Operator: Good morning and welcome to Intercorp Financial Services second quarter 2018 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 procedure to follow if you would like to ask a question. It is now my pleasure to turn the call over to Rafael Borja of i-advize Corporate Communications. Please go ahead.

Rafael Borja: Thank you and good morning everyone. On today's call Intercorp Financial Services will discuss its second quarter 2018 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 and Mr. Bruno Ferreccio, Deputy CEO of Inteligo Group. They will be discussing the results that were distributed on Wednesday, August 8th. There is also a presentation to accompany these results. If you didn't receive a copy of the presentation or the earnings, 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 212-406-3693. 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. Michela 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 earnings call. As shown in page two of the presentation, this second quarter 2018 has seen a 43% year on year growth in IFS recurring earnings resulting in a 21.5% return on equity with strong results at all operating companies.

At Interbank, record earnings of S/ 289 million in the second quarter driven by a further acceleration of loan growth to 14% year on year, supported by a 15% year on year growth in credit cards which allowed us to regain the number one position in the market, and also thanks to a better economic environment in the country. Our strong focus on digital transformation continues to show results with growing figures in all our main digital indicators.

At Interseguro, strong recovery in gross premiums plus collections with a 22% growth quarter on quarter and 60% year on year which has allowed the company to gain market share. We have registered a one-time adjustment of S/ 145 million in the quarter due to the adoption of the new Peruvian mortality tables. This impact can be deferred in 10 years in local accounting standards but we are fully accounting it under IFRS in this quarter. Moreover, as mentioned in the previous call, we have adjusted the discount rate for the calculation of technical reserves for the mismatched portion of the portfolio to align it to best practices. This has resulted in an increase of S/ 519 million in equity due to a lower stock of technical reserves required. Going forward, this change reduces the initial technical loss from the sale of new products and will better reflect the company's profitability. Interseguro's annualized ROE for this second quarter, excluding the previously mentioned one-time adjustment, is 15%.

At Inteligo strong profitability in the second quarter with a 27% ROE and earnings reaching S/ 46 million with assets under management resuming growth.

Now let's have a look at IFS key performance indicators on page number four. At IFS net profit was S/ 205 million in the second quarter or S/ 350 million when excluding the S/ 145 million one-time adjustment at Interseguro. Annualized ROE reached 21.5%. Efficiency ratio remained stable quarter on quarter at 34.4% down from 37.8% in the same quarter of the previous year. NIM at Interbank improved 30 basis points in the quarter up to 5.8% and risk-adjusted NIM continued to improve an additional 20 basis points in this quarter up to 4.1%. Total capital ratio for Interbank stands at 16.7% with core equity tier one reaching 10.3% as of June this year. Gross premiums plus collections at Interseguro increased 22% on a quarterly basis thanks to a recovery of the market and increase in market share. The return on investments was 5.4% impacted by a negative S/ 19 million market to market on investments. Without that effect, return on investments would have been 6%. Fees from financial services at Inteligo grew 12.3% year on year with a recovery of growth in assets under management plus deposits of 4.2% during the quarter.

On page number five, relevant net income for dividend generation in the second quarter increased 13% year on year or S/ 34 million for Interbank, 171% year on year or S/ 54 million for Interseguro and decreased 18% or 10 million for Inteligo.

Please turn to the following pages for a brief overview of the quarterly net earnings of IFS' three segments. On page seven starting with Interbank the second quarter net profit reached S/ 289 million, a 38.3% increase year on year, mainly thanks to a recovery of top line growth coupled with an improvement in cost of risk mainly due to a release of provisions from the construction sector companies and a further improvement in the cost of risk of retail and credit cards, as well as controlled expenses. Second quarter return on equity was 24%, or 20.4% when excluding the positive effect of the construction sector companies. Net interest income grew 6% year on year with NIM improving 30 basis points in the quarter and risk adjusted NIM improving 20 basis points in the quarter, thanks to a 17.9% decrease in loan provision expenses which improved cost of risk 80 basis points year on year down to 2.4%.

