Intergroup Financial Services
4Q10 Conference Call
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Operator: Good morning and welcome to Intergroup Financial Services' fourth quarter 2010 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, Callie. Good morning everyone, and welcome to Intergroup Financial Services fourth quarter 2010 earnings conference call on this, the second of February 2011. We are very pleased to have with us from Intergroup, Mr. José Antonio Rosas, Intergroup's Chief Financial Officer, Ms. Claudia Valdivia, Chief Financial Officer of Interseguro, as well as Gonzalo Basadre, Chief Investment Officer of 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 us at www.ifs.com.pe to download a copy, or call us in New York at (212) 406-3693. It is now my pleasure to turn the call over to Mr. José Antonio Rosas, Chief Financial Officer. Mr. Rosas, please begin.

José Antonio Rosas: Thank you, Pete. Good morning, everyone. Welcome to our fourth quarter 2010 conference call. We will start with a brief discussion of the highlights of Intergroup's performance. If we look at the year-end results for Intergroup, net earnings were 498.4 million nuevo soles in 2010, and that was a 1.6% decrease, when compared to 2009. Operating trends were very strong at Intergroup and were driven by record high earnings in both subsidiaries. However, they were offset by increases in depreciation and tax expenses. When excluding non-recurring items, Intergroup's net earnings increased 23% in 2010. Now, looking at the quarterly performance, if we look at Intergroup's recurring net earnings, they decreased 13.6% quarter-on-quarter, and 5.2% year-on-year, as a result of increases in the cost of funds, provisions and administrative expenses.

At Interbank, net earnings rose 16% in 2010 and reached a record level of 497.5 million, driven by loan growth and a lower average cost of funds throughout the year. Interbank's loan portfolio grew 21.5% in 2010, above the industry's 18.8% expansion rate. Now, looking at the quarterly earnings, earnings were 138.3 million in the fourth quarter, a 6.2% increase year-on-year, and 2.3% decrease quarter-on-quarter. The main driver for the quarter-on-quarter decrease was a 20 basis point decline in the net interest margin, due mainly to a higher cost of funds. Asset quality improved in the fourth quarter, as the past-due loan ratio declined from 1.6% in September to 1.5% in December.

Interseguro's net earnings reached a record 85 million soles in 2010, driven by strong investment income and record annuity sales. Looking at the quarterly performance, net earnings decreased 32% quarter-on-quarter, due to a decline in investment income.

Now, please turn to the following page, for discussion of the yearly earnings of Intergroup and its two subsidiaries. As mentioned before, Intergroup's net earnings decreased 1.6%, when compared to 2009. Net operating margins rose 9.7% in 2010, driven by increasing loan volume at Interbank and strong investment income at Interseguro. However, this strong operating trend was offset increases of more than 30% in depreciation and tax expenses. Excluding non-recurring items, Intergroup's net earnings rose 23% in 2010. Recurring ROE was 27% in 2010, above the 26.6% reported in 2009. Looking at the middle chart on this page, Interbank's net earnings were 497.5 million in 2010, a 16% increase compared to 2009. The main factors contributed to net earnings growth at Interbank were increases of 12.6% in gross financial margins and 16% in fee income, partially offset by increases in administrative expenses and provisions. The increase in gross financial margins was due to loan volume growth and a decline in the average cost of deposits. Looking at the last chart on this page, Interseguro's net earnings reached a record 85 million soles in 2010, an 11% increase, compared to 2009. The main drivers for earnings growth were significant increase in premiums, triggered by a new law allowing early retirement, and a 25% increase in investment income.

On Page 5, we can see a summary of the quarterly earnings of Intergroup and its two subsidiaries. In the following pages, we will through detailed discussions of each company's quarterly performance.

