Operator: Good morning and welcome to the Intercorp Financial Services Fourth 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 the 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. Sir, please begin.

Rafael Borja: Thank you and good morning everyone. On today’s call, Intercorp Financial Services will discuss its Fourth 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 yesterday. There is also a presentation to accompany these results. If you didn’t receive a copy of the presentation or the earnings, they are 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 Mr. Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services for his presentation.

Mr. Castellanos, please go ahead, sir.

Luis Felipe C.: Great. Good morning. Thanks to everyone for joining IFS's Fourth Quarter and Year End 2018 Earnings Call. To start, let me comment briefly on the macro environment. 2018 was a good year for Peru in terms of GDP growth and macro indicators, especially when compared to our regional peers. All this, despite certain political volatility. Market consensus remains optimistic on having achieved close to 4% GDP growth for the year. Inflation rates remained low and under control. Public debt as a percentage of GDP diminished, fiscal deficit was further reduced, and the Peruvian Sol remained relatively stable.

We expect 2019 GDP growth to also approach 4%; we expect private investment to have a positive impact on the economy, as approximately $20 billion of private investment projects are expected to be executed in the next two years, with a large part going to the mining industry. The infrastructure sector should also play a key role in our positive outlook for this year, although works related to the Panamerican Games are on its final phase, projects such as Lima’s second metro line and Lima's airport expansion, together with the ongoing reconstruction of the areas affected by the El Niño phenomenon of a couple of years ago, should also support growth in 2019.

An eye should be kept in commodity prices and any natural events that could impact us, such as another El Niño phenomenon.

Moving on, let's talk about the financial system, which I believe had a good year. At the banking system, outstanding loans grew north of 10%, driven by increases of 11% in retail loans and approximately 10% in commercial loans. The banking system continues to be profitable, with earnings growing north of 10%, and ROE for the system reaching 18.5% in the year. The system is also well-capitalized with a total capital ratio of 14.7% as of year-end.

The insurance system saw an 8% growth in total assets in 2018, with total net premiums growing 13.6% when compared to 2017. Net profits grew 25%, a significant recovery with respect to the 18% contraction in 2017.

Now, let's talk specifically about IFS. We had a strong, solid year. Interbank continued to increase its market share in total loans both retail and commercial, and in retail deposits, with improving cost of risk versus the previous year, healthy levels of provisions, and good asset quality indicators reaching a 16.5% growth in recurring earnings and 20.3% ROE. Interbank is also well capitalized with total capital north of 15% and core equity Tier 1 of 10.6%. Our digital transformation efforts continue to deliver good results, with more capabilities being deployed for the benefit of our customers and increased usage and engagement.

We have more than tripled our IT CapEx in the last three years, with agile sales and operations increasingly gaining traction in our organization.

Interseguro completed its integration with Seguros Sura, reaching record earnings of S/ 361 million under Peruvian GAAP, approximately S/ 200 million excluding one-offs. Resuming growth in annuities and reaching a market share of more than 30% in such product, consolidating its leadership position.

Inteligo continued to grow in assets under management and achieved good levels of profitability. As you may know, at the beginning of this year, we announced the consolidation of our wealth management activities at Inteligo, by reorganizing Interbank's mutual fund subsidiary, Interfondos, into Inteligo Group. This reorganization's objective is to boost our wealth management activities to help us to continue providing high-quality financial services to our customers.

In all, we are confident that the IFS platform is well positioned to continue to take advantage of the opportunities ahead of us, while positively contributing to the growth of Peru and the wellbeing of Peruvians.

Now, let me pass it on to Michela for a deeper review of our results.

Michela Casassa: Thank you, Luis Felipe. And good morning to everyone. Let me start the discussion with an overview of the yearly results, and afterwards, we would review, in detail, IFS' quarterly performance. Please turn to Page 2. At Interbank, record year in growth and earnings, with a strong improvement in cost of risk. Earnings reached S/ 1,025 million, a 16.5% increase year on year, with 20.3% ROE. 17.3% year on year loan growth, supported by a 28.4% growth in credit cards. Market share of total loans increased 60 basis points during the year, up to 12%. Cost of risk was down 60 basis points in the year, to 2.5%.

