



Intergroup Financial Services Corp. Reports Third Quarter 2011 Earnings

Lima, Peru, November 2, 2011. Intergroup Financial Services Corp. (Bolsa de Valores de Lima: IFS) announced today its unaudited results for the third quarter 2011. These results are reported on a consolidated basis in accordance with Peruvian GAAP in nominal Peruvian Nuevos Soles.

Intergroup:

- Intergroup's net earnings reached a record S/. 200.5 million in 3Q11, an increase of 45.5% QoQ and 49.9% YoY
- YoY growth was driven by higher financial income and fee income, as well as S/. 26.3 million in income from the recovery of loan write-off at Interbank
- QoQ net earnings growth was due to increasing financial margins and fee income, as well as income from the write-off recovery
- Intergroup's recurring ROE was 31.1% in 3Q11, above the 26.2% in 2Q11 and 30.4% in 3Q10

Interbank:

- Interbank's net earnings reached a record S/. 163.7 million in 3Q11, an increase of 30.9% QoQ and 15.6% YoY
- QoQ growth was driven by a 6.6% decrease in financial expenses and a 16.6% increase in fee income, as well as income from the write-off recovery
- YoY net earnings growth resulted from increases of 8.5% in interest on loans and 19.1% in fee income
- Performing loans grew 1.2% QoQ and 15.7% YoY, as retail loans reported the second highest quarterly growth rate in the last two years
- Recurring NIM increased 40 bps QoQ, mainly as a result of lower financial expenses and an increase in investment income
- Asset quality remained stable YoY, with the past-due loan ratio at 1.6%. The ratio of provision expense to average loans decreased from 3.7% in 3Q10 to 3.0% in 3Q11

Interseguro:

- Interseguro's net earnings increased 38.8% QoQ due to 19.0% growth in investment income
- Earnings grew 19.9% YoY mainly as a result of a lower technical margin loss
- Annuity sales increased QoQ, but decreased YoY as a result of market contraction

Intergroup

3Q11 Performance

Net earnings (attributable to Intergroup's shareholders) reached a record S/. 200.5 million in 3Q11, a 45.5% increase QoQ and 49.9% increase YoY. When excluding non-recurring items, net earnings increased 13.5% QoQ and 3.9% YoY. Intergroup's ROE was 39.8% in 3Q11, above the 29.6% in 2Q11 and the 29.1% in 3Q10.

Intergroup's Profit and Loss Statement Summary					
S/. million	3Q10	2Q11	3Q11	%chg QoQ	%chg YoY
Financial income	578.8	601.9	601.6	0.0%	3.9%
Financial expenses	-131.9	-154.3	-133.4	-13.5%	1.1%
Gross financial margin	446.9	447.6	468.2	4.6%	4.8%
Provisions	-104.3	-101.0	-99.9	-1.1%	-4.2%
Net financial margin	342.6	346.6	368.3	6.3%	7.5%
Fee income from financial services, net	111.2	113.4	131.5	15.9%	18.2%
Result from insurance underwriting, net	-19.4	-13.8	-14.2	3.2%	-26.6%
Administrative expenses	-242.9	-240.5	-250.2	4.0%	3.0%
Net operating margin	191.6	205.7	235.4	14.4%	22.9%
Depreciation and amortization	-20.1	-23.5	-23.3	-0.6%	15.7%
Other income (expenses)	17.7	11.1	55.1	396.5%	211.5%
Income before tax	189.1	193.4	267.2	38.2%	41.3%
Income tax	-54.6	-54.6	-65.5	20.0%	20.0%
Net income	134.5	138.7	201.7	45.4%	50.0%
Attributable to IFS shareholders	133.8	137.8	200.5	45.5%	49.9%
EPS	1.43	1.47	2.14		
ROE	29.1%	29.6%	39.8%		

Intergroup's Recurring Profit and Loss Statement Summary					
S/. million	3Q10	2Q11	3Q11	%chg QoQ	%chg YoY
Reported net earnings	133.8	137.8	200.5	45.5%	49.9%
Non-recurring income:					
IFS	0.0	0.0	-16.3	n.m.	n.m.
IBK	5.5	-10.3	-37.2	n.m.	n.m.
IS	0.0	0.0	-2.2	n.m.	n.m.
Total non-recurring income	5.5	-10.3	-55.8	443.6%	n.m.
Recurring net earnings	139.3	127.6	144.8	13.5%	3.9%
Recurring ROE	30.4%	26.2%	31.1%		

