

Intercorp Financial Services Inc. Third Quarter 2016 Earnings

Lima, Peru, November 9, 2016. Intercorp Financial Services Inc. (Bolsa de Valores de Lima: IFS) announced today its unaudited results for the third quarter 2016. These results are reported on a consolidated basis under IFRS in nominal Peruvian soles.

Quarterly Highlights:

Intercorp Financial Services:

- 3Q16 net profit was S/ 208.7 million, a 17.2% growth QoQ but a 48.9% reduction YoY
- The QoQ performance was mostly explained by a 10.9% growth in profits at Interbank, resulting from lower provision expenses
- The YoY decline in profits was mainly a result of higher requirements of technical reserves at Interseguro due to a lower discount rate on annuities, and a decrease in foreign exchange gains at Interbank due to a particularly high trading activity in 3Q15 that was not repeated in 3Q16
- Excluding discount rate impact on technical reserves, IFS 3Q16 profits grew 23.1% QoQ and 2.3% YoY; and excluding also the negative impact of lower trading activity in FX at Interbank, IFS 3Q16 net profit would have increased 25.3% YoY

Interbank:

- 3Q16 net profit was S/ 221.5 million, a 10.9% increase QoQ but an 8.6% decrease YoY due to lower net gains on foreign exchange transactions which resulted in a 39.4% YoY contraction in other income. Excluding such effect, profits would have grown 16.0% YoY
- Performing loans and deposits grew 5.7% and 8.5% YoY, respectively, while retail deposits increased 13.0% YoY
- NIM remained relatively stable QoQ and YoY at 5.9%, as a more profitable mix of interest-earning assets offset an increase in the average cost of funding
- Cost of risk decreased by 30 bps QoQ and stabilized YoY, at 2.8% in 3Q16; while the PDL ratio improved by 10 bps QoQ to 2.6% and remained below system's average
- 3Q16 annualized ROAE was 22.0%

Interseguro:

- 3Q16 result was S/ -54.3 million or S/ 24.5 million excluding discount rate impact on technical reserves, which represents a recovery of S/ 25.6 million QoQ and a decline of S/ 4.1 million YoY
- Net premiums in 3Q16 increased 4.7% QoQ as the annuity market recovered after regulation changes; but still decreased 36.4% YoY affected by the new law that entered in force in April 2016 allowing retirees to cash out a significant portion of their pension funds. All in all, Interseguro remained as market leader in annuities with a 23.3% share YTD
- Interseguro's investment portfolio grew 5.7% QoQ and 20.9% YoY

Inteligo:

- 3Q16 net profit was S/ 48.4 million, a 9.8% decrease QoQ but a significant recovery YoY. The quarterly performance was attributed to a seasonal 15.8% decrease in interest and similar income, partially compensated by an 8.6% growth in other income and lower other expenses
- Assets under management plus deposits increased 5.9% QoQ and 18.2% YoY
- 3Q16 annualized ROAE was 33.7%

Intercorp Financial Services

Net profit was S/ 208.7 million in 3Q16, a 17.2% increase QoQ but a 48.9% reduction YoY. IFS annualized ROAE was 17.3% in 3Q16, above the 15.1% registered in 2Q16 but below the 39.2% reported in 3Q15.

Intercorp Financial Services' P&L statement					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interest and similar income	860.1	914.2	935.5	2.3%	8.8%
Interest and similar expense	-236.1	-268.4	-278.0	3.6%	17.7%
Net interest and similar income	623.9	645.8	657.5	1.8%	5.4%
Provision for loan losses, net of recoveries	-142.2	-210.2	-179.8	-14.4%	26.4%
Net interest and similar income after provision for loan losses	481.7	435.6	477.7	9.6%	-0.8%
Fee income from financial services, net	214.8	215.4	219.0	1.7%	2.0%
Other income	191.4	156.2	133.9	-14.3%	-30.1%
Total premiums earned less claims and benefits	98.5	-80.4	-106.1	31.9%	n.m.
Net Premiums	214.0	130.1	136.2	4.7%	-36.4%
Adjustment of technical reserves	-46.7	-135.5	-163.6	20.7%	250.4%
Net claims and benefits incurred	-68.8	-75.0	-78.7	4.9%	14.3%
Other expenses	-472.0	-480.7	-415.8	-13.5%	-11.9%
Income before translation result and income tax	514.4	246.1	308.7	25.4%	-40.0%
Translation result	2.5	15.9	-16.9	n.m.	n.m.
Income tax	-108.3	-84.0	-83.1	-1.1%	-23.3%
Profit for the period	408.6	178.0	208.7	17.2%	-48.9%
Attributable to equity holders of the group ⁽¹⁾	405.8	175.9	205.5	16.8%	-49.4%
EPS	3.72	1.62	1.89		
ROAE	39.2%	15.1%	17.3%		
ROAA	3.6%	1.5%	1.7%		

(1) Starting 4Q14, IFS began consolidating a real estate investment shared by Interseguro and Intercorp Real Estate Inc., a subsidiary of Intercorp Peru Ltd. Intercorp RE's part is then reported as attributable to non-controlling interest.

InterCorp Financial Services' Statement of financial position					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Assets					
Cash and due from banks and inter-bank funds	9,746.6	8,901.6	11,517.9	29.4%	18.2%
Trading securities and investments available for sale	8,934.4	9,327.8	9,977.8	7.0%	11.7%
Loans, net of unearned income	26,412.0	27,629.9	28,055.3	1.5%	6.2%
Allowance for loan losses	-989.3	-1,130.4	-1,130.9	0.0%	14.3%
Property, furniture and equipment, net	565.4	593.5	585.9	-1.3%	3.6%
Other assets	2,225.6	2,751.7	2,370.1	-13.9%	6.5%
Total assets	46,894.7	48,074.0	51,376.1	6.9%	9.6%
Liabilities and equity					
Deposits and obligations	25,715.0	26,088.2	28,667.4	9.9%	11.5%
Due to banks and correspondents	6,584.4	6,066.6	6,244.2	2.9%	-5.2%
Bonds, notes and other obligations	4,756.2	4,693.3	4,855.5	3.5%	2.1%
Insurance contract liabilities	4,218.0	4,798.2	5,029.3	4.8%	19.2%
Other liabilities	1,472.6	1,767.6	1,567.4	-11.3%	6.4%
Total liabilities	42,746.1	43,413.9	46,363.9	6.8%	8.5%
Equity					
Equity holders of IFS	4,034.5	4,528.5	4,893.0	8.0%	21.3%
Non-controlling interest	114.0	131.6	119.3	-9.4%	4.6%
Total equity	4,148.5	4,660.1	5,012.2	7.6%	20.8%
Total liabilities and equity	46,894.7	48,074.0	51,376.1	6.9%	9.6%

Quarter-on-quarter performance

Profits increased 17.2% QoQ mainly due to higher profits at Interbank as a result of lower provision expenses, in addition to an important reduction in other expenses, particularly at Interseguro. These effects were partially offset by a higher adjustment of technical reserves and a contraction in other income, also at Interseguro, as well as by a seasonal reduction in income at Inteligo.