At Interseguro, fully merged Interseguro plus Seguros Sura, consolidated as market leader in annuities. The full year recurring ROE increased 240 basis points to 9.4%, the yearly growth in premiums reached 45.6% boosted by the merger with Seguros Sura and very good fourth quarter results. Interseguro consolidated as the leader in annuities with a 30.2% market share, up from 23.6% in 2017.

At Inteligo, solid year in revenues, efficiency, and profitability, despite adverse market conditions on investments at year-end. Solid growth of 9.1% in assets under management plus deposits for the year. And as already mentioned, Interfondos will complement the wealth management product offering to existing and new customer base.

At IFS, 19.6% year on year growth in recurring profits at IFS, with a normalized ROE at 18.6%. The double-digit yearly growth in total revenues at IFS helped a 230-basis point improvement in the efficiency ratio, down to 34.8%.

On Page 3 of the presentation, we show you the yearly trends in earnings and ROE. IFS reached record earnings in 2018, with a recurring profit of S/ 1.2 billion. Interbank also reached record earnings as previously mentioned. This result was mainly due to faster growth in loans than the market of 17.3% year on year, as well as a more dynamic economic recovery, especially when looking at domestic demand figures. This growth, coupled with a strong improvement in cost of risk, has helped ROE to reach 20.3%, 80 basis points higher than recurring ROE in 2017. As we will see in a few minutes, our strong focus on digital transformation continues to show results with growing figures in all our main digital indicators.

Interseguro's 2018 earnings were S/ 83 million when excluding the negative impact of the new mortality tables of S/ 145 million reported in the second quarter of 2018. Gross premiums plus collections grew 45.6% when compared to 2017 figures.

Finally, Inteligo's profit decreased 2.4% year on year, as an unexpected drop of security prices in global markets by the end of December affected the results from its proprietary portfolio. Core business growth remains strong with 9.1% year on year growth in assets under management plus deposits. ROE decreased when compared to 2017, but remained at healthy levels of 25.8%.

Now, let's have a look at some additional IFS key performance indicators on a yearly basis on Page 4. As showed before, the earnings of S/ 1,091 million at IFS, or S/ 1,236 million when normalizing the impact of the adoption of the new mortality tables at Interseguro. Recurring ROE reached 18.6%. NIM at Interbank remained stable, but recurring risk-adjusted NIM improved 40 basis points up to 4%. Recurring cost of risk improved 60 basis points to 2.5%, mainly due to lower requirements from credit cards. Total capital ratio for Interbank stands at 15.8% with core equity Tier 1 ratio reaching 10.6% as of December 2018.

At Interseguro, return on investments remained relatively flat at 5.8%. At Inteligo, fee income increased 5.7% on a yearly basis, mainly due to the acquisition of incremental accounts and assets under management.

Now, let's have a look at the quarterly performance on Pages 5 and 6 of the presentation. IFS net profit was S/ 280 million in the fourth quarter, a reduction of 11% on a quarterly basis and 2.4% on a yearly basis. The quarterly reduction was explained by lower contribution from IFS subsidiaries, mainly from Inteligo due to the previously mentioned impact from investments, as well as by a lower gain in securities at the holding due to the seasonality of dividend payments, which positively impacted the third quarter. ROE of 15.9% at IFS had a 50 basis point negative impact from unrealized gains in IFS equity of around S/ 120 million.

At Interbank, lower earnings are mainly due to a higher level of provisions which, as I will explain later on during the call, were mainly related to a high growth in our credit cards portfolio of 7.8% during the quarter, which is almost twice the growth of the previous quarter, and this is a product which has the highest provision requirement for performing, or Stage 1, loans under IFRS 9. NIM improved 20 basis points on a quarterly basis and 30 basis points when compared to the fourth quarter of the previous year. ROE for the period was 18%.

At Interseguro, gross premiums increased 1.5% on a quarterly basis, with market share in annuities increasing to 32.2% in the quarter. Earnings decreased 10% on a quarterly basis but grew 6.7% on a yearly basis. The quarterly reduction was mainly due to lower other income. The annual increase was mainly explained by higher net interest and similar income and lower other expenses.