Intergroup's Balance Sheet Summary					
S/. million	3Q10	2Q11	3Q11	%chg QoQ	%chg YoY
Cash and due from banks	2,991.3	4,186.5	3,165.2	-24.4%	5.8%
Investments, net	5,046.3	4,375.7	4,703.5	7.5%	-6.8%
Loan portfolio, net	11,007.2	12,668.7	12,732.8	0.5%	15.7%
Fixed assets, net	487.1	460.3	453.5	-1.5%	-6.9%
Other assets	867.1	760.8	915.9	20.4%	5.6%
Total Assets	20,399.0	22,452.0	21,970.9	-2.1%	7.7%
Deposits and obligations	11,448.5	12,784.2	12,145.7	-5.0%	6.1%
Due to banks	2,708.0	2,179.1	1,984.1	-9.0%	-26.7%
Bonds and obligations	1,978.8	2,955.4	2,929.1	-0.9%	48.0%
Technical reserves for premiums and claims	1,725.1	2,029.1	2,136.2	5.3%	23.8%
Other liabilities	576.3	567.3	660.9	16.5%	14.7%
Total Liabilities	18,436.7	20,515.1	19,855.9	-3.2%	7.7%
Intergroup shareholders' equity	1,948.3	1,925.5	2,102.3	9.2%	7.9%
Minority interest	14.0	11.4	12.6	10.7%	-9.7%
Total shareholders' equity	1,962.3	1,936.9	2,115.0	9.2%	7.8%

Quarter-on-quarter performance

Net earnings increased 45.5% QoQ, driven by increases of 4.6% in gross financial margin and 15.9% in fee income, as well as a S/. 26.3 million recovery from a loan write-off at Interbank.

Financial income remained stable QoQ, as a result of lower exchange gains, which offset an increase of 17.9% in investment income. During 3Q11, Interbank, Interseguro and IFS reported positive changes in investment income.

Financial expenses decreased 13.5% due to a 19.7% decline in interest on due to banks. This decline was the result of a decision at Interbank to not continue with funding for an infrastructure project, which led to a decline of S/. 432.8 million in loans and local funding linked to this project. This funding had a higher cost than the average cost of due to banks.

Provision expenses decreased 1.1% as asset quality remained strong.

Fee income grew 15.9% QoQ mainly as a result of higher fees from credit and debit cards, services and other fees at Interbank.

Administrative expenses rose 4.0% due to higher use of third-party services at Interbank and an increase in commission sales at Interseguro.

Other income grew S/. 44.0 million mainly due to the recovery from the loan write-off previously mentioned.

Income before taxes grew 38.2%. However, income taxes grew only 20.0% as a result of two factors. The first was a decrease 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 was a higher contribution to bottom line earnings from Intergroup and Interseguro, whose earnings are tax-exempt.

Year-on year performance

Net earnings increased 49.9% YoY driven by higher financial income and fee income, as well as the S/. 26.3 million income from the write-off recovery 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 expanded 18.1% YoY, as demand for credit from Interbank's clients remains strong.

Financial expenses increased only 1.1% as a result of a reduction in 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 US\$400 million senior bond issue completed in October 2010.

Fee income grew 18.2% YoY, driven by higher fees from credit and debit cards, services and other fees at Interbank.

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 32% market contraction.

Administrative expenses rose 3.0% YoY due to the higher use of third-party services at Interbank, and the implementation of consulting and technology projects at Interseguro.

Other income grew S/. 37.4 million due to income from the recovery of the loan write-off previously mentioned and the reversal of provisions for contingencies at Interbank, which were particularly high in 3Q10.

Income before taxes grew 41.3%, but income taxes grew only 20.0% as a result of a higher contribution to bottom line earnings from Intergroup and Interseguro, whose earnings are tax-exempt.

CONTRIBUTION OF SUBSIDIARIES

The following table shows the contribution of Interbank and Interseguro to Intergroup's net earnings. The performance of both subsidiaries is discussed in detail in the following two sections.

Intergroup's Profit and Loss Statement Summary					
S/. million	3Q10	2Q11	3Q11	%chg QoQ	%chg YoY
Interbank	140.5	124.1	162.5	30.9%	15.6%
Interseguro	28.3	24.4	33.9	38.8%	19.9%
Intergroup accounts:					
Return on investment portfolio	4.8	3.8	17.8	n.m.	n.m.
Exchange gains (loss)	2.2	-3.5	-5.9	71.5%	n.m.
Taxes on dividends	-2.2	-6.9	-3.1	-55.0%	40.0%
Other income (expenses)	-1.6	-5.0	-4.6	-6.8%	n.m.
Consolidation adjustments	-38.2	0.8	0.0	n.m.	n.m.
Total	133.8	137.8	200.5	45.5%	49.9%

Interbank

SUMMARY

Interbank reported record net earnings of S/. 163.7 million in 3Q11, a 30.9% increase QoQ and a 15.6% increase YoY. The QoQ rise was due to increases of S/. 38.0 million in other income and S/. 19.2 million in fee income, partially offset by a S/. 6.2 decrease in gross financial margin and an increase of S/. 4.5 million in administrative expenses. The increase in other income was mainly due to a S/. 26.3 million recovery from a loan write-off in 3Q11.

