Operator: Good morning, and welcome to Intercorp Financial Services Third Quarter 2020 Conference Call. [Operator Instructions] 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 Third Quarter 2020 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, Chief Executive Officer of Inteligo.

They will be discussing the results that were distributed by the company yesterday. There is also a webcast presentation to accompany discussion during this call. If you didn't receive a copy of the presentation or the earnings report, 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.

Please be advised that forward-looking statements may be made during this conference call. These do not account for future economic circumstances, industry conditions, the company's future performance, or financial results. As such, statements made are based on several assumptions or factors that could change, causing actual results to materially differ from the current expectations. For a complete note on forward-looking statements, please refer to the quarterly report issued yesterday. It is now my pleasure to turn the call over to Mrs. Michela Casassa, Chief Financial Officer of Intercorp Financial Services for her presentation. Mrs. Casassa, please go ahead.

Michela Casassa: Thank you, Rafael. Good morning. And welcome, everyone, to Intercorp Financial Services Third Quarter 2020 Earnings Call. First, let me comment briefly on the health, macro, and political situation in Peru. Since the high point of the pandemic, the number of COVID-19 new cases per day has diminished significantly, from over 10,000 in mid-August to around 2,000 in recent days, despite the loosened restrictions related to social mobility. Economic activity is gradually recovering with some domestic demand-oriented sectors already posting positive performances on a year-on-year comparison. As we will see later during the presentation, macro expectations are improving, reflecting a positive sentiment towards a double-digit GDP growth rate in 2021.

An element of concern continues to be the political landscape in the country. As you are all aware, Peru currently has a transition government, headed by President Merino, former Head of Congress. The impeachment of President Vizcarra under corruption allegations came out as a surprise given the timing and the speed at which it was implemented. Currently, there is some debate about the vacancy process itself and its legitimacy. A couple of days ago, the new cabinet was announced and it includes names of seasoned politicians and technical professionals. The aim is to guide Peru through this transition period with presidential and congressional elections due in April 2021, and change of government in July, eight months away from now.

We continue to closely monitor the evolution of political news during these days. In this environment, banks have continued to help its customers to overcome the crisis by offering payment relief to individuals and companies as well as by granting Reactiva Peru loans to commercial clients. At the system level, gross loans grew 16.5 percent year-on-year as of September 2020, driven by a 26.1 percent increase in commercial loans, boosted by the Reactiva Peru program. However, retail loans at system level decreased 2.4 percent on a yearly basis, driven mainly by a decrease in the consumer finance component, while mortgages have started to recover faster and are actually growing year-over-year. Deposits are showing a strong growth, reaching a 22.6 percent year-on-year expansion.

Now let me start with the presentation. This time, we have divided it into four parts, which include financial highlights, key messages, the third quarter results, and takeaways at the end. I will start with a brief summary of financial highlights on Slides 3 to 5.

The main highlights are: Intercorp Financial Services has had an improving performance in the third quarter '20 with adjusted earnings up to PEN 329 million, and adjusted quarterly ROE up to 16.3 percent. Adjusted earnings for the 9 months are already positive at PEN 113 million. The third quarter earnings are positively impacted by lower provisions at Interbank and strong results at Interseguro and Inteligo. Interbank, back to profits; while Interseguro and Inteligo posted high profitability. Strengthened capital ratios at all segments, adjusted efficiency ratio at 28 percent, an improvement of 200 basis points on a quarterly basis and 680 basis points on a yearly basis. The digital trends and new alliances continue to support IFS' strategy.

At Interbank, the third quarter adjusted earnings of PEN 157 million positively impacted by lower provisions and top line recovery. 12.9 percent market share in loans, boosted by Reactiva Peru disbursements, quarterly recovery in revenues with adjusted net interest income growing 5.7 percent and total other income 26.8 percent, with a strong recovery of fees. 50 basis point quarterly reduction in cost of funds, down to 1.7 percent. Quarterly decrease in provisions, yet still above pre-COVID level, 4.5 percent cost of risk in the third quarter. 450 basis points yearly improvement in adjusted efficiency ratio.

At Interseguro, solid profits in the third quarter drove return on adjusted equity up to 19.4 percent in the nine-months 2020. Top line recovery and positive adjustment of technical reserves offset higher net claims and benefits. Cost containment measures resulted in 14.6 percent year-over-year reduction in other expenses. Results from investments increased 5.5 percent quarter-over-quarter and 8.5 percent on a yearly basis with return on investment portfolio reaching 6.2 percent. Interseguro continues to be the market leader in annuities with a 27.2 percent share year-to-date. Inteligo, earnings boost driven by positive investment results, nine-month return on adjusted equity recovered to 14.5 percent. Threefold quarterly and fivefold yearly growth in net profit. Revenues positively affected by mark-to-market on investment portfolio and a continued growth in assets under management, 3 percent in the quarter and almost 10 percent year-over-year.

On Slide 5, one of the good news this quarter is that top line has recovered nicely with adjusted total revenues for IFS growing 14.8 percent in the quarter and 10.3 percent year-over-year, driving the cumulative year-over-year growth to 4 percent. This is mainly thanks to a recovery in most revenue lines, including net interest income, fees and other income. This recovery has taken place in all three operating companies with adjusted net interest income and fee income growing 5.7 percent and 35.5 percent in the quarter, respectively for Interbank; and a strong recovery in other income at Interseguro and Inteligo. Expenses have continued to be under control, allowing us to further improve our efficiency ratio by 200 basis points during this quarter, down to 28 percent or 31 percent on a cumulative basis.