At Inteligo, net profit was S/ 42 million in the fourth quarter, a 25% contraction on a quarterly basis, and 2.2% growth year on year. As mentioned before, earnings in the period were affected by an unexpected drop of security prices in global markets by the end of December. Assets under management plus deposits grew 9.1% on a yearly basis, while fees from financial services recovered when compared to the third quarter of 2018.

On Slide 7, we show you the evolution of the relevant net income which is the base for dividend payments of IFS, and which reached S/ 1,585 million in 2018, an increase of more than 30% when compared to the previous year, mainly explained by Interseguro's results, as well as a higher contribution from Interbank. As you can see from the figures, Interseguro has increased its level of recurring earnings from around S/ 85 million in the previous year to S/ 200 million after the merger with Seguros Sura, and the reported figures actually reached S/ 361 million, which also includes some extraordinary gains.

Now, let's have a look at each subsidiary's performance in detail. Starting with Interbank on Slide 9, you can see improvements in most of the key quarterly indicators at the bank. NIM increased and reached almost 6%, with risk-adjusted NIM close to 4%. Other income grew 11.5% in the quarter, with fees growing S/ 26 million in the quarter. Other expenses grew 6% in the quarter, with the efficiency ratio improving 130 basis points in the quarter.

Cost of risk increased in the quarter to 2.6% or 2.9% when excluding the positive impact of the release of provisions from the construction sector. This increase is mainly explained – as we will see in more detail later on – by the strong growth registered during the quarter in credit card loans, the product with the highest cost of risk in the portfolio, but also with the highest level of profitability.

The fourth quarter 2018 2.9% cost of risk is in line with our risk appetite, and well below the quarterly level registered during 2017, which reached 3.4% in the first quarter of that year. Even if these figures are not completely comparable as 2017 cost of risk was calculated under IAS 39 accounting standards, this gives us a comparison point.

On Slide 10, we are showing the further evolution of our digital transformation. As explained during the last call, the first phase of our digital transformation was mainly focused on building the 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 in the second phase in which we are increasing our efforts for educating clients to foster usage of our existing transactional capabilities, but also to buy products and services online, while completing the full set of digital capabilities.

Digital customers, who include clients that interact with the bank through our digital platforms, have reached 52% in the fourth quarter, from 39% in the fourth quarter of the previous year, representing a 44% increase year on year in the number of digital customers. Moreover, the number of 100% digital clients – which are clients that do not use branches any longer – has reached 20% as of year-end.

The percentage of transactions performed outside branches has continued to increase, reaching 95% in the quarter from 94% as of the same quarter one year ago. The percentage of functionalities that are available on our digital channels, which include transactions, sale of new products, and self-service features, has continued to increase, reaching 95% in 2018. Digital sales and self-service interactions have also continued to increase very importantly with the penetration reaching 28% as of the end of 2018, from 16% as of December 2017. This represents a growth of 64% in the number of digital sales and self-service transactions performed on our digital channels.

On Slide 11, let's have a look at the loan growth. We can see that we have increased our market share in total loans by further 10 basis points on a quarterly basis, and by a total of 60 basis points on a yearly basis, reaching 12% market share of total loans. Performing loans growth was 4.4% when compared to the third quarter, as retail loans increased 4.4% and commercial loans 4.3%.

Credit card growth reached 7.8% in the quarter, a pick-up in growth when compared to the 4.3% registered in the third quarter of 2018. On a yearly basis, performing loans further re-accelerated growth to 17.3%, due to increases of 18% in commercial loans and 16.7% in retail loans. It is worth mentioning that the year on year growth in credit cards has been increasing in every quarter of the year, reaching 28.4% as of year-end, and gaining 230 basis points market share during the full year 2018.

On Slide 12, total deposits grew 7.6% in the quarter, as the result of increases of 8.5% in commercial deposits and 6.6% in retail deposits. Retail deposits continued to grow, reaching 12.7% on a yearly basis, allowing us to gain 40 basis points in market share during the year. During the quarter, the high growth in commercial deposits allowed us to gain 30 basis points of market share, reaching 12.3% by the end of the year in commercial deposits and 12.6% in total deposits. Average cost of funds remained stable year on year at 2.9% but increased 10 basis points in the quarter.