The YoY increase was attributable to a S/. 42.4 million increase in other income and 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 3Q11, above the 31.8% reported in 2Q11, but below the 38.5% in 3Q10.

Profit and Loss Statement Summary					
S/. million				% chg	% chg
	3Q 10	2Q 11	3Q 11	QoQ	YoY
Financial income	531.6	537.0	521.7	-2.8%	-1.9%
Financial expenses	-108.1	-138.4	-129.4	-6.6%	19.7%
Gross financial margin	423.5	398.6	392.3	-1.6%	-7.4%
Provisions	-104.3	-101.0	-99.9	-1.1%	-4.2%
Net financial margin	319.2	297.5	292.4	-1.7%	-8.4%
Fee income from financial services, net	113.5	115.9	135.2	16.6%	19.1%
Administrative expenses	-219.1	-220.3	-224.9	2.1%	2.6%
Net operating margin	213.6	193.1	202.7	5.0%	-5.1%
Depreciation and amortization	-22.9	-22.7	-22.6	-0.6%	-1.3%
Other income (expenses)	3.1	7.4	45.5	n.m.	n.m.
Income before taxes	193.8	177.9	225.6	26.9%	16.4%
Income tax	-52.3	-52.9	-62.0	17.3%	18.5%
Net income	141.5	125.0	163.7	30.9%	15.6%
ROE	38.5%	31.8%	38.7%		

Summary of Non-Recurring Items					
S/. million				% chg	% chg
				QoQ	YoY
Net of taxes					
Net Income	141.5	125.0	163.7	30.9%	15.6%
Non-Recurring Items:					
Investment Income	-35.9	-10.3	-15.9	54.2%	-55.7%
Provision Expense	11.0	0.0	0.0	n.m.	n.m.
Fee income	0.0	0.0	-1.9	n.m.	n.m.
Recoveries	0.0	0.0	-19.7	n.m.	n.m.
Recurring Net Income	116.6	114.7	126.2	10.0%	8.2%
Recurring ROE	31.7%	29.2%	29.8%		

INTEREST-EARNING ASSETS

Interbank's interest-earning assets totaled S/. 18,098.8 million in 3Q11, a 3.9% decrease QoQ and a 7.3% increase YoY.

The QoQ decrease was due to a reduction in Central Bank instruments.

The 7.3% annual growth was mainly due to an increase of 15.7% in the loan portfolio, partially offset by a 24.4% decrease in investments.

Interest-Earning Assets					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Cash and due from banks	2,961.4	4,149.9	3,126.7	-24.7%	5.6%
Investments, net	2,811.6	1,907.0	2,124.9	11.4%	-24.4%
Loan portfolio, net	11,007.2	12,686.2	12,740.5	0.4%	15.7%
Other interest earning assets	83.3	92.7	106.7	15.2%	28.1%
Total interest earnings assets	16,863.6	18,835.8	18,098.8	-3.9%	7.3%

Loan Portfolio					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Performing loans:					
Retail	5,513.7	6,278.4	6,603.0	5.2%	19.8%
Commercial	5,821.4	6,676.3	6,509.4	-2.5%	11.8%
Total performing loans	11,335.1	12,954.7	13,112.4	1.2%	15.7%
Restructured and refinanced loans	95.9	85.3	82.2	-3.6%	-14.3%
Past due loans	182.2	205.4	210.5	2.5%	15.5%
Gross loans	11,613.2	13,245.4	13,405.1	1.2%	15.4%
Add (less)					
Accrued and deferred interest	-124.9	-25.0	-110.7	n.m.	-11.4%
Allowance for loan losses	-481.2	-534.3	-554.0	3.7%	15.1%
Total direct loans, net	11,007.2	12,686.1	12,740.5	0.4%	15.7%

Performing loans increased 1.2% QoQ and 15.7% YoY, 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% QoQ, due to increases of 8.0% 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 market share to grow from 11.9% in 2Q11 to 12.1% in 3Q11. Growth in the credit card portfolio was due to increasing consumer demand in Peru.

Commercial loans decreased 2.5% QoQ as a result of the bank's decision to not continue with a S/. 432.8 million loan to fund an infrastructure project. Excluding the effect on the commercial loan portfolio, commercial loans would have grown 4.0% QoQ.

Retail loans grew 19.8% YoY, mainly due to growth rates of 34.8% in mortgages and 22.2% in credit cards. Commercial loans rose 11.8% YoY.