Please turn to Page 6 for a discussion of Intergroup's net earnings. Intergroup's net earnings were 102.4 million in the fourth quarter of 2010, a 23% decrease, quarter-on-quarter and a 36% decrease year-on-year. When excluding non-recurring items, which were particularly high in the fourth quarter of 2009, net earnings decreased 14% quarter-on-quarter, and 5% year-on-year. The quarter-on-quarter decrease in earnings was mainly the result of a 10.3% decline in net financial margins. Interest on loans grew 4% quarter-on-quarter, due to volume growth, and financial expenses remained stable. However, these positive trends were offset by lower investment gains and increasing provision expenses, which led to the above-mentioned decline in net financial margins. Fee income grew 16% quarter-on-quarter, driven by strong business activity in Interbank's retail and commercial segments. Interseguro's loss from insurance underwriting decreased 6.6 million nuevo soles, due to lower returns. Administrative expenses grew 8% quarter-on-quarter, as a result of business expansion at Interbank and Interseguro. Net earnings decreased 36% year-on-year, when compared to our fourth quarter 2009, in which a significant one-time investment gains were recorded. When excluding non-recurring items, net earnings decreased 5% year-on-year. Interest on loans increased 10% year-on-year, as a result of significant volume growth. However, gross financial margin rose only 1.5%, as growth in interest on loans was offset by two factors. The first was a decline in investment income, due mainly to the fact that in the fourth quarter of 2009, Interseguro reported 25 million nuevo sole one-time devaluation gain, due to a change in accounting regulations. The second factor was a 47% increase in financial expenses, due to volume growth, higher rates on term deposits and interest paid on two bond issues totaling $600 million, completed by Interbank in 2010. Provision expenses increased 25% year-on-year, in line with loan growth and partly as a result of the activation of pro-cyclical provisional requirements in October 2010. Interseguro's loss from insurance underwriting rose 48%, due to an increase in accounting reserves linked to strong annuity sales. This led net operating margin to decline by 12%. Net earnings fell at a higher rate than operating margins, due to a 33% increase in depreciation expense, a 26 million decrease in other income, and an increase in the effective tax rate from 26% in the fourth quarter of 2009 to 36% in the fourth quarter of 2010.

Now, please turn to page 8 for a discussion of Interbank's performance. Interbank's net income grew 6.2% year-on-year, driven by increases of 11% in net financial margins and 20% in fee income. Net earnings decreased 2.3% quarter-on-quarter, due to a decline in net financial margins and an increase in administrative expenses. Recurring net interest margins contracted 20 basis points quarter-on-quarter, as a result of a higher cost of funds, lower yields in the commercial loan portfolio and lower investment returns. In the following pages, we will discuss each of Interbank's lines in the profit and loss statement in more detail.

Please turn to page 9 to see the detail of Interbank's loan portfolio. There, we can see the performing loans grew 6.6% quarter-on-quarter and 21.5% year-on-year, with strong performances in the retail and commercial segments, both of which have grown significantly since the second quarter of last year. Retail loans increased 6% quarter-on-quarter, due mainly to a 10% increase in mortgages and 7% increase credit card financing. Interbank's mortgage portfolio continues to grow, driven by strong demand in the construction industry and successful commercial efforts of Interbank. As a result of these efforts, the total mortgage loan portfolio has expanded 35% year-on-year. Credit card financing expanded the highest quarterly growth rate of the past two years, due to growing consumer demand in Peru. Total retail loans have grown 20% year- on-year, due to an expansion in Interbank's market share in the retail segment, from 17.3% in December 2009 to 17.6% in December 2010. Commercial loans grew 7.5% quarter-on-quarter and 23% year-on-year in a context of high investment activity in Peru's private sector. Interbank's market share in the commercial segment has also expanded by 30 basis points, during the last 12 months.

Please turn to the following page. Interbank has funded its quarterly growth, mainly with increases in bonds and savings deposits. The increase in bonds was due to 400 million corporate bond issue, completed in October 2010. This bond issue replaced short-term obligations and has led Interbank to fully match the maturities of its dollar denominated assets and liabilities. Deposits grew 3.7% quarter-on-quarter, due mainly to an increase of 6.6% in the retail deposit portfolio.

