IFS 3Q11 Conference Call
November 3, 2011
11:00 A.M.

Operator: The following teleconference is for Peter Majeski with I-Advize, for Thursday, November 3, 2011, beginning at 10:00 A.M. Central Time. Good morning, and welcome to the Intergroup Financial Services third 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, Kelly. Good morning, everyone. Welcome to Intergroup Financial Services third quarter 2011 earnings conference call on this, the third of November 2011. We are pleased to have with us from Intergroup, Mr. Luis Felipe Castellanos, Interbank's Chief Executive Officer, Ms. Claudia Valdivia, Chief Financial Officer of Interseguro and Mr. Gonzalo Basadre, Investment Manager at Interseguro. They will be discussing Intergroup's results per the press release distributed yesterday afternoon. If you have not yet received a copy of the presentation or earnings release, please visit www.ifs.com.pe to download a copy, or call us in New York at 212-406-3695. It is now my pleasure to turn the call over to Mr. Luis Felipe Castellanos, Interbank's Chief Executive Officer. Mr. Castellanos, you may begin.

Luis Philippe Castellanos: Thank you very much. Good morning, everybody. Welcome to Intergroup's third quarter 2011 conference call. First of all, I want to reiterate, with me are Claudia Valdivia, the CFO of Interseguro and Mr. Gonzalo Basadre, who, as you might know, has been recently announced, will be the Interseguro's CEO, starting January 2, 2012.

We will start with a brief discussion of the highlights of Intergroup's performance, starting on page 3 of the presentation. Intergroup's net earnings reached a record level of 200.5 million in third quarter 2011, an increase of 45% quarter-on-quarter, and 49.9% year-on-year. Growth was driven by higher financial income and fee income, as well as 26.3 million in income from the recovery of a loan write-off at Interbank. Intergroup's recurring ROE was 31.1% in 3Q11, above 26.2% in 2Q11, and 30.4% in 3Q 2010.

Regarding Interbank, Interbank's net earnings reached a record level of 163.7 million in 3Q11, an increase of 30.9% quarter-on-quarter, and 15.6% year-on-year. Quarter-on-quarter growth was driven by a 6.6% decrease in financial expenses and 16.6% increase in fee income, as well income from the loan recovery previously mentioned. Year-on-year net earnings growth resulted from increases of 8.5% in interest on loans, and 19.1% in fee income. Performing loans grew 1.2% quarter-on-quarter, and 15.7% year-on-year, as retail loans reported the second highest quarterly growth rate in the last two years. Recurring net interest margin increased 40 basis points quarter-on-quarter, mainly as a result of lower financial expenses and an increase in investment income. Asset quality remained stable year-on-year, with a past-due loan ratio at 1.6%. The ratio of provision expense to average loans decreased from 3.7% in 3Q10 to 3% in 3Q11.

Regarding Interseguro, we see that Interseguro's net earnings increased 39.2% quarter-on-quarter, due to a 19.9% growth in investment income. Earnings grew 19.8% year-on-year, mainly as a result of a lower technical margin loss. Annuity sales increased quarter-on-quarter, but decreased year-on-year, as a result of a contraction in the market.

Please turn to the following page for a brief overview of the net earnings of Intergroup and its two subsidiaries. On page 4, we can a summary of the quarterly earnings of Intergroup and its two subsidiaries. Operating trends were strong, driving Intergroup and Interbank to report record quarterly earnings in 3Q11. An additional boost from non-recurring gains led ROEs at IFS and its two subsidiaries to approach 40%.