Net interest and similar income grew 1.8% QoQ mainly explained by a 3.3% increase in interest on loans at Interbank, partially offset by a 9.1% growth in interest on deposits and obligations, also at Interbank.

Provision expenses decreased 14.4% mainly as a result of lower provision requirements in commercial and payroll loans, in addition to better recoveries in the consumer loans portfolio.

Fee income from financial services increased 1.7% QoQ mainly attributed to higher fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services at Interbank.

Interseguro's total premiums earned less claims and benefits in 3Q16 was S/ -106.1 million, which represented a negative impact of S/ 25.7 million QoQ, mainly due to a S/ 28.1 million higher adjustment of technical reserves.

Other income decreased by S/ 22.3 million QoQ mainly due to a contraction in net gain on sale of securities at Interseguro, despite slightly positive performances at Inteligo and Interbank.

Other expenses declined 13.5% QoQ mainly explained by a significant improvement in impairment loss on available-for-sale investments at Interseguro.

IFS effective tax rate decreased QoQ, from 32.1% in 2Q16 to 28.5% in 3Q16, as a result of a lower effective income tax rate at Interbank.

Year-on-year performance

Profits decreased 48.9% YoY mainly due to a higher adjustment of technical reserves, in addition to a 30.1% decrease in other income. These effects were partly compensated by an increase of 5.4% in net interest and similar income and a reduction of 11.9% in other expenses.

Net interest and similar income grew 5.4% YoY mainly explained by increases of 8.5% in interest on loans and 30.6% in interest on investments available for sale at Interbank, which were partially offset by a 37.6% growth in interest on deposits and obligations.

Provision expenses increased 26.4% mainly as a result of higher provisioning in credit cards and cash loans.

Fee income from financial services increased 2.0% YoY mainly due to a growth of 8.1% in fee income at Interbank that was partially offset by a 16.9% reduction in fee income at Inteligo.

Interseguro's total premiums earned less claims and benefits decreased by S/ 204.6 million mainly due to a S/ 116.9 million higher adjustment of technical reserves and S/ 77.8 million lower net premiums. Net premiums at Interseguro continued to be affected by a market contraction in annuities due to a new law that entered in force in April 2016 which allows retirees from the private pension fund system to withdraw up to 95.5% of their pension funds upon retirement; in addition to a more aggressive strategy from its competitors.

Other income decreased 30.1% YoY mainly due to a reduction of S/ 59.6 million in net gain on foreign exchange transactions and derivatives at Interbank.

Other expenses decreased 11.9% YoY mainly due to a S/ 44.3 million lower impairment loss on available-for-sale investments at Interseguro. At Interbank, other expenses were also 1.8% lower, while at Inteligo, other expenses decreased 26.6% YoY.

IFS effective tax rate increased YoY, from 21.0% in 3Q15 to 28.5% in 3Q16, as a consequence of the negative result at Interseguro.

CONTRIBUTION BY SEGMENTS

The following table shows the contribution of Interbank, Interseguro and Inteligo to Intercorp Financial Services' net profit. The performance of each of the three segments is discussed in detail in the following sections.

Intercorp Financial Services' Profit by segment					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interbank	242.4	199.8	221.5	10.9%	-8.6%
Interseguro	157.4	-55.8	-52.6	-5.7%	n.m.
Inteligo	16.7	53.7	48.4	-9.8%	n.m.
Corporate and eliminations	-7.9	-19.7	-8.6	-56.4%	8.8%
IFS profit for the period	408.6	178.0	208.7	17.2%	-48.9%

Interbank

SUMMARY

Interbank's profits reached S/ 221.5 million in 3Q16, an increase of S/ 21.7 million QoQ, or 10.9%, but a decrease of S/ 20.9 million YoY, or 8.6%. The quarterly growth was mainly due to S/ 30.4 million lower provisions expenses and an increase of S/ 9.9 million in fee income from financial services, net. These factors were partially offset by a reduction of S/ 14.1 million in translation result and a growth of S/ 7.0 million in other expenses.

The annual decrease in net profit was explained by a reduction of S/ 55.5 million in other income and an increase of S/ 39.4 million in provisions. These factors were partially offset by increases of S/ 33.4 million in net interest and similar income, and S/ 15.1 million in fee income, in addition to a lower effective tax rate in 3Q16.

Interbank's ROAE was 22.0% in 3Q16, higher than the 21.3% reported in 2Q16 but lower than the 28.2% registered in 3Q15.

Banking Segment's P&L Statement					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interest and similar income	757.4	819.2	830.5	1.4%	9.6%
Interest and similar expenses	-220.5	-250.5	-260.2	3.9%	18.0%
Net interest and similar income	536.9	568.7	570.3	0.3%	6.2%
Provision for loan losses, net of recoveries	-140.4	-210.2	-179.8	-14.4%	28.1%
Net interest and similar income after provision for loan losses	396.6	358.5	390.5	8.9%	-1.5%
Fee income from financial services, net	187.5	192.7	202.6	5.2%	8.1%
Other income	141.1	84.8	85.6	0.9%	-39.4%
Other expenses	-376.0	-362.2	-369.2	1.9%	-1.8%
Income before translation result and income tax	349.2	273.7	309.5	13.1%	-11.4%
Translation result	-6.6	2.2	-11.9	n.m.	n.m.
Income tax	-100.2	-76.1	-76.1	0.1%	-24.1%
Profit for the period	242.4	199.8	221.5	10.9%	-8.6%
ROAE	28.2%	21.3%	22.0%		
Efficiency ratio	40.5%	41.7%	41.3%		
NIM	6.0%	6.0%	5.9%		
NIM on loans	10.0%	9.8%	9.9%		

INTEREST-EARNING ASSETS

Interbank's interest-earning assets reached S/ 40,075.6 million in 3Q16, an increase of 8.4% QoQ and 6.6% YoY.

