/ 8.2 million in net gain on valuation of real estate investments, partially offset by an increase S/ 34.3 million in impairment loss on available-for-sale investments. The increase in net gain on sale of securities was mainly explained by a higher profit in equity and a higher profit on sale of fixed-income securities. The increase in valuation gain from investment property was due to real estate appreciation of certain properties in the second quarter.

The yearly decrease was explained by an increase of S/ 45 million in impairment loss on available-for-sale investments, and S/ 7.6 million decrease in valuation gains for investment property, partially offset by an increase of S/ 20.5 million in net gain in sale of securities, and S/ 3.4 million increase in net interest and similar income.

On the following page, we will start the discussion on Inteligo Group's results. Inteligo's net interest and similar income for the second quarter was S/ 27 million, a 9.9 percent increase quarter on quarter and 16.9 percent when compared to the first quarter of the previous year.

The quarterly result was attributable to higher income and dividends from investments available for sale, partially offset by an increase in interest of similar expense on deposits and obligations. The yearly result was mainly attributable to higher income on available-for-sale investments and also higher interest on loans as a result of a 1.3 percent year on year growth in the size of our loan portfolio.

Net fee income from financial services grew by S/ 6.9 million or 28.7 percent on a quarterly basis, mainly due to higher activity in brokerage services. When compared with the second quarter net fee income from financial services increased 3.6 percent year on year. The result was attributable to an increase in brokerage and custody services income and a favorable result in other related expenses.

Inteligo's other income reached S/ 16.4 million in the second quarter of 2016, a more than 8 fold increase quarter on quarter due to the higher net gain and sale of securities. Other income decreased 12.9 percent year on year on the second quarter mainly explained by a reduction in the net gain on sale of securities, partially offset by a recovery in net trading gains.

Other expenses grew 2.6 percent on a quarterly basis as a result of a S/ 1.1 million growth in salaries and employee benefits partially offset by a decrease in administrative expenses. Other expenses decreased by S/ 1.5 million, or 6.8 percent year on year mainly explained by a reduction in administrative expenses due to lower third party related services. As a result, Inteligo's net profit in the second quarter was S/ 53.7 million at S/ 23.3 million or 76.7 percent increase quarter on quarter and S/ 3.7 million or 7.3 percent growth year on year.

On the following page, assets under management plus deposits reached S/ 13,794 million in the second quarter of 2016, a S/ 418 million or 3.1 percent increase when compared to the previous quarter, and S/ 1,814 million or 15.1 percent increase when compared to the second quarter of the previous year.

Inteligo’s loan portfolio stood at S/ 1,320 million in the second quarter, 3.6 percent decrease quarter on quarter, but a 1.3 percent increase year on year. Revenues generated by Inteligo reached S/ 75 million, a 47 percent increase quarter on quarter and 3.5 percent increase year on year.

Inteligo Bank’s fee income divided by assets under management increased to 1 percent in the second quarter. Inteligo’s net profit reached S/ 54 million while annualized ROE was 38.1 percent, higher than the 21.5 percent reported in the first quarter, but slightly below the 38.2 percent registered in the second quarter of the previous year.

To finalize the presentation on page 23, we can summarize the key takeaways. At Interbank, slower growth given current market environment. Second, credit card and commercial loans resumed growth on the quarter leading to a 20 basis points gain in market share on total loans. 13.4 percent year on year in retail deposits which has allowed us to gain 40 basis points market share over the year. Dollar exposure within the loan book reduced by 550 basis points year on year with retail loans already more than 90 percent in local currency.

At Interseguro, premiums decreased year on year and quarter on quarter by roughly 27 percent due to the new law for annuities and the investment portfolio grew 4.3 percent quarter on quarter and 12.3 percent year on year.

At Inteligo, assets under management plus deposits increased 3.1 percent quarter on quarter and 15.1 percent year on year with revenues growing 47 percent on the quarter and 3.5 percent in the year. Net profit increased 77 percent quarter on quarter and 7.3 percent year on year.