One Page 13 and 14, cost of risk was down 60 basis points during the year, reaching 2.5%, or 2.2% when including the positive impact of the release of provisions for the construction sector companies. Cost of risk was 3.1% for 2017, and even if the figures are not fully comparable as 2017 corresponds to IAS 39 accounting standards, and 2018 figures to the newly-implemented IFRS 9, we can see a positive trend in all products, especially in credit cards, which improved from 14% in 2017 down to 9.5% full-year 2018, and which has helped the overall ratio for retail to go down from 5.3% in 2017 to 3.8% in 2018.

When looking at the quarterly figures, cost of risk was 2.9%, a 70 basis point increase on a quarterly basis, and 20 basis point increase when compared to the fourth quarter of 2017. The quarterly increase was mainly due to higher provision expenses related to the 7.8% growth in the credit card portfolio, as we have almost doubled the loan growth during the fourth quarter when compared to the previous one. This highervolume growth implies a higher level of provisions since credit cards have the highest requirement of provisions for Stage 1 among all products, close to 4% of all newly-disbursed loans.

This level of cost of risk is within our risk appetite, and well below the quarterly levels registered during 2017, which had a peak due to the El Niño phenomenon, up to 3.4%. In particular, in credit cards, cost of risk of 11.2% in the quarter is well below the average of 14% of 2017, and of every single quarter registered during that year, which stood at 15.4%, 14.9%, 13.1%, and 12.6% respectively, and again, within our risk profile and in line with our target for risk-adjusted profitability.

The non-performing exposure under IFRS criteria remained relatively stable. When looking at Stage 2 and 3 over total exposure, the ratio improved 20 basis points this quarter, down to 11.6% of the total exposure, and the same happened when looking specifically to credit cards, which improved 40 basis points down to 14.1%, and which compares to a peak of 20.1% in the first quarter of 2017.

When looking at Stage 3 and refinanced loans – the way in which we measure NPL ratio – this ratio was 2.9%, an increase of 10 basis points in the quarter, but a decrease of 30 basis points when compared to the previous year. This ratio, though, continued to improve in credit cards, 20 basis points this quarter, down to 4.6%, and which compares to a peak of 6.9% in the second quarter of the previous year.

Moreover, total NPL coverage ratio, which measures the coverage of Stage 3 and refinanced loans under IFRS methodology remains strong at 131%, and well above the previous year level of 118.4%, and that number has reached 200% for credit cards, specifically.

On Page 15, when looking at SBS figures comparable to the system, related to cost of risk, Interbank's PDL ratio remained stable in the quarter at 2.6% but improved 30 basis points when compared to the previous years. The system PDL was 3%, 40 basis points above Interbank's PDL. When looking at the PDL breakdown, we can see, within retail, that consumer and mortgages PDL ratio increased 20 basis points in the quarter, to 2.3% and 3.9% respectively. Credit cards PDL ratio, on the other hand, decreased 10 basis points to 4.1%. With respect to the commercial banking, the corporate PDL ratio remained stable quarter over quarter, while medium, and small and micro PDL improved to 3.2% and 7.5% respectively.

Our 2.4% cost of risk in local GAAP for the quarter, remains above the system average of 1.8%, mainly due to the higher incidence of retail and credit card loans in our portfolio mix, especially when compared to the system and to the other three main banks. Normalizing this portfolio effect, our ratio would be 1.8%, aligned with the system average.

On Page 17, as of 2018, Interbank's capital ratio of 15.8% is 410 basis points above its risk-adjusted minimum requirements, established at 11.7%, and above the system average of 14.7%. Core equity Tier 1 ratio improved 50 basis points during the year, reaching 10.6%.

Please turn to the following pages to discuss Interseguro's results. On Page 19, gross premiums plus collections in the fourth quarter increased 1.5% on a quarterly basis and 43.5% on a yearly basis. Annuities gross premiums increased 33.8% year on year, with market share at 32.2% for the quarter. Retail insurance increased 3% in the quarter and 10.6% year on year, while individual Life, together with Disability and Survivorship, showed strong yearly increases, mainly due to the incorporation of Seguros Sura.

