



Intergroup Financial Services Corp. Reports Fourth Quarter 2010 Earnings

Lima, Peru, February 1, 2011. Intergroup Financial Services Corp. (Bolsa de Valores de Lima: IFS) announced today its unaudited results for the fourth quarter 2010. These results are reported on a consolidated basis in accordance with Peruvian GAAP in nominal Peruvian Nuevos Soles.

Yearly and quarterly Highlights:

Intergroup:

- Intergroup's net earnings were S/. 498.4 million in 2010, a 1.6% decrease compared to 2009. Operating trends were strong in 2010 driven by record-high earnings in both subsidiaries, but were offset by increases in depreciation and tax expenses
- When excluding non-recurring items, net earnings increased 23.1% in 2010
- The efficiency ratio improved from 42.6% in 2009 to 39.8% in 2010
- Intergroup's recurring net earnings decreased 13.6% QoQ and 5.2% YoY as a result of increases in cost of funds, provisions and administrative expenses

Interbank:

- Interbank's net earnings rose 15.9% in 2010 and reached a record S/. 497.5 million, driven by loan growth and a lower average cost of funds
- Loan growth was strong during most of 2010. Interbank's loan portfolio grew 21.5% in 2010, above the industry's 18.8% expansion rate
- Net earnings were S/. 138.3 million in 4Q10, a 6.2% YoY increase and a 2.3% QoQ decrease
- The main driver for the QoQ decrease was a 20bps decline in NIM, due mainly to a higher cost of funds
- Asset quality improved in 4Q10, as the past-due loan ratio declined from 1.6% to 1.5% QoQ

Interseguro:

- Interseguro's net earnings reached a record S/. 85.4 million in 2010, driven by strong investment income and record annuity sales
- Net earnings decreased 32.0% QoQ as a result of a decline in investment income

Intergroup

2010 Performance

Intergroup's net earnings were S/. 498.4 million in 2010, a 1.6% decrease compared to 2009. Net operating margin 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 by increases of more than 30% in depreciation and tax expenses. Excluding non recurring items Intergroup's recurring ROE was 27.2% in 2010, above the 26.6% reported in 2009.

Intergroup's Profit and Loss Statement Summary					
S/. million	2008	2009	2010	%chg 10/09	%chg 09/08
Financial income	1,520.1	2,004.7	2,152.1	7.4%	41.6%
Financial expenses	-461.0	-449.5	-447.7	-0.4%	-2.9%
Gross financial margin	1,059.0	1,555.2	1,704.4	9.6%	60.9%
Provisions	-232.4	-363.3	-391.4	7.7%	68.5%
Net financial margin	826.7	1,191.9	1,313.0	10.2%	58.8%
Fee income from financial services, net	306.3	398.2	443.2	11.3%	44.7%
Result from insurance underwriting, net	-59.0	-35.6	-47.5	33.4%	-19.5%
Administrative expenses	-735.1	-858.3	-944.8	10.1%	28.5%
Net operating margin	338.8	696.1	763.8	9.7%	125.4%
Depreciation and amortization	-58.7	-74.1	-98.4	32.8%	67.7%
Other income (expenses)	80.0	60.9	66.6	9.3%	-16.8%
Income before tax and profit sharing	360.1	682.9	732.0	7.2%	103.3%
Income tax and profit sharing	-108.8	-172.8	-230.4	33.3%	111.8%
Net income	251.3	510.1	501.5	-1.7%	99.6%
Attributable to IFS shareholders	249.4	506.5	498.4	-1.6%	99.8%
EPS	2.69	5.39	4.23		
ROE	18.1%	32.1%	26.2%		

Intergroup's Recurring Profit and Loss Statement Summary			
S/. million	2009	2010	%chg 10/09
Reported net earnings	506.5	498.4	-1.6%
Non-recurring items:			
Investment gains	-86.2	-9.9	-88.6%
Provision expenses	0.0	16.2	n.m.
Extraordinary expenses	0.0	12.6	n.m.
Total non-recurring items	-86.2	19.0	n.m.
Recurring net earnings	420.3	517.3	23.1%
Recurring ROE	26.6%	27.2%	

4Q10 Performance

Net earnings (attributable to Intergroup's shareholders) were S/. 102.4 million in 4Q10, a 23.5% decrease QoQ and 36.0% decrease YoY. When excluding non-recurring items, which were particularly high in 4Q09, net earnings decreased 13.6% QoQ and

5.2% YoY. Intergroup's recurring ROE was 23.8% in 4Q10, below the 30.3% in 3Q10 and 29.2% in 4Q09.

Intergroup's Profit and Loss Statement Summary					
S/. million	4Q09	3Q10	4Q10	%chg QoQ	%chg YoY
Financial income	504.9	580.9	553.0	-4.8%	9.5%
Financial expenses	-90.0	-131.9	-132.0	0.1%	46.7%
Gross financial margin	414.9	449.0	421.0	-6.2%	1.5%
Provisions	-89.4	-104.3	-111.7	7.1%	24.8%
Net financial margin	325.5	344.8	309.3	-10.3%	-5.0%
Fee income from financial services, net	111.7	112.4	130.0	15.7%	16.4%
Result from insurance underwriting, net	-8.6	-19.4	-12.7	-34.2%	47.9%
Administrative expenses	-232.9	-236.4	-254.6	7.7%	9.3%
Net operating margin	195.6	201.3	172.0	-14.6%	-12.0%
Depreciation and amortization	-20.7	-20.1	-28.4	41.0%	37.2%
Other income (expenses)	43.8	17.5	17.9	2.3%	-59.3%
Income before tax and profit sharing	218.7	198.7	161.5	-18.7%	-26.2%
Income tax and profit sharing	-57.4	-64.2	-58.1	-9.4%	1.3%
Net income	161.3	134.5	103.4	-23.2%	-35.9%
Attributable to IFS shareholders	159.9	133.8	102.4	-23.5%	-36.0%
EPS	1.71	1.43	1.09		
ROE	36.8%	29.1%	20.3%		

