VI. Conference Call Transcript

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Operator: Welcome to the Intergr oup Financial Services first quarter 2009 conferenc e call. All lines have been place on mute to prevent any background noise. After the presentation, we will open the floor for questions. At that time, instructions will be give n as a procedure to follow if you would li ke to ask a question. It is now my pleasure to turn the flo or over the Peter Majeski of I-Advi ze Corpora te Communications. Sir, you may begin.

Peter Majeski: Th ank you, Kallie. Good morning, everyone. Welcome to Intergroup Financial Services first quar ter 2009 earning s conference call on this th e 6th of May, 2009. We are very pl eased to h ave with us fr om Intergroup, Mr. Jose Antonio Rosas, chief financial offic er, Mr. Ernesto Gonzalez, investor relation offic er, Ms. Cl audia Valdivia, chief financi al officer of I nterseguro, and Mr. Gonz alo B asadre, investment manager of Intersegur o. They will be di scussing Intergroup's r esults to th e press release distributed yesterday. If you have not received a copy of the earnings release or presentation, please visit www.ifs.com.pe to downl oad a copy or call u s in New York at 212-406-3694. Before we begin, I w ould like to r emind you th at any forward-looking statem ents made today by Inter group's m anagement are based on inf ormation and data currently available and are subject to variou s conditions that may differ materially. It is n ow my pleasure to turn the call over to Mr. Ernesto Gonz alez Qu attrini, Intergr oup's investor relations officer. Mr. Gonzalez, you may begin.

Ernesto Gonzalez: Thank you . I want to wel come all of yo u to Intergr oup's quarter ly conference call and thank y ou in advanc e for your interest and atte ntion. Also, with us tod ay are Gonz alo Basadre, investment manager of Interseguro and Claudia Vald ivia, CFO of Interseguro who on thi s call and going forward will be presentin g Intersegur o's results an d fielding investment and business question s during the Q&A session.

Operating tr ends hav e remained strong at Intergro up with net earnings grow ing more th an 20 perc ent both on quarter to qu arter and year to year basis. Quarter on quarter growth resulted fr om a higher net financial m argin derived f rom higher l ong volum es and lower f unding costs at In tergroup, as well as increases in investment income both at Interbank and Interseguro.

On a y ear to year b asis, net earnings grew 20.8 percent as a result of higher interest on loans and fee income at In terbank. Specifically, reg arding our su bsidiaries, Interbank and Intersegur o, Interbank’s earnings bef ore taxes posted a 39 .7 percent increa se quarter on quarter d riven by growth in the net financial margins. Despite such growth, net income declined 1.1 percent quarter to quarter as a resul t of lower income from deferred taxes.

Also, Interb ank's financi al margin incr eased by 27.3 percent year on y ear, net earnings declined 7.2 percent due to the imp act of higher p rovision expe nses, derived parti ally from regulatory pro-cyclic al provisioning r equirements. Interbank's l oan portfolio grew at a h ealthy 28 per cent year on year and 4 percent qu arter on qu arter leading to significan t g ains in m arket share. The profits grew 18 per cent quarter on quarter which resulted in a 49 percent reduction in the use of short-term credit.

Interbank's n et interes t margins regist er at 60 peso s for an increase as a result of higher investment income and l ower funding costs. The b ank's p ast du e rati o r ose f rom 1.2 perc ent in f ourth quarter of 2008 to 1.5 percent in first quarter of 2009. The c ollection of past due loans remains strong at 261.5 percent.

Interseguro posted net inc ome of $3 m illion in nuevo sol es which resulted in first quarter of 2009, an improvement from a $10.3 million nuevo soles loss in the fourth quarter in 2008 resulting from resumed growth in investment income. Inter seguro's fixed income and equity portfolios rec orded devaluation vouchers registered during the past two quarter s, as a result, investment income almost tripled between fourth quarter of 2008 and first quarter of 2009.