Please turn to page 5 for a discussion of Intergroup's net earnings. Net earnings reached a record of 200.5 million in 3Q11, a 45.5% increase quarter-on-quarter and 49.9% increase year-on-year. When excluding non-recurring items, net earnings increased 13.5% quarter-on-quarter and 3.9% year-on-year. In terms of our quarter-on-quarter performance, net earnings increased 45.5% quarter-on-quarter, driven by increases of 4.6% in gross financial margin, and 16% in fee income, as well as 26.3 million in income from the recovery of a loan write-off at Interbank. Financial income remained stable quarter-on-quarter, as a result of lower exchange gains, which offset an increase of 17.9% in investment income. Financial expenses decreased 13.5%, due to a 19.7% decline in interest on due to banks. This decline was a result of a decision at Interbank to not continue with funding provided for an infrastructure project, which led to a decline of 1233 million in loans and local funding linked to this project. This funding had a higher than average cost. Provision expenses decreased 1.1%, as asset quality remained strong. Fee income grew 15.9% quarter-on-quarter, mainly as a result of higher fees from credit and debit cards, services and other fees at Interbank. Other income grew 44 million, mainly due to the recovery of the loan write-off previously mentioned. Income before taxes grew 38.2%, but income taxes grew only 20%, as a result of two factors. The first was an increase in Interbank's effective tax rate from 28.3% in 2Q11 to 24.5% in 3Q11, due to higher tax deductible income from interest on central bank deposits. The second factor was a higher contribution to bottom line earnings from Intergroup and Interseguro, whose earnings are tax exempt. In terms of our year-on-year performance, we can see that net earnings increased 49.9% year-on-year, driven by higher financial income and fee income, as well as a 26.3 million income from a loan recovery write-off previously mentioned. Gross financial margin grew 4.8%, due to a 3.9% increase in financial income, partially offset by a 1.1% increase in financial expenses. Growth in financial income was driven by an 8.5% increase in interest on loans at Interbank, and strong investment income at Intergroup. Interbank's average loan book has expanded 18.1% year-on-year, as demand for credit from Interbank's clients and customers remained strong. Financial expenses increased only 1.1%, as a result of a reduction in the higher cost lines of credit, offset by increases in interest on deposits and interest on bonds. Increased deposit costs were due to growth in the average volume and average cost. Interest on bonds grew as a result of a 400 million senior bond issue completed in October 2010.

Interseguro's loss from insurance underwriting decreased 26.6%, as a result of lower reserves linked to a decrease in annuity sales. The decline in annuity sales was explained by a market contraction. Administrative expenses rose only 3% year-on-year, driven by the implementation of consulting and technology projects. Other income grew S/. 77.4 million, due to the loan recovery and a lower provision for contingent loans at Interbank, which were particularly high in the third quarter 2010. Income before taxes grew 41.3%, but income taxes grew only 20% as a result of a higher contribution to net earnings from Intergroup and Interseguro.

Please turn to page 7 for a discussion of Interbank's performance. Interbank reported record net earnings of S/. 163.7 million in 3Q11, a 30.9% increase quarter-on-quarter, and a 15.6% increase year-on-year. The quarter-on-quarter rise was due to increases of S/. 38 million in other income, and S/. 19.2 million in fee income, partially offset by a 6.2 million decrease in gross financial margin, and an increase of S/. 4.5 million in administrative expenses. The year-on-year increase was attributable to a S/. 42.4 million increase in other income, and a S/. 21.7 million growth in fee income, partially offset by a S/. 31.2 million decrease in gross financial margin, and a S/. 5.8 million rise in administrative expenses. Interbank's ROE was 38.7% in the third quarter of 2011, above the 31.8% reported in the second quarter of 2011, and in-line with the 38.5% reported in the third quarter of 2010.

Now, please move to page 8. Performing loans increased 1.2% quarter-on-quarter and 15.7% year-on-year, driven by strong growth in the retail segment, which registered the second highest quarterly growth rate in the past two years. Retail loans grew 5.2% quarter-on-quarter, due to increases of 8% in mortgages, 5.4% in credit cards, and 2.5% in other consumer loans. Growth in mortgage loans was driven by strong demand for housing and successful commercial efforts at Interbank, which led our market share to grow from 11.9% in the second quarter of 2011 to 12.1% in the third quarter of 2011. Growth in the credit card portfolio was due to increasing consumer demand in Peru. Commercial loans decreased 2.5% quarter-on-quarter, as a result of the Bank's decision not to continue with a S/. 433 million loan to fund an infrastructure project. Excluding the effect of this decision, commercial loans would have grown 4.0% quarter-on-quarter, and total loans would have grown 4.6%. Retail loans grew 19.8% year-on-year, mainly due to growth rates of 34.8% in mortgages and 22.2% in credit cards. Commercial loans rose 11.8% year-on-year.

Now, please turn to page 9. Interbank reduced its total funding by 5% quarter-on-quarter, in line with a 3.9% decrease in interest earning assets. Deposits declined 5.7% quarter-on-quarter, due to a 27.8% reduction in institutional deposits, while retail deposits grew 1.4%, and commercial deposits increased 1.4%. The proportion of institutional deposits to total deposits has declined from 28.3% in 3Q10 and 25.5% in 2Q11 to 19.5% in 3Q11. As a result, the proportion of core deposits was above 80%, as of the third quarter of 2011. Due to banks decreased 15% quarter-on-quarter, as a result in our reduction in local funding, due to a previously mentioned infrastructure project. Funding from Interbank deposits rose 103.9 million as a replacement for institutional deposits. The Bank's total funding base grew 5.4% year-on-year, due to increases of 98.1% in bonds and 5.5% in deposits, partially offset by a 29.7% decrease in due to banks. The growth in bonds was a result of a 400 million senior bond offering completed in October 2010. Deposits rose, due to increases of 16.2% in retail deposits and 21.5% in commercial deposits, partially offset by a 27.2% decrease in institutional deposits. These changes have improved the stability of Interbank's funding structure.