At IFS level, profits, excluding the discount rate impact on technical reserves at Interseguro increased 57 percent quarter on quarter due to good core results at Interbank and Inteligo, while Interseguro improved its investment profile. On a yearly basis, net income continued to be negatively impacted by higher requirements of technical reserves at Interseguro due to the low discount rate on annuities. Before your questions, we would also like to give you an update on the stock repurchase program that we approved last May in our shareholder's meeting. At IFS as of July 15, we have bought 432,521 shares for a total amount of USD$13.3 million which represents 0.38 percent of total outstanding shares, and roughly 22 percent of the total amount negotiated on IFS stock in the Lima Stock Exchange since the launch of the program. Now we welcome any questions you may have.

Operator: Thank you. At this time we will open the floor for your question. If you would like to ask a question, please press the * key followed by the 1 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 *2. Again, to ask a question, please press *1 now. We have our first question coming from Carlos Rivera from Citi.

Carlos Rivera: Hi, good morning, everyone, and thanks for the presentation. My first question is regarding loan growth which has decelerated. I believe in the past you have mentioned about 13 percent loan growth for this year. Is this still a valid guidance given the trends that we're seeing and what can we expect in 2017. And also in loan growth, if you could comment a little bit about the loan mix because we're seeing that you're growing stronger in retail, particularly in credit cards, you are gaining in market share actually, and these contrast a little bit with the strategy with one of your competitors. If you could elaborate on what you're seeing in the market that makes you comfortable to gain market share. I'll ask my second question after. Thank you.

Michela Casassa: Okay, thank you, Carlos, for your questions. The first one related to the loan growth and the guidance of 13 percent, we believe that doesn't hold any longer as we have seen some deceleration of loan growth during the first semester of this year. We believe we will be more in the line of 9 to 10 percent at system level. Okay? Basically we are expecting a certain slow recovery in the second half of the year, but we believe it's really going to be mild and maybe coming more from commercial as some of the projects start to pick up.

Related to 2017, that is going to be again related to what happens with the macro scenario. We would expect a slight recovery of loan growth during next year for the same reasons I just commented. So, as the big projects start to take place, commercial loans should start to resume growth. Okay? As the internal demand also starts to improve retail loans should start to resume growth. We believe that's going to be in any case slightly during the year.

As per your question related to loan mix, our gain in market share on the retail portfolio, here I have to comment that if you see the performance of Interbank over the last 12 months you would have noticed that we stopped growth in credit cards for like three or four quarters, and that started actually in the second half of last year when we started seeing the deterioration of the portfolio. So, basically after three or four quarters of not growing credit cards, and fine-tuning underwritting standards and all the things that we needed to do, we have started to see a slight recovery of growth tackling the best profiles in our portfolio. That's why I believe you will see a difference to what you're seeing in other competitors in the industry, and of course, we will continue to do so but with the right standards and only maintaining the risk profile that we have approved internally. I'm not sure if this covers the first part.

Carlos Rivera: Okay. Thanks a lot. My second question is regarding the profitability. I mean the ROE for this quarter is recovering 15 percent. Of course you are impacted by the higher technical reserves, but if we exclude all the non-recurring items as you mentioned on slide 3, and thanks a lot for that slide, I still get to an ROE of around 20 percent. Is this a normalized level? I believe the target and delivery in the past used to be close to the mid-20s. So, can we expect a return on the ROE excluding all extraordinary items back to the mid-20s and if you think that's possible, by when do you think that could happen? Thanks a lot.

Michela Casassa: For that question, I believe that we are going to be in the low 20s. To be sincere, there is volatility coming from the fact of the discount rate. So, even when you take that into account there are still some other indirect impacts that that has on the figure. So, I would believe that for the following years we will be more on the low 20s with some possibility for outpacing that.

Carlos Rivera: Perfect. Thank you very much.

Operator: Thank you. Our next question comes from Alonso Aramburu from BTG.

Alonso Aramburu: Hi, good morning, and thank for the call. Just a follow-up on the loan growth answer, Michela. You mentioned that you expect the system to grow 9-10 percent. Is that the level you also expect Interbank to grow loans this year, or given the fact that you started growing faster this quarter, do you think you can grow a little bit faster than that? Then I will ask my second question.

Michela Casassa: Alonso, to be sincere, I think is going to be relatively the same. Now if you see what has happened over the past six months, we have been able to slightly gain market share. Okay? We believe that what we are trying to do is yes, continue to gain slightly a little bit of market share, but just to give you a guidance, I believe we are going to be seeing levels slightly above the system levels growth.