Intergroup's Recurring Profit and Loss Statement Summary					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Reported net earnings	159.9	133.8	102.4	-23.5%	-36.0%
Non-recurring items:					
Investment gains	-33.0	-5.5	0.0	n.m.	n.m.
Provision expenses	0.0	10.9	5.3	n.m.	n.m.
Expenses	0.0	0.0	12.6	n.m.	n.m.
Total non-recurring items	-33.0	5.5	17.9	226.7%	-154.2%
Recurring net earnings	126.9	139.3	120.3	-13.6%	-5.2%
Recurring ROE	29.2%	30.3%	23.8%		

Intergroup's Balance Sheet Summary					
S/. million	4Q09	3Q10	4Q10	%chg QoQ	%chg YoY
Cash and due from banks	3,263.8	2,993.9	4,603.1	53.7%	41.0%
Investments, net	4,222.6	5,046.3	4,299.5	-14.8%	1.8%
Loan portfolio, net	9,610.2	11,007.2	11,767.4	6.9%	22.4%
Fixed assets, net	534.6	487.1	484.5	-0.5%	-9.4%
Other assets	618.9	873.9	818.0	-6.4%	32.2%
Total Assets	18,250.1	20,408.5	21,972.4	7.7%	20.4%
Deposits and obligations	11,418.2	11,448.5	11,875.2	3.7%	4.0%
Due to banks	1,461.8	2,689.6	2,360.2	-12.2%	61.5%
Bonds and obligations	1,471.8	1,999.8	3,114.6	55.7%	111.6%
Technical reserves for premiums and claims	1,524.3	1,725.1	1,869.6	8.4%	22.7%
Other liabilities	551.4	583.1	649.1	11.3%	17.7%
Total Liabilities	16,427.5	18,446.1	19,868.6	7.7%	20.9%
Intergroup shareholders' equity	1,809.4	1,948.3	2,091.9	7.4%	15.6%
Minority interest	13.3	14.0	11.8	-15.7%	-11.0%
Total shareholders' equity	1,822.6	1,962.3	2,103.8	7.2%	15.4%

Quarter-on-quarter performance

Net earnings decreased 23.5% QoQ mainly as a result of a 10.3% decline in net financial margin. When one time non-recurring items are excluded recurring net earnings decreased 13.6% QoQ.

During 4Q10, interest on loans grew 4.2% QoQ 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 margin.

Fee income grew 15.7%, driven by strong business activity in Interbank's retail and commercial segments. Interseguro's loss from insurance underwriting decreased S/. 6.6 million due to lower reserves.

Administrative expenses grew 7.7% as a result of strong business activity in Interbank and Interseguro.

Year-on year performance

Net earnings decreased 36.0% YoY when compared to a 4Q09 in which significant one-time investment gains were recorded. When excluding non-recurring items, net earnings decreased 5.2% YoY.

Interest on loans increased 20.1%, 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 4Q09 Interseguro reported a S/.25 million one-time valuation gain due to a change in accounting regulations. The second was a 46.7% increase in financial expenses, due to volume growth, higher rates on term deposits, and interest paid on two bond issues totaling US\$600 million completed by Interbank during 2010.

Provision expenses increased 24.8%, in line with loan growth. Interseguro's loss from insurance underwriting rose 47.9%, due to an increase in accounting reserves linked to strong annuity sales.

Net operating margin declined 12.0% as a result of a 5.0% decrease in net financial margin, the insurance loss mentioned above, and a 9.3% increase in administrative expenses. Net earnings fell at a higher rate than operating margin, due to a 32.6% increase in depreciation expense, a S/.26.0 million decrease in other income, and an increase in the effective tax rate, from 26% in 4Q09 to an 36% in 4Q10.

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	4Q09	3Q10	4Q10	%chg QoQ	%chg YoY
Interbank	129.2	140.5	137.3	-2.3%	6.2%
Interseguro	31.8	28.3	19.2	-32.0%	-39.5%
Intergroup accounts:					
Return on investment portfolio	2.3	7.3	2.7	-62.9%	n.m.
Exchange loss, net	0.9	-0.3	0.2	-163.6%	-75.4%
Taxes on dividends	-4.6	-2.2	-2.2	0.0%	-51.9%
Other expenses and other income	-1.1	-1.6	-20.3	n.m.	n.m.
Consolidation adjustments	1.4	-38.2	-34.6	-9.5%	n.m.
Total	159.9	133.8	102.4	-23.5%	-36.0%

Interbank

2010 Performance

Interbank's net earnings were S/. 497.5 million in 2010, a 15.9% increase compared to 2009. ROE was 33.8% in 2010, below the 37.5% reported in 2009. The main factors contributing to net earnings growth were increases of 12.6% in gross financial margin and 15.2% in fee income, partially offset by an 8.0% increase in administrative expenses and a 7.7% increase in provisions. The increase in gross financial margin was due to loan volume growth and a decline in the cost of deposits.