Operating trends strengthened as pr emiums grew 6.8 percent quarter on quarter and 12.6 percent year on year. However, net income shows 20 percent year on year due to an exchange loss that led to a 49 percent year on year dec line in investment income . I would now like to tur n the call to Jose Antonio Rosas, chief financial of Intergroup who will be discu ssing the company's quarterly results in depth. Jose Antonio?

Jose Antonio Rosas: Thank you, Ernesto. If you can please turn to page 4 of the presentation, there we have a summary of net earnings for Intergroup and subsidiaries. Intergroup's net earnings grew by more than 20 perc ent both qu arter on quarter and ye ar on year dr iven mainly by higher gross financi al margins. As a result the company's annualized ROE approached 20% in the first quarter.

Interbank’s operating trends were very prone in the first quarter of 2009, but net earnings declined from levels influenced by non-recurring trends both in the first quarter of 2008 and the fourth quarter of 2008. Interseguro posted a $3 million sole profit with losses in the previous two quarters.

If you turn to page 5, we can see a detail of I ntergroup's P&L statement. As men tioned earlier, Intergroup's earnings growth was driv en mainly by increases in gross financial margins. G ross financial margin grew 14 percent quarter on qu arter as a result of higher loan volumes and lower funding costs at Interbank and higher investment returns at Interbank and Interseguro.

Year on year in gross fin ancial m argins was 36 pe rcent due mai nly to higher loan volum es and yield spreads at I nterbank. Pr ovisions grew significan tly year on year driven by pro-cyclic al provisi on requirements, higher loan volumes, and finally by an increase in delinquent consumer loans. As a result of this increase in provisions, net financial margins grew only 4 percent year on year, but expanded by a significant 32 percent quarter on quarter.

Fee income grew 43 percent and fell 3 percent quarter on quarter due to seasonal factors at Interbank. Expenses rose 28 percent year on year due mainly to the expansion of Interbank's network b ut became much more stable quarter on quarter with an expansion of only 3 percent. Earnings before taxes rose 68 percent quarter on quarter driven by net financial margins. Net in come, however, expanded at a lower rate of 27 percent due to a decline in income from deferred taxes.

Despite this quarterly decline in deferred taxes, income from deferred taxes was still higher than the fir st quarter of 2008, leading earnings to grow by 21 percent year on year.

Please turn to page 7 no w to discu ss Interbank's results. On pa ge 7, we see a summary of Interbank's P&L statement. In December we saw some of the same trends we discussed in Intergroup's P&L. Gross financial m argins grew 27 percent year on y ear dr iven by higher volumes and yields on l oans. It was partially affected by lower investment returns from an unusually high first quarter of 2008 when the bank registered a non-recurring gain of $15 million nuevo soles on the sale of Visa shares.

Financial m argin growth was offset b y a significant increase i n provision s, which led to a 5 perc ent decline in net operating margins and a 7%drop in net earnings. Net financial margin increased 27 percent quarter on quarter driven by higher interest on loans, lower funding costs, and lower provisions. With fee income and operating expenses stable, net operating margin grew 44 percent and income before taxes expanded by 40 percent. This increase was off set by a $25 mill ion sole decrease in inc ome from th e deferred taxes. As a result of this non-recurring decline, Interbank's net income fell 1 percent quarter on quarter.

On page 8, we can see a summary of Interbank's loan portfolio. Total loans grew 5 percent quarter on quarter, a slower pace than the previ ous three quarters but still significantly above the market's zero growth rate for the first quarter. Year on year growth in the bank's total portfolio was 59 percent. The commercial segment booked a particularly strong expansion rate of 68 percent. As a result of these strong growth rates, the bank's market share of total loans has increased from 9.4 percent in March 2008 to 10.3 percent in Dec. 2008 and 10.8 percent in March 2009. Gains have been widespread among all business lines. This growth has taken place as Interbank has seized an opportunity for growth in a lower competitive environment particularly in the commercial segment.