Breakdown of Performing Retail Loans					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Consumer loans:					
Credit cards	1,631.5	1,891.1	1,993.8	5.4%	22.2%
Other consumer	2,250.1	2,349.9	2,409.1	2.5%	7.1%
Total consumer loans	3,881.6	4,241.0	4,402.9	3.8%	13.4%
Mortgages	1,632.0	2,037.5	2,200.1	8.0%	34.8%
Total retail loans	5,513.7	6,278.4	6,603.0	5.2%	19.8%

FUNDING STRUCTURE

Funding Structure					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Deposits and obligations	11,539.0	12,911.1	12,176.0	-5.7%	5.5%
Due to banks	3,217.9	2,661.9	2,262.8	-15.0%	-29.7%
Bonds and obligations	1,072.2	2,073.8	2,124.0	2.4%	98.1%
Interbank funds	147.1	64.7	271.0	n.d.	84.3%
Total	15,976.2	17,711.5	16,833.8	-5.0%	5.4%
AUM (Interfondos)	2,343.9	2,488.7	2,079.8	-16.4%	-11.3%
<u>% of funding</u>					
Deposits and obligations	73.1%	73.3%	73.9%		
Due to banks	20.1%	15.0%	13.4%		
Bonds and obligations	6.7%	11.7%	12.6%		

Interbank reduced funding by 5.0% QoQ, in line with the 3.9% decrease in interest-earning assets. Deposits declined 5.7% QoQ due to a 27.8% reduction in institutional deposits. Retail and commercial deposits increased 1.4% and 2.4% QoQ, respectively. The proportion of institutional deposits to total deposits continued to decline, from 28.3% in 3Q10 and 25.5% in 2Q11 to 19.5% in 3Q11. As a result, the proportion of core deposits remained above 80%.

Due to banks decreased 15.0% QoQ, as a result of a reduction in local funding linked to the previously mentioned infrastructure project.

Funding from interbank deposits rose S/. 193.9 million as a replacement for institutional deposits.

The bank's total funding base grew 5.4% YoY 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 the result of a US\$400 million senior bond issue 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 the bank's funding structure.

Breakdown of Deposits					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
By Customer Segment					
Retail	4,821.5	5,522.7	5,602.3	1.4%	16.2%
Commercial	3,453.2	4,096.8	4,196.3	2.4%	21.5%
Institutional	3,264.3	3,291.5	2,377.4	-27.8%	-27.2%
Total	11,539.0	12,911.1	12,176.0	-5.7%	5.5%
By Type:					
Demand	2,816.5	3,319.6	3,433.3	3.4%	21.9%
Savings	3,344.9	4,035.5	3,981.2	-1.3%	19.0%
Time	5,377.5	5,556.0	4,761.5	-14.3%	-11.5%
Total	11,539.0	12,911.1	12,176.0	-5.7%	5.5%

FINANCIAL MARGIN

Financial Margin					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Financial income	531.6	537.0	521.7	-2.8%	-1.9%
Financial expenses	-108.1	-138.4	-129.4	-6.6%	19.7%
Gross financial margin	423.5	398.6	392.3	-1.6%	-7.4%

Financial Income					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Interest and commissions on loans	399.5	433.5	433.4	0.0%	8.5%
Investment income	86.4	44.5	58.6	31.6%	-32.2%
Interest on due from banks and interbank funds	1.7	3.8	3.9	2.4%	n.m.
Financial income before exchange gains	487.5	481.8	495.8	2.9%	1.7%
Exchange and derivatives gains	41.9	53.7	23.9	-55.5%	-43.0%
Others	2.2	1.5	2.0	36.9%	-8.1%
Total Financial Income	531.6	537.0	521.7	-2.8%	-1.9%

Average interest earning assets	16,690.0	18,783.3	18,486.8	-1.6%	10.8%
Average yield on assets*	12.0%	10.6%	11.0%	-1.1%	-8.5%

*Annualized. Excludes exchange and derivatives gains

Financial Expenses					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Interest and commissions on deposits	42.5	53.9	51.6	-4.2%	21.5%
Interest and fees on deposits and due to banks	38.2	41.4	33.2	-19.7%	-13.0%
Interest on securities, bonds and other obligations	19.8	35.6	36.4	2.4%	84.1%
Other financial expenses	7.7	7.6	8.2	7.0%	6.3%
Financial Expenses	108.1	138.4	129.4	-6.6%	19.7%

Average interest bearing liabilities	13,973.8	17,615.0	17,292.1	-1.8%	8.9%
Average cost of funding*	2.5%	2.9%	2.7%	-0.2%	0.3%

*Annualized. Excludes exchange and derivatives losses

Quarter-on-Quarter Performance

Gross financial margin decreased 1.6% QoQ as a result of a 2.8% decline in financial income, partially offset by a 6.6% reduction in financial expenses.

Financial income declined due to lower exchange gains, which offset 2.9% growth in financial income before exchange gains.