The quarterly growth in interest-earning assets was due to increases of 32.4% in cash and due from banks, 3.5% in investments available for sale and 1.4% in loans. The increase in cash and due from banks was mainly explained by higher funds at the Central Bank, while available-for-sale investments grew due to higher volumes of Central Bank Certificates of Deposit (CDBCR) and corporate bonds from financial institutions.

The annual growth in interest-earning assets was attributed to increases of 12.8% in cash and due from banks, and 6.0% in loans, partially offset by a 3.8% contraction in investments available for sale. The increase in cash and due from banks was mainly explained by higher deposits at the Central Bank and inter-bank funds. Meanwhile, the decrease in investments resulted from lower volumes in global bonds, partially offset by higher positions in corporate and sovereign bonds.

Interest-earning assets					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Cash and due from banks and inter-bank funds	9,493.1	8,085.7	10,703.7	32.4%	12.8%
Investments available for sale	4,320.4	4,013.0	4,155.2	3.5%	-3.8%
Loans	23,783.9	24,879.2	25,216.8	1.4%	6.0%
Total Interest-earning assets	37,597.4	36,977.9	40,075.6	8.4%	6.6%

Loan portfolio					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Performing loans					
Retail	12,225.6	12,999.1	13,275.7	2.1%	8.6%
Commercial	11,531.0	11,776.3	11,837.2	0.5%	2.7%
Total Performing loans	23,756.5	24,775.3	25,112.9	1.4%	5.7%
Restructured and refinanced loans	231.0	291.2	304.8	4.7%	31.9%
Past due loans	567.9	687.9	682.0	-0.8%	20.1%
Total gross loans	24,555.5	25,754.4	26,099.7	1.3%	6.3%
Add (less)					
Accrued and deferred interest	214.2	251.7	244.3	-2.9%	14.0%
Allowance for loan losses	-985.8	-1,126.9	-1,127.2	0.0%	14.3%
Total direct loans, net	23,783.9	24,879.2	25,216.8	1.4%	6.0%

Performing loans grew 1.4% QoQ due to increases of 2.1% in retail loans and 0.5% in commercial loans. Retail loans increased due to growths of 3.9% in credit cards, 1.4% in mortgages and 1.3% in other consumer loans. Commercial loans grew mainly due to higher trade finance loans and short and medium-term loans, partially offset by lower leasing operations.

Performing loans grew 5.7% YoY due to increases of 8.6% in retail loans and 2.7% in commercial loans. Retail loans growth was driven by increases of 9.4% in mortgages, 8.7% in other consumer loans and 7.5% in credit cards. Commercial loans grew mainly due to increases in short and medium-term lending, partially offset by lower trade finance loans and leasing operations.

Breakdown of retail loans					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Consumer loans:					
Credit cards	3,677.3	3,805.1	3,953.9	3.9%	7.5%
Other consumer	4,117.6	4,417.7	4,476.4	1.3%	8.7%
Total consumer loans	7,794.9	8,222.7	8,430.3	2.5%	8.2%
Mortgages	4,430.7	4,776.3	4,845.4	1.4%	9.4%
Total retail loans	12,225.6	12,999.1	13,275.7	2.1%	8.6%

FUNDING STRUCTURE

Funding structure					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Deposits	23,528.9	23,240.9	25,529.9	9.8%	8.5%
Due to banks and inter-bank funds	6,558.9	5,906.5	6,153.1	4.2%	-6.2%
Bonds	4,488.5	4,525.5	4,683.2	3.5%	4.3%
Total	34,576.4	33,672.9	36,366.2	8.0%	5.2%
% of funding					
Deposits	68.0%	69.0%	70.2%		
Due to banks and inter-bank funds	19.0%	17.5%	16.9%		
Bonds	13.0%	13.5%	12.9%		

Interbank's total funding base increased 8.0% QoQ, in line with the performance of interest-earning assets. The increase was due to growths of 9.8% in deposits, 4.2% in due to banks and inter-bank funds, and 3.5% in bonds. The quarterly growth in deposits was mainly explained by increases of 17.1% in institutional deposits and 15.5% in commercial deposits by the end of the quarter.

The bank's total funding base increased 5.2% YoY, slightly below the growth in interest-earning assets. The increase was due to growths of 8.5% in deposits and 4.3% in bonds, partially offset by a 6.2% contraction in due to banks and inter-bank funds.

The yearly growth in deposits was mainly explained by increases of 20.2% in commercial deposits and 13.0% in retail deposits, partially offset by an 18.4% decline in institutional deposits. As a result, the portion of deposits to total funding increased from 68.0% in 3Q15 to 70.2% in 3Q16, while the proportion of institutional deposits to total deposits decreased from 22.2% to 16.7% in the same period.

The annual increase in bonds was attributed to a 5.5% depreciation of the exchange rate which originated an increase in the value of bonds issued in dollars.

The YoY contraction in due to banks and inter-bank funds was mainly due to a reduction in funding provided by the Central Bank.

Breakdown of deposits					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
By customer service:					
Retail	9,975.4	10,915.2	11,269.1	3.2%	13.0%
Commercial	8,067.5	8,391.3	9,694.2	15.5%	20.2%
Institutional	5,232.2	3,645.0	4,269.0	17.1%	-18.4%
Other	254.0	289.5	297.6	2.8%	17.2%
Total	23,528.9	23,240.9	25,529.9	9.8%	8.5%
By type:					
Demand	6,312.2	6,722.9	7,661.8	14.0%	21.4%
Savings	7,919.2	9,849.7	10,439.6	6.0%	31.8%
Time	9,284.5	6,662.9	7,415.6	11.3%	-20.1%
Other	13.0	5.4	12.9	139.5%	-0.5%
Total	23,528.9	23,240.9	25,529.9	9.8%	8.5%

NET INTEREST AND SIMILAR INCOME

Net interest and similar income					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interest and similar income	757.4	819.2	830.5	1.4%	9.6%
Interest and similar expense	-220.5	-250.5	-260.2	3.9%	18.0%
Net interest and similar income	536.9	568.7	570.3	0.3%	6.2%
NIM*	6.0%	6.0%	5.9%	-10 bps	-10 bps

*Annualized. Net interest and similar income / Average interest-earning assets.