Profit and Loss Statement Summary					
S/. million	2008	2009	2010	% chg 10/09	% chg 09/08
Financial income	1,398.9	1,818.6	1,975.2	8.6%	41.2%
Financial expenses	-421.2	-425.2	-405.9	-4.5%	-3.6%
Gross financial margin	977.7	1,393.4	1,569.3	12.6%	60.5%
Provisions	-232.4	-363.3	-391.4	7.7%	68.5%
Net financial margin	745.3	1,030.1	1,177.9	14.4%	58.0%
Fee income from financial services, net	340.7	433.7	499.7	15.2%	46.7%
Administrative expenses	-713.9	-828.4	-895.0	8.0%	25.4%
Net operating margin	372.1	635.4	782.7	23.2%	110.4%
Depreciation and amortization	-56.4	-71.7	-95.8	33.5%	69.7%
Other income (expenses)	46.8	31.1	33.0	6.0%	-29.5%
Income before tax and profit sharing	362.4	594.8	719.9	21.0%	98.6%
Income tax and profit sharing	-92.1	-165.4	-222.3	34.4%	141.4%
Net income	270.4	429.4	497.5	15.9%	84.0%
ROE	31.2%	37.5%	33.8%		

When excluding non-recurring items, Interbank's recurring net earnings increased 20.9% in 2010.

Summary of Non Recurring Items			
S/. million	2009	2010	% chg 10/09
Net Income	429.4	497.5	15.9%
Non Recurring Items:			
Investment Income	61.6	69.3	12.6%
Provision Expense	0.0	-16.3	n.r.
Total Non Recurring Items	61.6	53.0	-13.9%
Recurring Net Income	367.8	444.5	20.9%
Recurring ROE	32.1%	30.2%	

Financial income rose 8.6% due to a 7.1% increase in interest and commissions on loans and an 8.7% increase in investment income. The increase in interest on loans was due to a 13.7% increase in average loan volume, partially offset by a 90 basis points decline in yield, from 15.9% in 2009, to 15.0% in 2010. Loan volume growth was due to increases of 14.2% in retail loans and a 13.2% in commercial loans. The decrease in the yield was due to competitive pressure in the commercial segment.

Financial expenses decreased 4.5% as a result of a 43.7% decline in interest on deposits, partially offset by a 169.1% increase in interest on bonds and a 27.8% increase in interest on due to banks. Interest on deposits declined, despite an 8.0% increase in average volume, due to a decrease of 120 basis points in average cost, from 2.5% in 2009 to 1.3% in 2010. This decrease was due to a low reference rate kept by the Central Bank during the first half of the year, as a result of an expansionary monetary policy.

The increase in interest on bonds was attributable to growth of 163.7% in the average volume, as a result two bond issues totaling US\$600 million placed in 2010. The increase in interest on bank financing was due to a 21.2% increase in average volume and a 40 basis points increase in average cost, from 5.5% in 2009 to 5.9% in 2010. Volume growth was related to an increase in trade finance activities. As a result of the lower cost of deposits, Interbank's average cost of funding decreased 50 basis points, from 3.1% in 2009 to 2.6% in 2010.

Provisions increased 7.7%, mainly as a result of loan growth and new regulations on loan classification and pro-cyclical provisions, which imposed higher provisioning requirements. Nonetheless, Interbank's provision expense to average loan ratio was 3.5% in 2010, compared to 3.7% in 2009.

Administrative expenses increased 8.0% during 2010, a much lower growth rate than in the previous years, due to a more moderate expansion in Interbank's distribution network. As a result, the efficiency ratio improved from 49.3% in 2009 to 47.9% in 2010.

4Q10 Performance

Interbank's net earnings decreased 2.3% QoQ, due to a decline in net financial margin and an increase in administrative expenses. Recurring net interest margin contracted 20 basis points QoQ as a result of a higher cost of funds, lower yields in the commercial loan portfolio and lower investment returns.

Net income grew 6.2% YoY, driven by increases of 10.9% in net financial margin and 19.8% in fee income.

Annualized ROE was 34.4% in 4Q10, below the 38.5% reported in 3Q10 and the 38.6% reported in 4Q09.

Profit and Loss Statement Summary					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Financial income	440.8	533.8	529.4	-0.8%	20.1%
Financial expenses	-86.2	-108.1	-123.1	13.9%	42.8%
Gross financial margin	354.6	425.7	406.2	-4.6%	14.6%
Provisions	-89.4	-104.3	-111.6	7.1%	24.8%
Net financial margin	265.1	321.4	294.6	-8.3%	11.1%
Fee income from financial services, net	121.6	123.9	145.7	17.5%	19.8%
Administrative expenses	-226.7	-222.3	-236.4	6.4%	4.3%
Net operating margin	160.0	223.1	203.8	-8.6%	27.4%
Depreciation and amortization	-20.9	-22.9	-27.7	21.1%	32.6%
Other income (expenses)	46.4	2.8	17.5	519.9%	n.m.
Income before tax and profit sharing	185.5	203.0	193.7	-4.6%	4.4%
Expenses tax and profit sharing	-55.4	-61.5	-55.4	-9.9%	0.0%
Net income	130.2	141.5	138.3	-2.3%	6.2%
ROE	38.6%	38.5%	34.4%		

