

Intercorp Financial Services Inc. Third Quarter 2017 Earnings

Lima, Peru, November 8, 2017. Intercorp Financial Services Inc. (Bolsa de Valores de Lima: IFS) announced today its unaudited results for the third quarter 2017. These results are reported on a consolidated basis under IFRS in nominal Peruvian soles.

Intercorp Financial Services:

- 3Q17 net profit was S/ 223.6 million, an increase of 4.0% QoQ and 7.2% YoY
- Bottom-line performance was supported by improved earnings generation at Interbank
- Excluding discount rate impact on technical reserves, IFS 3Q17 profits grew 9.6% QoQ but decreased 6.9% YoY
- ROAE excluding discount rate impact on technical reserves was 20.2%

Interbank:

- Performing loans grew 2.1% QoQ and 4.1% YoY, reaching an 11.4% market share in 3Q17; while deposits grew 1.1% YoY, with an 11.5% market share in 3Q17
- NIM was 5.7% in 3Q17
- Cost of risk was 3.0% in 3Q17, a 20 bps improvement QoQ; while the PDL ratio remained stable at 2.8%, below the system's average
- 3Q17 net profit was S/ 227.9 million, an increase of 9.0% QoQ and 2.9% YoY
- 3Q17 annualized ROAE was 20.0%, while the efficiency ratio stood at 41.0%

Interseguro:

- Net premiums in 3Q17 increased 15.1% QoQ and 23.5% YoY, representing the second consecutive quarterly growth after the launching of Private Annuities, with total annuities increasing 30.4% QoQ and 41.9 YoY
- Interseguro's investment portfolio grew 2.8% QoQ and 7.8% YoY
- 3Q17 profit excluding discount rate impact on technical reserves was S/ 5.5 million, compared to S/ 17.2 million in 2Q17 and S/ 24.5 million in 3Q16

Inteligo:

- AuM + deposits decreased slightly by 0.5% QoQ but remained stable YoY
- 3Q17 net profit was S/ 42.6 million, a 23.4% decrease QoQ and a 12.1% decrease YoY, mainly explained by a S/ 3.5 million impairment loss on available for sale investments
- 3Q17 annualized ROAE was 25.3%

Intercorp Financial Services

SUMMARY

Net profit was S/ 223.6 million in 3Q17, an increase of 4.0% QoQ and 7.2% YoY. IFS annualized ROAE was 17.0% in 3Q17, above the 16.4% registered in 2Q17 but below the 17.3% reported in 3Q16. IFS annualized ROAE excluding discount rate impact on technical reserves was 20.2% in 3Q17, above the 18.4% reported in 2Q17 but below the 23.5% registered in 3Q16.

Intercorp Financial Services' P&L statement					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar income	935.6	919.3	947.8	3.1%	1.3%
Interest and similar expense	-278.1	-277.2	-279.4	0.8%	0.5%
Net interest and similar income	657.5	642.1	668.3	4.1%	1.6%
Provision for loan losses, net of recoveries	-179.9	-214.3	-202.2	-5.6%	12.4%
Net interest and similar income after provision for loan losses	477.7	427.8	466.2	9.0%	-2.4%
Fee income from financial services, net	219.0	218.2	240.4	10.2%	9.8%
Other income	133.9	137.2	138.7	1.1%	3.6%
Total premiums earned less claims and benefits	-106.1	-42.9	-81.1	89.0%	-23.5%
Net Premiums	136.2	146.1	168.1	15.1%	23.5%
Adjustment of technical reserves	-163.6	-101.0	-155.7	54.2%	-4.8%
Net claims and benefits incurred	-78.7	-88.0	-93.6	6.3%	19.0%
Other expenses	-415.8	-448.2	-441.8	-1.4%	6.2%
Income before translation result and income tax	308.7	292.2	322.4	10.3%	4.4%
Translation result	-16.9	-2.3	-7.4	n.m.	n.m.
Income tax	-83.1	-74.9	-91.4	22.1%	10.0%
Profit for the period	208.7	215.0	223.6	4.0%	7.2%
Attributable to equity holders of the group ⁽¹⁾	205.5	215.4	218.3	1.4%	6.3%
EPS	1.89	2.02	2.05		
ROAE	17.3%	16.4%	17.0%		
ROAA	1.7%	1.7%	1.8%		

(1) Since September 2017, Interseguro holds 100% of the real estate investment that shared with Inteligo Real Estate Peru SAC, a subsidiary of Intercorp Peru Ltd.

Intercorp Financial Services' Statement of financial position					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Assets					
Cash and due from banks and inter-bank funds	11,517.9	9,975.3	8,900.3	-10.8%	-22.7%
Trading securities and investments available for sale	9,977.8	10,392.2	11,725.3	12.8%	17.5%
Loans, net of unearned income	28,055.3	28,519.3	29,036.0	1.8%	3.5%
Allowance for loan losses	-1,130.9	-1,223.3	-1,235.6	1.0%	9.3%
Property, furniture and equipment, net	585.9	580.5	581.1	0.1%	-0.8%
Other assets	2,370.1	2,395.1	2,183.1	-8.9%	-7.9%
Total assets	51,376.1	50,639.1	51,190.2	1.1%	-0.4%
Liabilities and equity					
Deposits and obligations	28,664.6	28,628.8	28,551.5	-0.3%	-0.4%
Due to banks and correspondents	6,244.2	5,568.4	5,760.7	3.5%	-7.7%
Bonds, notes and other obligations	4,855.5	4,656.3	4,765.5	2.3%	-1.9%
Insurance contract liabilities	5,029.3	5,367.6	5,521.4	2.9%	9.8%
Other liabilities	1,570.2	1,274.7	1,190.9	-6.6%	-24.2%
Total liabilities	46,363.9	45,495.8	45,789.9	0.6%	-1.2%
Equity					
Equity holders of IFS	4,893.0	5,027.6	5,367.1	6.8%	9.7%
Non-controlling interest	119.3	115.7	33.1	-71.4%	-72.2%
Total equity	5,012.2	5,143.3	5,400.2	5.0%	7.7%
Total liabilities and equity	51,376.1	50,639.1	51,190.2	1.1%	-0.4%

Quarter-on-quarter performance

Profits grew 4.0% QoQ mainly due to increases in net interest and similar income, and in net fees from financial services, in addition to a reduction in provision expenses. These effects were partially offset by a higher adjustment of technical reserves at Interseguro.

