

**Intergroup 1Q11 Conference Call**  
**May 4, 2011**  
**10:00 AM**

**Operator:** The following is the recording of a conference call for Peter Majeski with i-advize, scheduled for Wednesday, May 4, 2011 at 10:00 A.M. Eastern Time. Good morning, and welcome to Intergroup Financial Services first quarter 2011 conference call. All lines have been placed on mute to prevent any background noise. After the presentation, we will open the floor for questions. And, 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 Peter Majeski of i-advize Corporate Communications. Sir, you may begin.

**Peter Majeski:** Thank you, Jocelyn. Good morning, everyone, and welcome to Intergroup Financial Services first quarter 2011 earnings conference call on this, the fourth of May 2011. We are pleased to have with us from Intergroup, Mr. José Antonio Rosas, Intergroup's Chief Financial Officer and Mr. Gonzalo Basadre, Chief Investment Officer from Interseguro. They will be discussing Intergroup's results per the press release distributed yesterday. If you have not yet received a copy of the presentation or earnings release, please visit [www.ifs.com.pe](http://www.ifs.com.pe) to download a copy, or call us in New York at 212.406.3694. It is now my pleasure to turn the call over to Mr. José Antonio Rosas, Chief Financial Officer. Mr. Rosas, you may begin.

**José Antonio Rosas:** Thank you, Pete. Good morning, everyone, and thank you for participating in our call. We will start with a brief discussion of the highlights of Intergroup's performance.

Intergroup reported S/. 151.3 million in net earnings for the first quarter of 2011, a 47% increase quarter-on-quarter, and a 9% increase year-on-year. When excluding non-recurring items, net earnings increased 25% quarter-on-quarter and 17% year-on-year. Earnings growth was driven mainly by an increase in financial income, due to expanding loan volume at Interbank, and higher investment income at Interseguro. Intergroup's recurring return on equity was 28.9% in the first quarter of 2011, above the 23.9% reported in the first fourth quarter of last year and a 27.6% reported in the first quarter of 2010.

Looking at Interbank's performance, net earnings for Interbank increased 9.2% year-on-year, driven by sustained loan growth and stable provisions and administrative expenses. Net earnings decreased 8.9% quarter-on-quarter. When excluding non-recurring items, earnings rose 10% quarter-on-quarter, driven by loan growth and lower provisions and administrative expenses. Note that Interbank continued growing 3% quarter-on-quarter and 24.5% year-on-year. However, recurring net interest margins decreased 30 basis points quarter-on-quarter, due mainly to a lower yield on the loan portfolio. Asset quality remains strong, leading the ratio of provision expense to average loan to fall from 3.7% in the fourth quarter of 2010 to 2.5% in the first quarter of 2011.

Interseguro's net earnings reached a record level of S/. 37 million in the first quarter of 2011, doubling the previous quarter and previous year's earnings, due mainly to a significant increase in investment income. At Interseguro, annuity sales grew more than tripled year-on-year, driven by Interseguro's leading position in the expanding early retirement sector.

Please turn to Page 4 for a brief overview of the net earnings of Intergroup and its two subsidiaries. There, we can see a summary of the quarterly earnings of Intergroup and its two subsidiaries. We can see that operating trends were strong, driving both companies to positive

quarter-on-quarter and year-on-year performance, and that translates into very strong results for Intergroup, as well.

On the following pages, we will go through detailed discussions of each company's quarterly performance. Please turn to Page 5 for a discussion of Intergroup's net earnings. As mentioned before, Intergroup's net earnings were S/. 151.3 million in the first quarter of 2011. This is the second largest quarterly earnings that Intergroup has recorded. Looking at our quarter-on-quarter performance, net earnings increased 46.8% quarter-on-quarter, driven by higher financial income and lower provision and administrative expense. When one-time items are excluded, recurring net earnings increased 25.1% quarter-on-quarter. Financial income increased 5.5%, due to a 2.1% growth in interest on loans at Interbank, and a 33% increase in investment income at Interseguro. Provision expenses decreased 30% quarter-on-quarter, as stable asset quality led to lower provisioning requirements. Originally, provisions had been unusually high in the first quarter of 2011, as a result of the restatement of pro-cyclical provisional requirements. Administrative expenses decreased 10% quarter-on-quarter, as a result of seasonal declines in marketing and consulting services at Interbank, and sales force related expenses at Interseguro.