Now, please turn to page 11. There, we can see a detailed discussion of Interbank's gross financial margin. Interest on loans grew 4.2% quarter-on-quarter, but gross financial margins decreased 4.6%. This decline was due to lower investment gains and higher financial expenses, related to the $400 million bond issue, mentioned previously. Quarter-on-quarter growth in interest in loans was due to a 7% increase in average loan volume, partially offset by a 40 basis point decrease in the average yield, from 15% in the third quarter, to 14.6% in the fourth quarter. The yield in the commercial loan portfolio continued a downward trend of observed throughout the year, while the yield in the retail portfolio has remained stable. Investment income decreased 27.5% quarter-on-quarter, due mainly to non-recurring items reported in the third quarter of 2010. Additionally, Interbank carries a large portion of Central Bank Certificates of Deposit in its investment portfolio. A portion of those Certificates of Deposit matured during the fourth quarter, and were replaced by overnight deposits in the Central Bank. Those overnight deposits are classified as cash, rather than investments. As a result of that, the average volume of Interbank's investment portfolio declined, and partially explains the decline in interest on investments. These have a counterparty in interest on cash, which increased significantly, as a result of our placing our funds in Central Bank's overnight deposits. The average yields on Interbank's assets was 11% in the fourth quarter of 2010, a 60 basis point decline from third quarter of 2010. Financial expenses grew 14% quarter-on-quarter, due increases of 84% in interest on bonds, and 10% in interest on bank loans. Interest on deposits remains stable, quarter-on-quarter. The increase in interest on bonds was due to significant growth in average volume, due to a 400 million corporate bond issue, previously mentioned. Gross financial margins increased 15% year-on-year, as a consequence of a 10% increase in interest on loans and a 105% increase in investment income, partially offset by a 43% increase in financial expenses. The increase in interest on loans was due 22% growth in the average loan volume, partially offset by a 160 basis point decrease in the average yield, from 16.2% in the fourth quarter of 2009 to 14.6% in the fourth quarter of 2010. This decrease was driven by lower yields in the commercial and retail portfolios. The decline in the commercial loan portfolio was a result of increased competitive pressures. The decline in the yield of the retail portfolio was attributable to an increase in the proportion of mortgages and premium credit cards with lower than the average yields within the retail loan portfolio. Financial expenses grew 43% year-on-year, due to increases of 373% in interest on bonds and 27% in interest on bad loans. Interest on deposits declined 3.1% year-on-year. The bank's average cost of funding increased 30 basis points quarter-on-quarter and 40 basis points year-on-year.

On page 12, we have a chart, showing the evolution of our net interest margin. We can see that our NIM has decreased 60 basis points quarter-on-quarter, from 9% in the third quarter of 2010 to 8.4% in the fourth quarter of 2010, as a result of a lower yield in the commercial loan portfolio, a higher cost of funds and lower income from non-recurring investments. When excluding non-recurring factors, the net interest margin would have been 7.9% in the fourth quarter of 2010, a 20 basis points decline quarter-on-quarter, and 60 basis point decline year-on-year. This decline is in-line with the trend followed the industry's average net interest margin. Interbank's NIM remains significantly above the industry average.

On page 13, we have a discussion of asset quality and provision expense. Asset quality has continued to strengthen, as the ratio of past due loans to total loans decreased from 1.6% in the third quarter to 1.5% in the fourth quarter. The reserve coverage ratio increased from 264% to 269%. Provision expenses increased 7.1% quarter-on-quarter and 24.8% year-on-year, as a result of volume growth and the activation in October, of pro-cyclical provision requirements. This requirement had a non-recurring impact of almost 8 million soles on provision expenses in the fourth quarter of 2010 and partially explains this increase in provisions. The annualized ratio of loan provisions to average loans remains stable at 3.7% quarter-on-quarter, and increased slightly year-on-year, from 3.6% in the fourth quarter of 2009.

Please turn to page 14. You can see that we had a very strong quarter on fee income, which grew 17.5% quarter-on-quarter and 19.8% year-on-year, as a result of significant increases in commercial advisory fees, for collection and payment services and fees from credit and debit cards. Administrative expenses grew 4.3% year-on-year, a much more moderate rate of expansion than in previous quarters. As a result, the bank's efficiency ratio improved from 52% in the fourth quarter of 2009 to 47.9% in the fourth quarter of 2010.

On page 15, we have a chart showing our capital ratio. The ratio of regulatory capital to risk weighted assets was 14.4% in the fourth quarter, below the 15.4% reported in the third quarter, but above the 11.5% reported in the fourth quarter of 2009. The quarter-on-quarter change was a result of a 9% increase in the risk-weighted assets, in-line with loan growth at Interbank. The year-on-year increase in the regulatory capital ratio was due to growth rates of 28.5% in tier one capital and 96.5% in tier two capital. These increases were the result of the capitalization of 182 million soles in earnings and a 200 million tier one bond issue completed in April 2010. With this, we complete the discussion of Interbank's performance. Now, Claudia Valdivia will discuss Interseguro's fourth quarter performance.