On page eight we are showing the further evolution of our digital transformation indicators. As explained during the last call, the first phase of our digital transformation was focused on building capabilities that would allow clients to perform their day-to-day transactions digitally and afterwards to be able to acquire products and services digitally. Now we are entering a second phase in which we are increasing our efforts for educating clients to foster usage of our existing transactional capabilities and also to teach them how to buy products and services online while completing the full set of digital capabilities. For this reason, we have been substantially increasing our IT investments which as of 2018 are three times 2015 figures. This has also allowed us to decrease the number of branches which stands today at 270 from a peak of 290 in January 2016 and from 282 in March 2017.

Digital customers, who include clients that interact with the bank though our mobile application or home banking, have reached 45% as of June this year from 34% in June last year and 43% in March this year, representing roughly a 40% increase year on year in number of digital customers.

The percentage of transactions performed off branches has continued to increase, reaching 94% as of June 2018 from 87% last year. Still, due to the cash economy present in the country, a large number of plain vanilla transactions including deposits, withdrawals, payment of utilities and credit cards is still performed in branches, which means we need to continue educating clients via our efforts in branches and contact center to migrate them to our already existing digital solutions.

The percentage of functionalities that are available on our digital channels which include transactions, sales of new products and self-service features have continued to increase reaching 94% as of June this year from 90% a year earlier. We continue to focus our efforts on trying to digitize client's interactions and to improve the customer experience of our clients with the development of new and enhanced functionalities through our 22 squads working with agile methodology.

Digital sales and self-service interaction have increased their penetration 29% in June this year from 12% in June last year and from 15% in March this year, growing in number of interactions more than 170% year on year. We are now able to digitally open new accounts, sell credit cards and loans through credit cards, increase credit card lines among other products. In terms of self-service functionalities, an example is credit card installments through mobile banking which has reached a penetration of around 90% and has driven the number of such installments to grow roughly five times.

Moreover, we have launched some functionalities that are only available in our mobile banking which have gained traction and client's preference in few months. These include "Smart", a feature that allows clients to organize and take control of their expenses, which is used by approximately 20% of our digital customers. And our digital Piggy Bank, a one-swipe feature that allows clients to save money at higher rates within an existing savings account, which has reached a penetration of almost 10% of our digital clients.

In page 10, at Interbank performing loans growth accelerated to 5.9% on a quarterly basis as a result of increases of 5% in retail loans and 6.8% in commercial loans. Credit cards growth furtherly accelerated to 9.1% during the quarter, reaching a 15.2% increase year on year where we have recovered the leadership position mainly by targeting good credit profile clients within our existing portfolio. Performing loans grew 13.6% year on year due to a balanced increase of 13.7% in retail loans and 13.5% in commercial loans. Retail loans grew year on year mainly due to increases of 15.2% in credit cards, 14.2% in mortgages and 11.8% in other consumer loans. We have been able to increase our market share in total loans by 30 basis points on a quarterly basis and by 40 basis points on a yearly basis.

On page 11, retail deposits increased 1.8% on a quarterly basis and 11.4% on a yearly basis allowing us to gain 10 basis points of market share in the quarter. Average cost of funds has improved 30 basis points year on year but increased 10 basis points this quarter.

On page 12, asset quality continued to improve in this second quarter with cost of risk decreasing 10 basis points quarter on quarter and 80 basis points year on year, down to 2.4%. We are normalizing our cost of risk from a reported figure of 1.5% to exclude the decrease in provisions resulting from a strong decrease in expected losses of construction companies for 63 million during the quarter. The improvement in cost of risk normalized is mainly coming from retail banking which has registered a decrease in cost of risk of 100 basis points on a quarterly basis and 250 basis points on a yearly basis. The yearly improvement is mainly due to credit cards which have seen an improvement of 570 basis points year on year, thanks to an improvement in the risk profile of the client portfolio, to a better behavior of clients, to all the different actions undertaken for improving underwriting and collection processes, and to the recovery in growth. The quarterly improvement is mainly due to other consumer loans and mortgages which have decreased substantially their cost of risk, as well as to a further decrease of 20 basis points in the cost of risk of credit cards. NPL ratio remains flat quarter on quarter at 3.1% with NPL coverage ratio at 126%.