Now I will focus on the key messages we would like you to take home from this call on Slide 7. There are 5 messages, which we will cover in detail in the following slides: first, we have a strong liquidity and capital position, which we have substantially improved when compared to pre-COVID levels. Second, macro expectations and banking activity are gradually recovering from COVID lows, and stronger recovery in wealth management and insurance business, which should positively impact future results. Third, the digital trends continue to support IFS' strategy, which translates into growth of clients and business, outperforming the system. Four, lower provisions on a quarterly basis, still above pre-COVID levels; improving payment behavior among Interbank's retail clients. Double-digit decrease of costs in the quarter at IFS due to cost containment measures already implemented in each of the three operating companies to partially offset the top line impact.

Now let me move to Slides 8 and 9, where we cover the first key message related to liquidity and capitalization. During the third quarter, we have continued to see an increase in our total deposit base at Interbank of 2.6 percent, driving the YoY growth to reach 26.1 percent, which has helped our loan-to-deposit ratio to stand at 99 percent, below the system average. Moreover, the loan-to-deposit ratio in both currencies is at healthy level, with the loan-to-deposit ratio in soles at 115 percent, well below the 120 percent of the system. There has been an improvement in liquidity in the financial system due to the funds coming from the private pension funds as well as the unused portion of the funds coming from the Reactiva Peru loans. We have been able to benefit from this situation and to gain 10 basis point market share in retail deposits in the quarter, while continuing to increase our total deposit market share 40 basis points year-over-year.

Moreover, we have ample liquid financial assets with PEN 24.8 billion at Interbank, out of which PEN 16.3 billion are cash and equivalents and have around PEN 900 million at IFS stand-alone level, out of which more than PEN 400 million are cash and equivalents, which could cover IFS current obligations for more than three years. On Slide 9, we have a solid capital position at all three operating companies of IFS. Since the beginning of COVID, we have taken important measures to strengthen our capital to be ready to face the difficult and uncertain times to come, described in our previous conference call. With this, our total capital ratio as of the end of September was 17 percent at Interbank compared to 15.6 percent of the system and the minimum 10.6 percent required by the superintendency. This means we have over 600 basis points buffer in our total capital ratio.

Our core equity Tier 1 was 11.4 percent, 30 basis points above the second quarter ratio. At Interseguro, our solvency ratio stands at 167 percent, well above the 100 percent required; while at Inteligo, our capitalization ratio is 24 percent; again, well above the 8 percent required.

The second key message on Slides 10 and 11 is about the recovery in activity. Economic activity in Peru is recovering from low levels due to lockdown. During the second quarter, we have seen one of the strongest negative impacts of GDP of the region, declining 40 percent in April, 32 percent in May and 18 percent in June. The positive news is that this quarter, we have continued to see a recovery of different indicators, including the mining and fishing GDP as well as cement consumption. Meanwhile, expectations on economic activity are moving towards positive ground. Total loans to the private sector are growing 14 percent as of the end of September, mainly driven by Reactiva loans. Excluding such effect, total loans at system level are decreasing 2 percent with retail decreasing 2.4 percent and commercial loans, excluding Reactiva, decreasing 4.3 percent. On Slide 11, monthly operating trends at IFS indicate positive developments in activity for the third quarter as well as for October. At Interbank, debit and credit cards turnover has recovered to almost 90 percent of pre-COVID levels. New disbursement of payroll deduction loans to the public sector employees have already reached pre-COVID levels; while mortgages is already above pre-COVID levels, growing 12 percent versus February.

Total fees for Interbank are at 80 percent of pre-COVID level, having reached a low 48 percent in April. The same is true for Interseguro and Inteligo, which have seen a recovery in gross premiums to more than 90 percent of pre-COVID levels, and have higher assets under management in October than February, respectively. This recovery should help our top line to recover during the following quarters as well.

Moving on to the third key message on Slide 12. Our digital KPIs continue to show positive trends, supporting IFS' strategy. As a result of the lockdown and our efforts to boost the use of our digital solutions, we have seen an acceleration of our digital indicators. Digital users have continued to increase and are 75 percent of our customer base as of September, up 14 points from one year ago. 100 percent digital customers, which are clients that do not use branches or contact center any longer and who use digital channels, plus ATMs and correspondent agents only for cash-in and cash-out, have reached 53 percent, up 21 points from one year ago. Digital sales have also seen a rapid increase. At Interbank, retail digital sales reached 45 percent. And at Interseguro, SOAT digital sales reached 83 percent, both increasing sharply from one year ago.

We have continued to see an important number of new digital accounts being opened, both for individuals and small businesses. As of the end of September, 50 percent of new retail saving accounts were opened digitally and 47 percent of business accounts. New digital client acquisition of retail customers reached 33 percent as of September compared to 21 percent one year before, after a peak of 65 percent in June this year. We believe digitalization of new accounts is mainly due to two factors: On one side, the extension of the lockdown is pushing an acceleration of digital; and on the other side, the need to have an account to be able to receive the government's aid packages faster, both for individuals and small businesses, as well as to receive the pension funds deposits.

Our investment to build our digital capabilities during the last year have definitely placed an advantage for our customers and operations under current circumstances. On Slide 13, we have reached 3.9 million retail customers and almost 100,000 businesses. Our retail client base has increased 15 percent year-over-year, while our commercial client base has increased 46 percent year-over-year. 100 percent retail digital customers have grown more than 80 percent in one year, reaching 1.1 million. PLIN, the P2P payment feature among multiple banks operating with cell phone numbers, is already active in more than 1.8 million clients, 38 percent of which used Interbank as key account. Tunki, our 100 percent digital solution for payments has reached 551,000 users as of the end of September and almost 700,000 as of today.