Exchange gains decreased S/. 29.8 million due to reductions of S/. 15.0 million in gains on Interbank's exchange position and S/. 12.0 million in income from trading activity with clients. The decline in gains on the exchange position was due to depreciation of 0.9% in the exchange rate of the Nuevo Sol against the US Dollar and the effect this had on a slightly long position that the bank held in US Dollars.

Interest on loans remained stable QoQ despite a 2.6% growth in the average volume of the loan portfolio, due to a 50 basis point decline in the average yield, from 13.1% in 2Q11 to 12.6% in 3Q11. The average yield in the commercial portfolio decreased due to competitive pressures on rates and the bank's decision to withdraw from an infrastructure project as previously mentioned, which had a higher yield than the average yield for the overall portfolio. In the retail loan portfolio, yields declined due to 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 3Q11.

The return on interest-earning assets was 11.0% in 3Q11, a 40 basis point increase over 2Q11 mainly due to higher investment gains.

Financial expenses declined 6.6% QoQ, 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 average volume and a 10 basis point decline in average cost. The reduction in volume and cost was mainly due to a 16.8% decrease in institutional deposits, which carry higher-than-average costs. The average cost of retail and commercial deposits remained stable QoQ.

The reduction in due to banks was attributable to a 7.5% decrease in average volume and a 80 basis point decline in the average cost. Lower volume was the result of a 13.0% decrease in local funding linked to the previously mentioned infrastructure project. The funding for this project had a higher-than-average cost.

The average cost of funding was 2.7% in 3Q11, a 20 basis point decrease QoQ due to the lower average cost of due to banks.

Year-on-Year Performance

Gross financial margin decreased 7.4% YoY due to an increase of 19.7% in financial expenses and a 1.9% decline in financial income.

Lower financial income resulted from decreases of 32.2% in investment income and 43.0% in exchange gains, partially offset by an 8.5% increase in interest on loans.

Growth in 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 on 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 33.5% in 3Q11. The commercial portfolio's yield decreased 90 basis points due mainly to competitive pressures.

Investment income decreased \$/. 27.8 million as a result of two factors. The first was a lower non-recurring investment gain from an unusually high level in 3Q10. The second factor was a 21.3% reduction in the average volume due to the sale of investments over the last 12 months.

Interest on cash increased \$/. 2.2 million as the result of a 9.2% rise in average volume and a 20 basis point increase in average yield. The increase in volume was the result of two factors. The first was a higher reserve requirement while the second was the replacement of Central Bank certificates of deposit from the investment portfolio with overnight deposits, which are considered as cash. The yield on both types of Central Bank instruments rose in line with the increase in the reference rate, from 3.00% in 3Q10 to 4.25% in 3Q11.

Financial expenses increased 19.7% YoY mainly due to increases of 84.8% in interest on bonds and 21.5% in interest on deposits, partially offset by a 13.0% decrease in interest on due to banks.

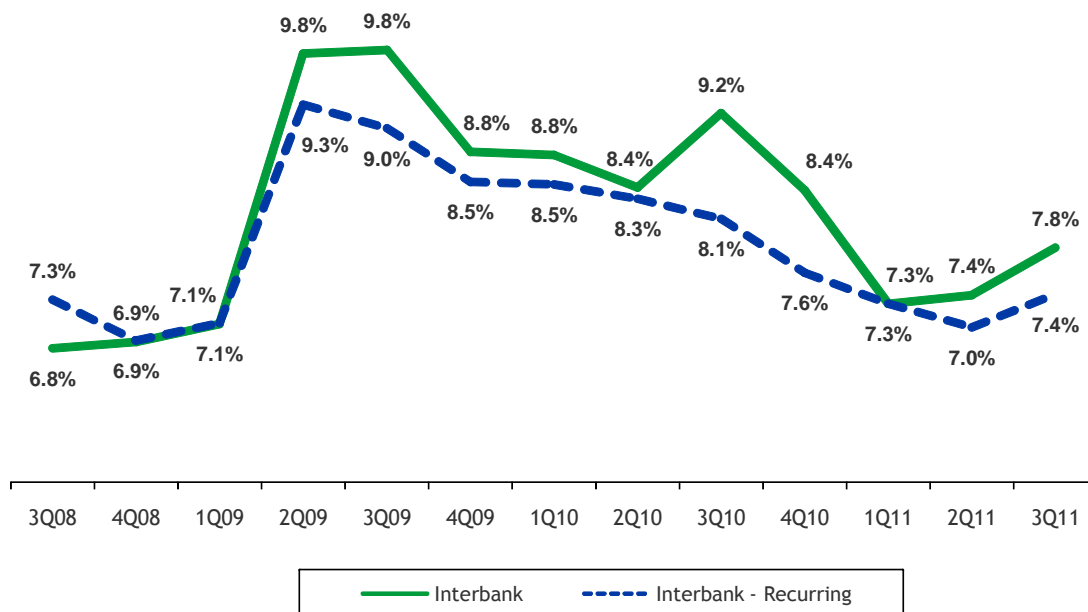
The increase in interest on bonds was due to 97.4% growth in the average volume resulting from the corporate bond issue previously mentioned.