Interest and similar income					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interest and similar income					
Due from banks and inter-bank funds	2.3	4.7	5.2	10.6%	121.5%
Investments available for sale	27.9	50.9	36.5	-28.3%	30.6%
Loans	727.2	763.6	788.8	3.3%	8.5%
Total Interest and similar income	757.4	819.2	830.5	1.4%	9.6%
Average interest-earning assets	35,760.8	38,212.9	38,526.8	0.8%	7.7%
Average yield on assets (annualized)	8.5%	8.6%	8.6%	0 bps	10 bps

Interest and similar expense					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interest and similar expense					
Deposits and obligations	-85.9	-108.4	-118.3	9.1%	37.6%
Due to banks and correspondents	-59.2	-64.8	-63.8	-1.6%	7.8%
Bonds, notes and other obligations	-75.4	-77.3	-78.1	1.0%	3.6%
Total Interest and similar expense	-220.5	-250.5	-260.2	3.9%	18.0%
Average interest-bearing liabilities	32,844.1	34,774.8	35,019.6	0.7%	6.6%
Average cost of funding (annualized)	-2.7%	-2.9%	-3.0%	-10 bps	-30 bps

QoQ Performance

Net interest and similar income increased 0.3% QoQ as the result of a 1.4% growth in interest and similar income, partially offset by an increase of 3.9% in interest and similar expense.

The higher interest and similar income was mainly due to a 3.3% increase in interest on loans, partially offset by a 28.3% decrease in interest on investments available for sale.

The increase in interest on loans was due to a 1.6% growth in the average volume of the loan portfolio and a 20 basis point increase in the average yield, from 12.4% in 2Q16 to 12.6% in 3Q16. The higher average volume of loans was attributed to increases of 2.4% in retail loans and 0.7% in commercial loans. In the retail portfolio, higher volume was due to growths of 3.8% in credit cards, 2.1% in other consumer loans and 1.5% in mortgages. In the commercial portfolio, volumes increased 6.1% in

trade finance loans and 1.1% in short and medium-term loans, partially offset by a 3.1% decrease in leasing. The increase in the average rate was the result of higher yields on retail loans, especially in credit cards; while the return on the commercial portfolio slightly decreased due to lower yields on trade finance loans.

Interest on investments available for sale reduced by \$/ 14.4 million, or 28.3%, explained by a seasonal 190 basis point decrease in the nominal average rate, partially offset by a 9.3% growth in the average volume. The decrease in the nominal average rate, from 5.5% in 2Q16 to 3.6% in 3Q16, was mainly a result of higher income from dividends received in 2Q16 which were not repeated in 3Q16. The increase in average volume was a result of higher investments in CDBCR and fixed income instruments issued by financial institutions.

The nominal average yield on interest-earning assets¹ remained relatively stable at 8.6% in 3Q16, as the lower yield on investments was offset by a higher average yield on loans and a more profitable mix of interest-earning assets, as a result of lower average balances of cash and due from banks and inter-bank funds, which earn a much lower return compared to the other components.

Interest and similar expense increased 3.9% QoQ as a result of growths of 9.1% in interest on deposits and obligations, and 1.0% in interest on bonds, notes and other obligations; partially offset by a 1.6% decrease in interest due to banks and correspondents.

The increase in interest on deposits and obligations was due to a 10 basis point increase in the average cost, from 1.8% in 2Q16 to 1.9% in 3Q16, in addition to a 0.5% increase in the average volume. The higher average cost was attributable to a 10 basis point increase in the cost of both soles and dollar deposits. The increase in average volume was explained by higher retail and commercial deposits, partially offset by lower institutional deposits. By currency, dollar deposits decreased 4.0% while soles deposits grew 4.4% QoQ.

Interest on bonds, notes and other obligations increased 1.0% in 3Q16 mainly as a result of a 0.7% growth in the average volume. This in turn was attributable to a 3.4% depreciation of the exchange rate of the sol against the U.S. dollar that resulted in a higher value of bonds denominated in dollars, which represented 90.7% of total bonds.

The decline in interest due to banks and correspondents was explained by a decrease of 20 basis points in the nominal average cost, partially offset by a 1.4% growth in the average volume. The reduction in the average cost was a result of lower rates on foreign funding from correspondent banks; while the higher average volume was mostly attributed to an increase in average volumes of foreign funding and inter-bank funds.

The average cost of funds² increased by 10 basis points QoQ, from 2.9% in 2Q16 to 3.0% in 3Q16, as a result of higher costs of deposits, which represented 69.6% of average interest-bearing liabilities.

¹ For a more accurate reporting of the nominal average yield on interest-earning assets, since 4Q15 total cash and due from banks and inter-bank funds are considered as interest-earning assets on the rate calculation; on reports previous to 4Q15 only the strictly interest-earning portion was considered.

² For a more accurate reporting of the average cost of funds, since 4Q15 total deposits are considered as interest-bearing liabilities on the rate calculation; on reports previous to 4Q15 only the strictly interest-bearing portion was considered.

As a result of the above, net interest margin was 5.9% in 3Q16, 10 basis points lower than the 6.0% reported in 2Q16.

YoY Performance

Net interest and similar income grew 6.2% YoY due to an increase of 9.6% in interest and similar income, partially offset by an 18.0% rise in interest and similar expense.

The growth in interest and similar income was due to increases of 8.5% in interest on loans, 30.6% in interest on investments available for sale and a more than two-fold growth in interest due from banks and inter-bank funds.

The \$/ 61.6 million growth in interest on loans was explained by increases of 7.3% in the average loan volume and 10 basis points in the average yield, from 12.5% in 3Q15 to 12.6% in 3Q16. Growth in average volume was due to increases of 9.2% in the retail portfolio and 4.4% in the commercial portfolio. The higher average volume of retail loans was due to growths of 10.6% in other consumer, 10.5% in mortgages and 6.1% in credit cards. In the commercial portfolio, average volumes grew 15.8% in short and medium-term loans, partially offset by declines of 21.7% in trade finance loans and 12.8% in leasing. The increase in the average yield was mainly explained by a higher participation of soles loans, which have a higher yield compared to dollar loans, within the total loan portfolio. Considering average balances for each quarter, the loan portfolio de-dollarized by 360 basis points YoY, from 30.7% in 3Q15 to 27.1% in 3Q16.

Interest on investments available for sale increased by \$/ 8.6 million YoY, or 30.6%, as a result of a 70 basis point increase in the nominal average rate and a 7.0% growth in the average volume. The higher average rate, which accounted for \$/ 6.2 million of the increase in interest on the investment portfolio, was due to higher returns in CDBCR and global bonds; while the growth in volume accounted for \$/ 2.4 million of the increase and was a result of higher investments in sovereign and corporate bonds.

The \$/ 2.9 million increase in interest due from banks and inter-bank funds was explained by a 10 basis point increase in the nominal average rate and a 9.4 % growth in the average volume. The higher average rate was mainly attributed to higher yields on time deposits at the Central Bank. The higher volume was mainly due to an increase of dollar funds at the Central Bank, which are related to repo transactions for local currency funding.