On page 9, we can see some details on Interbank's funding structure. There we can see that deposits grew at a very strong pace of 18 percent quarter on quarter and 47 percent year on year driven mainly by general market growth in both the retail and corporate segments. In addition to the market's general growth, Interbank's branch expansion helped to increase our market share in retail deposits from 11.2 percent in March 2008 to 12.3 percent in March 2009. As a result of the growth in deposits, the bank has cut its use of short-term lines of credit by almost half. These changes have added stability and lowered the cost of Interbank's funding structure.

On page 10, we can see how our gross financial margin is composed. Gross financial margin rose 2 7 percent year on year driven by a 35 percent on financial income and virtually offset by a 57 percent increase in financial expense. Year on year growth in financial income was driven by a 61 percent increase in interest in loans. This rise was due to a 54 percent expansion in the bank's average loan volume and the increase of 70 basis points in the average yield on loans. Growth in interest on loans was partially offset by a 29 percent decline in investment income and a 64 percent drop in interest on cash. The decline in investment income was due to a fact that the bank reported an unusually high return in the first quarter of 2008 as a result of a gain of 50 million nuevo soles on the sale of Visa shares from that company's IPO last year. Excluding that event, investment income would have remained stable. Interest on cash fell significantly as a result of a sharp reduction on the LIBOR based rate paid on the central bank's dollar denominated term deposits.

Financial expenses increased 67 percent year on year due to growth rates of 44 percent on interest from deposit, 72 percent increase in interest and loans, and 260 percent in interest and loans. The increase in interest on deposits was due to a 57 percent rise in volume and 19 basis points increase in the average cost of deposits. The increase was due to the fact that we had a higher proportion of term deposits in our funding mix.

Interest on loans grew as a result of a 77 percent expansion in the average volume of bank loans that Interbank acquired between the first quarter of 2008 and the first quarter of 2009. Growth in volume was mainly attributable to higher levels of median term loans with foreign banks and repos from the central bank of Peru. Interest on bonds expanded in line with the significant volume growth which was due to new issues of subordinated and [inaudible] throughout 2008.

Looking at the quarter on quarter performance, we can see that gross financial margin increased 9.8 percent as financial income grew 7 percent while financial expenses rose by only 1.4 percent. Financial income growth was driven by a 9.4 percent increase in interest on loans and a 33 percent increase in investment income and partially offset by a 66 percent decline in interest and cash and a 13 percent drop in exchange gain.

Interest on loans grew in-line with the 9.3 percent expansion in average volume, while the increase in investment income was attributed to the bank's sovereign bond portfolio. Financial expenses grew only 1.4 percent despite a 5.4 percent increase in the average volume of interest-bearing liabilities as a higher proportion of deposits within the funding mix led to a 20 basis point decline in Interbank's average cost of funds.

If we could please turn to page 11 , the chart on that page, we can see that Interbank's net financial margin increased by 60 basis points on quarter on quarter as a result of higher investment yields and lower funding costs.

Please turn to page 12 now. There we can see some indicator of the asset quality and provision expense. On the chart on the right, on page 12, we can see that the asset quality deteriorated slightly and the past due loan ratio rose from 1.2 percent in the fourth quarter of 2008 to 1.5 percent in the first quarter of 2009. Provision coverage remain strong at 262 percent of past due loans. The chart on the left of the page shows that the loan provision expense increased significantly during the past two quarters. A large part of this increase is due to new pro-cyclical provisional requirements enacted by the Peruvian Banking Superintendent at the end of 2008. The loan provision expense rose by 58 million nuevo soles year on year. Out of this increase, 38 percent of the total is attributable to new regulations including pro-cyclical requirements. Another 33 percent of the increase is explained by volume growth and 29 percent is due to writing delinquencies.

You can turn to page 13 now. There we can see that Interbank's fee income rose 49 per cent year on year driven by increases in fees from the credit card business, from ATM use, deposit accounts, indirect loans and collection services. Fee income remained stable quarter on quarter as a 16 per cent income from fee in services was offset by significantly lower fees in the commercial banking business.