Moving to page 10, for a discussion of our quarter-on-quarter performance. Gross financial margin decreased 1.6% quarter-on-quarter, as a result of a 2.8% decline in financial income, partially offset by a 6.6% reduction in financial expenses. The decline in financial income was due to lower exchange gains, which offset 2.9% growth in financial income, before exchange gains. Exchange gains decreased by S/. 29.8 million due to reductions of S/. 15 million in gains on Interbank's own exchange position, and S/. 12 million in income from trading activity with clients. The decline in gains on the exchange position was due the depreciation of 0.9% in the exchange rate of the nuevo sol against the U.S. dollar and the effect this had on a slightly long position the Bank held in U.S. dollars. Interest on loans remains stable quarter-on-quarter, despite 2.6% growth in the average volume, due to a 50 basis points increase in the average yield, from 13.1% in 2Q 2011 to 12.6% in 3Q 2011. The average yield in the commercial portfolio decreased, due to competitive pressures on rates and the Bank's decision to withdraw from the infrastructure project previously mentioned, which had a higher than average yield. The yield in retail loans was pressured by decreases of 90 basis points in credit cards and 50 basis points in other consumer loans. Investment income grew 31.6% as a result of increases in non-recurring income reported in the third quarter of 2011. The return on interest earning assets was 11% in the third quarter of 2011, a 40 basis point increase over the second quarter of 2011, mainly due to higher investment gains. Financial expenses declined 6.6% quarter-on-quarter, as a result of a 19.7% decrease in interest on due to banks and a 4.2% reduction in interest on deposits. Lower interest on deposits was due to a 1.4% decrease in the average volume and a 10 basis point decline in the average cost. This was mainly due to a 16.8% decrease in the average volume of institutional deposits, which a carry a higher than average cost. The average cost of retail and commercial deposits remained stable quarter-on-quarter.

The reduction due to banks was attributable to a 7.5% decrease in average volume and an 80 basis point decline in the average cost. Lower volume was a result of a 13% decrease in local funding, with higher than average costs. The average cost of funding was 2.7% in the third quarter of 2011, a 20 basis point decrease quarter-on-quarter, due to the lower average cost of due to banks. Looking at the year-on-year performance, we appreciate that gross financial margin decrease of 7.4% year-on-year, due to a 1.9% decline in financial income and an increase of 19.7% in financial expenses. The decline in financial income was due to decreases of 32.2% in investment income and 43% in exchange gains, partially offset by an 8.5% increase in interest on loans. Growth in the interest on loans was attributable to an increase of 18.1% in the average volume of the loan portfolio, partially offset by a 100 basis point decrease in the average yield, from 13.6% in 3Q10 to 12.6% in 3Q11. Higher average volume was driven by increases of 19.6% in retail loans and 17.2% in commercial loans. The yield of the retail portfolio decreased 110 basis points, due to lower rates in consumer loans and an increase in the proportion of mortgages within the portfolio, from 29.7% in 3Q10 to 34% in 3Q11. The commercial portfolio's yield decreased 90 basis points, due mainly to competitive pressures. Investment income decreased S/. 27.8 million, as a result of two factors. The first was a lower non-recurring investment gain, from an unusually high level in the third quarter of 2010. The second factor was a 21.3% reduction in the average volume, due to a realization of investments over the last 12 months. Interest on cash increased by 2.2 million as a result of a 9.2% rise in the average volume, and a 20 basis point increase in the average yield. Financial expenses increased 19.7% year-on-year, mainly due to increases of 84.8% in interest on bonds and 21.5% in interest on deposits, partially offset by a 13% decrease in interest and due to banks. Increasing interest on bonds was due to 97.4% growth in the average volume, resulting from the corporate bond issuance previously mentioned. The increase in interest on deposits was due to 4% growth in the average volume and a 20 basis point rise in the average cost. The increase in volume was due to growth rates of 17.7% in retail deposits and 18.4% in commercial deposits, partially offset by an increase of 25.5% in institutional deposits. The increase in costs was a result of the impact of a higher reference rate in the cost of institutional deposits, which rose 110 basis points. Lower interest in due to banks was a result of a 6.7% decrease in the average volume and a 40 basis point increase in the average cost. The reduction in volume was mainly due to the replacement of short-term lines of credit with local deposits. The average volume of short-term lines decreased 17.1%, but was partially offset by a 15.3% increase in local medium-term funding, tied to mortgage loans. The average cost of funding increased 30 basis points year-on-year, from 2.5% in the third quarter of 2010, to 2.8% in the third quarter of 2011, due to the rise in the reference rate and the cost of the bond issuance.