Summary of Non Recurring Items					
S/. million	4Q09	3Q10	4Q10	% chg QoQ	% chg YoY
Net Income	130.2	141.5	138.3	-2.3%	6.2%
Non Recurring Items:					
Investment Income	8.0	35.9	28.9	-19.5%	n.m.
Provision Expense	0.0	-11.0	-5.3	-52.0%	n.m.
Total Non Recurring Items	8.0	24.9	23.6	-5.1%	197.0%
Recurring Net Income	122.2	116.6	114.6	-1.7%	-6.2%
Recurring ROE	36.2%	31.7%	28.5%		

INTEREST EARNING ASSETS

Interbank's interest earnings assets reached S/. 18,319.3 million in 4Q10, an 8.6% increase QoQ and a 20.5% increase YoY.

QoQ growth was due to a 6.9% increase in loans and a 12.0% increase in cash and investments. The increase in cash and investments is due mainly to the proceeds of a US\$400 million corporate bond issue placed in October.

YoY growth was attributable to increases of 22.4% in loans and a 17.5% in cash and investments.

Interest Earning Assets					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Cash and due from banks	3,226.6	2,961.4	4,608.3	55.6%	42.8%
Investments, net	2,277.7	2,811.6	1,860.3	-33.8%	-18.3%
Loan portfolio, net	9,610.2	11,007.2	11,767.4	6.9%	22.4%
Other interest earning assets	82.3	82.7	83.3	0.8%	1.2%
Total interest earnings assets	15,196.9	16,862.9	18,319.3	8.6%	20.5%

Loan Portfolio					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Performing loans:					
Retail	4,876.9	5,513.7	5,828.0	5.7%	19.5%
Commercial	5,073.0	5,821.5	6,257.4	7.5%	23.3%
Total performing loans	9,949.9	11,335.1	12,085.4	6.6%	21.5%
Restructured and refinanced loans	95.4	95.9	93.1	-2.9%	-2.5%
Past due loans	151.5	182.2	187.9	3.2%	24.0%
Gross loans	10,196.8	11,613.2	12,366.4	6.5%	21.3%
Add (less)					
Accrued and deferred interest	-182.6	-124.9	-93.3	-25.3%	-48.9%
Allowance for loan losses	-404.0	-481.2	-505.8	5.1%	25.2%
Total direct loans, net	9,610.2	11,007.2	11,767.4	6.9%	22.4%

Performing loans increased 6.6% QoQ, driven by commercial and retail loans, both of which continued a strong growth trend observed since 2Q10.

Retail loans increased 5.7% QoQ due mainly to a 9.8% increase in mortgages and a 6.7% increase in credit card financing. Interbank's mortgage portfolio continues to grow, driven by strong demand in the construction industry and successful commercial efforts at Interbank. As a result of these efforts, the total mortgage loan portfolio has expanded 34.7% YoY. Credit card financing expanded at the highest quarterly growth rate of the past two years, due to growing consumer demand in Peru.

Commercial loans grew 7.5% QoQ and 23.3% YoY, in a context of high investment activity in Peru's private sector.

As a consequence of the significant growth rates of the last two quarters, performing loans grew 21.5% YoY.

Breakdown of Performing Retail Loans					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Consumer loans:					
Credit cards	1,458.9	1,631.5	1,740.1	6.7%	19.3%
Other consumer	2,087.2	2,250.1	2,296.0	2.0%	10.0%
Total consumer loans	3,546.2	3,881.6	4,036.1	4.0%	13.8%
Mortgages	1,330.8	1,632.0	1,791.9	9.8%	34.7%
Total retail loans	4,876.9	5,513.7	5,828.0	5.7%	19.5%

FUNDING STRUCTURE

Funding Structure					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Deposits and obligations	11,598.4	11,627.5	12,057.0	3.7%	4.0%
Due to banks	1,959.9	3,217.9	2,941.4	-8.6%	50.1%
Bonds and obligations	506.3	1,072.2	2,182.1	103.5%	331.0%
Interbank funds	240.0	58.6	3.0	-94.9%	-98.7%
Total	14,304.5	15,976.2	17,183.5	7.6%	20.1%
AUM (Interfondos)	2,344.0	2,446.4	2,598.0	4.4%	-5.8%

Interbank funded its quarterly growth with increases of S/. 1,109.9 million in bonds and S/. 429.6 million in deposits, partially offset by a S/. 276.5 million decrease in due to banks. The increase in bonds was due to the US\$400 million corporate bond issue mentioned above. This bond issue replaced short-term obligations and led the bank to fully match the maturities of its dollar-denominated assets and liabilities.

Deposits grew 3.7% QoQ, due to increases of 6.6% in retail deposits and 1.6% in commercial deposits.

Breakdown of Deposits					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
By Customer Segment					
Retail	4,669.8	4,821.5	5,140.5	6.6%	10.1%
Commercial	6,884.5	6,736.8	6,845.4	1.6%	-0.6%
Other obligations	44.1	69.1	71.1	2.8%	61.2%
Total	11,598.4	11,627.5	12,057.0	3.7%	4.0%
By Type:					
Demand	2,607.4	2,639.5	2,669.9	1.2%	2.4%
Savings	3,065.5	3,344.9	3,680.9	10.0%	20.1%
Time	5,714.2	5,377.5	5,465.2	1.6%	-4.4%
Other	211.2	265.5	241.0	-9.2%	14.1%
Total	11,598.4	11,627.5	12,057.0	3.7%	4.0%

GROSS FINANCIAL MARGIN

Financial Margin					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Financial income	440.8	533.8	529.4	-0.8%	20.1%
Financial expenses	-86.2	-108.1	-123.1	13.9%	42.8%
Gross financial margin	354.6	425.7	406.2	-4.6%	14.6%

Despite continuing growth in interest on loans, gross financial margin decreased 4.6% QoQ. This decline was due to lower investment gains and higher financial expenses related to the US\$400 million corporate bond issue.