Now, looking at our year-on-year performance, net earnings increased 9% driven by increasing loan volume and fees at Interbank, and strong investment income at Interseguro. When one-time items recorded in the first quarter of 2010 are excluded, recurring net earnings increased 17% year-on-year. Gross financial margins grew 5.8%, due to a 16% increase in financial income, partially offset by an increase of 50% in financial expense. The increase in financial income was attributable to a 24% in average loan volume at Interbank, and an 88% increase in investment income at Interseguro. Growth in financial expenses was due to volume expansion and increasing cost of funding. We will review the reason of this increase during the discussion of Interbank's performance. Administrative expenses grew 7.5%, mainly as a result of increasing sales and marketing activity at Interbank and Interseguro.

Please turn to Page 7 for a discussion of Interbank's performance. Interbank's net earnings were S/.126 million in the first quarter of 2011, an increase of 9.2% year-on-year, and a decrease of 9%, quarter-on-quarter. The year-on-year increase was due to growth in the loan volume and fee income. Cost provisions and administrative expenses remained stable. The quarter-on-quarter decrease in net earnings was due to non-recurring investment gains, totaling S/. 29 million, after tax, reported in the fourth quarter of 2010. Excluding these gains, net earnings would have grown 10% quarter-on-quarter. Interbank's recurring return on equity was 31.5% in the first quarter of 2011, above the 28.5% reported in the fourth quarter, and 30.7% reported in the first quarter of 2010. On the following pages, we will discuss Interbank's performance in more detail.

Please turn to Page 8 to look at Interbank's loans. Performing loans grew 3% quarter-on-quarter and 24.5% year-on-year, with strong performances in the Retail and Commercial Segments, both of which have grown significantly since the second quarter of 2010. Retail loans grew 3.7% quarter-on-quarter, driven mainly by increases of 7.6% in mortgages and 3.9% in credit cards. Interbank's mortgage loan portfolio has grown 39% year-on-year, as a result of demand for new housing, and successful commercial efforts at Interbank. Our market share in mortgages has grown by one percentage point in the last 12 months, from 10.8% to 11.8%. Commercial loans increased 2.4% quarter-on-quarter, after having grown 7.5% in the previous quarter. Year-on-year growth in commercial loans was 28.5%.

Please turn to Page 9 for a discussion of our funding. Interbank financed its quarterly growth with an increase of S/.553 million in deposits, partially offset by a decrease of S/. 37 million in bank loans. During the quarter, deposits were used to fund our growth, and we made short-

term trade-related lines of credit, which were subject to an increase in reserve requirements during that quarter. The Bank's total funding base grew 22.1% year-on-year, due to increases of 340% in bonds and 8.8% in deposits. The increase in bonds was a result of two international bond issues completed in 2010, \$200 million in subordinated junior bonds, with a coupon of 8.5% and \$400 million in ten-year senior bonds, with a coupon of 5.75%. Year-on-year deposits growth was driven increases of 14.5% in retail deposits and 5.1% in commercial deposits.

Now, please turn to the following page for discussion of our gross financial margins. Let's look first at our quarter-on-quarter performance. Gross financial margins fell 7.6% quarter-on-quarter, as a result of our 5.4% decrease in financial income and an increase of 1.9% due to financial expenses. Financial income declined, as a result of one-time gains from the sale of investments, recorded in the fourth quarter of 2010. Excluding non-recurring factors, financial income would have grown 1.6% quarter-on-quarter. Interest on loans increased 2.1%, due to a 5.1% growth in the average loan volume, partially offset by a decrease of 14 basis points in the average yield, from 14.6% in the fourth quarter to 14.2% in the first quarter of 2011. The decrease in yield was attributed to lower credit card rates and an increasing proportion of mortgage loans within the retail loan mix. Mortgage loans carry a much lower yield than consumer loans. Investment income decreased 57.5%, mainly due to \$/. 36.1 million in non-recurring pretax gains on the sales of investments, recorded in the fourth quarter of 2010. Excluding this gain, investment income would have remained stable quarter-on-quarter. The return on interest earning assets was 10% in the first quarter of 2011, a 110 basis point decline from the fourth quarter, mainly as a result of lower investment gains. Financial expenses grew 1.9% quarter-on-quarter, due to a 3.3% increase in interest on deposits, partially offset by a 5.4% decline in interest on bank loans. The increase on interest on deposits was due to a 4.1% growth in our average volume, with slightly decreasing costs. The decline in interest on bank loans was a result of a 9% reduction in the average volume, due to a replacement of short term lines of credit with lower cost to borrow. The Bank's average cost of funds was 2.8% in the first quarter of 2011, a 10 basis point decline quarter-on-quarter, as a result of a higher proportion of deposits in the funding mix.