Felipe Castellanos: Alonso, this is Luis Felipe. Actually, loan growth that we will see closer in the next month will come from commercial. And you know, understanding that probably we're going to grow closely to what the system does, but we're not going to become too away from that front. No?

Alonso Aramburu: Okay, great. That's interesting but on the retail side this quarter was definitely a pickup in growth. Do you expect that growth in credit cards and consumer to remain roughly at these levels which were at this quarter?

Michela Casassa: Yes, in the similar levels, but we don't believe we will accelerate what you have seen.

Alonso Aramburu: Okay. Then on asset quality you mentioned that you've seen some containment of delinquencies in credit cards. Can you give us any color on what you're seeing, given the fact that you're starting to grow a little bit faster? I assume you're feeling a little bit more comfortable with delinquencies. Are we still seeing the PDL ratio going up? How are you seeing asset quality in general for the next few months?

Michela Casassa: As I commented before, during the second semester of last year we started to see a deterioration in many of the indicators. So, basically some of the things that we've been reinforcing have been, for example, our collection capabilities. Also we reformed the team, not only people but also the intelligence that we are putting in order to improve the methods of collection. Okay? Where we see the performance in certain client segments, so I'm not going to tell you that this is in all of them, we have been able to improve a little bit the collection ratios in some of the tranches. Okay? This is something that we have seen alone for this quarter. The measures that we started to put in place are not fully deployed so we believe that should bring some additional improvement and this is also some of the reasons why we feel a little bit more comfortable with the new growth that we're having in consumer lending.

Alonso Aramburu: Okay, thank you.

Operator: thank you. Again, if you would like to ask a question, please press *1 now. Again, that is *1 to ask a question. Our next question comes from Carlos Gomez from HSBC. Please go ahead. Carlos your line is now open.

Carlos Gomez: Hi, good morning. I have a question regarding the immediate legislation that as you mentioned that allows people who have a pension fund to retire up to 95 percent of the amount. Do you see any expectation that the legislation might be reviewed at some point in the future? And if not, ultimately what should be the permanent effect on your company and your profits for the business on that? Thank you.

Gonzalo Basadre: Hi Carlos, this is Gonzalo. Right now we don't see the law change. It has lots of support in Congress right now so we don't think that is a possible scenario, but we're seeing two things. First of all, this law only affects a part of the annuities market. Remember that annuities market is composed both of annuities linked to retirement and annuities linked to disability and survivor benefits which represented before the law of around a third of the market. Now it's a much bigger portion. That segment will continue. There's nothing in the law and nothing expected to change that, and this will continue to grow around 10 percent in the near future, as they have been growing in the past. The other part, the annuities linked to retirement, what we're seeing is that we've seen throughout the year until the law was approved in May, the market getting smaller reducing by around a half. When the law was approved, it further reduced the market more but what we're seeing from June onward is that many people that were on the sidelines just considering what to do with their money, are buying now annuities and we've seen growth in the market since June throughout August, which still is below what the market was a year ago, but still showing some growth. All in all, we think that the market as a whole for annuities should be around half of what it was last year, and start growing from there.

Carlos Gomez: All right. And that is to the size of the business. Has the pricing of the business also changed?

Gonzalo Basadre: No, not really. We haven't seen that. It's affected more by investment rates than by the law.

Carlos Gomez: Thank you. And if I may follow-up, any plans to take any action to increase the liquidity of the stock. We have heard about the pilot. In the past there has been the project to do an offering. Is that back on the table or not yet?

Michela Casassa: For the time being, no.

Carlos Gomez: Thank you very much.

Operator: Thank you. Again, if anyone would like to ask a question, please press *1 now. Again, that is *1 if you would like to ask a question. Thank you, at this time I'm showing no further questions. I would like to turn the call back over to Mrs. Casassa for any closing remarks.

Michela Casassa: Okay, thank you everybody for attending our conference call and we will see each other back again with our 3rd Quarter results. Bye-bye.

Operator: Thank you ladies and gentlemen. This concludes today's teleconference. You may now disconnect.

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