It is worth mentioning that during the last tender process, Interseguro was not awarded with any position of the Disability and Survivorship contracts related to the private pension system. Although this would imply reduction in gross premiums sold starting the first quarter of this year, most of the premiums sold under similar contracts in the past were reinsured and had a marginal impact on Interseguro's levels of net premiums, margins, and profitability.

On Page 20, total premiums earned less claims and benefits, resulted in minus S/ 68 million in the fourth quarter, an improvement of S/ 7 million quarter on quarter, but a decrease of S/ 15 million year on year. The quarterly increase was mainly explained by a S/ 10 million reduction in the adjustment of technical reserves, partially offset by a decrease in net premiums as well as in net claims and benefits incurred.

On Page 21, Interseguro's investment portfolio reached S/ 11.3 billion, relatively stable on a quarterly and yearly basis. Results from investments in the fourth quarter were S/ 170.4 million, again relatively flat to the previous quarter, as lower net valuation gain on real estate investments were offset by the reversion of provisions for impairment loss on available-for-sale investments registered at other expenses. Return on Interseguro's investment portfolio was 6%, relatively stable to the third quarter.

Please turn to the following pages to discuss Inteligo's results. On Slide 23, net interest and similar income was S/ 29 million in the fourth quarter, a 10.5% increase on a quarterly basis, and 28% increase on a yearly basis. Net fee income from financial services was S/ 31 million, a 17% increase on a quarterly basis and 1.5% year on year. Both the quarterly and annual increases were explained by higher fees from funds management.

Inteligo's other income reached S/ 4.3 million in the fourth quarter, a decrease of S/ 18.8 million when compared to the third quarter, and S/ 22.6 million when compared to fourth quarter of the previous year, attributable mainly to bad market conditions that prompted lower mark-to-market valuations at the end of the year when compared to positive ones in the third quarter.

Inteligo's other expenses reached S/ 23 million in the fourth quarter, a 10% increase on a quarterly basis and 43% decrease on a yearly basis. The quarterly growth was mainly due to higher administrative expenses, while the annual reduction was mainly explained by the recognition of an impairment loss on available for sale investments in the fourth quarter of the previous year. Excluding impairment charges, total other expenses would have decreased S/ 5.4 million or 19%, year on year.

On Page 24, assets under management plus deposits reached S/ 15.5 billion in the fourth quarter, an increase of 1.6% on a quarterly basis and 9.1% on a yearly basis. The quarterly increase was mainly explained by a growth in deposits. The annual increase was mainly due to the opening of accounts as a result of a strengthened prospection strategy of clients during 2018. Inteligo's loan portfolio reached S/ 1.6 billion in the quarter, an increase of 21% on a quarterly basis, and 18% on a yearly basis. Revenue generated by Inteligo was S/ 64.6 million, a decrease of 15% on a quarterly basis and 19.7% on a yearly basis, contractions that were entirely explained by the decrease in other income as previously explained.

All other business lines show healthy growth, while Inteligo's bank fee income divided by assets under management was stable at 0.9%. Inteligo's net profit in the quarter reached S/ 41.7 million, with a 25% decrease on a quarterly basis. However, when excluding the mark-to-market impact on investments previously mentioned, profits would have grown 17% on a quarterly basis and 9.5% on a yearly basis.

Now, we welcome any questions you may have.

Operator: If you would like to ask a question please press the * and then 1 on your touch tone phone. You may withdraw your question at any time by pressing the # key. Once again it is * and then 1 to ask a question.

And we can take our first question from Adriana de Lozada with Scotiabank. Your line is now open.

Adriana de Lozada: Good morning Michela, Felipe, and team. My question relates to cost of risk. So, you explained that it was impacted by credit cards – an increase in credit cards in the quarter. But we also saw a post-provision NIM decline in the quarter. So, I just wanted to know, going forward, how do you see the evolution of post-provision NIM. Thank you.

Michela Casassa: I'm sorry I couldn't hear you exactly. The question is related to the evolution of risk-adjusted NIM, was that it?