Now, let's look at our year-on-year performance. Gross financial margins increased 2% year-on-year, driven by 10% growth in financial income, partially offset by a 41% increase in financial expenses. Growth in financial income was driven by a 13% increase in interest on loans, partially offset by a 33% decline in investment income. The increase in interest on loans was due to a 24% growth in the average volume, with a decline of 130 basis points in the average yield, from 15.5% in the first quarter of 2010 to 14.2% in the first quarter of 2011. The decrease in the yield was due to lower commercial and credit card loan rates and an increase in the proportion of mortgages within the retail loan portfolio. The decline in commercial credit card rates was due to stronger competitive pressures. The decline in investment income was due to \$/. 11.2 million in non-recurring from the sale of investments recorded in the first quarter of 2011. Excluding this gain, investment income would have grown 14.6% year-on-year. Financial expenses increased 41% year-on-year, mainly due to growth of 375% in interest on bonds, 26% in deposits and 24% in bank loans. The increase in the interest on bonds was a result of the two bond issues previously mentioned. The increase on interest in deposits was attributable to a 6.3% growth in the average volume and an increase of 20 basis points in the average cost. Interest on bank loans increased as a result of a 35% growth in the average volume, partially offset by a 40 basis points decline in the average cost. Growth in average volume is related to increasing volumes of trade finance and loans to corporate clients. The average cost of funding increased 70 basis points year-on-year, mainly due to the bond issue.

Please turn to the following page. Net interest margin fell 110 basis points, from 8.4% in the fourth quarter of 2010 to 7.3% in the first quarter of 2011, mainly due to a non-recurring gain reported in the fourth quarter of 2010. Excluding non-recurring factors, net interest margins

would have decreased from 7.6% to 7.3% quarter-on-quarter. Net interest margins at Interbank have followed the same declining trend as the banking industry average, but remain more than 100 basis points above the average of our peers.

Please turn to the following page. Asset quality remains strong, with a ratio of past due loans at 1.5%. The coverage ratio also remains stable, at 268%. Provision expenses decreased 30% quarter-on-quarter and remained stable year-on-year. In the fourth quarter of 2010, provision expenses were particularly high as a result of the activation of pro-cyclical provision requirements, which had a non-recurring impact of S/. 8 million in provisional expense. The annualized ratio of loan loss provisions to average loans decreased from 3.1% in the first quarter of 2010 and 3.7% in the fourth quarter of 2010 to 2.5% in the first quarter of 2011.

Please turn to the following page. Fee income grew 19% year-on-year, driven by increasing credit card activity, mortgage disbursements and ATM use. However, fee income declined 13% quarter-on-quarter, due mainly to seasonal factors. The fourth quarter is usually by far the highest quarter in terms of fee income generation as usually in the charge period is starting. Administrative expenses declined 8.5% quarter-on-quarter, also due to seasonal factors related mostly to marketing and sales expense. Expenses increased 5.6% year-on-year, as more and more risk expenses outpaced revenue growth. As a result, the Bank's efficiency ratio decreased slightly, from 48.8% in the third quarter of 2010 to 48.3% in the fourth quarter of 2010.

Please turn to Page 14 for a discussion of our regulatory capital position. The ratio of regulatory capital to risk-weighted assets at Interbank was 14.1% in the first quarter of 2011, slightly below the 14.4% reported in the fourth quarter of 2010, but above the 12.8% reported 12 months ago. During the first quarter of 2011, regulatory capital remained stable, while risk weighted assets increased 2% quarter-on-quarter. Tier 1 capital increased 7.1% quarter-on-quarter, due mainly to the incorporation of S/. 158 million in earnings related to 2010 as regulatory capital. The year-on-year increase in the capital ratio was a result of the capitalization of 2010 earnings and an S/. 200 million Tier 1 bond issue completed in April of last year.