On Slide 14, we have signed a partnership with Rappi to deliver 100 percent digital products in Peru. Some characteristics of the agreement are that we will develop 100 percent digital products only accessible through Rappi app and the first product, already launched, is a digital saving account with the possibility to make payments within the app. On Slides 15 to 17, the 4 key message refers to lower provisions registered during this quarter, but still above pre-COVID levels. There are three positive trends we have seen during this quarter. On Slide 15, the first positive trend is that outstanding rescheduled loans have slightly decreased. As of September, outstanding rescheduled loans were PEN 11.8 billion or 28 percent of the total loan book, in line with the system. This number represents a 7 percent decrease versus June. This is true for both retail and commercial portfolios. Moreover, the number of total clients rescheduled has also decreased as the new inflow has been marginal during this last month, including October.

On Slide 16, the second positive trend is that we are seeing an improving payment behavior among Interbank's clients. As of October, 96 percent of our total retail portfolio has already had a payment due, which means that only 4 percent of the retail portfolio is still under grace period, mainly concentrated on credit cards, structural rescheduling. 60 percent of the retail portfolio has not been rescheduled and is registering a very good payment behavior. Almost 98 percent of clients are paying their installments, only 0.2 percent has requested an additional relief during October, and only 1.9 percent have not paid. Summing up new requests of relief and not paid, this represents a 2.1 percent as of October, which compares to 2.6 percent as of July.

Of the 40 percent of the retail portfolio, which has been rescheduled as of October, 92.6 percent of clients are paying their installments, only 1.2 percent have requested an additional relief during October and 6.2 percent has not paid. Again, summing up new relief requests and not paid, this represents a 7.4 percent as of October which compares to 13.6 percent as of July. A similar payment behavior has been observed for credit cards as of October, with percentage of payments at almost 98 percent for the 44 percent of the portfolio that have not been rescheduled, while almost 97 percent for reactive rescheduling, 92 percent for unilateral rescheduling and around 86 percent for structural rescheduling. As for SMEs is concerned, the outstanding rescheduled portfolio is small at around PEN 800 million, out of which around 88 percent of clients have been paying their installments out of the 64 percent that have had payments already as of the end of October.

On Slide 17, the third positive trend in the quarterly evolution of provisions. Cost of risk for the quarter was 4.5 percent, which compares to the 13.4 percent of the second quarter. Looking at the cumulative cost of risk as of September, total cost of risk was 7.1 percent compared to 2.5 percent 1 year ago. As for retail is concerned, quarterly cost of risk was 8.5 percent, down from 23.6 percent in the second quarter, but still above the 4.3 percent of 1 year ago, driving the cumulative cost of risk to 12.6 percent. Commercial banking continues to have low levels of cost of risk, thanks to our small participation in the SME segment, and was 0.9 percent in the quarter and 1.4 percent on a cumulative basis.

NPL coverage for the bank as of September is up to almost 200 percent, and for retail loans is at more than 220 percent. It is important to have in mind that these coverage ratios will change in time as clients start to migrate between stages as their facilities continue to mature.

We believe provisions will continue to decrease in the coming quarters, mainly thanks to the conservative approach to provisioning of the second quarter plus the better behavior of payments of clients so far. Having said this, we will continue refining our calculation on expected loss during the months to come, as we will be able to further confirm the behavior of payment of clients.

Finally, the last of the key messages on Slide 18 refers to the disciplined and proactive management of costs we have pursued before and after COVID started, which has allowed us to achieve a double-digit reduction in cost in the third quarter when compared to the previous year and to improve our efficiency ratio at IFS and in each of the operating companies. Efficiency ratio at IFS is below 30 percent in the quarter with Interbank at 35 percent.

The good and improving efficiency ratios are the result of a disciplined approach to expenses throughout the company.

As an example, we have continued to implement our branch optimization program started in 2016, and have closed additional 22 branches during 2020, reaching a total reduction in the number of branches of 20 percent from the peak in 2016 and of more than 8 percent this year. Additionally, we should be closing 15 more branches before year-end, driving this number further down. Moreover, we have some variable costs related to credit card activity and to incentives that have decreased substantially during the quarter, in line with the lower activity.

But one additional thing that we did right after the COVID outbreak and the beginning of the lockdown in Peru was to launch a very important cost containment program in all operating companies, in order to decrease the cost base to partially offset the negative impact on top line coming from the lockdown. We are expecting a total decrease in the cost base for IFS of around 5 percent in 2020 versus 2019.

Now let's have a closer look at some additional indicators and trends by segment in Slides 20 to 28. On Slide 20, we are showing our key banking indicators. NIM decreased 30 basis points in the quarter, down to 4.7 percent when excluding the impact of loan rescheduling in net interest income, which accounted for 100 basis points in NIM in the second quarter and 10 basis points in the third quarter. This decrease in NIM was related, on one side, to the portfolio mix with retail loans decreasing in the quarter; and on the other side, to the Reactiva loans at low yields. Impact from Reactiva loans on NIM was around 40 basis points in the quarter. Total other income grew 27 percent in the quarter, mainly driven by increases of 35.5 percent in net fee income due to a recovery in transactional volumes, especially in credit card services. Other expenses grew on a sequential basis due to the recovery in some business activity lines, but were considerably lower on an annual basis as cost containment measures remain in place.

On Slide 21, our year-over-year loan growth has accelerated to almost 20 percent this quarter, mainly thanks to the Reactiva loan disbursements. Commercial banking grew 10 percent in the quarter and 46 percent in the year, while retail banking decreased 2 percent in the quarter, driven by a 7 percent contraction in credit cards volume. The strong growth in commercial loans, together with a softer reduction in the retail portfolio than the system, has led to an increase in our total loans market share of 30 basis points in the quarter, up to 12.9 percent.

On Slide 22, we continue to help our clients to finance their working capital needs through the current crisis with Reactiva loans. As of the end of September, we have outstanding PEN 6.7 billion in Reactiva loans, which have boosted our commercial loan book by 41 percent since the first quarter. Most of these loans have been granted to the mid-sized and SME businesses, increasing our portfolios 68 percent and almost 200 percent, respectively, between March and September.