Gross financial margin increased 14.6% YoY as a consequence of a 9.9% increase in interest on loans and a 105.2% increase in investment income, partially offset by a 42.8% increase in financial expenses.

Financial Income					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Interest and commissions on loans	378.9	399.5	416.4	4.2%	9.9%
Investment income	30.5	86.4	62.6	-27.5%	105.2%
Interest on due from banks and interbank funds	0.9	1.7	11.1	557.4%	1195.5%
Financial income before exchange gains	410.2	487.5	490.1	0.5%	19.5%
Exchange and derivatives gains	31.1	44.1	37.0	-16.2%	18.7%
Others	-0.6	2.2	2.3	5.5%	n.m.
Total Financial Income	440.8	533.8	529.4	-0.8%	20.1%
Average interest earning assets	14,761	16,818	17,822	6.0%	20.7%
Average yield on assets*	11.1%	11.6%	11.0%	-0.6%	-0.1%

*Annualized. Excludes exchange and derivatives gains

Interest on loans grew 4.2% QoQ due to a 6.7% increase in average loan volume, partially offset by a 40 basis point decrease in the average yield, from 15.0% in 3Q10 to 14.6% in 4Q10. The yield in the commercial loan portfolio continued a downward trend observed throughout the year, while the retail portfolio's yield remained stable.

Investment income declined 27.5% QoQ, due mainly to non-recurring items reported in 3Q10. Additionally, a portion of the Central Bank certificates of deposit held in Interbank's investment portfolio matured and were replaced by overnight deposits, leading to a 27.0% decline in the portfolio's average volume. Interest on cash increased significantly as a result of the replacement of certificate of deposits with overnight deposits.

The average yield on assets was 11.0% in 4Q10, a 60 basis points decline from 3Q10.

Interest on loans grew 9.9% YoY due to an increase of 21.8% in the average loan volume, partially offset by a 160 basis point decrease in the average yield, from 16.2% in 4Q09 to 14.6% in 4Q10. The growth in the average loan volume is explained by increases of 18.5% in retail loans and 24.5% in commercial loans. The decrease in the yield YoY was driven by lower yields in the commercial and retail portfolios. The decline in the commercial loan portfolio was the result of increased competition. The decline in the retail portfolio's average yield was attributable to an increase in the proportion of mortgages and lower-than-average yielding premium credit cards within the retail loan portfolio.

Financial Expenses					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Interest and commissions on deposits	44.1	42.5	42.7	0.6%	-3.1%
Interest and fees on deposits and due to banks	33.1	38.2	42.0	9.9%	26.9%
Interest on securities, bonds and other obligations	7.7	19.8	36.4	84.2%	372.5%
Other financial expenses	1.3	7.7	2.0	-73.9%	n.m.
Financial Expenses	86.2	108.1	123.1	13.9%	42.8%
Average interest bearing liabilities	13,974	15,975	17,608	10.2%	26.0%
Average cost of funding	2.4%	2.5%	2.8%	0.3%	0.4%

Financial expenses grew 13.9% QoQ, due to increases of 84.2% in interest on bonds and 9.9% in interest on due to banks. Interest on deposits remained stable QoQ.

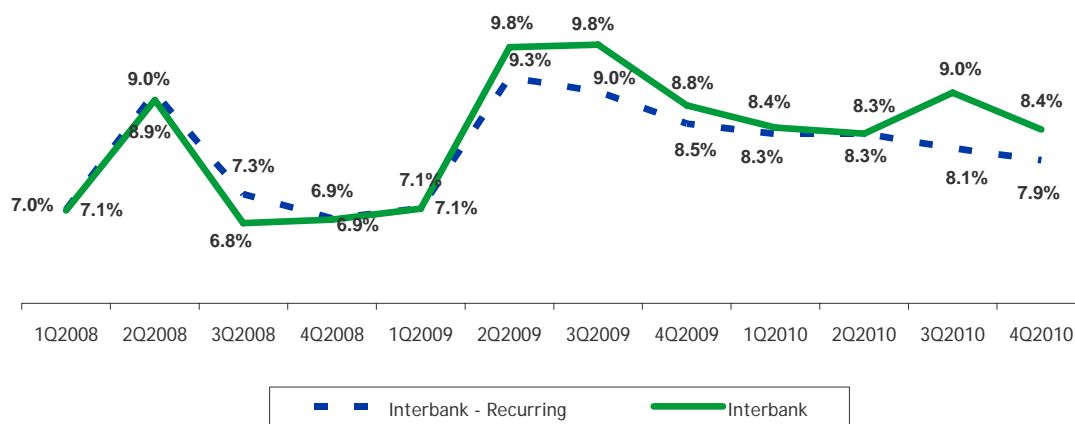
The increase in interest on bonds was due to 156.2% QoQ growth in the average volume, due to the US\$400 million corporate bond issue previously mentioned.