This concludes the discussion of Interbank's performance. Now, Gonzalo Basadre will discuss with you Interseguro's performance.

**Gonzalo Basadre:** Thank you, José Antonio. Please turn to Page 16 of the presentation. The table shows a summary of the Interseguro P & L performance, where we can see a strong increase in premiums year-over-year and a slight decrease quarter-over-quarter, driven mainly by annuity premiums.

Technical margin loss was higher year-over-year in line annuity premiums, since each time an annuity premium is sold, a reserve must be recognized in the financial statement, according to Peruvian regulations. On the other hand, the quarter-over-quarter increase in technical margin loss is explained by higher claims and disability and survivor benefits. Administrative expenses decreased 23% quarter-over-quarter and grew 14% year-over-year, tied to annuity sales commissions. Investment income increased 33% quarter-over-quarter, and 88% year-over-year. This strong growth is explained by higher realized gains from investments. As a result of the factors explained before, net income for first quarter 2011 was a record S/. 37 million, an increase of 92% quarter-over-quarter and 103% year-over-year.

Please turn to the next page of the presentation. Page 17 shows in detail the performance of Interseguro's premiums. The table shows in detail the performance of Interseguro's premiums. Premiums almost doubled year-over-year, due to increasing sales across nearly every business line, and decreased 19% quarter-over-quarter. The business line with higher growth year-over-year with annuities, as a result of a new early retirement law enacted late last year. Annuity

premiums sold under this early retirement law represented 38% of total annuity sales. The quarter-over-quarter decrease is explained by 21% market contraction, due a delay from the government in issuing Bonos de Reconocimiento. As of March 31, 2011, Interseguro is the leading annuity provider to the early retirement segment with a 25.1% market share.

Finally, on Page 18, there are some details on Interseguro's investment portfolio and investment income. Interseguro's investment income was S/. 67.4 million in the first quarter of 2011, a 33% increase quarter-over-quarter and 88% year-over-year. The quarterly strong performance is explained by an S/. 8.4 million one-time gain in the sale of shares and a S/. 1.9 million gain from dividends received, as well as higher realized gains on fixed income and an increase in interest income on bonds, resulting from investments in higher yielding instruments. Interseguro's investment portfolio increased 8% quarter-over-quarter and 33% year-over-year, totaling S/. 2 billion 362 million. This increase is tied to growth in annuity sales, as well as a price appreciation of Interseguro's overall portfolio.

**José Antonio Rosas:** This concludes our quarterly discussion of results. Now, we are open for that question and answer session.

**Operator:** Thank you. At this time, we will open the floor for questions. If you would like to ask a question, please press the star key followed the one key, star one, on your touchtone phone now. Questions will be taken in the order in which they are received. If at any time, you would to remove yourself from the questioning queue, you may press star two. Again, to ask a question, that is star one.

Our first question will come from Alonso Aramburu with BTG Pactual. Alonso, go ahead.

**Alonso Aramburu:** Thank you. Good morning everybody. José Antonio, a couple of questions. The first one is regarding activity, overall activity, in Peru in April. I don't know if you have seen some of the numbers already, but just to get a sense of if some of the political risk affecting the business, and second, thinking about provisions going forward for the rest of the year, there was a big decline in provisions this quarter. What kind of level of provisions should we expect for the rest of the year?

**José Antonio Rosas:** Good morning, Alonso. Regarding your first question, April has continued to be a very strong month for us. We still have not seen any significant decline in activity as a result of the political environment, but taking into account that most of our disbursements are related to pipelines that were already in place before the political risk scenarios starting taking place, so we have not seen any, and as a result of that, we have continued to see strong activity. We might see, going forward, some deceleration in medium-term loans related to construction investment or high income housing, but still, we are not seeing any slowdown in our activity, and we're not expecting any significant slowdown at the moment.

In terms of our provisions, we did have a very strong quarter, with very good results, and some of the factors that lead to our low provisions are external, and then that relates directly to our performance of our loan book. Those are the external line of provisions, which require us to provision for our retail clients, according to how they are classified in our financial institution. So, if a client is up to date with all of their payments to Interbank, but if you, say on a credit card loan with our institution, then we must provision for that client. And, those provision requirements were very low in the first quarter, and that's one of the reasons why we have this very low provision expense. At the moment, we don't see any indication that will increase, but we do remain cautious and expect the provisional expense to increase slightly during the rest of the year. We might expect this very low level not to be repeated in the following quarters.