Net interest and similar income increased 4.1% QoQ, mainly as a result of a higher volume of assets and improved returns at Interseguro's investment portfolio.

Provision expenses decreased 5.6% mainly due to higher recoveries in written off loans and lower provisioning in consumer loans, both associated with the credit cards portfolio at Interbank.

Net fee income from financial services increased 10.2% QoQ mainly explained by increases in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services, and in commissions from banking services; both at Interbank.

Interseguro's total premiums earned less claims and benefits in 3Q17 was S/ -81.1 million, a decrease of S/ 38.2 million QoQ, as a result of a S/ 54.7 million increase in adjustment of technical reserves and a S/ 5.6 million growth in net claims and benefits incurred, partially offset by a S/ 22.0 million increase in net premiums. On a sequential basis, net premiums grew for the second consecutive quarter after the launch of Private Annuities. In 3Q17, the adjustment of technical reserves had a negative discount rate impact of S/ -44.0 million, whereas in 2Q17 the discount rate impact was S/ -29.2 million.

Other income increased 1.1% QoQ mainly explained by increases in valuation gain from investment property and in net gain on sale of securities, both at Interseguro. These effects were partially offset by reductions in net gain on sale of securities at Interbank at Inteligo.

Other expenses decreased 1.4% QoQ mainly due to lower provisions for contingencies at Interbank, in addition to reductions in salaries and employee benefits, and administrative expenses, also at Interbank. These effects were partially compensated by higher other expenses at the other two subsidiaries.

IFS effective tax rate increased, from 25.8% in 2Q17 to 29.0% in 3Q17, as a result of a lower profit contribution from Inteligo and a higher effective tax rate at Interbank.

Year-on-year performance

Profits increased 7.2% YoY mainly due to growths in net premiums sold at Interseguro and net fees from financial services at Interbank.

Net interest and similar income increased 1.6% YoY, mainly driven by an increase in interest and similar income at Interseguro, as a result of a higher volume of assets and improved portfolio rates.

Provision expenses increased 12.4% mainly as a result of higher provision requirements in cash loans and commercial loans at Interbank, partially offset by lower provisioning in credit cards, also at Interbank.

Net fee income from financial services increased 9.8% YoY mainly due to growths in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services; and in commissions from banking services, both at Interbank. These effects were partially offset by a decrease in funds management income at Inteligo.

Interseguro's total premiums earned less claims and benefits grew by S/ 25.0 million, as a result of a S/ 31.9 million increase in net premiums and a S/ 7.9 million decrease in adjustment of technical reserves, partially offset by a S/ 14.9 million increase in net claims and benefits incurred. It is worth mentioning that net premiums grew at a higher rate than net claims and benefits incurred in 3Q17.

Other income increased 3.6% YoY mainly as a result of increases in net gain on sale of securities at Interbank, and in valuation gain from investment property and net gain on sale of securities at Interseguro. These effects were partially offset by a decrease in net gain on foreign exchange transactions and derivatives at Interbank.

Other expenses increased 6.2% YoY mainly due to higher impairment charges at Interseguro and Inteligo, in addition to an increase in administrative expenses at the holding level.

IFS effective tax rate increased YoY, from 28.5% in 3Q16 to 29.0% in 3Q17, as a result of a lower negative result from Interseguro and lower profit contribution from Inteligo.

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	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interbank	221.5	209.1	227.9	9.0%	2.9%
Interseguro	-52.6	-13.8	-34.7	151.7%	-34.0%
Inteligo	48.4	55.6	42.6	-23.4%	-12.1%
Corporate and eliminations	-8.6	-35.9	-12.0	-66.4%	40.0%
IFS profit for the period	208.7	215.0	223.6	4.0%	7.2%

Interbank

SUMMARY

Interbank's profits reached S/ 227.9 million in 3Q17, an increase of S/ 18.8 million QoQ and S/ 6.4 million YoY. The quarterly increase was mainly due to a growth of S/ 19.9 million in fees from financial services and reductions of S/ 19.5 million in other expenses and S/ 12.2 million in provisions. These factors were partially offset by a higher effective tax rate and a seasonal decrease of S/ 13.6 million in net interest and similar income.

The annual growth in net profit was mainly explained by an increase of S/ 17.5 million in fees from financial services and by a S/ 9.6 million lower negative impact from translation result, partially offset by a growth of S/ 22.2 million in provision expenses.

Interbank's ROAE was 20.0% in 3Q17, higher than the 19.6% registered in 2Q17 but lower than the 22.0% reported in 3Q16.

Banking Segment's P&L Statement					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar income	830.6	845.1	835.3	-1.2%	0.6%
Interest and similar expenses	-260.2	-260.6	-264.3	1.4%	1.5%
Net interest and similar income	570.4	584.6	571.0	-2.3%	0.1%
Provision for loan losses, net of recoveries	-179.9	-214.3	-202.1	-5.7%	12.4%
Net interest and similar income after provision for loan losses	390.5	370.3	368.9	-0.4%	-5.5%
Fee income from financial services, net	202.6	200.2	220.1	9.9%	8.6%
Other income	85.6	91.7	89.5	-2.3%	4.6%
Other expenses	-369.2	-382.7	-363.2	-5.1%	-1.6%
Income before translation result and income tax	309.5	279.5	315.3	12.8%	1.9%
Translation result	-11.9	-1.0	-2.3	n.m.	n.m.
Income tax	-76.1	-69.4	-85.2	22.8%	12.0%
Profit for the period	221.5	209.1	227.9	9.0%	2.9%
ROAE	22.0%	19.6%	20.0%		
Efficiency ratio	41.6%	41.9%	41.0%		
NIM	5.9%	6.0%	5.7%		
NIM on loans	9.9%	9.5%	9.4%		

INTEREST-EARNING ASSETS

Interbank's interest-earning assets reached S/ 40,319.7 million in 3Q17, an increase of 1.7% QoQ and 0.6% YoY.

The quarterly growth in interest-earning assets was due to increases of 23.7% in investments and 2.1% in loans, partially compensated by a reduction of 10.3% in cash and due from banks.

The increase in investments was mainly explained by higher volumes of sovereign bonds and Central Bank Certificates of Deposits (CDBCR), while the contraction in

cash and due from banks was related to lower reserve requirements from the Central Bank.