The nominal average yield on interest-earning assets³ was 8.6% in 3Q16, a 10 basis point increase from the 8.5% registered in 3Q15, mainly due to higher yields on loans and investments. Such effects were partially offset by a slightly higher proportion of cash and due from banks and inter-bank funds over total interest-earning assets, as they earn a much lower yield compared to the other components.

Interest and similar expense increased 18.0% YoY due to growths of 37.6% in interest on deposits and obligations, 7.8% in interest due to banks and correspondents, and 3.6% in interest on bonds, notes and other obligations.

³ For a more accurate reporting of the nominal average yield on interest-earning assets, since 4Q15 total cash and due from banks and inter-bank funds are considered as interest-earning assets on the rate calculation; on reports previous to 4Q15 only the strictly interest-earning portion was considered.

Interest on deposits and obligations increased by S/ 32.4 million, or 37.6%, explained by increases of 40 basis points in the nominal average cost and 9.4% in the average volume. The higher average cost was mainly explained by a higher cost of soles deposits, while the cost of dollar deposits remained relatively stable YoY. The increase in average volume was a result of growths in commercial and retail deposits, partially offset by a decline in institutional deposits.

The S/ 4.6 million, or 7.8% increase in interest due to banks and correspondents was explained by an increase of 30 basis points in the average cost, partially offset by a 1.2% decline in the average volume. The higher nominal average cost accounted for a S/ 5.4 million increase in interest expense and was explained by a higher funding cost from COFIDE and the Central Bank; while the lower average volume accounted for a S/ 0.8 million decrease in interest expense and was due to a lower funding provided by correspondent banks.

Interest on bonds, notes and other obligations increased by S/ 2.7 million, or 3.6%, mainly as a result of a 3.6% increase in the average volume. The growth in volume was explained by a 5.5% depreciation of the exchange rate that resulted in a higher value of bonds issued in dollars, which represent the majority of total bonds.

The average cost of funds⁴ increased by 30 basis points YoY, from 2.7% in 3Q15 to 3.0% in 3Q16, mainly due to the higher average cost of deposits and due to banks.

As a result of the above, net interest margin declined by 10 basis points YoY, from 6.0% in 3Q15 to 5.9% in 3Q16.

PROVISION FOR LOAN LOSSES, NET OF RECOVERIES

Provision for loan losses, net of recoveries decreased 14.4% QoQ but still increased 28.1% YoY. As a result, the annualized ratio of provision expense to average loans was 2.8% in 3Q16, below the 3.3% reported in 2Q16 but above the 2.3% registered in 3Q15.

The quarterly decrease was due to lower provision requirements in commercial and payroll loans, in addition to better recoveries in the consumer loans portfolio. The annual increase in provisions was mainly a result of higher provisioning in credit cards and cash loans.

Provision for loan losses, net of recoveries					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Provision for loan losses, net of recoveries	-140.4	-210.2	-179.8	-14.4%	28.1%
Past-due-loan ratio (at end of period)	2.3%	2.7%	2.6%	-10 bps	30 bps
Provision for loan losses/average gross loans	2.3%	3.3%	2.8%	-50 bps	50 bps
Coverage ratio (at end of period)	173.6%	163.8%	165.3%	150 bps	-830 bps
Allowance for loan losses (at end of period)	985.8	1,126.9	1,127.2	0.0%	14.3%

The past-due-loan ratio was 2.6% in 3Q16, 10 basis points below the 2.7% reported in 2Q16 and 30 basis points above the 2.3% registered in 3Q15.

⁴ For a more accurate reporting of the average cost of funds, since 4Q15 total deposits are considered as interest-bearing liabilities on the rate calculation; on reports previous to 4Q15 only the strictly interest-bearing portion was considered.

Similarly, the PDL ratio in credit cards stood at 4.4% in 3Q16, below the 5.2% reported in 2Q16, but above the 3.8% registered in 3Q15.

As a consequence of the above, the coverage ratio of the past-due loan portfolio was 165.3% in 3Q16, above the 163.8% reported in 2Q16 but below the 173.6% registered in 3Q15.

FEE INCOME FROM FINANCIAL SERVICES, NET

Fee income from financial services, net grew by S/ 9.9 million QoQ, or 5.2%, mainly explained by increases of S/ 4.5 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services; S/ 2.8 million in commissions from banking services, and S/ 1.2 million in fees for indirect loans.

Fee income from financial services, net increased by S/ 15.1 million YoY, or 8.1%, mainly due to growths of S/ 13.4 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services; and S/ 3.6 million in commissions from banking services. The increase in maintenance and mailing of accounts, interchange fees, transfers and credit and debit card service fees was a result of higher volumes of credit cards and saving accounts.

Fee income from financial services, net					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Income					
Maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services	127.0	135.9	140.4	3.3%	10.6%
Commissions from banking services	69.5	70.3	73.1	3.9%	5.1%
Fees for indirect loans	15.2	14.6	15.8	8.3%	4.1%
Funds management	7.5	7.1	7.6	7.3%	1.6%
Collection services	6.8	7.3	8.0	10.1%	17.8%
Other	7.8	7.2	6.8	-4.5%	-11.9%
Total income	233.7	242.3	251.7	3.9%	7.7%
Expenses					
Insurance	-38.2	-40.6	-40.3	-0.8%	5.3%
Fees paid to foreign banks	-2.5	-2.4	-2.5	3.6%	2.4%
Other	-5.5	-6.7	-6.3	-5.2%	14.0%
Total expenses	-46.2	-49.7	-49.1	-1.1%	6.2%
Fee income from financial services, net	187.5	192.7	202.6	5.2%	8.1%

OTHER INCOME

Other income slightly increased by S/ 0.8 million QoQ as a result of a S/ 18.5 million growth in net gain on foreign exchange transactions and derivatives, which was partially offset by a S/ 15.2 million decrease in net gain on sale of securities.

Other income decreased by S/ 55.5 million YoY, mainly due to a reduction of S/ 59.6 million in net gain on foreign exchange transactions and derivatives. This was related to a particularly high foreign exchange volatility in 3Q15 that was not repeated in 3Q16.

Other income					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Net gain on foreign exchange transactions and derivatives	130.6	52.5	71.0	35.3%	-45.6%
Net gain on sale of securities	0.0	11.7	-3.5	n.m.	n.m.
Other	10.5	20.5	18.1	-12.0%	72.6%
Total other income	141.1	84.8	85.6	0.9%	-39.4%

OTHER EXPENSES

Other expenses increased by S/ 7.0 million QoQ, or 1.9%, but decreased by S/ 6.8 million YoY, or 1.8%. The quarterly growth in other expenses was mainly due to higher accounting and legal provisions.