**Alonso Aramburu:** Great, thank you, José Antonio.

**Operator:** Thank you. Our next question will come from Alejandro Olea with Moneda.

**Alejandro Olea:** Hi everyone. How are you? I have a question regarding the risk side of the elections. A large part of the portfolio of the Bank and banking in Peru is denominated in dollars. Do you have any estimation of what is your view of having how much NPL's can increase if the sol devalues let's say for every 1% or every 5% of the devaluation; how much can be affected the health of the portfolio?

**José Antonio Rosas:** Good morning, Alejandro. Indeed, as you mentioned, a large part of our loan portfolio is in dollars. Now, we have to look at what part of our portfolio are significantly in dollars. One is commercial loans, and in that case, our Risk Division makes an assessment of the currency risk that is taken by our clients, and in most cases, the currency risk that our clients take is because clients are exporters or real estate developers, and so a significant portion of the revenues are in dollars, as well. So, in those cases, we don't see any risk from a possible devaluation.

Then, the second large proportion of our loan book that is dominated in dollars is mortgage loans. They are about 60% of our loan book is in dollars at the moment, and we also run stress tests and also, we are going through an experience of, not significant, but a devaluation of 10% in the first quarter of 2009, and at that point, we did not see any increases in defaults of mortgage loans at all. So 1% or 5% devaluation would not have any impact on mortgage loans, and as mentioned, our commercial loans are mostly matched. Having said that, we also do not expect to see a significant devaluation as a result of the political risk at the moment, and that is because the Central Bank has been very strong in its reaction to any possible sell-off of dollars. Last week, we saw unprecedented activity by the Central Bank, sending very strong signals to the market, and they have the tools and the willingness to prevent any significant devaluation.

**Alejandro Olea:** Ok. Just a follow-on. If you look at the U.S. dollar portfolio, how much of that is mortgages, how much is commercial loans. What is the breakdown of that?

**José Antonio Rosas:** Most is commercial loans. I'd say the commercial loan book accounts for 50% of our loans. There, while 80% of the loans are commercial, and then, in our mortgage loan book, that accounts for 30% of our dollar loan book, 60% of our loans are in dollars.

**Alejandro Olea:** Ok, so basically, you would say that a 10% devaluation will not affect materially the portfolio?

**José Antonio Rosas:** No, not at all.

**Alejandro Olea:** Ok. All right. Thank you.

**Operator:** Thank you. As a reminder, if you have a question, please press star one on your telephone keypad. Again, that's star one to ask a question. Our next question will come from Victor Schabbel with Credit Suisse.

**Victor Schabbel:** Good morning, everyone. Thanks for the opportunity. I have just a follow-up regarding margins going forward. You guys mentioned that competition has been increasing, funding costs have been offered at higher levels since the last quarter, so what do you expect in terms of margins? Should we expect even with the assets re-pricing with a higher presence of retail loans going forward, to have margins on even lower levels, going forward? Thanks.

**José Antonio Rosas:** Good morning, Victor. No, we do not expect any further significant tightening in margins. As you have seen, funding costs have already stabilized; the two bond issues that we completed last year have been a significant factor in providing stability to our funding base, plus we still have the capacity to continue migrating from bank loans to deposits, so that's also a factor that will lead to a slight continuing decrease in the cost of funds.

Regarding pricing of loans, what we have seen in the commercial book is that the declining trend that we saw throughout all of last year, has also stopped. Not because competition is less intense, but because banks are already translating to clients the increase in the cost of funds that we saw throughout last year. So those two factors should definitely lead to our net interest margin to remain at around this level, 10.2% or even increase slightly towards the 7.5% that we guided for this year.

**Victor Schabbel:** Thanks a lot.

**Operator:** Thank you. Because I am showing no further questions at this time, I will turn it back to Mr. Rosas for final remarks.

**José Antonio Rosas:** Thank you to everyone for participating in the call, and we will be expecting you at our second quarter conference call in early July.

**Operator:** Thank you, everyone. This concludes today's conference. You may now disconnect.