Now, go to page 14 to see some detail on our operating expenses. In the first chart on page 14, we can see the growth in the bank's distribution network has stabilized after a significant expansion during the fourth quarter of 2008. In December 2008, Interbank successfully completed a two year project during which a number of branches and ATM's was doubled. In 2009, growth in our network will be much slower than in the previous two years. As a result of this significant expansion in our branch network, operating expenses rose 32 percent year on year. Quarter on quarter growth was 4 percent as expenses stabilize during the last two quarters.

And now Gonzalo Basadre and Claudia Valdivia, Interseguro's chief financial officer, will discuss the results for the first quarter.

Claudia Valdivia: Thank you, Jose Antonio. If you can please turn to page 16 on the presentation, the table shows a summary of Interseguro's P&L performance where we can see a quarterly growth in Interseguro's income of 3 million nuevo soles. This quarterly increase was due to a significant improvement on investment income. We will give more detail later on the presentation and a decrease on administrative expenses explained by lower advertisement expense.

On a yearly basis, Interseguro's net income was 70 percent lower due to a decrease in investment income. However, this lower income was partially offset by a significant improvement in technical margins due to a considerable decrease in claims services.

Please turn to page 17 . Page 17 shows in detail performance of Interseguro's premium. We can see premiums increased 7 percent quarter on quarter and 13 percent year on year. The most relevant changes during the first quarter of 2009 are the following: Group life premiums increased 20 percent quarter on quarter and 72 percent year on year basically because of a significant increase in insurance signed by Interbank's mortgage credit. Individual life premiums grew 8 percent quarter on quarter and

20 percent year on year. This growth was higher than the industry increasing our market share from 4.9 percent to 6 .2 percent y ear on year . Disability and survivor benefit premiums grew significantly percentage-wise but not on an ab solute basis. These premiums are related to Profuturo's contract that ended in December 2007.

Finally, on page 18, th e details on Interseguro' s investm ent portfolio and investment income. Interseguro's investment i ncome was 28 nuevo soles in the first quarter of 2009, a signific ant increase over the fourth quarter of 2008, but a decline compared to the first quarter of 2008. The main reason for the yearly decrease was the depreciation of the nuevo sol. As you can see on the bottom table, exchange rate gains on the first quarter of 2008 were 17.3 million nuevo soles, while in the first quarter of 2009 the company has a 7.9 million nuevo soles loss.

As a result of a better performance of the Lima Stock Exchange, investment income grew 169 percent quarter on q uarter as equ ity and mutual funds did not generate any losses. Real estate i ncome had a significant d ecrease quar ter on quar ter as the f ourth quarter of 2 008 includes the sale of two plots of land as we mentioned in the l ast quarterly conf erence call. Interseguro's inv estment portfolio increased 16.5 percent year on year totaling 1,82 5 million nuevo soles. Additional funds received were invested mainly in fixed income securities from real estate loans.

Ernesto Gonzalez: That concludes the presentation. We can now turn to a Q&A session.

Operator: At this time, we'll open the floor f or questions. If you would like to ask a question, please press "star one" on y our telephone keypad now. If you'd like to remove y ourself from the questi oning queue, ple ase press "star two" . Again , that' s "star one" t o ask a question and "star two" to rem ove yourself from the queue. Our first question comes from Ricky Sperber with Citi.

Ricky Sperber: Hi Jose Antonio and everyone. Qu ick questi on. We saw significant l oan gr owth, loan expansion year over year, I think it was at 58 percent. What would you expect for the whole year 2009 in terms of l oan growth an d what kin d of GDP f orecast growth are y ou basi ng that on? I think most economies are now expecting a 3 or 4 percent growth in GDP and real GDP f or Peru n ow. What are you expecting in terms of GDP growth and what would that mean in terms of loan growth?