The annual increase in interest-earning assets was attributed to growths of 37.2% in investments and 3.9% in loans, partially offset by a 21.3% contraction in cash and due from banks. The annual increase in investments was due to higher volumes of sovereign and global bonds, while the contraction in cash and due from banks was explained by lower reserve requirements from the Central Bank.

Interest-earning assets					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Cash and due from banks and inter-bank funds	10,703.7	9,397.1	8,428.4	-10.3%	-21.3%
Investments available for sale	4,155.2	4,608.9	5,702.0	23.7%	37.2%
Loans	25,216.8	25,645.3	26,189.3	2.1%	3.9%
Total Interest-earning assets	40,075.6	39,651.2	40,319.7	1.7%	0.6%

Loan portfolio					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Performing loans					
Retail	13,275.7	13,465.1	13,666.3	1.5%	2.9%
Commercial	11,837.2	12,123.2	12,467.4	2.8%	5.3%
Total Performing loans	25,112.9	25,588.3	26,133.7	2.1%	4.1%
Restructured and refinanced loans					
Past due loans	304.8	274.9	276.5	0.6%	-9.3%
	682.0	748.8	770.7	2.9%	13.0%
Total gross loans	26,099.7	26,612.0	27,180.9	2.1%	4.1%
Add (less)					
Accrued and deferred interest	244.3	255.7	243.2	-4.9%	-0.4%
Allowance for loan losses	-1,127.2	-1,222.5	-1,234.8	1.0%	9.5%
Total direct loans, net	25,216.8	25,645.3	26,189.3	2.1%	3.9%

Performing loans grew 2.1% QoQ as a result of increases of 2.8% in commercial loans and 1.5% in retail loans.

Growth in commercial loans was due to increases in leasing operations, short and medium-term lending and trade loans. It is worth mentioning that this higher activity was mainly concentrated in the corporate segment.

The QoQ increase in retail loans was a result of growths of 2.7% in mortgages and 2.1% in other consumer loans, partially compensated by a 0.9% contraction in credit cards. The growth in mortgages was due to a higher dynamism in the traditional segment, while other consumer loans grew as a result of higher payroll loans.

Performing loans grew 4.1% YoY due to increases of 5.3% in commercial loans and 2.9% in retail loans.

The annual growth in commercial loans was mainly explained by increases in trade loans and short and medium-term lending, both related mostly to the corporate segment.

Retail loans grew YoY mainly due to increases of 7.0% in mortgages and 6.2% in other consumer loans, partially offset by a 5.7% contraction in credit cards. The increase in

mortgages was related to a higher dynamism in the traditional segment, while other consumer loans grew as a result of higher payroll loans.

Breakdown of retail loans					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Consumer loans:					
Credit cards	3,953.9	3,759.6	3,726.8	-0.9%	-5.7%
Other consumer	4,482.1	4,662.2	4,760.5	2.1%	6.2%
Total consumer loans	8,436.0	8,421.8	8,487.2	0.8%	0.6%
Mortgages	4,839.8	5,043.3	5,179.1	2.7%	7.0%
Total retail loans	13,275.7	13,465.1	13,666.3	1.5%	2.9%

FUNDING STRUCTURE

Funding structure					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Deposits	25,529.9	25,813.6	25,819.1	0.0%	1.1%
Due to banks and inter-bank funds	6,153.1	5,565.1	5,757.2	3.5%	-6.4%
Bonds	4,683.2	4,490.3	4,600.4	2.5%	-1.8%
Total	36,366.2	35,869.0	36,176.7	0.9%	-0.5%
% of funding					
Deposits	70.2%	72.0%	71.4%		
Due to banks and inter-bank funds	16.9%	15.5%	15.9%		
Bonds	12.9%	12.5%	12.7%		

Interbank's total funding base increased 0.9% QoQ, below the growth of interest-earning assets. The quarterly growth was mainly due to increases of 3.5% in due to banks and inter-bank funds, and 2.5% in bonds. The growth in due to banks was mainly explained by higher short-term funding from abroad, partially offset by lower medium-term funding.

The bank's total funding base decreased 0.5% YoY, against a slight growth in interest-earning assets, and was mainly explained by decreases of 6.4% in due to banks and 1.8% in bonds, partially compensated by a 1.1% increase in deposits. The annual contraction in due to banks was mainly a result of lower medium-term funding from abroad and from the Central Bank, partially offset by higher short-term funding from abroad.

The YoY contraction in bonds was mainly attributed to a 4.0% appreciation of the exchange rate which originated a decrease in the value of bonds issued in dollars.

The growth in deposits was mostly explained by increases of 5.9% in retail deposits and 2.4% in commercial deposits, partially compensated by a 16.3% contraction in institutional deposits, mainly related to the maturity of deposits auctioned by the Central Bank.

As of 3Q17, the proportion of deposits to total funding resulted in 71.4%, above the 70.2% reported in 3Q16. Likewise, the proportion of institutional deposits to total deposits was 13.8% in 3Q17, below the 16.7% registered in 3Q16. It is worth mentioning that institutional deposits are typically more volatile and expensive than other kind of deposits.

Breakdown of deposits					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
By customer service:					
Retail	11,275.8	11,662.2	11,935.7	2.3%	5.9%
Commercial	9,694.1	8,265.7	9,929.0	20.1%	2.4%
Institutional	4,262.4	5,600.6	3,568.3	-36.3%	-16.3%
Other	297.6	285.1	386.1	35.4%	29.7%
Total	25,529.9	25,813.6	25,819.1	0.0%	1.1%
By type:					
Demand	7,661.8	6,941.3	8,167.2	17.7%	6.6%
Savings	10,439.6	8,270.1	8,949.6	8.2%	-14.3%
Time	7,415.6	10,597.0	8,689.4	-18.0%	17.2%
Other	12.9	5.2	12.9	146.3%	-0.5%
Total	25,529.9	25,813.6	25,819.1	0.0%	1.1%

NET INTEREST AND SIMILAR INCOME

Net interest and similar income					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar income	830.6	845.1	835.3	-1.2%	0.6%
Interest and similar expense	-260.2	-260.6	-264.3	1.4%	1.5%
Net interest and similar income	570.4	584.6	571.0	-2.3%	0.1%
NIM*	5.9%	6.0%	5.7%	-30 bps	-20 bps