Claudia Valdivia: Thank you, Jose Antonio. Please turn to page 17 of the presentation. The table shows the summary of Interseguro's P&L performance, where we can see a strong increase in premiums year-over-year and a slight increase quarter-over-quarter, driven mainly by annuity and non-life premiums. Technical margins were lower year-over-year and higher quarter-over-quarter, in-line with annuity premiums, as each time an annuity premium is sold a reserve must be recognized in the financial statements according to Peruvian regulations. Administrative expenses grew 16% quarter-over-quarter and 45% year-over-year, driven by an increase in personnel expenses attributable to Interseguro's increasing sales force and a provision made for personnel bonuses. Investment income decreased 19.9% quarter-over-quarter and 4.4% year-over-year. The quarter-over-quarter decrease is a result of lower realized gains, while the year-over-year decrease is attributable to an extraordinary gain of 25.1 million nuevo soles in fourth quarter of 2009 due to new accounting rules that requires mark to market accounting for pending notes. Excluding this non-recurring factor, net income would have increased 186.5% year-over-year. As a result of the factors explained before, net income for the fourth quarter of 2010 was 19.2 million nuevo soles, a 32% decrease quarter-over-quarter and a 39.5% decrease year-over-year. On a yearly basis, Interseguro's net income was a record 85.4

million nuevo soles, an 11.1% increase compared to 2009, driven by strong investment income and record annuity sales.

On page 18, we show in detail the performance of Interseguro's premiums. As shown in the table, premiums tripled year-over-year, due to increasing sales across nearly every business line and a decrease of 13.9% quarter-over-quarter. The business line with high growth year-over-year was annuities as a result of a new early retirement law enacted earlier in 2010. Annuity premiums sold under these early retirement laws represented 62.6% of total annuity sales. The quarter-over-quarter decrease is explained by an 18% market contraction due to a delay from the government in issuing the Bonos de reconocimiento. As of December 31, 2010 Interseguro is by far the leading annuity provider to the early retirement segment, with a 28% market share. In addition, to annuities other business lines highlight important growth. Non-life insurance doubled sales year-over-year and quarter-over-quarter due to a new theft-protection insurance for Interbank's debit and credit cards.

Finally, on page 19, there are some details of Interseguro's investment portfolio and investment income. Interseguro's investment income was 50.8 million nuevo soles in the fourth quarter of 2010 a 19.9% decrease quarter-on-quarter and 4.3% decrease year-over-year. The quarter-over-quarter decrease is explained by lower realized gains and a small reduction in equity and real estate income. The year-over-year decrease is related to an extraordinary gain in the fourth quarter of 2009, due to the new accounting regulation explained before. Excluding this change, investment income would have increased 81.6% year-over-year. The yearly growth is tied also to a significant increase in real estate income due the opening of Central Civico Shopping Center in December 2009 led to an overall higher yield in Interseguro's real estate investments. Interseguro's investment portfolio increased 1.2% quarter-over-quarter and 16.9% year-over-year, totaling 2,186 million nuevo soles. This increase is tied to growth in annuity sales, as well as the price appreciation of Interseguro's overall portfolio.

Jose Antonio Rosas: With this we complete our discussion of Intergroup's performance, and now we are open to the question and answer session.

Operator: At this time, we will open the floor for questions. If you would like to ask a question, please press the star key, followed by the one key on your touchtone phone now. Our first question will come from Marcelo Telles of Credit Suisse.

Marcelo Telles: Hi. Good morning, everyone. Thanks for the opportunity. I was wondering if you could comment a little bit about the outlook for 2011, in terms of what expectations for loan growth, and particularly fee growth, this year, if you will be able to repeat the good performance that you had in 2010. Thank you.

Jose Antonio Rosas: Good morning, Marcelo. Our outlook for 2011 is very optimistic. We foresee that the Peruvian economy will continue to expand at a very healthy rate. We expect GDP growth to be at around 7%, and we expect the banking industry to grow at between 2.5 and 3 times GDP growth in 2011, so that leads us to an industry growth of around 20%, and we expect that our loan portfolio will grow at about the same pace, between 20% and 22-23%.

Regarding fee income, we did have a very good fourth quarter, and there are seasonal factors which made the fourth quarter particularly strong, and that has been the case for the past three years, so we wouldn't expect our first quarter of 2011 with fee income as strong as it was in the fourth quarter. Having said that, we do expect fee income to continue growing during 2011 at a pace of about 10%, compared to 2010.