In page 13 we are also showing the figures under SBS standards. When looking at these comparable figures to the system, Interbank’s past due loan ratio remained flat in the quarter at 2.7%, below the system average of 3.1% and the coverage ratio also here remains strong at 177%. When looking at the PDL breakdown, we can see within retail that consumer PDL ratio has improved 10 basis points down to 2.1% in the quarter and is below the system average of 2.5%. However, the most important trend is the further improvement in credit cards PDL ratio of 40 basis points down to 4.4% and well below the system average of 4.8%. Mortgages PDL ratio has remained flat in the quarter while the system ratio increased 10 basis points. The trending cost of risk in local GAAP is very similar to what we previously described for IFRS. Our cost of risk in local GAAP of 2.3% in this quarter remains above the system average of 1.9% mainly due to the portfolio mix 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 would be 1.8%, below the system average.

On page 15, Interbank's capital ratio of 16.7% was 500 basis points above its risk-adjusted minimum requirement, established at 11.7%, and above the system average of 15.1%. Core equity tier one ratio has continued to improve during the quarter reaching 10.3%.

Please turn to the following pages to discuss Interseguro's results. As previously mentioned, we are introducing two accounting changes to Interseguro's numbers that finalized the revision process with our auditors as we described in previous calls. The first one is related to the discount rate. We have reviewed the interest rate used to calculate the technical reserve requirements for the mismatched portion of assets and liabilities to include a premium. This has increased equity in S/ 519 million due to lower technical reserves as a result of a higher discount rate and also a positive impact of results, which for this quarter is S/ 7 million.

Secondly, we have registered a one-time adjustment of S/ 145 million in the quarter due to the adoption of the new Peruvian mortality tables published by the Peruvian insurance regulator earlier this year. This negative impact as we mentioned before can be deferred in 10 years in local accounting standards, but we are fully accounting it under IFRS in this quarter.

On page 18, gross premiums and collections in the second quarter have increased 22% and 60% year on year. Annuities, including private and regulated, increased 50% quarter on quarter as a result of a higher market share which reached 30.6% and to a recovery of the market. Retail insurance increased 6% on a quarterly basis and Individual Life together with Disability and Survivorship show strong yearly increases mainly due to the incorporation of Seguros Sura.

On page 19, total premiums earned less claims and benefits resulted in a loss of S/ 186 million mainly explained by the one-time adjustment of technical reserves. Excluding that effect Interseguro's total premiums earned less claims and benefits would have been S/ 41.4 million negative, representing a strong improvement quarter on quarter also thanks to the change in discount rates previously explained.

On page 20, in the second quarter Interseguro's investment portfolio reached S/ 11 billion which represents a slight decrease on a quarterly basis and a 91.4% increase on a yearly basis. The quarterly decrease was explained by a smaller fixed income portfolio as a consequence of the sale of securities and a lower trading result. The yearly growth is mainly explained by the merger with Seguros Sura's investment portfolio. Results from investments in the second quarter was S/ 149 million which represented a 5.4% return on Interseguro's investment portfolio and includes a S/ 19 million loss mark to market on the quarter. Excluding such effect, the return on Interseguro's investment portfolio would have been 6% showing a recovery.

Starting on page 22 we will discuss Inteligo's results. Inteligo's net interest and similar income in the second quarter was S/ 28.7 million, a S/ 4.7 million or 20% quarterly increase and a S/ 3.7 million or 15% yearly increase. This performance was attributed to incremental distributions on Inteligo's proprietary portfolio after the acquisition of debt instruments starting the quarter. Net fee income from financial services was 32 million, a slight quarterly decrease explained by lower income from brokerage and custody services. When compared to the previous year, net fee income from financial services increased S/ 3.6 million or 12% explained by higher fees associated with incremental rebalancing activities of client portfolios. Inteligo's other income reached S/ 3.7 million in the second quarter, a S/ 3.2 million increase on a quarterly basis which was explained by a better mark to market performance of Inteligo's proprietary portfolio. Other income decreased 82% year on year due to optimal market conditions during the second quarter of 2017 that prompted the sale of securities in such quarter. Inteligo's other expenses have been relatively stable versus comparable periods. They reached S/ 19 million in the second quarter which represents a 4.5%, and decreased S/ 1 million or 4.8% on a yearly basis.