The annual decrease in other expenses was explained by lower provisions for contingencies, partially offset by a 19.7% increase in depreciation and amortization.

The efficiency ratio was 41.3% in 3Q16, slightly below the 41.7% registered in 2Q16, but above the 40.5% reported in 3Q15 given the YoY contraction in other income.

Other expenses					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Salaries and employee benefits	-145.5	-147.3	-149.3	1.4%	2.6%
Administrative expenses	-180.3	-175.6	-175.4	-0.1%	-2.7%
Depreciation and amortization	-24.9	-30.0	-29.9	-0.4%	19.7%
Other	-25.3	-9.3	-14.6	56.0%	-42.4%
Total other expenses	-376.0	-362.2	-369.2	1.9%	-1.8%
Efficiency ratio	40.5%	41.7%	41.3%	-40 bps	80 bps

REGULATORY CAPITAL

The ratio of regulatory capital to risk-weighted assets (RWA) was 16.1% in 3Q16, slightly below the 16.2% registered in 2Q16 but above the 15.6% reported in 3Q15.

The annual increase in the capital ratio was due to a 7.4% increase in regulatory capital, partially offset by a 3.9% growth in RWA. The YoY increase in regulatory capital was mainly a result of the addition of S/ 317.4 million in capital, reserves and earnings with capitalization agreement during the last twelve months; and S/ 5.5 million of additional generic provisions, resulting from growth of the loan portfolio. The yearly growth in RWA was attributed to a 6.0% increase in the loan portfolio, partially offset by a 3.8% reduction in investments; within interest-earning assets.

As of 3Q16, Interbank's capital ratio of 16.1% was 420 basis points above its risk-adjusted minimum capital ratio requirement, established at 11.9%. The minimum regulatory capital ratio requirement was 10.0%, while the additional capital requirement for Interbank was 1.9% as of 3Q16.

Regulatory capital					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Tier I capital	3,487.2	3,859.0	3,851.8	-0.2%	10.5%
Tier II capital	1,903.7	1,880.1	1,940.1	3.2%	1.9%
Total regulatory capital	5,390.9	5,739.0	5,791.8	0.9%	7.4%
Risk-weighted assets	34,566.0	35,346.4	35,921.4	1.6%	3.9%
BIS ratio	15.6%	16.2%	16.1%	-10 bps	50 bps
Tier I capital / risk-weighted assets	10.1%	10.9%	10.7%	-20 bps	60 bps

Interseguro

SUMMARY

Interseguro's result attributable to shareholders in 3Q16 was S/ -54.3 million, which compares to S/ -56.6 million in 2Q16 and S/ 156.2 million in 3Q15.

The QoQ improvement in bottom-line results was mainly explained by a S/ 70.3 million decrease in impairment loss on available-for-sale-investments (other expenses), partially offset by a S/ 31.3 million reduction in net gain on sale of securities (other income), coupled with a S/ 28.1 million increase in adjustment of technical reserves and a S/ 5.5 million impact on foreign exchange translation result.

The YoY decline in profits was mainly due to a S/ 116.9 million increase in adjustment of technical reserves, in addition to a S/ 77.8 million decrease in net premiums and a S/ 35.1 million decrease in net gain on sale of securities (other income). These factors were partially offset by a S/ 44.3 million decrease in impairment loss on available-for-sale-investments (other expenses).

Interseguro's profit excluding discount rate impacts on technical results increased by S/ 25.6 million QoQ and decreased by S/ 4.1 million YoY.

Insurance Segment's P&L Statement					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Net Interest and similar income	64.1	68.3	67.4	-1.3%	5.1%
Fee income from financial services, net	-1.0	-0.7	-0.7	-1.5%	-28.8%
Other income	64.4	61.3	30.7	-49.8%	-52.3%
Total premiums earned less claims and benefits	98.5	-80.4	-106.1	31.9%	n.m.
Net premiums	214.0	130.1	136.2	4.7%	-36.4%
Adjustment of technical reserves	-46.7	-135.5	-163.6	20.7%	250.4%
Net claims and benefits incurred	-68.8	-75.0	-78.7	4.9%	14.3%
Other expenses	-75.8	-104.9	-38.7	-63.1%	-49.0%
Income before translation result and income tax	150.2	-56.5	-47.3	-16.2%	n.m.
Translation result	7.6	0.9	-4.6	n.m.	n.m.
Income tax	-0.4	-0.2	-0.8	246.4%	91.1%
Profit for the period	157.4	-55.8	-52.6	-5.7%	n.m.
Attributable to non-controlling interest ⁽¹⁾	-1.2	-0.7	-1.7	126.9%	45.3%
Profit attributable to shareholders	156.2	-56.6	-54.3	-4.0%	n.m.
Discount rate impacts on technical reserves	127.7	-55.5	-78.8	42.0%	n.m.
Profit excluding discount rate impacts	28.6	-1.1	24.5	n.m.	-14.4%
ROAE	152.7%	n.m.	n.m.		
ROAE excl. discount rate impacts	52.2%	n.m.	14.5%		
Efficiency ratio⁽²⁾	8.6%	19.7%	37.7%		
Efficiency ratio excl. discount rate impact	15.3%	13.6%	17.7%		

(1) Starting 4Q14, Interseguro began consolidating a real estate investment shared by Interseguro and Intercorp Real Estate Inc., a subsidiary of Intercorp Peru Ltd. Intercorp RE's part is then reported as attributable to non-controlling interest.

(2) Efficiency ratio is defined as (Salaries and employee benefits + Administrative expenses + Depreciation and amortization) / (Net interest and similar income + Fee income + Other income + Net premiums earned).

RESULT FROM INVESTMENTS

Results from Investments ⁽¹⁾					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interest and similar income	67.3	72.7	70.8	-2.6%	5.3%
Interest and similar expenses	-3.1	-4.4	-3.4	-22.7%	8.3%
Net interest and similar income	64.1	68.3	67.4	-1.3%	5.1%
Fee income from financial services, net	-0.4	-0.3	-0.3	31.1%	-16.7%
Net gain on sale of securities	53.6	49.8	18.5	-62.8%	-65.4%
Net trading loss (income)	-1.9	-1.1	0.5	n.m.	n.m.
Rental income	4.4	5.1	5.6	10.6%	28.9%
Profit from sale of investment property	-	1.2	1.4	16.6%	n.m.
Valuation gain from investment property	5.0	2.3	2.3	-1.1%	-54.0%
Other ⁽¹⁾	0.9	0.0	-0.6	n.m.	n.m.
Other income	61.6	57.0	27.4	-51.9%	-55.5%
Expenses related to rental income	0.0	-0.9	-0.1	-88.0%	n.m.
Other ⁽¹⁾	-31.6	-57.3	12.1	n.m.	n.m.
Expenses	-31.6	-58.2	11.9	n.m.	n.m.
Results from investments	94.1	67.1	106.8	59.2%	13.5%

(1) Only includes transactions related to investments.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income was S/ 67.4 million in 3Q16, a decrease of S/ 0.9 million or 1.3% QoQ, and an increase of S/ 3.3 million or 5.1% YoY.