The increase in interest on deposits was due to 4.0% 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 a decrease of 25.5% in institutional deposits. The increase in cost was the result of the impact of a higher reference rate on the cost of institutional deposits, which rose 110 basis points.

Lower interest on due to banks was the result of a 6.7% decrease in the average volume and 40 basis point increase in the average cost. The reduction in volume was mainly due 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 funding tied to mortgage loans.

The average cost of funding increased 30 basis points YoY, from 2.5% in 3Q10 to 2.8% in 3Q11 due to the rise in the reference rate and the cost of the bond issue.

Net Interest Margin*



* Excludes exchange rate and derivatives gains

Recurring net interest margin was 7.4% in 3Q11, above the 7.0% reported in 2Q11, but below the 8.1% reported in 3Q10.

PROVISIONS

Provision expenses decreased 1.1% QoQ and 4.2% YoY. As a result, the ratio of provision expense to average loans was 3.0% in 3Q11, lower than the 3.1% in 2Q11 and the 3.7% in 3Q10. In 3Q10, provision expenses were high due to the application of a new regulation on loan classification and provisioning applicable since July 2010. This led to a non-recurring charge of S/. 16.2 million on provision expenses in 3Q10.

S/. million	Composition of Provision Expense			% chg QoQ	% chg YoY
	3Q 10	2Q 11	3Q 11		
Provisions recognized as expense	-117.5	-117.8	-119.0	1.0%	1.3%
Provisions reversal	13.2	16.7	19.1	14.1%	45.0%
Total provision expense	-104.3	-101.0	-99.9	-1.1%	-4.2%
Loan provision / average loans	3.7%	3.1%	3.0%		

Provision for Loan Losses					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Balance at the beginning of the quarter	-477.0	-559.7	-582.8	4.1%	22.2%
Provision recognized as expense for the period	-117.5	-117.8	-119.0	1.0%	1.3%
Write-offs, extinguishment of debt and sales	64.8	74.9	81.8	9.2%	26.1%
Provisions reversal	13.2	16.7	19.1	14.1%	45.0%
Exchange gains	1.9	3.1	-1.3	n.m.	n.m.
Balance at the end of the quarter	-514.5	-582.8	-602.2	3.3%	17.0%
Past due loans / Total loans	1.6%	1.6%	1.6%		
Reserve coverage	264.1%	260.1%	263.1%		

The ratio of past due loans to total loans remained stable at 1.6%. The coverage ratio increased from 260.1% in 2Q11 to 263.1% in 3Q11.

FEE INCOME FROM FINANCIAL SERVICES

Fee Income from Financial Services, Net					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Credit and debit card	46.9	51.6	54.3	5.3%	15.8%
Fees from services	49.1	54.2	55.4	2.3%	13.0%
Contingent operations	11.5	10.3	12.2	19.1%	6.2%
Fees for collections and payment services	5.6	5.6	5.7	2.4%	2.0%
Other fees	25.1	26.0	34.0	30.9%	35.4%
Total	138.2	147.6	161.7	9.6%	17.0%
Expenses relating to financial services	-24.7	-31.6	-26.5	-16.2%	7.4%
Fee income from financial services, net	113.5	115.9	135.2	16.6%	19.1%

Fee income rose S/. 14.1 million QoQ, driven by increases of S/. 8.0 million in other services, S/. 2.7 million in credit and debit cards, and S/. 2.0 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 a S/. 2.2 million rise in fees from trade finance.

Fee income grew 19.1% YoY due to increases of 35.4% in other services, 15.8% in credit and debit cards, and 13.0% in service fees. The rise in other fees was mainly due to fees from mortgage disbursements and loan structuring. The increase in service fees was explained by higher income from the use of Interbank's ATM network and insurance commissions.

ADMINISTRATIVE EXPENSES

Administrative expenses grew at a moderate pace of 2.1% QoQ and 2.6% YoY. The rise was mainly due to a 3.5% increase in the use of third-party services, which was associated with technology projects and expenses related to loyalty rewards and advertising.

As a result of moderate expense growth, the efficiency ratio declined from 47.2% in 2Q11 to 46.9% in 3Q11.

Administrative Expenses					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Personnel and board of directors expenses	-108.2	-108.7	-109.7	0.9%	1.4%
Services received from third parties	-105.7	-106.1	-109.8	3.5%	3.9%
Taxes and contributions	-5.2	-5.5	-5.3	-3.3%	2.4%
Total	-219.1	-220.3	-224.9	2.1%	2.6%
Efficiency ratio	45.1%	47.2%	46.9%		

OTHERS

Depreciation and amortization decreased 0.6% QoQ and 1.3% YoY.