As of November 10, 33 repo auctions have already taken place in the country for a total amount of PEN 55 billion or 92 percent of the total amount to be disbursed. Interbank has been able to obtain PEN 6.8 billion or 12 percent of the funds, which is above its market share in commercial banking of 10 percent. The funds distribution has been PEN 2.6 billion in the 90 percent guarantee bucket, PEN 2.1 billion in the 80 percent guarantee bucket, and the rest between the 95 percent and 98 percent guarantee bucket. We have already disbursed around PEN 7.1 billion as of today.

On Slide 23, total deposits grew 2.6 percent in the quarter and 26 percent year-over-year, allowing us to gain 40 basis points market shares when compared to the third quarter 2019, reaching 13.1 percent. Retail deposits grew almost 4 percent in the quarter and almost 28 percent on a yearly basis, gaining 40 basis points year-over-year to a record 13.9 percent as of September. Due to banks, which include the Central Bank's funding from the Reactiva Peru program, has increased 33 percent on a quarterly basis, in line with the funds we have led to our clients. Cost of funds has continued to improve, reaching 1.7 percent in this quarter, a reduction of 50 basis points in the quarter and 120 basis points year-over-year. This positive development came from several factors like decreases in market rates, a better funding mix, and the higher funding from the Central Bank. Additionally, the yield contraction was also due to the redemption of an expensive Tier 1 bond in April.

On Slides 25 and 26, the quarterly and monthly premiums from Interseguro show a clear recovery trend. In the third quarter, all business lines grew with private annuities leading the recovery in premiums, followed by retail insurance and individual life. Looking at October numbers, we have continued to see a strong recovery in all business lines, even in traditional annuities, while private annuities and individual life already above pre-COVID levels since September. Interseguro remains the market leader in annuities with a 27.5 percent market share in the quarter. On Slide 26, Interseguro's investment portfolio reached PEN 13.2 billion, a 4 percent increase on a quarterly basis and 7 percent on a yearly basis. Results from investments increased 5.5 percent on a quarterly basis, reaching a 6.2 percent return on Interseguro's investment portfolio, 10 basis points above the previous year's level.

Moving to the Wealth Management segment on Slides 27 and 28, Inteligo posted very strong revenues in the third quarter, explained by a positive mark-to-market of PEN 77 million accounted in other income, which grew from a positive PEN 10 million in the second quarter. This improvement in other income has led to an increase in total revenues at Inteligo from PEN 59 million in the third quarter of last year to PEN 71 million in the second quarter of this year and PEN 140 million in this quarter. On Slide 28, Inteligo's assets under management reached almost PEN 20 billion in the third quarter, a 10 percent increase on a yearly basis. Thanks to the strong growth in the top line and the cost containment measures implemented since March, Inteligo's net profit of PEN 111 million was more than 3 and 5 times those from the second quarter 2020 and the third quarter 2019, respectively.

On Slide 30, I want to close the presentation with a brief summary of the 5 key messages. First, we have a strong liquidity and capital position, which we have substantially improved compared to pre-COVID levels. Second, macro expectations and banking activity are gradually recovering from COVID lows, and stronger recovery is already in place in Wealth Management and the Insurance businesses, which should positively impact future results. Third, the digital trends continue to support our IFS strategy, which translates in growth of clients and business outperforming the system. Four, lower provisions on a quarterly basis, still above pre-COVID levels and improving payment behavior among Interbank's retail clients. Five, double-digit decrease of cost in the quarter at IFS due to cost containment measures already implemented in each of the three operating companies to partially offset the top line impact.

Thank you very much. And before opening for questions, I would also like to comment on the latest and very good news related to the inclusion of Intercorp Financial Services in the MSCI Peru index this month. This is a milestone for IFS after one year of our New York Stock Exchange IPO in July 2019. Now, we welcome any questions you may have.

Operator: [Operator Instructions] And we will take our first question from Ernesto Gabilondo with Bank of America.

Ernesto Gabilondo: Hi. Good morning Luis Felipe and Michela, and good morning everyone. Thanks for the opportunity and congratulations on your strong recovery and on ROE, again, above 15 percent. My first question is on the political and regulatory outlook. I would like to hear your thoughts on the new President and his administration. And I believe there is a potential view to nationalize the private pension funds. However, as you do not own an AFPs, I think you will not have a direct impact in your operations, but just want to know your view? And then what concerns me is a potential bill to regulate interest rates. So, I would like to see your thoughts on that one.

And then my second question is on your deferred portfolio and non-rescheduled portfolio. Can you repeat how much of the portfolio has already resumed payments? And how much of the portfolio will do it during the last quarter? And finally, do you think that the last wave is expected to behave similar to what you saw in July and October? And do you think you will need additional provisions for the last wave of the portfolio or do you think that you have already built those provisions during the first nine months? I think your answer will be the second one, as you mentioned that provisions will continue to trend down, but just want to hear your thoughts.

Luis Felipe: Hi, Ernesto. Luis Felipe here. Thank you very much. I'm going to take the first part of your question, and then Michela will help me on the second. The political outlook, obviously, a lot of things happening now, everything is very recent. So, we are monitoring the situation. The President, who was just sworn in a couple of days ago, well, he is an experienced politician, he is an entrepreneur, and he is not very popular, as you know. And I think the key is rather than trying to understand him is to see what actions he starts taking. And I don't want to like provide an opinion here. But I think the most relevant thing is to closely monitor the actions he is taking. The first thing is that he was able to name the new cabinet, which is a mix of seasoned politicians and technical professionals, but I think there's a positive read around that. Obviously, given the situation and the way that the new government came into office, not everybody is happy, so this has to be digested. But if we take a cold look at the names of the key posts in cabinet, including the Prime Minister, who is Ántero Flores-Aráoz, he is a very well-known politician. He has lots of experience, he has been in office before. He is center, I would say, center. His views towards the market are market friendly. And then you see like the Health Minister, which is also very important, given the pandemic. He is also a person with experience that has a clear view on what needs to be done. And then you have the Economy Minister, Mr. Arista, who is also a very solid professional. He has some experience as Vice Minister in the Ministry of Finance before. He's been Minister of Agriculture. He is--again, his reputation as a solid professional is very positive.