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

Interest and similar income					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar income					
Due from banks and inter-bank funds	5.2	4.8	8.1	67.1%	55.9%
Investments available for sale	36.5	63.0	43.8	-30.5%	19.9%
Loans	788.9	777.3	783.4	0.8%	-0.7%
Total Interest and similar income	830.6	845.1	835.3	-1.2%	0.6%
Average interest-earning assets	38,526.8	39,048.7	39,985.5	2.4%	3.8%
Average yield on assets (annualized)	8.6%	8.7%	8.4%	-30 bps	-20 bps

Interest and similar expense					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar expense					
Deposits and obligations	-118.3	-129.8	-131.0	0.9%	10.8%
Due to banks and correspondents	-63.8	-54.6	-57.2	4.8%	-10.3%
Bonds, notes and other obligations	-78.2	-76.2	-76.0	-0.2%	-2.7%
Total Interest and similar expense	-260.2	-260.6	-264.3	1.4%	1.5%
Average interest-bearing liabilities	35,019.5	35,153.2	36,022.9	2.5%	2.9%
Average cost of funding (annualized)	-3.0%	-3.0%	-2.9%	10 bps	10 bps

QoQ Performance

Net interest and similar income decreased 2.3% QoQ as the result of a 1.2% decline in interest and similar income, in addition to a 1.4% growth in interest and similar expense.

The reduction in interest and similar income was mainly due to a seasonal decline of 30.5% in interest on investments available for sale, partially offset by a 0.8% increase in interest on loans.

Interest on investments available for sale decreased by \$/ 19.2 million, or 30.5%, explained by a seasonal 210 basis point reduction in the nominal average rate, partially offset by an 11.7% growth in the average volume. The reduction in the nominal average rate, from 5.5% in 2Q17 to 3.4% in 3Q17, was mainly a result of higher income from dividends received in 2Q17 for shares owned on IFS, which were not repeated in 3Q17. The increase in average volume was a result of higher investments in sovereign bonds and CDBCR.

The growth in interest on loans was due to an increase of 1.4% in the average loan portfolio, partially offset by a 10 basis point reduction in the average yield, from 12.2% in 2Q17 to 12.1% in 3Q17. The higher average volume of loans was attributed to growths of 1.9% in retail loans and 0.9% in commercial loans. In the retail portfolio, the higher average volume was mainly due to increases of 2.5% in mortgages and 2.3% in payroll loans; while average balances of credit cards barely increased 0.2%. In the commercial portfolio, volumes increased 3.1% in trade finance loans, 2.7% in leasing and 0.4% in short and medium-term loans. On the other hand, the decrease in the average rate was mainly explained by lower yields in credit cards, as well as in trade finance loans and in short and medium-term loans.

The nominal average yield on interest-earning assets declined by 30 basis points, from 8.7% in 2Q17 to 8.4% in 3Q17, as a result of the lower yield on loans and the dividend income that was registered in the previous quarter.

Interest and similar expense increased 1.4% QoQ mainly explained by increases of 0.9% in interest on deposits and obligations, and 4.8% in interest due to banks and correspondents; while interest on bonds, notes and other obligations remained relatively stable.

The rise in interest on deposits and obligations was due to a 1.7% increase in the average volume, partially offset by a 10 basis point decrease in the average cost, from 2.1% in 2Q17 to 2.0% in 3Q17. The higher average volume was explained by growths of 8.1% in commercial deposits and 1.7% in retail deposits, partially offset by a 9.5% reduction in institutional deposits. By currency, soles deposits grew 4.1% while dollar deposits decreased 1.7% QoQ.

The increase in interest due to banks and correspondents was a result of 7.2% higher average volume, partially offset by a decrease of 10 basis points in the nominal average cost. The higher average volume was mostly attributed to increases in foreign funding from correspondent banks, while the reduction in the average interest rate was explained by a lower cost of such funds.

The average cost of funds decreased by 10 basis points QoQ, from 3.0% in 2Q17 to 2.9% in 3Q17, as a consequence of similar reductions in the costs of deposits and due to banks and correspondents.

As a result of the above, net interest margin was 5.7% in 3Q17, 30 basis points lower than the 6.0% reported in 2Q17.

YoY Performance

Net interest and similar income remained relatively stable YoY due to a 0.6% growth in interest and similar income, which was almost completely offset by a 1.5% increase in interest and similar expense.

The growth in interest and similar income was mainly due to an increase of 19.9% in interest on investments available for sale, partially offset by a 0.7% reduction in interest on loans.

The \$/ 5.5 million decrease in interest on loans was explained by a 50 basis point decline in the average yield, from 12.6% in 3Q16 to 12.1% in 3Q17; partially offset by a 3.5% growth in the average volume. The decrease in the average yield was mainly explained by lower returns in credit cards, trade finance loans and leasing. The increase in the average volume was due to growths of 4.1% in the commercial portfolio and 3.3% in the retail portfolio. The higher average volume of the commercial portfolio was explained by growths of 8.9% in trade finance loans, and 6.9% in short and medium-term loans; partially offset by a 5.9% decline in leasing. In retail loans, higher volumes resulted from growths of 6.4% in mortgages and 5.6% in payroll loans; partially offset by a 3.5% decline in average balances of credit cards.

Interest on investments available for sale increased by \$/ 7.3 million YoY, or 19.9%, as a result of a 26.2% growth in the average volume despite the nominal average rate decreased by 20 basis points YoY. The growth in volume was a result of higher investments in sovereign and global bonds.

The nominal average yield on interest-earning assets decreased by 20 basis points YoY, from 8.6% in 3Q16 to 8.4% in 3Q17; mainly explained by the lower yields on loans and investments available for sale. These effects were partially offset by a lower proportion of cash and due from banks and inter-bank funds within interest-earning assets, as they earn a much lower yield compared to the other components.

Interest and similar expense increased 1.5% YoY due to a 10.8% growth in interest on deposits and obligations, partially offset by decreases of 10.3% in interest due to banks and correspondents and 2.7% in interest on bonds, notes and other obligations.

Interest on deposits and obligations increased by \$/ 12.7 million, or 10.8%, explained by growths of 5.9% in the average volume and 10 basis points in the nominal average cost. The higher average volume was explained by growths of 16.0% in institutional deposits, 6.3% in retail deposits and 0.7% in commercial deposits.

The \$/ 6.6 million, or 10.3% decrease in interest due to banks and correspondents was explained by reductions of 6.1% in the average volume and 20 basis points in the average cost. The decrease in average volume was mainly explained by lower funding provided by the Central Bank and correspondent banks; while the reduction in the average cost was explained by lower rates in funding provided by correspondent banks due to lower loan tenors.