The increase in interest on due to banks is attributable to a 14.6% QoQ increase in average volume, partially offset by a 20 basis points decrease in the average cost.

Financial expenses grew 42.8% YoY due to increases of 372.5% in interest on bonds and 26.9% in interest on due to banks.

The bank's average cost of funding increased 30 basis points QoQ and 40 basis points YoY.

Net interest margin *



*Excludes exchange and derivative gains

Net interest margin decreased 60 basis points QoQ, from 9.0% in 3Q10 to 8.4% in 4Q10 as a result of a lower yield in the commercial loan portfolio, a higher cost of funds, and lower income from non-recurring investments. Excluding non-recurring factors, the net interest margin would have been 7.9% in 4Q10, a 20 basis point decline QoQ and 60 basis point decline YoY.

PROVISIONS

Provision expenses increased 7.1% QoQ as a result of the activation in October of pro-cyclical provisioning requirements. This regulation had a non-recurring impact of S/. 7.8 million on provision expenses.

Provision expenses increased 24.8% YoY, mainly due to the growth in the average loan volume and the previously mentioned regulation.

The annualized loan provision to average loans ratio remained stable at 3.7% QoQ, and increased slightly YoY, from 3.6% in 4Q09.

Composition of Provision Expense					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Provisions recognized as expense	-87.4	-117.5	-121.5	3.4%	39.0%
Provisions reversal	-2.0	13.2	9.9	-25.3%	-590.3%
Total provision expense	-89.4	-104.3	-111.6	7.1%	24.8%
Loan provision / average loans	3.6%	3.7%	3.7%		

Provision for Loan Losses					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Balance at the beginning of the quarter	-435.2	-477.0	-514.5	7.9%	18.2%
Provision recognized as expense for the period	-91.4	-117.5	-121.5	3.4%	32.9%
Write-offs, extinguishment of debt and sales	80.8	64.8	93.6	44.3%	15.7%
Provisions reversal	2.0	13.2	-7.4	-156.0%	-467.7%
Exchange gains	10.5	1.9	-1.0	-152.9%	-109.6%
Balance at the end of the quarter	-433.3	-514.5	-550.9	7.1%	27.1%
Past due loans / Total loans	1.5%	1.6%	1.5%		
Reserve coverage	266.6%	264.1%	269.1%		

The ratio of past due loans to total loans decreased from 1.6% in 3Q10 to 1.5% in 4Q10. The reserve coverage ratio increased from 264.1% in 3Q10 to 269.1% in 4Q10.

FEE INCOME FROM FINANCIAL SERVICES

Fee income from financial services grew 17.5% QoQ and 19.8% YoY. The QoQ increase is attributable to increases of S/. 8.1 million in real estate fees, S/. 7.4 million in commercial advisory fees, S/. 5.6 million in fees for collection and payment services and S/. 1.4 million in fees from credit and debit cards.

The YoY growth is explained by an increase of S/. 9.7 million in fees from services, S/. 3.9 million in real estate fees and S/. 7.3 million in fees from credit and debit cards.

Fee Income from Financial Services, Net					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Credit and debit card	41.1	46.9	48.4	3.1%	17.8%
Fees from services	45.0	49.1	54.6	11.3%	21.5%
Contingent operations	9.5	11.5	10.4	-9.8%	8.6%
Fees for collections and payment services	4.6	5.6	5.6	-0.1%	20.8%
Other fees	33.5	25.1	41.8	66.7%	24.8%
Total	133.7	138.2	160.8	16.4%	20.2%
Expenses relating to financial services	-12.2	-14.3	-15.1	6.1%	24.5%
Fee income from financial services, net	121.6	123.9	145.7	17.5%	19.8%

ADMINISTRATIVE EXPENSES

Administrative expenses grew 6.4% QoQ, as a result of a 13.3% million increase in services received from third parties, partially offset by a 2.0% decrease in personnel expenses.

The increase in services received from third parties is attributable to higher expenses in the development and execution of technology projects, consulting services and marketing campaigns.

The decline in personnel expenses was due to seasonally lower provisions for vacations.

Administrative expenses grew 4.3% YoY due to increases of 6.0% in personnel expenses and 2.9% in services received from third parties.

The bank's efficiency ratio increased from 44.6% in 3Q10 to 47.9% in 4Q10. However, it was significantly lower than the 52.0% reported in 4Q09.

Administrative Expenses					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Personnel and board of directors expenses	-90.9	-98.3	-96.4	-2.0%	6.0%
Services received from third parties	-129.1	-117.3	-132.9	13.3%	2.9%
Taxes and contributions	-6.7	-6.6	-7.2	8.2%	7.7%
Total	-226.7	-222.3	-236.4	6.4%	4.3%
Efficiency ratio	52.0%	44.6%	47.9%		

OTHERS

Other Incomes (Expenses)					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Depreciation	-15.1	-17.3	-17.3	0.0%	14.1%
Amortization	-5.7	-5.6	-10.4	86.4%	81.6%
Total depreciation and amortization	-20.9	-22.9	-27.7	21.1%	32.6%
Income (expenses) for recoveries	18.7	14.9	19.2	29.0%	2.9%
Extraordinary income (expenses)	-2.2	0.3	-5.0	n.m.	124.1%
Provisions for contingencies and other provisions	29.1	-12.4	3.2	n.m.	-88.9%
Income (expenses) of prior years	0.8	0.0	0.0	n.m.	n.m.
Other Income (Expenses)	46.4	2.8	17.5	519.9%	n.m.
Total	25.5	-20.0	-10.2	n.m.	-139.9%

Depreciation and amortization increased 21.1% QoQ and 32.6% YoY. The QoQ increase was due to a non-recurring software-related adjustment. The YoY increase was due to significant investments carried out during the past twelve months on technology projects and the expansion of Interbank's distribution network.