Adriana de Lozada: Yes, correct. Correct. Because cost of risk was higher in the quarter, impacted by credit cards as you explained, and so I wanted to know how we can think about the post-provision NIM going forward.

Michela Casassa: Basically, what we are envisioning is a stable risk-adjusted NIM, which also due to the little volatility that the IFRS methodology includes, it can be a different proportion within the cost of risk and the total NIM, but basically stable risk-adjusted NIM, this is what we're foreseeing for the near future.

Adriana de Lozada: Alright. Thank you.

Operator: And our next question comes from Andres Soto with Santander. Your line is open.

Andres Soto: Good morning everyone. Probably a follow-up to the previous question, and it's related to your profitability at Interbank, which stood at 18%, partially due to this increase in cost of risk. I would like to understand if this is what you consider the sustainable cost of risk for Interbank at this point of the cycle, or you are seeing any upside to this number based on your expected growth in 2019. And to that point, if you could provide a brief guidance of what you're expecting in terms of loan growth, NIM and cost of risk for this year. Thank you.

Michela Casassa: Thanks for the question, Andres. Basically, what we have seen this quarter is a 2.9% cost of risk. This is has been very much impacted by what I explained and the higher incidence of credit cards which is the product with the higher provisioning level. And basically, for the next year, we expect to be close to 3%, but this should go together with a profitability or a level of ROE that should be, on average at year end, around 20% with stable NIM as I previously mentioned. This would be the guidance that I would like to give to you by now.

Andres Soto: Thank you, Michela. And related to loan growth, what are you expecting – what are you seeing for 2019?

Michela Casassa: The system ended up growing this year, 10% – approximately. We are seeing a system that next year would grow something similar to that, so we should be outpacing that growth of the system and remain at levels of double-digit growth – like low double-digit growth, when we are showing 17.6% year on year growth, we are showing the year-end growth figures which are also very positively impacted by the 28% growth in credit cards, that had kind of a rebound effect after not growing the previous year. So, basically, similar levels of growth on an average level, so double-digit growth – low double-digit growth and outpacing the market so that we can continue to gain market share.

Andres Soto: Perfect. Thank you.

Operator: And we will take our next question from Alonso Aramburú with BTG. Your line is open.

Alonso Aramburú: Hi. Good morning and thank you for the call. Also, a follow-up on cost of risk. Michela, can you comment if there's more possible reversions of provisions related to construction, maybe in the short term? And can you comment, also, on the behavior of new vintages in credit cards whether you're comfortable with the asset quality in that segment? And I also wanted to ask you about expenses; this is the second quarter where Interbank's grows expenses double digit year on year, how should we think about growth of expenses in 2019?

Michela Casassa: Good morning, Alonso. Thanks for the questions. Let's start with construction companies: we don't expect major releases of provisions in construction companies. There might be something left, we would need to see the behavior of those clients. But nothing – if you want as big as what we had this year, when you sum up the second, third, and fourth quarters. Because have in mind that when we adopted the IFRS 9 methodology, there was an increase in the stock of provisions, which then during the year has been partially released.

Related to the vintages of credit cards, if you look at the quarterly performance that we have been showing you in the cost of risk this year, actually, we have reached very low levels. We ended up last year with 12.6% as cost of risk of credit cards, then we went down to 9.4% in the first quarter, 9.2% in the second quarter. And at that time, we told you that – we were not expecting to continue to lower that cost of risk, and that most likely it was going to grow a little as we were in this strategy of improving the risk profile of the total portfolio, that number continued to decrease.

But at some point, when we ended up this... if you want, cleaning up of the portfolio, and we felt comfortable with the level that we had in the portfolio, we started growing back again. And the strategy for this year would be to grow a little bit more in higher risk profiles – I mean this is not going to change dramatically the risk profile composition of the portfolio, but it is going to bring a little bit more cost of risk, specifically in that product.

So, basically, we have ended up at 11.2% for the quarter, and that number specifically, could grow a little bit more in the coming quarters. But again, we think the risk profile that we have in mind is well below the level that we had last year, which, at some point, reached even 15.4%.