On slide number 23, assets under management plus deposits reached S/ 14.5 billion in the second quarter, a S/ 585 million or 4.2% growth on a quarterly basis. This result was mostly attributed to the opening of new accounts due to a strengthened prospection strategy. Inteligo's loan portfolio reached S/ 1.3 billion in the second quarter, relatively flat and registering a 23% decrease year on year. Revenues generated by Inteligo were S/ 65 million, a 12.5% increase on a quarterly basis and 13% decrease year on year. Growth versus previous quarter was mostly explained by incremental distribution of Inteligo's proprietary portfolio recognized within net interest and similar income. The decrease in revenues year on year was explained by lower other income due to optimal market conditions during the previous year. Inteligo's bank fee income divided by assets under management remained stable at 1% in the quarter. As consequence of these results, Inteligo's net profit in the second quarter reached S/ 46 million, an increase of 13% on a quarterly basis, which led to the recovery of Inteligo's ROE to 26.5%, compared to the 22.3% reported in the first quarter.

Finally, we are also very proud to let you know that Interbank has been named Bank of the Year in Peru in 2018 by Euromoney highlighting the bank's financial performance, service quality and growth.

In addition to this recognition, as of July 2018, IFS is part of the Lima Stock Exchange Good Corporate Governance Index which acknowledges companies with the best corporate governance standards in Peru. As a result, IFS investors economically benefit from this as certain regulatory fees that are applied to the trading of shares are subject to 90% reduction with the objective of promoting a higher liquidity of these shares.

Now we welcome any questions you may have.

Operator: And at this time if you'd like to ask a question, please press * and 1 on your touchtone phone. You can remove yourself from the queue by pressing the # key. * and 1 on your touchtone phone for questions.

We'll go first to Jason Mollin with Scotiabank. Please go ahead, your line is open.

Jason Mollin: Thank you very much. My first question is on loan growth. It was quite robust, particularly in the credit card segment. You mentioned that your growth is related to clients that have already been clients. What are you doing to gain this market share and grow it to 15% year on year? Are you actively going after the clients? Is there more demand that's coming to you? What's driving this growth particularly in credit cards? Thank you.

Michela Casassa: Hi, Jason. Good morning. We've been undertaking a series of actions but I would say that one of the most important ones is the focus that we are having on the consumption part of the usage of credit cards. We've been strengthening, for example, our internet website where clients can now exchange the points that they have been gaining over time. It's a new website that actually we launched some months ago and that has gained a lot of traction and increased pretty much customer satisfaction. This together with some other commercial actions has led the billing of credit cards to grow more than 15% year on year. This is one of the things that is helping, if you want, to increase the share of wallet within these clients, especially this year. Of course, prior to that, as you may recall, we were not growing in our volumes of credit cards because we were still tightening our credit underwriting standards. After, I would say it was October/November last year when we started growing, these are the actions that we have been pushing strongly, if you want, to gain share of wallet within these clients which are mostly focused on the upper risk profile part of our portfolio.

Jason Mollin: That's helpful. And what about looking at the expected delinquency because of this growth? Should we expect, I mean clearly if you're going after your best clients and you're targeting them, we would imagine they're on the better side of the quality for that segment, but should we be expecting, given the change in mix, that there would be more provisions related to…

Michela Casassa: Not really, Jason, because as you can see from the numbers that we're showing also in the second quarter, when we showed the provisions which actually include the expected loss, under IFRS 9, we have even slightly improved that number since last quarter and we are not seeing any sign of deterioration because as I was explaining before, we are targeting the best risk profile clients. Up to today we are not seeing any sign of deterioration that should let's say point any increasing provision. Of course, yes for increasing volume but not as a ratio over the total portfolio.