Other income increased S/. 14.7 million QoQ, as a result of a decrease in provisions for contingencies and an increase in income from recoveries.

Other income decreased S/. 28.9 million YoY from an unusually high level in 4Q09, mainly as a result of a provision reversal recorded during that quarter.

CAPITALIZATION

The ratio of regulatory capital to risk-weighted assets was 14.4% in 4Q10, below the 15.4% reported in 3Q10 but above the 11.5% reported in 4Q09. This ratio is significantly above the 9.75% minimum required by Peruvian Banking regulations.

The QoQ change was a result of an 8.9% increase in the risk weighted assets, in line with growth in the loan portfolio.

The YoY increase was due to growth rates of 38.5% in Tier 1 capital and 96.5% in Tier 2 capital resulting from the capitalization of S/. 181.6 million in earnings and a US\$200 million Tier 1 bond issue completed in April 2010.

Capitalization					
S/. million	4Q 09	3Q 10	4Q 10	% chg QoQ	% chg YoY
Tier I	1,023.3	1,408.3	1,417.5	0.7%	38.5%
Tier II	350.8	661.8	689.4	4.2%	96.5%
Regulatory capital	1,374.1	2,070.2	2,106.9	1.8%	53.3%
Risk weighted assets	11,903.1	13,403.3	14,599.5	8.9%	22.7%
BIS ratio	11.5%	15.4%	14.4%	-6.6%	25.0%
Tier I / risk weighted assets	8.6%	10.5%	9.7%	-7.6%	12.9%

Interseguro

SUMMARY

2010 Performance

Interseguro's net earnings reached a record S/. 85.4 million in 2010, an 11.1% increase compared to 2009. ROE was 28.0% while ROA was 4.0% in 2010.

Profit and Loss Statement Summary			
S/. million	2009	2010	% chg YoY
Premiums	235.2	471.2	100.3%
Premiums ceded	-7.6	-8.0	5.1%
Fees	-8.9	-10.5	18.3%
Claims	-117.1	-120.1	2.6%
Change in reserves	-141.6	-385.8	172.5%
Diverse Income, net	-2.9	-3.0	0.4%
Technical margin	-42.8	-56.1	31.1%
Administrative expenses	-36.9	-53.4	44.9%
Investment income, net*	155.8	194.1	24.6%
Net income	76.1	84.5	11.1%
ROE	31.6%	28.0%	

The main drivers for earnings growth were a significant increase in premiums, triggered by a new law allowing early retirement and a 24.6% increase in investment income.

Total premiums doubled in 2010 due to a 154.2% increase in annuity sales. Besides annuities, sales in every other business line increased during the year.

Premiums by Business Line			
S/. million	2009	2010	% chg YoY
Individual Life	23.5	23.8	1.2%
Annuities	147.0	373.6	154.2%
Group Life	38.2	43.7	14.3%
Disability and survivor benefits	0.5	0.5	3.3%
Mandatory traffic accident	20.0	21.4	7.2%
Non Life Insurance	6.1	8.1	34.3%
TOTAL	235.2	471.2	100.3%

Investment income grew 24.6% in 2010, due to increases in realized gains in fixed income and equities, and higher income related to real estate. During the year, the investment portfolio grew 16.9%, due to higher annuity sales and value appreciation.

4Q10 Performance

Interseguro's net income was S/. 19.2 million in 4Q10, a 32.0% decrease QoQ, due to lower investment income and higher administrative expenses.

Net earnings decreased 39.5% YoY, due to an increase of S/. 5.2 million in technical margin loss and a S/. 2.3 million decrease in investment income. The increase in the technical margin loss was due to higher reserves linked to significantly expanding annuity sales. According to Peruvian accounting regulations, each time an annuity premium is sold, an accounting loss must be recognized in the profit and loss statement.

The decline in investment income was primarily attributable to a one-time accounting gain of S/. 25.1 million reported in 4Q09. Excluding this non-recurring factor, net income would have increased 186.5% YoY.

The annualized ROE was 21.4% in 4Q10, below the 36.5% of 3Q10 and the 45.8% reported in 4Q09.

Profit and Loss Statement Summary					
S/. million	4Q09	3Q10	4Q10	% chg QoQ	% chg YoY
Premiums	53.2	178.7	153.9	-13.9%	189.1%
Premiums ceded	-2.0	-2.2	-1.6	-28.2%	-20.0%
Fees	-2.2	-2.4	-3.4	41.0%	53.8%
Claims	-29.7	-30.1	-28.5	-5.1%	-4.0%
Change in reserves	-29.0	-164.3	-135.4	-17.6%	367.2%
Diverse Income, net	-0.7	-1.1	-0.6	-47.6%	-18.2%
Technical margin	-10.3	-21.3	-15.5	-27.2%	50.3%
Administrative expenses	-11.0	-13.8	-16.0	16.0%	45.7%
Investment income, net*	53.1	63.4	50.8	-19.9%	-4.4%
Net income	31.8	28.3	19.2	-32.0%	-39.5%
ROE	45.8%	36.5%	21.4%		

* Includes exchange difference

PREMIUMS

Premiums during the 4Q10 were S/. 153.9 million, almost tripling YoY, but decreasing 13.9% QoQ.