Related to expenses, actually, there are a couple of things that are impacting expenses at Interbank. There are two things that are showing a little higher – if you want – growth in other expenses in the quarterly evolution, which I would explain being related to accounting principles. One is related to the payment of the *participación de trabajadores*... the profit sharing that is related, actually, to local GAAP accounting and not

IFRS. So, that has increased in the quarter, so that has hit a little bit expenses.

And the second one, which actually is not related to operating expenses, but is something that is related to extraordinary expenses for a loan that we have (*adjudicado*) awarded that creates a negative impact in extraordinary expenses, but a positive one in provisions. So, you see the negative impact in expenses, but actually, there is an offsetting line in provisions.

So, when I exclude those two things that I'm telling you, actually the quarterly increase in expenses is only 1%, and the yearly one that is shown here at 14%, is only 8.7%. In any case, when you look at the yearly increase in expenses – which stands close to 7%, that level has increased a little bit, when you compare that with the previous year. And this, as we have discussed before, goes hand in hand with the increase in the level of investments that has tripled from 2015 to 2018, related to the digital transformation.

This is something that you will see going forward. So, again around 7% increase in expenses. But as long as we are able to continue to grow our revenues more than that, the efficiency ratio should slightly continue to improve.

Luis Felipe C.: Hi Alonso, it’s Luis Felipe. We continue to target a 40% efficiency ratio at the bank level. That's what drives our expenses and the revenue generation that we are looking from those investments.

Alonso Aramburú: Okay. Thank you for that. So, just to confirm on the cost of risk, Michela, the guidance you provided was 3% for 2019.

Michela Casassa: Yearly.

Alonso Aramburú: Yearly.

Michela Casassa: Yes, depending on the quarter, you may have something different more or less in the quarter, but yearly should be around that.

Alonso Aramburú: Great. Thank you.

Operator: And we will take our next question from Jorge Bayeto with Compass Group. Your line is open.

Jorge Bayeto: Hi. Thank you for the presentation. I want to ask about the variation in Interseguro's equity. What is the nature of the unrealized gains reduction during the fourth quarter? And is Interseguro's equity going to stabilize ahead or is it going to continue to be volatile? Thank you.

Gonzalo Basadre: The second part of your question, what was it, sorry?

Jorge Bayeto: Yes. I want to know if Interseguro's equity is going to stabilize ahead, because there was a considerable reduction in the fourth quarter, or is it going to continue to be volatile – the Interseguro's equity? I want to know if it's going to increase again in the following quarter.

Gonzalo Basadre: Two factors explain volatility at the equity level. First of all, is all markets available for sale, the change in value will be reflected both in the asset side and on equity; it wouldn’t flow to the income statement. And also, reserves are also recalculated using current market interest rates. And the change in value is also reflected in equity. So, we will have still some volatility on the equity side, some of which should be compensated because an increase in interest rates will affect inversely on our bond portfolio and our reserves, but still, we would expect to see some of that volatility to continue.

Jorge Bayeto: Okay. Thank you.

Michela Casassa: If I can just add something to that. Actually, when we implemented IFRS and when we did the change in Interseguro of moving the impact of the volatility from the P&L to equity, we reduced the volatility on the P&L, but this has caused an increased volatility on equity, thus on ROE. So, this is something that you will see in Interseguro, but it also impacts a little bit the bank and Inteligo. Because when you have unrealized gains, the equity is higher, so that impacts ROE at IFS level. Actually, at IFS level this quarter, we've had a 50-basis point impact on the ROE because of unrealized gains. So, this is something that we will try to show to you in the different quarters, but it's something that together with the IFRS 9 methodology, is going to accompany us in the next quarters.

Operator: And we can take our next question from David Oropeza with AFP Habitat. Your line is open.

David Oropeza: Hi. Thank you for taking my question. So, my first question is regarding the effective tax margin for this year. If you just do a simple calculus, you can see that the tax margin for this year was 27.6%, different from the 24% in 2017 and different from the 26% in 2016. Would you explain in detail why this difference?

Michela Casassa: Yes, there are a number of factors that impact these tax rates. On one side the contribution of Interseguro which is tax-free. So, that is one that depending on whether Interseguro contributes more or less within the total IFS tax rate, that varies.