Interest on bonds decreased by S/ 2.2 million, or 2.7% YoY in 3Q17; mainly due to a decrease of 1.3% in the average volume, which in turn was explained by an appreciation of the exchange rate with respect to 3Q16.

The average cost of funds decreased by 10 basis points YoY, from 3.0% in 3Q16 to 2.9% in 3Q17; mainly due to the lower average cost of due to banks and correspondents, as well as a higher proportion of deposits within interest-bearing liabilities, as they bear a lower cost compared to the other components.

As a result of the above, net interest margin declined by 20 basis points YoY, from 5.9% in 3Q16 to 5.7% in 3Q17.

PROVISION FOR LOAN LOSSES, NET OF RECOVERIES

Provision for loan losses, net of recoveries decreased 5.7% QoQ but increased 12.4% YoY. As a result, the annualized ratio of provision expense to average loans was 3.0% in 3Q17, below the 3.2% reported in 2Q17, but above the 2.8% registered in 3Q16.

The quarterly decrease was a result of higher recoveries in written off loans and lower provisioning in consumer loans, both associated with the credit cards portfolio.

The annual increase in provisions was mainly a result of higher provision requirements in cash loans and commercial loans, partially offset by lower provisioning in credit cards.

Provision for loan losses, net of recoveries					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Provision for loan losses, net of recoveries	-179.9	-214.3	-202.1	-5.7%	12.4%
Past-due-loan ratio (at end of period)	2.6%	2.8%	2.8%	0 bps	20 bps
Provision for loan losses/average gross loans	2.8%	3.2%	3.0%	-20 bps	20 bps
Coverage ratio (at end of period)	165.3%	163.3%	160.2%	-310 bps	-510 bps
Allowance for loan losses (at end of period)	1,127.2	1,222.5	1,234.8	1.0%	9.5%

The past-due-loan ratio resulted in 2.8% in 3Q17, in line with that reported in 2Q17, but 20 basis points above the 2.6% registered in 3Q16. As a consequence, the coverage ratio of the past-due loan portfolio was 160.2% in 3Q17, below the 163.3% reported in 2Q17 and the 165.3% registered in 3Q16.

FEE INCOME FROM FINANCIAL SERVICES, NET

Net fee income from financial services increased by S/ 19.9 million QoQ, or 9.9%, mainly explained by increases of S/ 11.9 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services; and S/ 4.3 million in commissions from banking services.

Net fee income from financial services increased by S/ 17.5 million YoY, or 8.6%, mainly due to growths of S/ 13.0 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services; and S/ 2.8 million in commissions from banking services. The growth in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services was mainly related to cash withdrawals from credit cards and commissions charged on saving accounts.

Fee income from financial services, net					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Income					
Maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services	140.4	141.5	153.4	8.4%	9.3%
Commissions from banking services	73.1	71.6	75.9	6.1%	3.9%
Fees for indirect loans	15.8	14.6	15.7	7.9%	-0.6%
Funds management	7.6	8.3	9.0	8.9%	18.1%
Collection services	8.0	8.1	8.6	6.0%	7.2%
Other	6.8	6.8	7.2	6.4%	5.6%
Total income	251.7	250.8	269.8	7.6%	7.2%
Expenses					
Insurance	-40.3	-39.9	-39.5	-1.0%	-1.9%
Fees paid to foreign banks	-2.5	-2.7	-3.0	7.7%	17.7%
Other	-6.3	-7.9	-7.2	-8.8%	14.4%
Total expenses	-49.1	-50.6	-49.7	-1.7%	1.2%
Fee income from financial services, net	202.6	200.2	220.1	9.9%	8.6%

OTHER INCOME

Other income decreased by S/ 2.2 million QoQ mainly due to a S/ 6.8 million lower release of accounting provisions, as well as a reduction of S/ 3.6 million in net gain on sale of securities, partially offset by a S/ 9.4 million increase in net gain on foreign exchange transactions and derivatives.

Other income increased by S/ 3.9 million YoY, mainly due to an increase of S/ 13.5 million in net gain on sale of securities, partially offset by a S/ 10.6 million decrease in net gain on foreign exchange transactions and derivatives.

Other income					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Net gain on foreign exchange transactions and derivatives	71.0	51.0	60.4	18.4%	-15.0%
Net gain on sale of securities	-3.5	13.6	10.0	-26.4%	n.m.
Other	18.1	27.1	19.2	-29.3%	5.9%
Total other income	85.6	91.7	89.5	-2.3%	4.6%

OTHER EXPENSES

Other expenses decreased by S/ 19.5 million QoQ, or 5.1%, and by S/ 6.0 million YoY, or 1.6%. The quarterly decrease was mainly due to lower provisions for contingencies, in addition to reductions of 2.2% in salaries and employee benefits, and 1.2% in administrative expenses.

The annual contraction in other expenses was mainly explained by lower provisions for contingencies and by a S/ 2.2 million release of provisions on impaired fixed-income instruments that were sold in 3Q17.

The efficiency ratio was 41.0% in 3Q17, below the 41.9% registered in 2Q17, and the 41.6% achieved in 3Q16.

Other expenses					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Salaries and employee benefits	-151.6	-153.6	-150.2	-2.2%	-0.9%
Administrative expenses	-175.4	-181.7	-179.4	-1.2%	2.3%
Depreciation and amortization	-29.9	-31.7	-31.6	-0.4%	5.7%
Other	-12.3	-15.8	-2.0	-87.6%	-84.2%
Total other expenses	-369.2	-382.7	-363.2	-5.1%	-1.6%
Efficiency ratio	41.6%	41.9%	41.0%	-90 bps	-60 bps

REGULATORY CAPITAL

The ratio of regulatory capital to risk-weighted assets (RWA) was 16.5% in 3Q17, slightly below the 16.6% registered in 2Q17 but above the 16.1% reported in 3Q16.

As of 3Q17, the regulatory capital remained stable QoQ, while RWA grew 1.0% mainly due to higher capital requirements for credit and operational risks.

The annual increase in the capital ratio was due to a 3.4% growth in regulatory capital, partially offset by a 1.1% increase in RWA. The YoY increase in regulatory capital was mainly a result of the addition of S/ 460.7 million in capital, reserves and earnings with capitalization agreement during the last twelve months; while the increase in RWA was mostly attributed to a 3.9% growth in the loan portfolio.