Now, please turn to page 11. Recurring net interest margin was 7.4% in the third quarter of 2011, above the 7% reported in the second quarter 2011, but below the 8.1% reported in the third quarter 2010. Interbank's net interest margin remains significantly above the industry average.

Now, please turn to page 12. Provision expenses decreased 1.1% quarter-on-quarter and 4.2% year-on-year. As a result, the ratio of provision expense to average loans was 3% in the third quarter of 2011, lower than the 3.1% in the second quarter 2011, and 3.7% in the third quarter 2010. In the third quarter 2010, provision expenses were high due to the application of a new regulation on loan classification and provisioning applicable since July 2010, which led to a non-recurring charge 16.2 million in the third quarter 2010. The ratio of past due loans to current loans remains stable at 1.6%. The coverage ratio increased from 260.1% in the second quarter of 2011 to 263% in the third quarter of 2011.

Now, please turn to page 13. Fee income rose by S/. 14.1 million quarter-on-quarter, driven by increases of S/. 8 million in other services, S/. 2.7 million in credit and debit cards, and S/. 2 million in contingent operations. Growth in other fees was due to higher commissions from corporate finance and mortgage disbursements. The rise in credit card fee income was due to growing volume in credit card operations. The increase in income from contingent operations was due to 2.2 million growth in fees from trade finance. Fee income grew 19.1% year-on-year, due to increases of 35.4% in other services, 15.8% in credit and debit cards, and 13% in service fees. Administrative expenses grew at a moderate pace of 2.1% quarter-on-quarter and 2.6% year-on-year. The rise was mainly due to the implementation of technology projects and expenses related to loyalty rewards and advertising. As a result of more expense growth, the efficiency ratio declined from 47.2% in the second quarter of 2011 to 46.9% in the third quarter of 2011.

Now, please turn to page 14. The ratio of regulatory capital to risk- weighted assets was 14.6% in the third quarter of 2011, above the 14.5% reported in the second quarter of 2011, and below the 16% reported in the third quarter of 2010. During the third quarter of 2011, regulatory capital grew 7.4%, and risk-weighted assets increased 6.8%. The quarter-on-quarter increase in regulatory capital was due to the capitalization of S/. 125 million in earnings from the second quarter of 2011. The year-on-year decrease in the capital ratio was due to a 21.2% increase in risk weighted assets, partially offset by a 14.3% increase in regulatory capital. The increase in the regulatory capital was due to a capitalization of S/. 409.2 million in earnings carried out over the last 12 months. The ratio remains significantly above the regulatory minimum of 10% required by Peruvian banking regulations.

Now, let me pass it on to Claudia Valdivia for a discussion on Interseguro's results.

Claudia Valdivia: Thank you, Luis Felipe. Please turn to page 16 of the presentation. The table shows a summary of Interseguro's P&L performance, where we can see a strong growth in the net income of 38.8% quarter-over-quarter and 19.9% year-over-year. The increase of net income on both quarter-on-quarter and year-over-year is explained by higher investment income, which was partially offset by an increase in administrative expenses due to high commissions from premiums written and implementation of consulting and technology projects. ROE grew significantly from 36.5% in the third quarter of 2010, to 43.5% in the third quarter of 2011, while ROE remained stable at 5.3%. The technical margin loss decline is primarily explained by lower reserves tied to an increase of the annuities premiums sold, due to a market contraction in the early retirement segment during the third quarter of 2011.