The second thing is the bank. And actually, at the bank level, in 2018, the tax rate has increased versus 2017, and this goes hand in hand with the contribution of the tax-free investments that you make in the bank. So, if one year, those investments are higher, you have a lower rate; if those investments are a little bit lower, as was the case in 2018, the tax rate is little bit higher.

Luis Felipe C.: And mainly, those investments are related to sovereign...

Michela Casassa: Sovereign bonds, yeah.

David Oropeza: And do you think this tax rate is going to continue next year?

Michela Casassa: The rules should; the exact number would be difficult to tell you because it's going to be the result of the different things that I have just explained.

David Oropeza: I understand.

Michela Casassa: And the number that we have in mind, more or less, that we are running our numbers, is around 27%. But that number, again, can vary a little bit depending on what I just previously explained.

Luis Felipe C.: Current levels are a safe assumption.

David Oropeza: Okay. Thank you. So, my second question is regarding market share expansion. Interbank managed to grow 17.6%, 1.7 multiples more than the banking system, and it made the bank to expand market share, but apart from that it's the bank with most loan provisions in the system plus the lower PDL. So, my question is this: Do you think that the credit cards are going to decelerate the next year – or this year, sorry?

Luis Felipe C.: Hi, it’s Luis Felipe. Yes, probably our 28%, 30% growth of the last year would not continue to be that for this year. We expect to continue outgrowing the market, but probably at lower levels of that. And you're right, credit cards are the ones that contribute the most in terms of provisioning, not only for us, but for the system as a whole. So, the more you grow, the higher the weight of credit cards in your portfolio, your provisioning levels are higher, and that should be also looked at the profitability that we've probably being seeing.

David Oropeza: Yeah, but I think that makes it a little bit harder to run this kind of business. Regarding that, what is your strategy for the coming months to expand market share even in the case credit cards are going to decelerate, as you said?

Luis Felipe C.: Well, again, we expect the market to grow, as Michela said, between 8 and 10%. We are targeting to outpace that growth and it's – you mentioned it's hard, but we have to do it, and we build value propositions for our customers that we believe are attractive and enables us to continue attracting new customers and growing share of wallet with existing ones.

We have a very customer-centric approach in managing our portfolios, so we have, we believe, a good strategy to target that. And even though we are at a high level in terms of credit cards market share, we have ample room for growth in other products such as just plain consumer loans, mortgages – our market share is only 14%, we have also the possibility to continue growing in deposits and then do cross-selling. So, we have ample room for continue growing faster than the market, according to our view.

David Oropeza: Okay. Thank you.

Operator: And as a reminder it is * and 1 if you would like to ask a question today.

We would next go to Tiago Binsfeld with Itaú BBA. Your line is open.

Tiago Binsfeld: Hi, everyone. Thanks for taking my question. I'd like to hear, from you, about revenues from fees. What are you expecting in terms of growth for this line in 2019? Is it feasible to expect double-digit growth for revenues from fees? Thank you.

Michela Casassa: Hi, Tiago, and thank you for your question. Double-digit growth, I don't think is feasible, and actually what we have seen this year is a little bit of a deceleration in the growth of fees for two main reasons: on the retail side, as we go more digitally, there are certain fees that you are not any longer charging. But on the other side, one thing that has been offsetting if you want that decrease in fees on the retail side, is that with the strong growth we've seen registering not only in loans of credit cards, but in the usage of credit cards, which has also been double-digit and close to 20%, that has also helped us to increase the fees generated from merchants, so that is a positive development if you want.

On the other side, on the commercial side, there has been, of course, also, not a very much strong market in terms of new projects, new mid-term financing and FinCorp. So, that side, the commercial side of the fees, might recover a little bit this year, so that could help. But on the other side, as I was mentioning, digital is now reducing some of the fees that we were able to charge before. So, I would say that a single-digit growth for sure, this year.

Tiago Binsfeld: Thank you.

Operator: And this does conclude the Q&A session. I'd like to turn the program back over to Mrs. Casassa for any closing remarks.

Michela Casassa: Thank you very much. Thank you, everybody, for attending the call today. And we will speak to each other in the First Quarter 2019 Results in May. Thank you.