Marcelo Telles: Excellent and just as a follow-up, I mean if we think about the continuation of the monetary cycle, how does the decreasing rates impact your margins and what should you expect in the financial margins for 2011, and also especially considering the comeback of some of the foreign banks and the pressures seen on the commercial side? Thank you.

Jose Antonio Rosas: Well, we do expect and have budgeted that the Central Bank will continue setting monetary policies throughout the year, and as you have seen our recurring net interest margin was 7.9% in the fourth quarter, and we expect that to decline to a level slightly below 7.5% throughout the year, and that includes our expectation of a continuing downward trend in the commercial loan portfolio, and also an expectation of increasing cost of funds which affects particularly the tern deposit component of our funding.

Marcelo Telles: Excellent. Thanks for your time. Appreciate it.

Jose Antonio Rosas: Sure. Thank you.

Operator: Thank you for your question. Our next question will come from Daniel Abut with Citi.

Daniel Abut: Good morning, Jose Antonio. A couple of questions. One on provisions. You mentioned that your provisions stayed at 3.7% level of the prior quarter as a percentage of loans, yet, starting in October, you did see some impact from the counter-cyclical provisions. So going forward, what should we expect in terms of provisioning levels, given that the economy is likely to continue to be very robust, so it is unlikely to have much pressure from at least the performance of the portfolio, but you still have ongoing needs for counter-cyclical provisions. How should we think about provisions for 2011?

And second, which is probably embedded in what you explained about the cost of funds, I noticed that your market share in deposits came down quite significantly, both in the quarter in the year, primarily on what you call commercial deposits, so I imagine there was a yield trade-off there between what you had to pay in those deposits and what you could pay in other types of funding – bonds, etc. that you decided to let some of those deposits go, but if you could explain what was the rationale behind giving up so much market share in commercial deposits.

Jose Antonio Rosas: Good morning, Daniel. Regarding your first question, what should we expect from provisions, that 3.7% ratio that we had in the fourth quarter is indeed affected by the counter-cyclical provisioning requirement, and that has two components. It has a one-time component of taking our balance as of September 30th up to date with the cyclical provisional requirements, and that was the 8 million soles I mentioned earlier, and it has an ongoing component that affects the growth in our loan portfolio, so now, every new loan that we disperse either in retail and commercial is subject to counter-cyclical provisioning requirements that come on top of the generic provisioning requirements. With that in mind, we do not expect the one-time provisioning updating to continue, but we do expect to have strong loan growth, and as a result, to have this new requirement on our ongoing disbursements. That should lead us to a provisioning expense of about 3.5% of total loans.

Declining market share in commercial deposits, that is indeed the case. Commercial deposits have two components. One is the transactional core deposits from our corporate clients, and the second one is institutional deposits from institutional investors, those are mainly term deposits, and also the marginal funding that we take at Interbank. If we look only at the transactional component, we have maintained our market share. Our market share has declined only in the institutional component, and that was the result of our having ample liquidity as a result of the

$400 million bond issue that we completed in October. As a result, we did not have to go out to the market to take more institutional deposits. And we were able to reduce our funding on the side, that segment of the market.

Daniel Abut: Ok, thank you, Jose Antonio.

Jose Antonio Rosas: You're welcome.

Operator: Thank you for your question. Again, if you would like to ask a question, please press star one on your telephone keypad. Our next question comes from Fabio Zagatti with Barclays Capital.

Fabio Zagatti: Hi. Good morning, everyone. Can you please follow up on Abut's question on the loan provisions? You mentioned 3.5 as a level for provisions in 2011. I would assume these do not imply further quality improvements. Am I right?

Jose Antonio Rosas: What we are expecting, Fabio, is that asset quality will remain at the same level we had in December 2010.

Fabio Zagatti: And this is more due to the mix, as you will probably have reached your assets expanding faster, or does this have do with this cyclical component of asset quality improvement, being already behind us?

Jose Antonio Rosas: Yes, we, to answer the second part of your question that definitely, we are seeing significant improvement throughout 2010, we think that 1.5% of past due loans as a percentage of total loans is a very reasonable ratio to maintain throughout the year, and we do not expect that to decline significantly through 2011.

Fabio Zagatti: Ok, and could you please provide us more color on when you would expect to see fresh competition on commercial loans to ease?

Jose Antonio Rosas: We are not expecting competition to ease in 2011, definitely. We saw in 2010 that competition intensified throughout the year, and we are still seeing that trend going on at the start of 2011, so we would expect to have a very competitive year in the commercial segment.