The QoQ decline was due to a S/ 1.9 million decrease in interest and similar income as a result of lower portfolio rates, partially offset by a S/ 1.0 million decrease in interest and similar expenses.

The YoY growth was mainly due to a S/ 3.5 million increase in interest and similar income as a result of a higher volume of assets, partially offset by lower rates.

OTHER INCOME

Other income was S/ 27.4 million in 3Q16, a decrease of S/ 29.6 million QoQ and S/ 34.2 million YoY.

The negative performances QoQ and YoY in other income were largely explained by decreases in net gain on sale of securities, which registered extraordinary high levels from equity investments in both 2Q16 and 3Q15.

TOTAL PREMIUMS EARNED LESS CLAIMS AND BENEFITS

Total Premiums Earned Less Claims And Benefits					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Net premiums	214.0	130.1	136.2	4.7%	-36.4%
Adjustment of technical reserves	-46.7	-135.5	-163.6	20.7%	250.4%
Net claims and benefits incurred	-68.8	-75.0	-78.7	4.9%	14.3%
Total premiums earned less claims and benefits	98.5	-80.4	-106.1	31.9%	n.m.

Total premiums earned less claims and benefits in 3Q16 was S/ -106.1 million, a decrease of S/ 25.7 million QoQ and S/ 204.6 million YoY.

The QoQ reduction was mainly due to a S/ 28.1 million increase in adjustment of technical reserves.

The YoY decline was mainly explained by a S/ 116.9 million increase in adjustment of technical reserves and a S/ 77.8 million decrease in net premiums.

NET PREMIUMS

Net Premiums by Business Line					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Annuities	158.3	71.2	74.2	4.1%	-53.1%
Individual Life	11.3	11.4	11.9	4.7%	5.3%
Retail Insurance	44.4	47.5	50.1	5.6%	12.8%
Net Premiums	214.0	130.1	136.2	4.7%	-36.4%

Annuities include premiums from disability and survivorship insurance.

Net premiums were S/ 136.2 million in 3Q16, an increase of S/ 6.1 million QoQ and a decrease of S/ 77.8 million YoY.

The QoQ growth was mainly explained by increases of S/ 3.0 million in Annuities and S/ 2.6 million in Retail Insurance.

The YoY reduction was mainly related to a market contraction in Annuities due to a new law that entered in force in April 2016, allowing retirees to withdraw 95.5% of their pension funds.

ADJUSTMENT OF TECHNICAL RESERVES

Adjustment of Technical Reserves by Business Line					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Annuities	-44.0	-127.4	-156.4	22.7%	255.2%
Individual Life	-3.1	-4.6	-4.5	-3.0%	46.8%
Retail Insurance	0.4	-3.5	-2.7	-21.3%	n.m.
Adjustment of technical reserves	-46.7	-135.5	-163.6	20.7%	250.4%

Annuities include adjustment of technical reserves from disability and survivorship insurance.

Interseguro's adjustment of technical reserves was S/ 163.3 million in 3Q16, an increase of S/ 28.1 million QoQ and S/ 116.9 million YoY.

The QoQ growth was mainly due to different discount rate impacts in Annuities. This rate decreased by 9 bps in 2Q16 and by 12 bps in 3Q16.

The YoY increase was also a result of different discount rate impacts in Annuities. This rate increased by 33 bps in 3Q15 but decreased by 12 bps in 3Q16.

NET CLAIMS AND BENEFITS INCURRED

Net Claims and Benefits Incurred by Business Line					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Annuities	-53.5	-62.9	-62.8	0.0%	17.4%
Individual Life	-0.6	-0.6	-0.5	-4.5%	-17.2%
Retail Insurance	-14.6	-11.6	-15.3	32.1%	4.5%
Credit Life Insurance	-11.8	-7.8	-8.7	11.3%	-26.4%
Mandatory Traffic Accident (SOAT)	-2.1	-3.0	-3.4	12.7%	63.3%
Card Protection	0.0	-0.1	-0.0	-73.2%	n.m.
Other	-0.8	-0.7	-3.2	n.m.	293.7%
Net claims and benefits incurred	-68.8	-75.0	-78.7	4.9%	14.3%

Annuities include net claims and benefits incurred from disability and survivorship insurance.

Net claims and benefits incurred were S/ 78.7 million in 3Q16, an increase of S/ 3.7 million QoQ and S/ 9.9 million YoY.

The QoQ growth was mainly due to a S/ 3.7 million increase in Retail Insurance.

The YoY growth was mostly explained by a S/ 9.3 million increase in Annuities, due to a higher number of pensioners.

OTHER EXPENSES

Other Expenses					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Salaries and employee benefits	-16.5	-14.8	-15.4	3.7%	-6.9%
Administrative expenses	-7.9	-8.3	-9.9	19.1%	25.8%
Depreciation and amortization	-1.1	-1.2	-1.1	-8.7%	-2.0%
Third-party commissions	-13.8	-17.8	-18.3	3.1%	33.2%
Expenses related to rental income	0.0	-0.9	-0.1	-88.0%	n.m.
Other	-36.6	-61.8	6.2	n.m.	n.m.
Other expenses	-75.8	-104.9	-38.7	-63.1%	-49.0%

Other expenses were S/ 38.7 million in 3Q16, a decrease of S/ 66.2 million QoQ and S/ 37.1 million YoY.

The quarterly and annual reductions in other expenses were mainly attributed to lower impairment losses on available-for-sale investments (other), which decreased by S/ 70.3 million QoQ and by S/ 44.3 million YoY in 3Q16.

Inteligo

SUMMARY

Inteligo's net profit in 3Q16 was S/ 48.4 million, a S/ 5.3 million or 9.8% decrease QoQ but a significant recovery YoY. The quarterly performance was attributed to a seasonal 15.8% decrease in interest and similar income, partially compensated by an 8.6% growth in other income and lower other expenses.