Premiums by Business Line					
S/. million	4Q09	3Q10	4Q10	% chg QoQ	% chg YoY
Individual Life	5.5	6.7	5.7	-15.0%	3.4%
Annuities	31.0	154.5	128.8	-16.6%	315.9%
Group Life	10.1	11.0	10.4	-6.0%	2.3%
Disability and survivor benefits	0.1	0.2	0.1	-43.4%	6.0%
Mandatory traffic accident	5.1	4.9	5.6	15.7%	10.4%
Non Life Insurance	1.4	1.4	3.3	133.2%	132.9%
TOTAL	53.2	178.7	153.9	-13.9%	189.1%

The QoQ decrease was attributable to lower sales in annuity premiums as a result of an 18% market contraction, due to seasonal factors.

Premiums tripled YoY as a result of higher sales across all of Interseguro's relevant business lines. The most significant contributor to growth was annuities, which increased S/. 97.8 million YoY. Premiums from the early retirement segment generated S/. 80.6 million in new annuity sales. In addition to annuities, non-life

insurance sales more than doubled QoQ and YoY. This increase was due to a new credit card protection insurance policy on cards issued by affiliate companies.

RESERVES, CLAIMS AND OPERATING EXPENSES

Change in reserves decreased 17.6% QoQ and more than quadrupled YoY, in line with annuity sales.

Change in Reserves by Business Line					
S/. million	4Q09	3Q10	4Q10	%chg QoQ	%chg YoY
Individual Life	2.2	2.7	2.3	-13.7%	6.6%
Annuities	26.4	161.8	133.1	-17.8%	405.0%
Group Life	0.5	-0.6	-0.1	-81.1%	n.m.
Mandatory traffic accident	-0.1	0.1	0.0	-103.1%	n.m.
Non Life Insurance	0.0	0.2	0.1	-51.2%	-1631.8%
TOTAL	29.0	164.3	135.4	-17.6%	367.2%

Claims decreased 5.1% QoQ and 4.0% YoY, due mainly to lower disability and survivor benefits claims as well as lower mandatory traffic accident claims.

Claims by Business Line					
S/. million	4Q09	3Q10	4Q10	%chg QoQ	%chg YoY
Individual Life	0.2	0.1	0.3	78.8%	61.5%
Annuities	20.3	22.6	23.0	1.9%	13.3%
Group Life	2.1	1.7	2.8	61.7%	34.9%
Disability and survivor benefits	4.6	3.1	0.4	-86.6%	-90.9%
Mandatory traffic accident	2.5	2.4	1.9	-19.7%	-23.6%
Non Life Insurance	0.1	0.1	0.1	62.8%	88.9%
TOTAL	29.7	30.1	28.5	-5.1%	-4.0%

As a result of the factors described above, the technical margin loss was S/ .15.5 million in 4Q10, S/ . 21.3 million in 3Q10 and S/ .10.3 million in 4Q09.

Administrative expenses grew 16.0% QoQ and 45.7% YoY due to an expansion in the sales force.

INVESTMENT INCOME

Investment income decreased 19.9% QoQ and 4.3% YoY.

Investment Income, Net					
S/. million	4Q09	3Q10	4Q10	%chg QoQ	%chg YoY
Income:					
Fixed Income	47.0	44.0	38.0	-13.6%	-19.1%
Interest	19.6	21.4	22.6	5.6%	15.3%
Realized Gains	27.4	22.6	15.4	-31.8%	-43.8%
Equity and Mutual Funds	0.8	10.3	9.8	-4.7%	1081.9%
Real estate	3.8	9.3	7.4	-20.4%	96.4%
Total Income	51.6	63.6	55.3	-13.2%	7.0%
Expenses	-1.3	-1.4	-1.4	-0.5%	8.1%
Exchange difference and others	2.7	1.2	-3.1	n.m.	n.m.
Net income	53.1	63.4	50.8	-19.9%	-4.3%

The QoQ decrease is mainly explained by a decline in realized gains on investments, from S/. 19.4 million in 3Q10 to S/. 5.7 million in 4Q10.

The YoY decline was entirely due to a S/. 25 million one-time gain reported in 4Q09, which was attributable to a change in the accounting treatment of credit-linked notes. Excluding this change, investment income would have increased 81.6% YoY. In addition, real estate income significantly increased YoY due to the opening of the Centro Civico shopping center in December 2009 and to an overall higher yield in Interseguro's investment in Interproperties.

Investment Portfolio					
S/. million	4Q09	3Q10	4Q10	%chg QoQ	%chg YoY
Fixed Income	1,248.6	1,471.1	1,482.7	0.8%	18.8%
Equity and Mutual Funds	154.3	196.0	238.7	21.8%	54.7%
Real estate	461.1	489.6	459.8	-6.1%	-0.3%
Others	5.5	4.3	4.7	10.0%	-15.3%
TOTAL	1,869.6	2,161.0	2,185.9	1.2%	16.9%

Interseguro's investment portfolio grew 1.2% QoQ and 16.9% YoY, due to higher annuity sales and the price appreciation of Interseguro's overall portfolio.