Fabio Zagatti: Ok, and maybe one additional question, if I may. Can you provide further details on the extraordinary expenses accounted in the fourth quarter on the administrative expenses? Thank you.

Jose Antonio Rosas: Yes, that is an expense that should have been provisioned throughout the year, and looking at this, the full amount registered in a single quarter is that seems significant, but if it is spaced out throughout the year, as it should have been, it's not too significant or too material, and that has to do with long-term compensation packages for senior management at Intergroup.

Fabio Zagatti: Got it. Thank you.

Jose Antonio Rosas: You're welcome.

Operator: Thank you. Our next question will come from Alonso Aramburu with BTG Pactual.

Alonso Aramburu: Hi. Good morning, Jose Antonio. Just to follow up on the previous question, to make sure that we are referring to the same number, the long-term compensation expense that you are referring to is that $20.3 million other expense that is in Intergroup's Profit and Loss Statement summary in the press release, and then, my second question would be, as you look at the first quarter of 2011 for loan growth, how do you see the growth of this category? Do you see the corporate sector still out-performing the retail sector?

Jose Antonio Rosas: Good morning, Alonso. Regarding your first question, that long-term compensation, the most important part of those $20 million that you mentioned it's about $16 million of those $20 million that corresponds to long-term compensation. In terms of loan growth, we what we are expecting now is to have similar growth rates between commercial and retail. Both portfolios are growing at about 20%.

Alonso Aramburu: Great, thank you, Jose Antonio.

Jose Antonio Rosas: Thank you.

Operator: Thank you for your question. Again, as a reminder, if you would like to ask a question, it's star one on your telephone keypad. Our next question will come from Boris Molina with Santander.

Boris Molina: Yes, good morning everybody. I guess a couple of clarifications. What is your expected coverage ratio, given these numbers you have given us in terms of some kind of provision and for non-performing loans, just to make sure that we round up the numbers on this front, and secondly, if you could, elaborate a little bit on which banks are more active in what segments of competition? What is banco Continental focusing on? Have you noticed any changes in the focus on the strategy, and thirdly, if you could elaborate or explain a little bit what is the economics of the business of the annuities. We see that premiums rise very fast, and technical results are very high. But then, when you put all the other components, the underwriting result is lower year-on-year, so something has changed. If you didn't have the annuities and if you provision, all the business, is it the up-front cost, offsetting expenses that is the present profitability and you expect this to ease over time. How does this business work, because I can't get my head around it? Thank you.

Jose Antonio Rosas: Good morning, Boris. Regarding your first question on the coverage ratio, we expect to keep the coverage ratio at about 250% of past due loans. That's slightly below the 269% that we have now, but that is more than a target level that we keep it's an expectation based on what we see what will be the regulatory provisioning requirements.

Second, in terms of competition, as mentioned earlier, we have seen much more intense competition in the commercial segment last year, and we have seen the traditional players Banco de Credito, Banco Continental and Scotia as being very active, but also, there are smaller foreign banks that were not too active in previous years, also coming in very much more aggressively than previousl, that includes HSBC, Santander and Citi, so there is very a dynamic competitive environment in commercial. Then, our main corporate focus retail banking, and there, we are also seeing much more intense competition, some of the more traditional players that usually were not too focused on retail, they were more focused on corporate, and now, are strongly focused on retail, particularly the consumer loan segment, so that has intensified competition there, and we also see the retailers with their banks, like Falabella and Replay, as much more active than they were in 2009, so it is more intensive, both in the retail and commercial segments, and in the commercial segment, the traditional players, plus some smaller banks, both local and foreign, that were left out previously, and in retail, we are seeing more competition from banks that were not too traditionally active in retail and also more from the banks linked to the retailers, which were less active in 2009, but being much more active in 2010.

To answer your question about annuities, it is indeed the case that you mentioned that when annuities sales increase, we also have higher technical margin loss at Interseguro. That has to do with accounting regulations imposed by Superintendent in Peru. Every time an annuity is sold, an insurance company receives a lump sum from that annuity, and has to register that as an asset. But it also have to register a reserve for that annuity, and that reserve must be, is based on the expected slow payment that has to be made to the person buying the annuity, and the discount rate at which that slow payment is discounted is usually lower than the actual rate that is paid out to the person buying the annuity. So, as a result of that, every time an annuity is sold, there is an accounting loss in the P & L statement that has to be registered, and this loss is amortized over time, as the annuity matures. So, there is an up-front cost, an up-front accounting cost concerning an annuity, but that's more than offset by the investment gains or by the spread made on that annuity and by the amortization of the reserves that have to be registered initially. I don't know if clarifies or answers your question.