So, even though lots of things are happening these days, I think it's going to be key to continue looking at what steps are being taken. I guess the messages around the stability that is required under these circumstances is positive. The fact that they have reinstated that election dates are something that is non-negotiable, and they will happen in less than 5 months, is also positive. And I guess they're taking what a usual transition government would take in order to conduct the country towards the next phase. Probably we won't see big reforms, big changes. And the key will be more messages coming, and being very important, how firm the independence of powers between the legal, like the judiciary executives are enacted, something that we're paying attention because if that gets consolidated, obviously, we continue to take steps in the right place.

That will be key for the regulatory risk. I don't like the regulatory risk. There's a couple of views here, but it's really if the government is able to strongly establish this separation of powers, then the regulatory risk will be the same as we had before with a Congress that was very populist trying to do things. But more and more, there was a space to have conversations with the technicians to support the congressmen and an evidence of that was what was enacted in terms of the moratorium of the banking debt. At the end, as you know, we were able to get something that was more digestible, that made more sense and very far away from the initial ideas that were presented from Congress. They called in the superintendency, they called in the Central bank, they called in some technicians, and the outcome was a bill that has already been deployed that was making more sense than we had before.

So, as long as the Central Bank continues to be independent, which is something that there's no questions about that in Peru, Julio Velarde continues to have a very active and important role, and we expect that to continue as long as the superintendency continues to be as professional as it has been with like sound regulations and defending the financial system, as it has been done during the many years ago and that will continue. And again, with the view of -- the technical view that we are seeing of the Ministry of Finance, with Pepe Arista there, that should also be okay news for the coming months, while the transition continues. And specifically, on your question about the interest rate caps. There's -- again, we're going through the same process of what we did with the moratorium. The projects are there. And now Congress is opening up to listen to the experts, including, again, the Central Bank, the superintendency and people from the Ministry of Finance or Economy to really come up with a consensual view. The last I saw was a draft that was giving the Central Bank the responsibility to set rates if required, okay?

Again, so as long as the Central Bank continues to be as it has been for the last 20-plus years, my view is that the responsibility will be the one that will prime above populist measures regarding that, because we all know that there’s lots to do in terms of bancarization and setting caps on bancarization is widely understood in Peru that would have a negative effect in bringing more people into the system as it has been evidenced in other countries. So, that's part of the process. We are actively working from the bank association, with Cajas, with microfinance, with Financieras, because all these are more affected than just the banks. But we're in the middle of the process.

And so, we don't have that clear view in terms of it will be enacted or not, and what would the timing be? And then in terms of the pension fund reform, that's also under discussion. But as you know, we are not participating in the pension fund business. What we've seen, once the money comes out of the pension funds, we have a positive impact from the deposits coming into the banks. Interbank has been able to get a lion's share of those deposits, given the strength of our franchise and the fact that we had lots of digital solutions already deployed that help people bring money into the bank. So, that's also something that we are looking very closely. So, that's it for the first part. And now let me pass it on to Michela, so she can reiterate the points about the portfolio. Thank you.

Michela Casassa: Thank you, Luis Felipe, and thank you, Ernesto, for the question. Going back to Slide 16, okay, we are showing the retail loan balances with payments due. So, basically what we are showing there is that as of October, 96 percent of the retail loans have already had a payment due. So, only 4 percent is still on grace period and will mature from October until year-end. And as far as SME is concerned, which is a small portfolio of PEN 800 million, there is still a 36 percent outstanding balance that is in grace period, which will also now start to mature, and there will still be a small portion of that for beginning of next year.

And going to your third question related to additional provisions, I mean, what we are seeing is that every month, we are observing the behavior of payments of clients. And basically, what we are doing is refining our calculations of the expert criteria that we applied in the second quarter. So, that has allowed us this quarter already to register a much lower provision. And what we are expecting actually is to have these provisions, I mean, gradually converge through the fourth quarter and then 2021 to reach then the 20 -- converging to the 2019 level. But what we expect for specific for fourth quarter is lower provisions than what we have seen already, but still above pre-COVID levels.

Operator: Operator: Your next question comes from the line of Jason Mollin with Scotiabank.

Jason Mollin: My question is on profitability and sustainable return on equity. The third quarter was an impressive recovery, over 16 percent return on equity with good top-line growth, lower loan loss provisions, although still elevated, as you are saying they should probably be for a little bit, and improving operating efficiency. We did see very strong trading as part of that top line, and we saw a low effective tax rate. Can you talk about what you think is more of a recurring level of ROE? And how we should think about that going forward in the current context of low interest rates and perhaps some of these other factors? I mean, I don't know if we'll end up seeing interest rate caps, but maybe higher taxes in the future. What should we be thinking about longer-term profitability at IFS?

Luis Felipe: Okay. Jason, thank you very much for your question. Obviously, right now, we're -- still many parts moving on, even though as you mentioned, we had a recovery in certain of our businesses, I think early to draw upon like concrete conclusions. However, we do have a view of the trends that we expect. Obviously, we see profitability recovering again as the situation normalizes because we are still in the middle of the pandemic. We're still with an economy not completely recovered. So, while this continues to be back, given the information that we have now and what we're seeing, we obviously foresee that we will have a second wave in the pandemic that hopefully is not as strong as we are seeing in other countries, given that, all that has already happened in Peru. And so, it's not easy to come up with like concrete conclusions on the exact numbers. However, let me pass it on to Michela because she can build upon certain trends that we're seeing and that were expected in the coming future. Michela, please help here?