Jose Antonio Rosas: Good morning, Ricky. We are acting according to the general consensus of GDP growth in Peru, which we also expect to be between 3 and 4 percent. Having a specific num ber in these uncertain times is always very difficult but we do ag ree that the low end should be at 3 percent with th e up side at 3.5 even to 4 percent.

I would say our expectati ons for l oan growth at In terbank in 2 009 will hav e to d o m ore with banking market c onditions and the competitive environmen t than GDP g rowth p articularly in the c ountry. We expect overall loan growth in the market to remain slow throughout the year, not at the zero growth rate of the first quarter, but probably around 10, 15 percen t and we expect to conti nue gaining market share seeking th e opportunities that w e se e in this sl ower competitiv e environment. A s a result, our l oan growth should be between 20 and 25 percent.

Ricky Sper ber: Okay. Thank you very much, Jose Antonio, an d just a foll ow-up. In ter ms of asset quality, there was just a slight increase in NPL the r atio this quarter, I think to 1.5 percent, I'm not sure. Would this 3 to 4 percent GDP growth estimate, where could you expect that rati o to go and what would that mean in terms of provision s? Is it a level that we saw this quarter in ter ms of provi sion something that we'll see in the next few quar ters and n ot cou nting the pro-cyclical or are you exp ecting that to increase?

Jose Antonio Rosas: We're not counting that pro-cyclical, we do expect that provision expense to increase, not significantly but to increase over the first two quarters particularly as a result of the deterioration in the asset quality of that credit card loan portfolio, which is already exhibiting higher delinquencies as a result of a slowdown in economic activity and we expect that to continue over the following two quarters and that's something we have already projected in our budget for 2009 and certainly should be around 3.5 but closer to 4 percent of totals loans during the first two quarters.

Ricky Sperber: So, provisions should be 3 1/2 to 4 percent in the next two quarters?

Jose Antonio Rosas: Right.

Ricky Sperber: What about the NPL ratio that we saw at 1.5 percent? Do you have a forecast of how that could end at the end of the year?

Jose Antonio Rosas: Yes. It would probably increase as well and get closer to 2 percent.

Ricky Sperber: Okay. Thank you very much.

Operator: Our next question will come from Lucas Ramirez with Merrill Lynch.

Lucas Ramirez: Hi, gentlemen, good morning. I have two questions. One is on the reserve coverage ratio. Interbank remains very healthy but has been coming down, so my question is, do you expect to keep utilizing some of the excess reserves over the coming quarters and what would be the minimum level that you would be comfortable with in terms of the coverage? That's question one and, second, on the investment result side of Interseguro, in the fourth quarter you had a loss on the equity and mutual funds portfolio, this quarter, according to what I'm seeing in the press release was zero, and I was wondering why that didn't turn into a positive given the positive performance of the Lima Stock Exchange during the quarter? Those are my questions. Thank you.

Jose Antonio Rosas: Good morning, Lucas. Regarding your first question, we certainly do not expect to use excess reserves during the year. We will continue to strictly follow the Peruvian Banking Superintendent's provisioning standard requirement, and as a result, our normal provisions, our generic provisions, will increase due to a pro-cyclical reserve requirement that will continue in place during the year and will be required in all of our new loan disbursements. As for the minimum level with which we feel comfortable, I would say as long as we are above 200 percent, we feel very, very comfortable but we don't expect to get close to 200 percent, but as long as we're above that level, we feel that we are very well covered. As far as your question about Interseguro, Gonzalo will take your question.

Gonzalo Basadre: Hi. You asked about why Interseguro's equity portfolio had a better performance in the first quarter especially considering the exceptional performance of the Lima Stock Exchange in that period. Well, the explanation is the stock we held in that portfolio, we held mainly non-cyclical stocks but low volatility stocks and that is why our performance in 2008 was a lot better than the Lima Stock Exchange when the index went down significantly last year mainly due to mining stocks. Our portfolio held up really well. On the first quarter, we had a strong rebound but it was mainly in this same stock which we still hold. We still expect for the second quarter onwards, our stocks having improved and helping the bottom line in Interseguro.