Other income grew S/. 38.0 million QoQ and S/. 42.2 million YoY, mainly due to S/. 26.3 million recovery from the loan write-off previously mentioned, a S/. 2.6 million gain on asset sales, and a reversal in provisions for contingencies, which were particularly high in 3Q10.

Other Incomes (Expenses)					
S/. million	3Q 10	2Q 11	3Q 11	% chg QoQ	% chg YoY
Depreciation	-17.3	-17.7	-17.3	-2.4%	-0.2%
Amortization	-5.6	-5.0	-5.3	5.7%	-4.8%
Total depreciation and amortization	-22.9	-22.7	-22.6	-0.6%	-1.3%
Income (expenses) from recoveries	15.2	17.1	47.2	n.m.	n.m.
Extraordinary income (expenses)	0.3	-6.4	-3.4	-47.3%	n.m.
Provisions for contingencies and other provisions	-12.4	-3.3	1.7	n.m.	n.m.
Other Income (Expenses)	3.1	7.4	45.5	n.m.	n.m.
Total	-19.8	-15.3	22.9	n.m.	n.m.

CAPITALIZATION

The ratio of regulatory capital to risk-weighted assets was 14.6% in 3Q11, above the 14.5% reported in 2Q11 and below the 16.0% reported in 3Q10. During 3Q11, regulatory capital grew 7.4% and risk-weighted assets increased 6.8%. The QoQ increase in regulatory capital was due to the capitalization of S/. 125.0 million in earnings from 2Q11.

As a result of the increase in capital and reserves, the cap on hybrid debt that can qualify as Tier 1 was raised, and an additional S/. 22.1 million from a US\$200 million subordinated junior bond issue was incorporated into Interbank's Tier 1 capital. As of September 30, 2011, 53.5% of this issuance was considered Tier 1 capital. The remaining 46.5% of the bond qualified as Tier II capital, and gradually will be incorporated into Tier 1 as Interbank's capital and reserves grow.

The YoY decrease in the BIS 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 regulatory capital was due to the capitalization of S/. 409.2 million in earnings from the last 12 months.

The ratio remains significantly above the regulatory minimum of 10.0% required by Peruvian banking regulations.

S/. million	Capitalization			% chg QoQ	% chg YoY
	3Q 10	2Q 11	3Q 11		
Tier I	1,408.3	1,655.8	1,817.4	9.8%	29.0%
Tier II	661.8	545.7	547.8	0.4%	-17.2%
Regulatory capital	2,070.2	2,201.5	2,365.2	7.4%	14.3%
Risk weighted assets	13,403.3	15,214.8	16,246.0	6.8%	21.2%
BIS ratio	15.4%	14.5%	14.6%	0.6%	-5.7%
Tier I / risk weighted assets	10.5%	10.9%	11.2%	2.8%	6.5%

Interseguro

SUMMARY

Interseguro's net income was S/. 33.9 million in 3Q11, a 19.9% increase YoY and a 38.8% increase QoQ. ROE grew from 36.5% in 3Q10 to 43.5% in 3Q11 while ROA remained stable at 5.3%.

Profit and Loss Statement Summary					
S/. million	3Q10	2Q11	3Q11	% chg QoQ	% chg YoY
Premiums	178.7	109.5	117.1	6.9%	-34.5%
Premiums ceded	-2.2	-2.3	-2.3	2.4%	4.5%
Fees	-2.4	-3.2	-2.9	-8.4%	21.1%
Claims	-30.1	-32.0	-33.2	3.4%	10.2%
Change in reserves	-164.3	-89.4	-93.9	5.1%	-42.8%
Diverse Income, net	-1.1	1.1	-1.0	-189.5%	-8.6%
Technical margin	-21.3	-16.3	-16.2	-0.7%	-23.9%
Administrative expenses	-13.8	-14.6	-15.8	7.8%	14.4%
Investment income, net*	63.4	55.4	65.9	19.0%	3.9%
Net income	28.3	24.4	33.9	38.8%	19.9%
ROE	36.5%	33.8%	43.5%		

* Includes exchange difference

The QoQ increase was explained by a S/. 10.5 million increase in investment income, partially offset by a S/. 1.2 million increase in administrative expenses.

The YoY increase was due to a S/. 5.1 million decline in technical margin loss and a S/. 2.5 million growth in investment income, partially offset by a S/. 2.0 million increase in administrative expenses.

PREMIUMS

Premiums were S/. 117.1 million in 3Q11, a 6.9% increase QoQ, but a 34.5% decrease YoY.