Michela Casassa: Thanks, Luis Felipe, and thank you, Jason. I mean, basically, you have seen this quarter return on equity being, I mean, already pretty high. As you mentioned, there are some trading gains from trading, which will not repeat like all quarters, in the coming year. But what we are sure about is that during 2021, I mean the full year, we should be at double-digit ROE levels again. And I guess the doubt is when we will be able to reach the high teens, which we believe it's going to be more on 2022. And some of the lines that are impacting actually, these trends and the little uncertainty that we have on how soon we are able to get to the high teens is, I mean for sure, first is the top line recovery. We have seen already top line recovery. I mean fee income has been super good.

Other income has been good. But there is still pressure on net interest income and NIM, despite the lower cost of funds that we are seeing. Again, we are expecting a lower cost of risk after the peak that we have seen in the second quarter, and it will gradually converge to 2019 levels. But one of the key variables that is a little bit difficult to predict today is loan growth because that depends actually on 2 specific things that are being kind of hard to predict. First, the speed of recovery of the consumer portfolio, which is still hardly hit. You have seen the numbers at system-level are still contracting. And the second is the recovery of the Reactiva loans outflows that we will be able to do during 2021.

We've had this strategy of being super proactive in Reactiva loans, also with the idea to be able to evaluate those clients and be able to start working with them once the Reactiva loans start to mature. But of course, we need to see the risk profile of those clients and how much of those big volumes we are able to retain. I guess those are the trends that will then drive the ROE levels that I commented at the very beginning.

Jason Mollin: That's helpful. Maybe a follow-up on that in terms of the tax rates. So, should we be expecting something more normal to historical levels of around 25 percent? Is that best guess at this point? And then, on trading, is it a good idea to just take the average quarterly -- I mean maybe this quarter was very high and last -- some of the other quarters this year weren't. But on average, it was a high year. Maybe we should look at '18 and '19 as kind of that kind of level of trading. Is that a reasonable expectation? Or it's just too hard to tell for trading?

Michela Casassa: I mean, for tax rate, for sure, it is super low. So, we should return on average to higher level of taxes. I'm not sure really because also the tax rate depends on the mix of earnings between the different companies. But we should be returning to higher levels. And to be sincere, for trading income, that's a little bit harder. So, it's because it will depend on market conditions. So, basically, we'll see. We are, of course, hoping to be able to generate other income in the -- actually, in the 3 operating companies, as we have been able to recover during these two quarters. But I guess it's a little bit difficult to tell in that respect.

Operator: Our next question comes from Alonso Aramburú with BTG.

Alonso Aramburú: Maybe first a follow-up on your recent comments, Michela, on loan growth and NIM. Are you seeing some structural loan growth portfolio now in the fourth quarter? Or are you not seeing that yet? And related to that, I guess, it's because the mix -- how the mix evolves, it's going to depend on how the NIM evolves. When do you expect the NIM to stabilize? Is it fourth quarter where you expect it to stabilize? Or is it going to continue to have some pressure into 2021?

Michela Casassa: What we are seeing, Alonso, already in terms of loan growth, okay, and this was already the case in September, it has even accelerated in October is -- I mean there are 2 clear products, with lower risk profile in retail that have started to grow already and are growing even, I mean, above pre-COVID levels. The first one is payroll deductible loans to the public sector employees, and that's very good news actually because that has been a very resilient segment of the portfolio. We have seen lower impact there. No layoffs in the public sector. So, basically, we are already as of

October at pre-COVID levels in terms of disbursements. So, that product is already growing year-over-year, slightly, but that -- in the months to come, will continue to be the case.

So, that should positively impact fourth quarter and also, I guess, next year. And the second product is mortgages. Mortgages is actually already growing above pre-COVID levels. Basically, even there, we have seen a segment -- because of the target of the client segment there with lower risk profile, that is also helping the growth of retail. So, those two products, I would say, low risk and high growth have started to peak already above pre-COVID levels in October, and that will help the fourth quarter. The consumer portfolio is the one that has slightly decreased the pace of the reduction. That is good news. But we don't see it yet growing in the short term. So, that is the biggest question mark we have because as we are still evaluating the behavior of payment of clients, it's difficult to start lending new money if we are not sure if the behavior of payments, we have seen for a couple of months will continue to be the case in the future. And as far as commercial banking is concerned, again, there because of the huge inflow of loans from Reactiva, there has been kind of a replacement effect because the short-term working capital needs of companies have been covered by Reactiva funds. So, basically, if you take out those funds, the overall financial system loans are decreasing.

And that should start to recover next year. But again, it is not something in the very short term. And this is what then puts pressure on NIM. You have seen -- I mean when you take out the effect of the impairment for the rescheduling of loans, NIM continues to contract. Of course, with the impairment hit in the second quarter, NIM improved, but that was kind of a one-off. So, NIM continues to contract because still you will see the full impact of the low yields of Reactiva and the lower incidence of the consumer loan portfolio. And even if lower cost of funds is helping a lot in the case of Interbank, we still see a pressure on net interest income and NIM in the following months.

Alonso Aramburú: Thank you for that. I wanted to follow up with a couple of other questions, if I may. One, just specific on the adjustment of reserves from Interseguro. Is that a one-off? Or is that something that we may see again in the fourth quarter? And can you explain exactly why that happened? I know the press release mentioned it's related to COVID, but can you just give us some color on that? And lastly, if you can give us some color on the alliance with Rappi? I don't know if you can give us maybe the number of users that Rappi has in Peru? What's the timing of the launch? And maybe what other digital products you guys are thinking about launching with them? And what's the timing of that?

Luis Felipe: Okay. Alonso, it's Luis Felipe. So, first if Gonzalo can help me with the first part of your question, and then we'll come back and I can talk about Rappi. Gonzalo?