Jason Mollin: Okay. And just my last question would be related to any other expected one-time adjustments, perhaps in insurance. We saw the adoption of the new mortality tables or change, I guess discount rates can always change, but should we be expecting anything in the second half of the year?

Michela Casassa: We are not foreseeing anything. Actually, you know we've undertaken the changes in the first quarter and these were the last ones that we were expecting.

Jason Mollin: Great. Thank you very much.

Michela Casassa: Thank you.

Operator: We'll take our next question from Andres Soto with Santander. Please go ahead.

Andres Soto: Good morning, Michela. Thank you for the presentation. My first question is related to loan growth potential. Definitely it's a big pick up in loan growth this quarter, which was sort of in line with what happened in Peru which expanded GDP 6% in real terms in second quarter. I would like to understand how sustainable is this level of growth that we saw this quarter. And more generally speaking, what is your current assessment of the multiplier between loan growth and nominal GDP growth at this point in the cycle?

Michela Casassa: Good morning, Andres. Thank you for your question. Regarding what we are expecting for year end, you know we gave guidance at the beginning of the year that was saying that the market should grow between, I don't know, 7% and 9% and we were going to outbid those numbers. Of course, as we stand today as of June we have registered a 13.6% growth in the portfolio, mainly I would say thanks to two things that have been higher than what we were expecting in the beginning. First, the recovery of credit cards that has been better than what we envisioned. And the second one is commercial loans, but commercial loans more related to corporate loans than to the other loans. And on this second portion it is not really that this higher growth is 100% linked to the recovery of the economy, but also to some clients that are financing locally some of their debt that they were financing before maybe with foreign banks or capital markets. So basically for year-end what we are expecting is something that should be, I mean, of course in the two-digit area, but maybe something similar to what we have shown today with one doubt or one, if you want, uncertainty, which is again what is going to happen to corporate banking. Because there, you know, it is easy to gain market share or to grow more depending on prices. One of the things that has pushed the resuming growth in credit cards has been a slight recovery also of the internal demand. But for sure we have been growing more than that. So basically our expectation for this year is something in the area of low two-digits. We will have to see for next year what happens depending on the recovery of the economy, whether or not this is sustainable.

Andres Soto: Perfect. My second question is related to your insurance business. Excluding the effect of the new mortality tables, return on equity was 15% as you mentioned before. I was wondering if you can share with us your expectation in terms of medium-term profitability for this business segment?

Michela Casassa: This number that we are showing today, the 15% ROE, is like the first time with all the changes that we believe reflect better the performance of Interseguro. Basically these are the levels which we should be seeing going forward.

Andres Soto: Okay, very clear. Thank you, Michela.

Operator: We'll take our next question from Sebastian Gallego with Credicorp Capital. Please go ahead.

Sebastian Gallego: Hi, good morning. Thanks for the presentation. I have two questions. The first one, can you provide more color on the release of provisions on the construction sector? What's your expectation going forward? Whether there's a chance to release further provisions? And the second question is related also a follow-up on the insurance business. You mentioned the target on ROE, but I just want to understand a bit better how are you going to achieve this? What are the main drivers, taking into account that there won't be additional accounting changes? Thank you.

Michela Casassa: Good morning, Sebastian. Let's discuss first the question on release of provisions. The release of provisions of construction companies actually what has, if you want, impacted these figures is that, since the beginning of the year until today, we have reduced our exposure with this group of companies. And moreover, within those companies, let's say that profits have improved. So basically when you look at the IFRS figures, which are reflecting the expected loss on those construction sector companies, the expected loss, which is lifetime for some of them, has decreased substantially. In local GAAP, I don't know if you remember but we made these voluntary provisions at the beginning of the year. Even there, there has been some release of provisions, but still in one accounting or the other, we have, roughly speaking, S/ 70 to 80 million stock of provisions which are still kept there for this group of construction companies. I don't know if that answers the first question.

Sebastian Gallego: Yes. Are you talking about 70 to 80 million soles?

Michela Casassa: Soles, yes.

Sebastian Gallego: Okay, perfect.