Lucas Ramirez: Great. Thank you very much.

Operator: Again, if you would like to ask a question, please press "star one" on your telephone key pad now. Our next question will come from Alonso Aramburu with Santander.

Alonso Aramburu: Good morning. Jose Antonio, I was wondering if you can comment a little bit on the margins, the NIM expanded 50 basis points this quarter. Where or how much more do you think this can expand over the next couple of quarters even though central bank is likely to reduce rates? My second question would be on the effective tax rate at Interbank. What should we expect for the year?

Jose Antonio Rosas: Good morning, Alonso. I'm sorry, I didn't get your second question well.

Alonso Aramburu: The second question was about the tax rate at Interbank. What the effective tax rate we can expect over the next couple of quarters?

Jose Antonio Rosas: First, on the net interest margin, we certainly expect an increase and we are already seeing one in the month of April due to the normalization of investment returns at the bank and also particularly strongly the rates by the central bank. How much that will NIM increase? That will depend significantly on how much the central bank decreases rates, but if the central bank decreases rates as expected, by 3 percent, then we could see an increase in our NIM at least 50 basis points throughout the year. On your second question and the tax rate, we should expect an effective tax rate around 31 or 32 percent during the following two quarters.

Alonso Aramburu: Great. Thank you.

Operator: Our next question will come from Carlos Rojas with Compass.

Carlos Rojas: Hi, Jose Antonio. I have one question for Interbank and one for Interseguro. The one for Interbank, what are your expectations for delinquencies for 2009 and what's your gross amount of money that you have to provision for in the next three quarters? Are you going to keep 100 million more or less for now? And in terms of Interseguro, I have a question regarding the investment portfolio. It looks here that it was actually 1.1 percent lower than it was in the fourth quarter 2008, but you made a profit and you have profited net premiums. My question was there something like a mark to market effect in the portfolio or is it actually that you are having more claims?

Jose Antonio Rosas: Regarding your first question on the delinquencies and provisions, we do not provide specific guidance and specific numbers on how much we will provision, but as mentioned earlier in answering the other caller's question, we expect the provision expense to be between 3.5 and 4 percent of the total loan portfolio the following three quarters. For delinquencies, they should be reflected in the NPL ratio. We should approach 2 by the end of the year.

Gonzalo Basadre: Carlos, This is Gonzalo Basadre. I didn't get fully your question. You were mentioning that investment income fell 1.1 percent quarter on quarter and then what was your question?

Carlos Rojas: The investment portfolio was 1.1 percent down quarter on quarter and it seems that equity and mutual funds declined 21 percent and real estate fell 4 percent. So, the question is, you had a profit in that business, and so basically are you mark to mark-ing some prices down?

Gonzalo Basadre: Okay. So, you're asking why the premiums increased, then why the portfolio went down 1 percent?

Carlos Rojas: Yeah, that's it.

Gonzalo Basadre: That has nothing to do with any marking down or anything like that. It's just balance sheet management. We in certain periods we increased a little bit of our asset side with some margin lines we have and that is what happened in the fourth quarter of 2008 and that was reversed in the first quarter of 2009.

Carlos Rojas: Okay. Thanks.

Operator: Again, if you would like to ask a question, please press "star one" on your telephone keypad now. Again, that's "star one" to ask a question. At this time, there are no further questions in the queue so I'm going to turn things back over to management for closing remarks.

Ernesto Gonzalez: Okay. Thank you very much, for joining us today for Intergroup's first quarter 2009 conference call. Please contact me if you need any further information. My contact details are included in the invitation you received for this call and in our company's website, www.ifs.com.pe. We appreciate your time and attention and look forward to your continued interest. Good day to all.

Operator: This concludes our teleconference. You may now disconnect your lines.