Page 17 shows in detail the performance of Interseguro's premiums. As shown in the table, premiums grew 6.9% quarter-over-quarter and declined 34.5% year-over-year. The quarter-over-quarter increase and the year-over-year decrease are both explained by annuity premiums tied to the early retirement segment. The year-over-year decrease was attributable to a 32% market contraction, mainly explained by the delay from the government in issuing the [Indiscernible]. As of September 30, 2011, Interseguro is the leading provider of annuities in the Peruvian market, with a 24.3% market share. In addition, other business lines had an important growth, both year-over-year and quarter-over-quarter. Individualized premiums increased 68.1% year-over-year and 21.3% quarter-over-quarter, driven by higher nominal sales as well as non-life premiums, which more than doubled year-over-year and increased 11.6% quarter-over-quarter, mainly explained by the great competition in insurance policies.

Finally, on page 18, there are some details on Interseguro's investment portfolio and investment income. Interseguro's investment income was S/. 65.9 million in third quarter of 2011, a 19% increase over the second quarter of 2011 and a 4% increase over the third quarter of 2010. The quarter-over-quarter increase is mainly explained by higher realized gains on investments, as well as increasing income in real estate. In the third quarter of 2011, Interseguro reported a S/ 5.1 million gain from the sale of properties. Year-over-year growth is explained by increasing interest income on bonds, resulting from investments in high yielding instruments, as well as high income in real estate, partially offset by a decline in realized gains, due to the fact that in the third quarter of 2010, Interseguro sold fixed income and equity investments. Interseguro's investment portfolio increased 7.5% quarter-over-quarter and 18.5% year-over-year, totaling S/ 2,560.4 million. Additional funds received were invested in both fixed income and real estate investments.

Luis Philippe Castellanos: Ok, that concludes our presentation, and now, we can open it to questions.

Operator: Thank you. At this time, if you would like to ask a question, please press the star key, followed by the one key on your touchtone phone now. Again, that's star one on your telephone keypad, if you would like to ask a question. Our first question will come from Fabio Zagatti with Barclays Capital.

Fabio Zagatti: Hi. Good morning, gentlemen. Interestingly, it has been a couple of quarters in a row that management blames competition for the trend in credit yields, so may I ask you for an explanation of what is really going on there? And maybe, how much of this spread compression has cost Interbank in terms of net interest income growth? And what the outlook is for the remainder 2011 and 2012, assuming overnight rates were to remain stable? And then, I have a second question. Thanks.

Luis Philippe Castellanos: Thank you, Fabio. What is really going on here? Well, we are in a very competitive environment. We're seeing the commercial houses, say Ripley, Falabella and other traditional banks coming into the market very strongly, and the macroeconomic environment in Peru is still performing well, and competitors are really gaining share in terms of our customers and market. That's mainly it. We're seeing renewed strategies towards the credit cards and consumer loans and the mortgages that are growing strongly. We're seeing very strong competitive pressure. And the same happens in the commercial part of the business, where commercial loans are also under heavy and intense competition. The system is very liquid and we can see that there is a lot of pressure in order to get placement of loans in the market. Again, the activity comes from many fronts and different players, both in the retail and commercial environment.

In terms of what we see, we expect that our NIM has reached a level of around 7.5%, and we would expect that to remain stable for the rest of the year, and we're working on our numbers for next year, but assuming that rates remain stable, that's an achievable NIM as well for next year.

Fabio Zagatti: Ok, thanks. My second question is, now that it has already been 90 days or so, since the new President elected took office, have you noticed any change in your clients' demand for credit in the overall consumer and business confidence, and then maybe, could you revisit what was the guidance is for this year and for the main lines and ROE, and then maybe for 2012, if you already have a good sense of what you expect that you could share with us? Thanks.

Luis Philippe Castellanos: Sure. In terms of your first part of the question, we have not really seen a big change; in terms of the consumer or the retail part of the business, again, it's growing very strongly; mortgages continue to grow at an over 30% year-on-year rate. We have not seen a deceleration on that front. The same happens for consumer loans. Activity is very strong, and we expect this to continue throughout the year. There was some noise in terms of big infrastructure projects, and probably in the medium term, the market went into a little bit of deceleration, but the government continues to send positive signals to the market, we expect this to revert, so we expect growth to continue to be strong. Obviously, that will be dependent, besides on the political front, on what's happening internationally and how the international environment will affect the Peruvian economy. The government has been announcing counter-cyclical measures or measures to foster investment and these refer towards a potential negative effect on the international front, so that's what we expect on that front.

In terms of 2011, we are still giving guidance at around 30% for Intergroup Financial Services, by year end; we are not able to discuss 2012 results yet; we are currently working on our budgets. This is the time of the year, so we will be very happy when we have that information more firmed up to share with whomever we can share it with.