It is worth mentioning that the SBS has initiated the implementation of an additional set of Basel III standards, in effect between 2017 and 2026. Among these, it stands out that there will be an annual 10% phase out of existing Tier I instruments, yet allowing its eligibility as Tier II capital. This is why, despite the annual increase in capital and reserves, S/ 25.5 million of the US\$ 200.0 million junior subordinated bonds issued in April 2010 no longer count as primary capital. As of 3Q17, 90.0% of this issue was considered as primary capital, in line with the percentage reported in 2Q17.

As of 3Q17, Interbank's capital ratio of 16.5% was widely 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 3Q17.

Regulatory capital					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Tier I capital	3,851.8	4,208.6	4,207.0	0.0%	9.2%
Tier II capital	1,940.1	1,776.0	1,779.6	0.2%	-8.3%
Total regulatory capital	5,791.8	5,984.6	5,986.6	0.0%	3.4%
Risk-weighted assets	35,921.4	35,977.7	36,331.1	1.0%	1.1%
BIS ratio	16.1%	16.6%	16.5%	-10 bps	40 bps
Tier I capital / risk-weighted assets	10.7%	11.7%	11.6%	-10 bps	90 bps

Interseguro

SUMMARY

Interseguro's result attributable to shareholders in 3Q17 was S/ -38.5 million, which compared to S/ -12.0 million in 2Q17 and S/ -54.3 million in 3Q16.

The QoQ decline in bottom-line results was mainly explained by a S/ 54.7 million increase in adjustment of technical reserves, partially offset by a S/ 22.0 million increase in net premiums and an S/ 8.4 million increase in valuation gain from investment property.

The YoY improvement in bottom-line results was mainly due to increases of S/ 25.0 million in total premiums earned less claims and benefits and S/ 6.4 million in interest and similar income, partially offset by a S/ 15.5 million increase in impairment loss on available-for-sale investments (other expenses).

Interseguro's profit excluding discount rate impact on technical reserves was S/ 5.5 million in 3Q17, compared to profits of S/ 17.2 million in 2Q17 and S/ 24.5 million in 3Q16.

Insurance Segment's P&L Statement					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar income	70.8	59.4	77.2	30.0%	9.0%
Interest and similar expenses	-3.4	-3.1	-2.7	-12.4%	-20.3%
Net Interest and similar income	67.4	56.3	74.5	32.3%	10.5%
Fee income from financial services, net	-0.7	-0.7	-0.7	4.3%	1.1%
Other income	30.7	25.5	34.7	36.1%	13.0%
Total premiums earned less claims and benefits	-106.1	-42.9	-81.1	89.0%	-23.5%
Net premiums	136.2	146.1	168.1	15.1%	23.5%
Adjustment of technical reserves	-163.6	-101.0	-155.7	54.2%	-4.8%
Net claims and benefits incurred	-78.7	-88.0	-93.6	6.3%	19.0%
Other expenses	-38.7	-50.7	-54.7	8.0%	41.5%
Income before translation result and income tax	-47.3	-12.5	-27.3	119.5%	-42.2%
Translation result	-4.6	-2.1	-5.8	175.5%	27.5%
Income tax	-0.8	0.8	-1.6	n.m.	109.2%
Profit for the period	-52.6	-13.8	-34.8	151.8%	-34.0%
Attributable to non-controlling interest ⁽¹⁾	-1.7	1.8	-3.7	n.m.	120.9%
Profit attributable to shareholders	-54.3	-12.0	-38.5	220.0%	-29.1%
Discount rate impact on technical reserves	-78.8	-29.2	-44.0	50.7%	-44.2%
Profit excluding discount rate impact	24.5	17.2	5.5	-67.9%	-77.5%
ROAE	n.m.	n.m.	n.m.		
ROAE excl. discount rate impact	14.5%	9.3%	5.7%		
Efficiency ratio⁽²⁾	37.7%	18.9%	20.3%		
Efficiency ratio excl. discount rate impact	17.7%	15.4%	14.9%		

(1) Since September 2017, Interseguro holds 100% of the real estate investment that shared with Inteligo Real Estate Peru SAC, a subsidiary of Intercorp Peru Ltd.

(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	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar income	70.8	59.4	77.2	30.0%	9.0%
Interest and similar expenses	-3.4	-3.1	-2.7	-12.4%	-20.3%
Net interest and similar income	67.4	56.3	74.5	32.3%	10.5%
Fee income from financial services, net	-0.3	-0.3	-0.3	-16.8%	-17.1%
Net gain on sale of securities	18.5	17.3	19.8	14.2%	6.8%
Net trading loss (income)	0.5	1.5	0.8	-45.9%	74.9%
Rental income	5.6	6.3	6.5	2.7%	15.4%
Profit from sale of investment property	1.4	-	-	n.m.	n.m.
Valuation gain from investment property	2.3	-3.0	5.4	n.m.	137.9%
Other ⁽¹⁾	-0.6	0.2	-0.1	n.m.	-91.3%
Other income	27.4	22.0	32.2	46.4%	17.5%
Expenses related to rental income	-0.1	-0.2	-0.0	-87.8%	-82.5%
Other ⁽¹⁾	12.1	-2.1	-3.6	67.1%	n.m.
Expenses	11.9	-2.3	-3.6	56.4%	n.m.
Results from investments	106.8	76.1	103.1	35.6%	-3.4%

(1) Only includes transactions related to investments.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income was S/ 74.5 million in 3Q17, an increase of S/ 18.2 million or 32.3% QoQ and S/ 7.1 million or 10.5% YoY.

The QoQ growth was due to a S/ 17.8 million increase in interest and similar income as a result of a higher volume of assets and improved portfolio rates. It is worth mentioning that interest income on certain investments was impacted in 2Q17 due to a negative inflation rate in such period.

The YoY growth was mainly due to a S/ 6.4 million increase in interest and similar income, also as a result of a higher volume of assets and improved portfolio rates.

OTHER INCOME

Other income was S/ 32.2 million in 3Q17, which compared to S/ 22.0 million in 2Q17 and S/ 27.4 million in 3Q16.

The quarterly growth in other income was mainly explained by increases of S/ 8.4 million in valuation gain from investment property and S/ 2.5 million in net gain on sale of securities.

The annual growth in other income was mainly due to increases of S/ 3.1 million in valuation gain from investment property and S/ 1.3 million in net gain on sale of securities.