Gonzalo Basadre: Sure. Hi, Alonso. The adjustment of reserves is the net effect of mainly COVID on our results. On one hand, we have the credit insurance, which has been hit by excess mortality than normal, but that's more than compensated by our annuities business, which is -- which has a positive impact because of increased mortality. So, the net effect is a release. So, last quarter, we have, like, the peak of mortality in our country. We expect the fourth quarter to have a lower effect on that. And for next year, it all depends on whether we have a second wave or not.

Luis Felipe: Okay. And then on Rappi, we're very happy with the strategic alliance we have signed up with them for a couple of reasons. Alonso, the first one is because I think it's -- first, it's a testament to our efforts in our digital transformation. I know they were looking at different institutions in the Peruvian market as they've been doing in other countries. And there's a fit concept in terms of signing up with an organization that has the possibility to build digital things together, including analytical capabilities, which was key for us. So, first, we're very happy because we were able to deploy all of our capabilities in order to be an institution taking this opportunity.

And second, it's an agreement whereby we will be able to distribute certain financial products throughout the platform. As you know, the super app concept. It is the super app that is the largest in terms of users in Peru. And it's growing -- it's been growing very strongly, even double digits. Obviously, with the pandemic, they had a little stoppage, if you want, because they were not allowed to operate, but they have -- after that was resolved, they continued with strong growth. They have close to 2 million registered users, and that continues to grow. So, we are very enthusiastic in terms of the things we'll be able to do with that base.

Alonso Aramburú: Great. And just--so, on the first product, the digital savings account, again, that's already available for Rappi users?

Luis Felipe: Yes. It's still in the MVP testing, but that -- to some users like who use Rappi are already seeing the offers and having the possibility to open their account on Rappibank as we've called it commercially. So, yes, it's still early in the deployment, but it's starting to pick up.

Operator: Your next question comes from the line of Sebastián Gallego with Credicorp Capital.

Sebastián Gallego: I have three questions. The first one, I believe, Michela mentioned that they expect OpEx to decline 5 percent year-on-year in 2020 versus 2019. My question would be if you could provide some indications, some early indications, regarding that guidance on OpEx on 2021? Second question will be on Interseguro. Given the low rates and the potential stability of those low rates, are you expecting additional changes in the allocation of the investment portfolio at Inteligo? And third it will probably be a follow-up. And unfortunately, we have to come back to the political topic. I just want to ask on the political side. How do you assess these recent events, the PPK event, now the Vizcarra event and all the regulatory risk towards mid- to long-term GDP growth? What could be the implications towards the Peruvian economy in terms of GDP growth and potential GDP?

Luis Felipe: Thank you for your question. I'm confused. In the second question, you started talking about Interseguro, but then you switched to Inteligo. Is the question about Interseguro or Inteligo?

Sebastián Gallego: Oh sorry, it's just about Interseguro and its investment portfolio.

Luis Felipe: Okay. So, let's do something. Michela, why don't you go first? And then Gonzalo will help back with Interseguro. And then we'll come back to the political situation question.

Michela Casassa: Okay. Perfect. Hello Sebastián, thanks for your question. I will comment on the OpEx issue. I mean as you have seen, this year, the reduction in costs has been very strong. Now there are a number of things that have helped that. For sure, the cost containment program that we launched was one. The second was the lower activity that has impacted variable costs, but also the lower cost coming from the decrease in the branch number that we've been implementing over the year.

What we are seeing for 2021 is that the efficiency ratio of IFS this year has actually come down to super, super low levels. Even this quarter, you have seen an efficiency ratio, which is super low. So, basically, we are aiming at maintaining an efficiency ratio at IFS that should be around the 35 percent that we have experienced, and that will mean that during next year, with the recovery of activity, we should see some increases in costs because of the variable portion of the cost base. But we will also continue to see some of the positive impact on costs coming from the reduction in the branch network.

So, this year, we have already closed 22 branches; we will be closing additional 15 before year-end. So, those 37 branches will mean less cost for next year. But what we are giving as a guidance now, I would say, because also there are some uncertainties in terms of the top line, is that our aim is to be at the previous -- at the pre-COVID levels if you want an efficiency ratio for IFS of around 35 percent.

Luis Felipe: Gonzalo, the second question, please?

Gonzalo Basadre: Yes. Regarding our portfolio. Yes, rates are coming down. What we do is we adjust the rate at which we sell our new annuities. So, what we expect to happen when rates go down is, rather than just changing our current portfolio, is lowering the rate at which we sell our annuities. I don't know if that answers your question.

Sebastián Gallego: Okay. So, basically, it's just an adjustment to the rates on the annuities product rather than switching the allocation materially of the portfolio, right? Is that correct?

Gonzalo Basadre: That's right. That's right. Yes. We want to keep our spreads the same. So, what we do is if rates go down, then we lower the rates we sell our annuities.

Luis Felipe: And then on the last part of your question, our midterm to long-term prospects of Peru do not change with recent events. Obviously, we don't like the uncertainty coming from the situation; however, we understand very well the market in which we operate. We've been here for many years, and we've seen different events hitting the Peruvian political environment. We can come back to the '90s to 2000s and so forth.

So, even though we do expect certain volatility, the fundamentals of the country given all that needs to be done and the commitment to investments that we have remain the same. So, we do expect that after the elections pass, the trend towards growth will continue, and our platform is there to take advantage of the opportunities that we're sure will come. The bancarization level continues to be very low. The insurance penetration continues to be very low. Wealth is being created. So, our key focus on Peru differentiates us, and I think it will allow us to be well poised to help the country in its continued path of growth.

Operator: And we will move next with Yuri Fernandes with JPMorgan.