Fabio Zagatti: Ok. Great. Thanks a lot.

Operator: Thank you for your question. Again, if you would like to ask a question, please press star one on your telephone keypad at this time. Our next question comes from Luis Guzman with Santander.

Luis Guzman: Hello. Good morning. I have two questions. First, on the NPL ratios in credit cards, can you give me more color as to what is happening here, as the NPL ratio went up this quarter, if I am correct? And the second question is, if I look at the changes in shareholder's equity, and I look at the last five years, and I realize results, and I add up the loss of 123.5 million for this quarter. Could you please explain what happened there?

Luis Philippe Castellanos: Ok, on the first question, the NPL ratio remains stable; basically, we had 1.5% in the first quarter, 1.6% in the second quarter and remains at 1.6% in the third quarter, in-line also, with the industry average of 1.6%, despite our more heavy weight on retail loans additionally counting with higher NPL, so really, we don't see, at this point, in this part of the year, an increase. It has remained stable throughout the year. In terms of the second part of your question, can you please repeat it?

Luis Guzman: Further to the first question, I was talking about credit cards, or the NPL ratio for the consumer segment.

Luis Philippe Castellanos: Again, that also remains stable. It has not grown in the recent past, but it remains at stable levels throughout the year, and also, at the end, we what we saw in 2010.

Luis Guzman: Ok.

Luis Philippe Castellanos: Now, can you please repeat the second part of your question, please?

Luis Guzman: Sure. In the financial statements, I looked at the changes in shareholders equity, and in the line of net portion of unrealized results, the Company has a loss of 123 million for the quarter. I don't' know if you can see that…

Luis Philippe Castellanos: Yes, that's not realized losses for our investments; for the whole Intergroup, including Interbank, Interseguro and the holding company, itself.

Luis Guzman: Yes. Yes.

Luis Philippe Castellanos: So, that's available to sell, not realized yet.

Luis Guzman: Ok.

Operator: Thank you for your question. Again, if you would like to ask another question, it is star one on your telephone keypad. Again, that's star one on your telephone keypad, if you would like to ask a question. Our next question comes from Felipe Ucros with BTG Pactual.

Felipe Ucros: Yes, good morning, gentlemen. Two questions, the one on loan growth that I had was already answered. My first question is on the NIM. Can you please comment on the NIM and how you see it evolving over the coming quarter, and I think you guys said that you can't comment on 2012 yet.

Luis Philippe Castellanos: Yes, that's right. On the NIM, again, Interbank's NIM remains higher than the industry average, that is basically due to our more heavy weight in terms of retail loans. We expect that this difference with the industry will continue; however, during the year, we've seen that margins have compressed, basically because of two reasons. As I was mentioning earlier, intense competition in both the retail front and the commercial portfolio front, and also, the increase in the cost of funding; the reference rate in Peru had increased throughout the year. We expect that these increases in the reference rate will remain stable and that the competitive pressure, given what has happened throughout the year, probably will pass a little bit for the fourth quarter of this year, so this 7.4/7.5% NIM that we currently have should remain stable for the year end, as well.

Felipe Ucros: Great. And I guess my second question is on network growth. I'm not sure if you can give us an update on the plans for the remainder of the year and if you have any plans for 2012 yet?

Luis Philippe Castellanos: The network, you said?

Felipe Ucros: Yes, the network.

Luis Philippe Castellanos: We have a trend, in terms of opening new branches. We closely follow our sister company Supermercados Peruanos and they are opening certain stores especially in the provinces. We expect to follow that trend, as well, so in terms of opening new branches in the remaining of the year, probably we will open, depending on how construction evolves, four to five more, so we will be, in all, having built around 15 for the year.

Felipe Ucros: Got it. And any plans for 2012 or is that still part of the plan that …

Luis Philippe Castellanos: We are actually working on that front as well. We expect the network to continue growing, but we are still fine tuning the numbers in terms of what we will be doing.

Felipe Ucros: Ok. Great. Thank you.

Operator: Thank you for your questions. Again, if you would like to ask a question, please press star one on your telephone keypad. I am showing no more questions in the queue at this time, so I would like to turn the call back to Mr. Castellanos. Sir, do you have any closing remarks?

Luis Philippe Castellanos: Ok. Thanks very much to everyone for participating in this call. Again, Intergroup continues to perform very well in an economic environment that continues to grow with intense competition, but we believe that our strategy is a significant strategy and will enable us to continue having results bigger than the industry. Thanks a lot, and I guess that's it from us.

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

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