Premiums by Business Line					
S/. million	3Q10	2Q11	3Q11	% chg QoQ	% chg YoY
Individual Life	6.7	6.4	7.8	21.3%	16.1%
Annuities	154.5	82.7	88.6	7.1%	-42.6%
Group Life	11.0	12.3	10.9	-11.1%	-1.1%
Disability and survivor benefits	0.2	0.1	0.1	8.4%	-47.0%
Mandatory traffic accident	4.9	5.3	6.8	26.3%	38.7%
Non Life Insurance	1.4	2.6	2.9	11.6%	106.5%
TOTAL	178.7	109.5	117.1	6.9%	-34.5%

The QoQ growth was due to a S/. 5.9 million increase in annuity sales as well as an increase in sales across all other business lines.

The YoY decrease was attributable to a 32% contraction in the annuity market.

RESERVES, CLAIMS AND OPERATING EXPENSES

Change in reserves increased 5.1% QoQ and decreased 42.8% YoY, in line with annuity sales.

Change in Reserves by Business Line					
S/. million	3Q10	2Q11	3Q11	%chg QoQ	%chg YoY
Individual Life	2.7	1.8	0.8	-54.8%	-69.1%
Annuities	161.8	87.4	92.1	5.5%	-43.1%
Group Life	-0.6	0.4	-0.2	-143.2%	-67.7%
Mandatory traffic accident	0.1	-0.3	0.6	n.m.	598.6%
Non Life Insurance	0.2	0.1	0.6	n.m.	n.m.
TOTAL	164.3	89.4	93.9	5.1%	-42.8%

Claims increased 3.4% QoQ and 10.2% YoY. The QoQ increase was explained by higher claims in disability and survivor benefits. The YoY increase was due to higher pensions in the annuities segment.

Claims by Business Line					
S/. million	3Q10	2Q11	3Q11	%chg QoQ	%chg YoY
Individual Life	0.1	0.8	0.4	-43.4%	210.3%
Annuities	22.6	24.4	24.4	0.2%	8.0%
Group Life	1.7	3.3	2.8	-16.6%	59.9%
Disability and survivor benefits	3.1	1.5	3.0	102.5%	-4.1%
Mandatory traffic accident	2.4	2.0	2.3	19.2%	-2.0%
Non Life Insurance	0.1	0.1	0.2	45.0%	116.8%
TOTAL	30.1	32.0	33.2	3.4%	10.2%

As a result of the factors described above, the technical margin was S/.-16.2 million in 3Q11, S / . -16.3 million in 2Q11 and S / . -21.3 million in 3Q10.

Administrative expenses grew 7.8% QoQ and 14.4% YoY. The QoQ increase was due to higher commissions on sales in line with premium growth. The YoY rise was explained by consulting fees and the implementation of technology projects.

INVESTMENT INCOME

Investment income increased 19.0 % QoQ and 4.0 % YoY.

Investment Income, Net					
S/. million	3Q10	2Q11	3Q11	%chg QoQ	%chg YoY
Income:					
Fixed Income	44.0	32.7	43.7	33.7%	-0.7%
Interest	21.4	27.5	30.8	12.2%	43.8%
Realized Gains	22.6	5.2	12.9	147.5%	-43.0%
Equity and Mutual Funds	10.3	18.1	11.2	-37.9%	9.0%
Real Estate	9.3	6.1	16.2	164.7%	74.0%
Total Income	63.6	56.9	71.1	25.1%	11.8%
Expenses	-1.4	-1.4	-1.7	22.8%	21.4%
Exchange difference and others	1.2	-0.1	-3.5	n.m.	n.m.
Net income	63.4	55.4	65.9	19.0%	4.0%

The QoQ rise was explained by increases in real estate income and realized gains in the fixed income portfolio.

The YoY increase was a result of higher income earned in the fixed income and real estate portfolios. The increase in interest on fixed income was attributable to a 17.7% growth in volume and a 127 basis point increase in the average yield, as the portfolio was rebalanced to include higher-yielding instruments. During 3Q11 Interseguro recorded realized gains on the sale of properties, which did not occur in 3Q10.

Investment Portfolio					
S/. million	3Q10	2Q11	3Q11	%chg QoQ	%chg YoY
Fixed Income	1,471.1	1,558.8	1,731.0	11.0%	17.7%
Equity and Mutual Funds	196.0	312.0	286.7	-8.1%	46.3%
Real estate	489.6	505.3	538.0	6.5%	9.9%
Others	4.3	4.7	4.8	1.8%	12.5%
TOTAL	2,161.0	2,380.8	2,560.4	7.5%	18.5%

Interseguro's investment portfolio grew 7.5% QoQ and 18.5% YoY due to higher annuity sales and the price appreciation of Interseguro's overall portfolio.