Boris Molina: Given that you still expect another year from annuity sales, we shouldn't expect a turnaround in this kind of underwriting result throughout the year and then probably, as time goes by, in the next two, three, four years and once the rate of growth in new sales, diminishes, probably, we can see the performance or at least reported earnings improving. Is that right?

Jose Antonio Rosas: Yes, that's right. We do not expect a turnaround in underwriting results in 2011. And that will come only, as we mentioned, once annuity sales stabilize or starts declining from this very high point.

Boris Molina: Thank you so much.

Jose Antonio Rosas: Sure.

Operator: Thank you. Our next question will come from Daniel Abut with Citi.

Daniel Abut: Just a follow-up with Jose Antonio. I wanted to ask you about the underlying ROE. If you exclude the planned profitability relating to lower prices that affected you in 2008 and early 2009, your ROE went to about 30% for several quarters, starting in the second quarter of 2009 and stayed there for a few quarters. You were the first one in this conference call to recognize that it was not sustainable and eventually was going to come down. It came down quite profoundly this quarter, explained partly by some of this one-off that you discussed. But it seems to me that even after adjusting for the one-off we are now in level of ROE that is more in the low to mid 20s, so how do you think about the ROE that you think is relative to expect in the 2011/2012 timetable? We'll probably not go back to the 30% we used to have. Where do you think it will stabilize?

Jose Antonio Rosas: Yes, as you mentioned Daniel, we had those ROEs of 30% for several consecutive quarters. We recognized that was due to extremely unusual circumstances in terms of the cost of funds that we were having at that moment, due to very expansionary monetary policies, both with the Federal Reserve, influencing the cost of dollar funding, and the Central Bank in Peru influencing the cost of funding in soles. In that case, the Central Bank in Peru allotted a much tighter monetary policy, and they are also increasing reserve requirements for dollar funding, so we have higher cost of funds, both in soles and dollars, as a consequence, and as a result of that, we have gone to the capital markets and expanded the maturity of our liabilities, particularly in dollars, and that has increased our cost of funds. It is true that excluding the one-off that we have in the fourth quarter, we are in the mid to low twenties in terms of ROE in the fourth quarter of 2010, we expect our ROE to remain at a level of around 25% throughout 2011. As we gain volume we should be able to offset the higher cost of funds and to offset or to better leverage, our cost base, our expenses in order to return to our target of profitability of 25%.

Daniel Abut: Thank you, Jose Antonio.

Jose Antonio Rosas: Sure.

Operator: Thank you for your question. Again, if would like to ask a question, it's star one on your telephone keypad. Our next question will come from Boris Molina with Santander.

Boris Molina: Jose Antonio, I forgot to ask something earlier. In the fourth quarter, there was a seasonal jump in the deterioration in asset quality because of the number of non-performing loans, adjusting non performing loans for write-offs, kind of a spike, so I don't know if you got worried about this, or do you expect your non-performing ratio to decline, or what is going on, and in which segment did we see actually this performance in terms of increasing loan delinquencies, and do you expect this to stabilize in the first quarter? What can we expect here?

Jose Antonio Rosas: Sorry Boris, I didn't catch the first part of your question. Could you please repeat it?

Boris Molina: Yes, in the fourth quarter, we saw, what we see a seasonal deterioration in non-performing loans, basically what we do is take the non-performing loans we adjust it for the write-offs and we see what was the influx of new NPLs into your stock, and it took a spike, which we believe is seasonal, but it was pretty sharp, so we are worried what segments are we seeing this seasonal pattern? Is there something that we expect to recover in the first quarter, and how do you see it?

Jose Antonio Rosas: Well, actually we haven't looked at the numbers the way you explained them. We haven't made that calculation, so we haven't seen a spike. We are not too concerned about any of our segments. We haven't seen anything out of the ordinary, and as mentioned, we expect that the quality to remain constant throughout 2011.

Boris Molina: Ok, thank you.

Operator: At this time we have no further questions. I would like turn the call back to Jose Antonio.

Jose Antonio Rosas: Thank you very much to everyone for participating in this call. We will expect to have you in our discussion of the first quarter conference call in early April. Thank you very much.