Michela Casassa: And for the insurance…Sorry, say if I'm okay with that first question.

Sebastian Gallego: Yeah, that's totally fine. Thank you.

Michela Casassa: For insurance let me pass this to Gonzalo Basadre.

Gonzalo Basadre: Yes, hi. The profitability of the company comes mainly from managing the current portfolio, both on the asset side and the liability side. Just with the profitability of the investment portfolio less the payments we need to do to our annuity holders, we feel pretty confident that we can reach the profitability targets Michela mentioned.

Sebastian Gallego: Okay. And just a follow-up actually on that one. We saw that there was a marginal improvement on the real estate return on the investments. Can you talk a bit more about the outlook coming from the real estate investments of your portfolio and how do you think about this portfolio in the upcoming years?

Gonzalo Basadre: Sure. We are very positive on our real estate portfolio. We have pretty sizable landbank of properties plus we received some more from the merger with Sura. We've been working very hard to make those assets work for us, renting them or selling them. So you've seen that improvement in profitability. We expect that to continue in the following quarters.

Sebastian Gallego: Thank you. And just actually one follow-up on the provisions, Michela, if I may. I don't know if you mentioned in the answer whether or not there is a chance to release further provisions in the upcoming quarters.

Michela Casassa: Of course, as I mentioned to you, we still have some provisions for these construction companies. That will depend on the evolution of those companies. It is likely that there will be some extra release of provisions, but I don't think to such an extent as this time because this time as we're talking about the first six months or this quarter, this time I think it is happening a little more sizeable than what could be in the next one.

Sebastian Gallego: Alright. Perfect. Thank you very much.

Michela Casassa: Thank you.

Operator: As a reminder, * and 1 if you wish to ask a question today, * and 1 on your touchtone phone.

We'll go next to Isaac Nontol with Prima AFP. Please go ahead.

Isaac Nontol: Good morning and thank you for the opportunity. One question of my side and it's related to the adjustment in technical reserves. Could you please give us a little bit more color if this adjustment comes from Interseguro's portfolio or Sura's portfolio? Thank you.

Michela Casassa: Actually this comes from the total portfolio because the calculation of technical reserves is coming from as we have changed that discount rate, we apply it to the full portfolio. It's a mix of both portfolios.

Isaac Nontol: Okay, thank you. And if you could, could you please give us a little bit more color. These adjustments are related to annuities in local currency, foreign currency, inflation-indexed annuities?

Gonzalo Basadre: Let me give you some color. The methodology of calculating those reserves has changed. The way it was done before is that for all matched payments we had to make, we used an interest rate to calculate reserves that was equal to our investment return. For the unmatched payments, we used a 3% interest rate.

Isaac Nontol: Okay.

Gonzalo Basadre: Now we are using the risk-free rate of return plus a liquidity premium which is more or less around 50 basis points. That's why the reserves, the positive effect on equity base on reserves. In addition to that, we changed our mortality tables for all our portfolio, both that came from Sura and came from Interseguro. And we are using the new mortality tables published by SBS, which are a lot more conservative. That's the S/ 145 million hit on this quarter.

Isaac Nontol: Thank you very much.

Operator: As a reminder, * and 1 on your touchtone phone for any further questions today, * and 1 on your touchtone phone.

We'll go next to Jose Block with Profuturo. Please go ahead, your line is open.

Jose Block: Hi. Thank you for taking my question. I would like to understand if record earnings at Interbank level are 100% recurrent or maybe a portion of these results come from the release of voluntary provisions that you mentioned. Thank you.

Michela Casassa: Hi, good morning. Yes, actually a portion of the earnings in this quarter is coming from that release. But as was previously also asked, there could be some additional release in provisions from the construction companies if the behavior of such companies is good. For sure this quarter that has been a little bit higher than what we expect in the forthcoming quarters.

Jose Block: Perfect. Thank you for that clarification.

Operator: And it appears we have no further questions. I'll return the floor to management for closing remarks.

Michela Casassa: Okay. Thank you very much everybody for joining our call and hope to see you in the third quarter's conference call. Thank you. Bye-bye.