TOTAL PREMIUMS EARNED LESS CLAIMS AND BENEFITS

Total Premiums Earned Less Claims And Benefits					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Net premiums	136.2	146.1	168.1	15.1%	23.5%
Adjustment of technical reserves	-163.6	-101.0	-155.7	54.2%	-4.8%
Net claims and benefits incurred	-78.7	-88.0	-93.6	6.3%	19.0%
Total premiums earned less claims and benefits	-106.1	-42.9	-81.1	89.0%	-23.5%

Total premiums earned less claims and benefits in 3Q17 was S/ -81.1 million, a decrease of S/ 38.2 million QoQ but an increase of S/ 25.0 million YoY.

The QoQ reduction was due to a S/ 54.7 million increase in adjustment of technical reserves and a S/ 5.6 million growth in net claims and benefits incurred, partially offset by a S/ 22.0 million increase in net premiums. On a sequential basis, net premiums grew for the second consecutive quarter after the launch of Private Annuities.

The YoY growth was explained by a S/ 31.9 million increase in net premiums and a S/ 7.9 million decrease in adjustment of technical reserves, partially offset by a S/ 14.9 million increase in net claims and benefits incurred. Net premiums grew at a higher rate than net claims and benefits incurred in 3Q17.

NET PREMIUMS

Net Premiums by Business Line					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Annuities	74.2	80.6	105.3	30.5%	42.0%
Individual Life	11.9	12.4	13.7	10.6%	15.1%
Retail Insurance	50.1	53.1	49.2	-7.3%	-1.8%
Net Premiums	136.2	146.1	168.1	15.1%	23.5%

Annuities include premiums from disability and survivorship insurance.

Net premiums were S/ 168.1 million in 3Q17, an increase of S/ 22.0 million QoQ and S/ 31.9 million YoY.

The quarterly growth was due to increases of S/ 24.7 million in Annuities and S/ 1.3 million in Individual Life, partially offset by a S/ 3.9 million decrease in Retail Insurance.

The annual growth was mainly explained by increases of S/ 31.1 million in Annuities and S/ 1.8 million in Individual Life.

ADJUSTMENT OF TECHNICAL RESERVES

Adjustment of Technical Reserves by Business Line					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Annuities	-156.4	-93.5	-147.4	57.6%	-5.7%
Individual Life	-4.5	-7.5	-7.1	-5.2%	57.9%
Retail Insurance	-2.7	0.0	-1.2	n.m.	-57.2%
Adjustment of technical reserves	-163.6	-101.0	-155.7	54.2%	-4.8%

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

Interseguro's adjustment of technical reserves was S/ 155.7 million in 3Q17, an increase of S/ 54.7 million QoQ and a reduction of S/ 7.9 million YoY.

The QoQ increase was mainly due to a growth in Annuity premiums and to a higher discount rate (negative) impact in Annuities. This rate decreased by 6 bps in 2Q17 and by 7 bps in 3Q17.

The YoY decrease was mainly a result of a lower discount rate (negative) impact in Annuities. This rate decreased by 15 bps in 3Q16 and by 7 bps in 3Q17. This effect was partially offset by the additional constitution of reserves that resulted from the YoY increase in Annuity premiums.

NET CLAIMS AND BENEFITS INCURRED

Net Claims and Benefits Incurred by Business Line					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Annuities	-62.8	-73.7	-79.2	7.4%	26.1%
Individual Life	-0.5	0.3	-0.5	n.m.	-8.3%
Retail Insurance	-15.3	-14.6	-13.9	-4.7%	-9.3%
Net claims and benefits incurred	-78.7	-88.0	-93.6	6.3%	19.0%

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

Net claims and benefits incurred were S/ 93.6 million in 3Q17, an increase of S/ 5.6 million QoQ and S/ 14.9 million YoY.

The QoQ growth was mainly due to higher claims of S/ 5.5 million in Annuities due to a higher number of pensioners.

The YoY growth in claims and benefits incurred was mostly explained by a S/ 16.4 million increase in Annuities, also due to a higher number of pensioners.

OTHER EXPENSES

Other Expenses					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Salaries and employee benefits	-15.4	-14.0	-15.0	7.3%	-2.4%
Administrative expenses	-9.9	-8.9	-8.4	-5.1%	-15.3%
Depreciation and amortization	-1.1	-1.0	-1.1	9.4%	4.1%
Third-party commissions	-18.3	-20.8	-22.9	9.8%	24.6%
Expenses related to rental income	-0.1	-0.2	-0.0	-87.8%	-82.5%
Other	6.2	-5.9	-7.3	25.1%	n.m.
Other expenses	-38.7	-50.7	-54.7	8.0%	41.5%

Other expenses were S/ 54.7 million in 3Q17, an increase of S/ 4.0 million QoQ and S/ 16.0 million YoY.

The QoQ growth in other expenses was mainly explained by increases of S/ 2.1 million in third party commissions, S/ 1.0 million in salaries and employee benefits and S/ 0.7 million in impairment loss on available-for-sale investments (other).

The YoY growth in other expenses was mainly due to a S/ 15.5 million increase in impairment loss on available-for-sale investments (other), which was attributed to a book value adjustment of previously impaired instruments that were sold in 3Q16.

Inteligo

SUMMARY

Inteligo's net profit in 3Q17 was S/ 42.6 million, a S/ 13.0 million or 23.4% decrease QoQ and a S/ 5.8 million or 12.1% decrease YoY. The quarterly performance was attributed to a 12.5% decrease in revenues and higher other expenses, mainly explained by a S/ 3.5 million impairment loss on available for sale investments.

Assets under Management (AuMs) plus client deposits reached S/ 14,605.6 million in 3Q17, lower by S/ 78.3 million or 0.5% when compared to the previous quarter but higher by S/ 0.9 million when compared to 3Q16.

Inteligo's annualized ROAE for 3Q17 was 25.3%, lower than the 32.8% reported in 2Q17 and the 33.7% registered in 3Q16.