Yuri Fernandes: I have a question about this new government. What exactly changed for the bank? Will the bank be a bit more conservative now into the elections, like reduce a little bit their risk appetite? Maybe should we expect lower loan growth for 2021, lower customer confidence? Perhaps -- I don't know, a new input on your expected loss models, anything like that? Or maybe am I being too concerned here, basically, nothing changed, like things are as normal. I don't know, if things do change and we need to be slightly more conservative here? And my second question is regarding --

like we discussed a lot about rate caps, and I think investors are really concerned on that topic. But what else could be reached this year, like, we see some expansions on the budget. That could be good on that, maybe in a situation like this. But could we see, I don't know, like Reactiva 3, like a new program to help individuals and small companies, things like that? What can this kind of government do to gain a little bit of popularity?

Luis Felipe: Yuri, thank you very much for your questions. Again, it's very early to tell. Again, this just happened Monday. I think that I will come back to my answer to the first question in the call, where we need to continue to see what actions are being taken day by day, step by step, in order to have a view really of what will change. Because, again, the people announced in the cabinet give us an initial sense that discipline, the separation of powers -- the macro discipline and the separation of powers should continue. So, it's really not a big change to what we had before. Remember, Congress already had the possibility to pass the laws. And if they were vetoed by the Executive branch, they could come back and reinforce them, like as a second option. So, you would have like a blockage for a period of time.

So, I think that the responsibility that we have is to continue to work in defending the model and making sure that the technical people at Congress understand the real effects of populist measures. And so far, at least from the banking side, we've been able to get traction on that front, and we do expect that part to continue. It's really early probably, and we'll see how figures come out. Probably, confidence, given what has happened, that picking up will come down. Obviously, it is normal in these situations. So, we are taking a conservative approach in the bank. But that -- because this is a specific situation. The overall theme around these months continues to be the pandemic and how successful is the country in really managing this.

Given the pandemic, we've been conservative in terms of opening back our credit lines and targeting new customers. So, that will be the thing that really move -- will move the needle in terms of risk appetite for us. Once we see the situation, in terms of sanitary conditions continue to improve, as they've been doing in the recent days, and that has a positive impact in the core activity, and the economy we'll feel more comfortable. Obviously, we'll be monitoring the political scenario. But everything that has happened has been really new. So, although the first steps look to be in the right direction, obviously, there's lots of things happening right now in Peru that we need to be very, very careful, and that will continue to be the approach. Cost control, that's what we can manage. That will continue to be our focus, and then be very aggressive in continue to deploy digital solutions because we believe that's the future. We are investing heavily on that, and this is the moment to triple down on that front.

So, things that we've been doing will continue to be done in that front. And then in terms of what can be done to gain popularity? Well, many things could be done to gain more popularity. However, I think that, as you are aware, there's a strong message being sent by the population to Congress. It's not about that they will be able to do whatever they want because we're seeing that Congress is losing popularity. So, even though they're trying to do many populist things, I think people realize that that's not the way to go. So, we do expect that there will be ideas around that, but that not everything will go so smooth as we thought before. But again, it's early to tell.

And what could be done here? Maybe more, more help towards SMEs, to people that are complicated. So, far, every help has come to people that were okay with the financial system up to February. Maybe there's something that could be done for people that, I don't know. It's early. Besides the bills that are already there, we haven't seen anything new coming in the recent days.

Operator: At this time, we will take the webcast questions. I will now turn the call over to i-advize.

Rafael Borja: Thank you, operator. We have 1 question from the webcast, it's coming from Ursula Menéndez from Credicorp Capital. Can you explain with more detail what explains the decrease of cost of funding? Was it mainly due to less international debt outstanding or repricing of deposits?

Luis Felipe: Okay. Thank you. I'm going to pass it on to Michela, so she can provide us a little bit of detail on that.

Michela Casassa: Thank you, Ursula, for your question. Looking at the average cost of funding, I commented that we have seen a strong increase in the quarter, of 50 basis points, and in the year of 120 basis points, down to 1.7 percent of average cost of funding in the quarter. Actually, when we look at the different components, we have seen improvements in all of them. So, basically, deposits have come down from 2.1 percent 1 year ago to 1.1 percent as of this quarter, mainly thanks to a better deposit mix and also to decreasing rates of all components, I mean: retail, commercial and institutional deposits. As far as bonds are concerned, we have seen a 50-basis point decrease year-over-year.

And as of due to banks are concerned, we have also seen a strong decrease in the cost of funds from 4.1 percent 1 year ago to 2 percent this year. So, I guess is, I mean, a number of things that we've been doing--I mean the increasing market share of retail, repricing of deposits, the transaction-related to the maturity of the hybrid Tier 1 bond and also the optimization of the funding coming from banks. So, basically, the mix of all these actions has driven the total cost of funding down very much in this quarter. And this should be something that when looking out to 2021, will have an important impact because we will have the full year impact of this lower cost of funds, which will be in those low levels, we believe, for the full year.

Rafael Borja: At this time, I'm showing no further questions. I would like to turn the call over to the operator.

Operator: There appear to be no further questions over the phone at this time. I would like to turn the floor back over to Mr. Castellanos for any closing remarks.

Luis Felipe: Okay. Thank you very much. I want to thank everyone for joining us on this quarterly call. As you have heard, our platform is showing a nice recovery from the strong impact received from the COVID-19 effect in the second quarter, especially. Our conservative approach to provisions and capital, coupled with our strategic focus playing to our strengths, progress in digitalization, and disciplined cost control has allowed us to ride the incipient economic recovery in a nice way. Should this recovery continue as we expect, the positive impact in our franchise should materialize even further. We have built a very strong franchise with key strength in our segments and businesses of focus. Although we expect volatility coming from the political situation, we do believe that after the elections, Peru's medium and long-term prospects continue to be positive. IFS is committed to helping Peru and its citizens to achieve a better future. This is our dream and our responsibility. Thank you very much.