Assets under Management (AuMs) plus client deposits reached S/ 14,604.7 million in 3Q16, higher by S/ 811.0 million or 5.9% when compared to the previous quarter, and also higher by S/ 2,249.4 million or 18.2% when compared to 3Q15.

Inteligo's annualized ROAE for 3Q16 was 33.7%, lower than the 38.1% reported in 2Q16 but above the 12.6% registered in 3Q15.

Wealth Management Segment's P&L Statement					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interest and similar income	35.6	41.2	34.7	-15.8%	-2.6%
Interest and similar expenses	-12.8	-14.2	-14.9	4.9%	16.3%
Net interest and similar income	22.8	27.0	19.8	-26.7%	-13.3%
Provision for loan losses, net of recoveries	-1.9	0.0	0.0	n.m.	n.m.
Net interest and similar income after provision for loan losses	20.9	27.0	19.8	-26.7%	-5.5%
Fee income from financial services, net	37.3	31.2	31.0	-0.8%	-16.9%
Other income	-13.8	16.4	17.8	8.6%	n.m.
Other expenses	-27.5	-20.7	-20.2	-2.2%	-26.6%
Income before translation result and income tax	16.8	53.9	48.3	-10.4%	n.m.
Translation result	0.2	-0.3	-0.2	n.m.	n.m.
Income tax	-0.3	0.1	0.3	n.m.	n.m.
Profit for the period	16.7	53.7	48.4	-9.8%	n.m.
ROAE	12.6%	38.1%	33.7%		
Efficiency ratio	46.2%	27.7%	29.5%		

ASSETS UNDER MANAGEMENT & DEPOSITS

AuMs reached S/ 11,465.2 million in 3Q16, a S/ 586.1 million or 5.4% increase QoQ and a S/ 1,408.6 million or 14.0% growth YoY.

Client deposits reached S/ 3,139.5 million in 3Q16, a S/ 224.9 million or 7.7% increase QoQ and an S/ 840.8 million or 36.6% growth YoY.

NET INTEREST AND SIMILAR INCOME

Inteligo's net interest and similar income in 3Q16 was S/ 19.8 million, a S/ 7.2 million or 26.7% reduction when compared with 2Q16. Net interest and similar income decreased by S/ 3.0 million or 13.3% when compared to the same period in the previous year.

Interest and similar income decreased by S/ 6.5 million or 15.8% QoQ and by S/ 0.9 million or 2.6% YoY in 3Q16 mainly due to lower income on investments available for sale.

Interest and similar expenses grew by S/ 0.7 million or 4.9% QoQ and by S/ 2.1 million or 16.3% when compared with 3Q15 as a result of higher interest on deposits and obligations.

Net interest and similar income					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Interest and similar income					
Due from banks and inter-bank funds	0.1	0.1	0.3	n.m.	n.m.
Investments available for sale	14.4	19.6	13.6	-31.0%	-6.0%
Loans	21.1	21.4	20.8	-2.9%	-1.4%
Total interest and similar income	35.6	41.2	34.7	-15.8%	-2.6%
Interest and similar expenses					
Deposits and obligations	-12.7	-14.1	-14.7	4.9%	16.2%
Due to banks and correspondents	-0.1	-0.1	-0.2	4.8%	18.7%
Total interest and similar expenses	-12.8	-14.2	-14.9	4.9%	16.3%
Net interest and similar income	22.8	27.0	19.8	-26.7%	-13.3%

FEE INCOME FROM FINANCIAL SERVICES

Fee income from financial services, net					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Income					
Brokerage and custody services	2.9	6.8	3.1	-54.6%	4.3%
Funds management	35.9	23.9	28.3	18.4%	-21.2%
Total income	38.9	30.7	31.4	2.3%	-19.3%
Expenses					
Brokerage and custody services	-0.8	-0.9	-0.4	-55.2%	-51.8%
Others	-0.8	1.4	0.0	n.m.	n.m.
Total expenses	-1.6	0.6	-0.4	n.m.	-74.4%
Fee income from financial services, net	37.3	31.2	31.0	-0.8%	-16.9%

Fee income from financial services was S/ 31.4 million in 3Q16, an increase of S/ 0.7 million or 2.3% QoQ due to higher income on funds management.

Expenses related to fee income from financial services reached S/ 0.4 million in 3Q16, attributable to brokerage and custody services expenses.

As a result of the above, net fee income from financial services was S/ 31.0 million, a S/ 0.2 million or 0.8% decrease when compared to the previous quarter.

When compared with 3Q15, net fee income from financial services decreased by S/ 6.3 million or 16.9% YoY in 3Q16. The result was mainly attributable to a S/ 7.6 million decrease in funds management income, partially offset by a S/ 1.2 million decrease in fee income expenses.

OTHER INCOME

Other income					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Net gain on sale of securities	-6.2	15.3	14.5	-5.1%	n.m.
Net trading gain (loss)	-7.7	1.7	3.4	n.m.	n.m.
Other	0.0	-0.7	-0.2	n.m.	n.m.
Total other income	-13.8	16.4	17.8	8.6%	n.m.

Inteligo's other income reached S/ 17.8 million in 3Q16, a S/ 1.4 million or 8.6% increase QoQ, mainly due to a S/ 1.7 million higher net trading gain, partially offset by a S/ 0.8 million lower net gain on sale of securities.

Other income reverted positively when compared to 3Q15. The result was attributable to recoveries in net gain on sale of securities and in net trading gain.

OTHER EXPENSES

Other expenses					
S/ million	3Q15	2Q16	3Q16	%chg QoQ	%chg YoY
Salaries and employee benefits	-12.1	-12.0	-11.5	-4.5%	-4.9%
Administrative expenses	-7.6	-6.9	-6.9	0.0%	-9.9%
Depreciation and amortization	-1.6	-1.8	-1.8	0.0%	12.2%
Impairment loss on available for sale investments	-6.1	0.0	0.0	n.m.	n.m.
Other	0.0	0.0	0.0	n.m.	n.m.
Total other expenses	-27.5	-20.7	-20.2	-2.2%	-26.6%
Efficiency ratio	46.2%	27.7%	29.5%		

Other expenses decreased 2.2% when compared to 2Q16 as a result of a S/ 0.5 million reduction in salaries and employee benefits.

Inteligo's other expenses decreased by S/ 7.3 million or 26.6% YoY mainly explained by a S/ 6.1 million impairment loss on available-for-sale investments reported in 3Q15. Excluding such charge, total other expenses in 3Q16 were lower by S/ 1.2 million or 5.6% YoY.