Wealth Management Segment's P&L Statement					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar income	34.7	39.2	36.0	-8.1%	3.9%
Interest and similar expenses	-14.9	-14.2	-13.3	-6.5%	-10.7%
Net interest and similar income	19.8	25.0	22.7	-9.1%	14.9%
Provision for loan losses, net of recoveries	0.0	0.0	0.0	n.m.	n.m.
Net interest and similar income after provision for loan losses	19.8	25.0	22.7	-9.2%	14.6%
Fee income from financial services, net	31.0	28.8	28.1	-2.4%	-9.2%
Other income	17.8	21.3	14.9	-29.9%	-16.1%
Other expenses	-20.2	-20.0	-24.2	21.1%	19.7%
Income before translation result and income tax	48.3	55.1	41.5	-24.6%	-14.0%
Translation result	-0.2	0.5	0.6	27.1%	n.m.
Income tax	0.3	0.0	0.4	n.m.	29.9%
Profit for the period	48.4	55.6	42.6	-23.4%	-12.1%
ROAE	33.7%	32.8%	25.3%		
Efficiency ratio	29.5%	26.6%	31.4%		

ASSETS UNDER MANAGEMENT & DEPOSITS

AuMs reached S/ 11,831.5 million in 3Q17, a S/ 13.6 million or 0.1% increase QoQ and a S/ 366.3 million or 3.2% growth YoY.

Client deposits reached S/ 2,774.1 million in 3Q17, a S/ 91.9 million or 3.2% decrease QoQ and a S/ 365.4 million or 11.6% reduction YoY.

NET INTEREST AND SIMILAR INCOME

Inteligo's net interest and similar income in 3Q17 was S/ 22.7 million, a S/ 2.3 million or 9.1% decrease when compared with 2Q17. Net interest and similar income increased by S/ 2.9 million or 14.9% when compared to the same period in the previous year.

Interest and similar income decreased by S/ 3.2 million or 8.1% QoQ due to a lower seasonal performance of income on investments available for sale. Compared with

3Q16, interest and similar income increased by S/ 1.3 million or 3.9% in 3Q17 mainly attributed to income due from banks and inter-banks funds.

Interest and similar expenses decreased by S/ 0.9 million or 6.5% QoQ and by S/ 1.6 million or 10.7% YoY due to lower expenses related to deposits and obligations.

Net interest and similar income					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Interest and similar income					
Due from banks and inter-bank funds	0.3	0.8	0.9	19.7%	n.m.
Investments available for sale	12.0	14.5	12.2	-16.0%	1.4%
Loans	20.8	20.9	21.0	0.8%	1.0%
Others	1.6	3.1	1.9	-37.9%	24.2%
Total interest and similar income	34.7	39.2	36.0	-8.1%	3.9%
Interest and similar expenses					
Deposits and obligations	-14.4	-13.5	-13.0	-3.6%	-10.1%
Due to banks and correspondents	-0.2	-0.2	0.0	n.m.	n.m.
Others	-0.3	-0.5	-0.4	-29.1%	25.3%
Total interest and similar expenses	-14.9	-14.2	-13.3	-6.5%	-10.7%
Net interest and similar income	19.8	25.0	22.7	-9.1%	14.9%

FEE INCOME FROM FINANCIAL SERVICES

Fee income from financial services, net					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Income					
Brokerage and custody services	2.3	2.9	1.9	-34.8%	-15.6%
Funds management	28.3	25.5	25.8	1.2%	-9.0%
Others	0.8	1.3	1.1	-16.2%	31.3%
Total income	31.4	29.7	28.7	-3.1%	-8.4%
Expenses					
Brokerage and custody services	-0.4	-0.8	-0.6	-28.7%	43.2%
Others	0.0	-0.1	-0.1	n.m.	n.m.
Total expenses	-0.4	-0.8	-0.6	-27.1%	48.9%
Fee income from financial services, net	31.0	28.8	28.1	-2.4%	-9.2%

Fee income from financial services was S/ 28.7 million in 3Q17, a decrease of S/ 1.0 million or 3.1% QoQ due to lower income from brokerage and custody services, partially offset by an increase in funds management income.

Expenses related to fee income from financial services reached S/ 0.6 million in 3Q17, a decrease of S/ 0.2 million or 27.1% QoQ.

As a result of the above, net fee income from financial services was S/ 28.1 million in 3Q17, a decrease of S/ 0.7 million or 2.4% when compared to the previous quarter.

When compared with 3Q16, net fee income from financial services decreased by S/ 2.9 million or 9.2% YoY in 3Q17. The result was mainly attributable to a S/ 2.5 million

decrease in funds management income, while other fee expenses increased by S/ 0.2 million in 3Q17.

OTHER INCOME

Other income					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Net gain on sale of securities	14.5	23.5	20.7	-12.2%	42.1%
Net trading gain (loss)	3.4	-2.6	0.0	n.m.	n.m.
Other	-0.2	0.4	-5.7	n.m.	n.m.
Total other income	17.8	21.3	14.9	-29.9%	-16.1%

Inteligo's other income reached S/ 14.9 million in 3Q17, a S/ 6.4 million or 29.9% decrease QoQ, mainly explained by a 12.2% reduction in net gain on sale of securities and a negative impact in other income related to fees from investments in the proprietary portfolio.

Other income decreased by S/ 2.9 million or 16.1% when compared to 3Q16. This was attributable to a lower net trading gain and the previously mentioned impact in other income, partially compensated by a S/ 6.2 million or 42.1% increase in net gain on sale of securities in 3Q17.

OTHER EXPENSES

Other expenses					
S/ million	3Q16	2Q17	3Q17	%chg QoQ	%chg YoY
Salaries and employee benefits	-11.5	-11.4	-11.8	2.9%	2.4%
Administrative expenses	-6.9	-6.6	-6.8	2.8%	-0.6%
Depreciation and amortization	-1.8	-1.9	-2.1	9.5%	13.0%
Impairment loss on available for sale investments	0.0	0.0	-3.5	n.m.	n.m.
Other	0.0	0.0	0.0	n.m.	n.m.
Total other expenses	-20.2	-20.0	-24.2	21.1%	19.7%
Efficiency ratio	29.5%	26.6%	31.4%		

Inteligo's other expenses in 3Q17 increased by S/ 4.2 million or 21.1% when compared to 2Q17. The result was mainly due to a S/ 3.5 million impairment loss on available for sale investments in 3Q17.

Other expenses reached S/ 24.2 million in 3Q17, an increase of S/ 4.0 million or 19.7% YoY. The result was mainly explained by the previously mentioned impairment loss and by higher salaries and employee benefits, as well as higher depreciation and amortization.

Excluding impairment charges, total other expenses would have reached S/ 20.7 million in 3Q17, a S/ 0.7 million or 3.5% increase QoQ and a S/ 0.5 million or 2.5% increase YoY.