

CREDICORP LTD
Form 6-K
May 07, 2013

First Quarter 2013 Results

Lima, Peru, May 06, 2013 - Credicorp (NYSE:BAP) announced today its unaudited results for the first quarter of 2013. These results are reported on a consolidated basis in accordance with IFRS in nominal U.S. Dollars.

HIGHLIGHTS

Following a period of volatility in the markets for the US currency which led to a 1.5% devaluation of the local currency by the end of the 1Q13, Credicorp reported for this 1Q of the year net earnings after minority interest of US\$181.52 million, after deducting a US\$18.6 million translation loss from its operating results. This result was 9.3% lower than the US\$200.2 million reported in the last Q of 2012, which in turn included a translation gain of US\$30.5 million. Consequently, ROAE fell to reach 17.5% for the Q.

Nevertheless, operating trends were very strong with operating income increasing 16% to reach US\$276.5 million this 1Q. Loan book growth, measured in average daily balances was also in line with business activity in the Peruvian markets and reached 4.1% for the Q. However, Q-end balances do not adequately reflect this solid growth and showed an increase of only 0.9%. This is the result of a very steep peak in booked balances at the end of the year 2012.

Given the good growth in average daily balances, net interest income expanded 4.6%. This number understates growth slightly given the effect of the devaluation of the local currency. Furthermore, NIM for loans improved 16bps to 8.15% as a result of the good expansion of outstanding balances in most of retail products and better pricing.

However, a 9bp decrease in BAP's global NIM was reported for the Q as a result of increased investments in Central Bank CDs, which led this indicator to situate at 4.87% in 1Q13.

Non-financial income contracted slightly mainly due to lower gains on the sale of securities.

The insurance business (excluding the medical venture) was impacted by higher claims in the P&C businesses, which were associated with the rainy season which extends from December to March, and reported a 29.8% drop in its underwriting result.

Q-end balances, which fail to reflect growth with the same clarity as average daily balances, reported low growth of 0.9% and made the PDL-ratio increase stronger. PDL expansion was, however, within our expectation as the retail portfolio matures, and the portfolio mix continues to move towards a higher concentration of retail banking loans. Thus, Credicorp's PDL ratio jumped 24 bps to 1.97% in the 1Q. In fact, given that delinquencies are well within expected ranges, the level of provisions has remained below the expected level of 2% of loans, reaching only 1.8% of the average portfolio.

Operating expenses dropped 8.1% after the seasonally high peak of the 4Q. This pattern in expenses repeats every year. The contraction this Q was also helped by the exchange rate move and was mainly reflected in the administrative and general expenses.

In all reported lines, the 1.5% devaluation for the 1Q13 softened growth numbers, and ultimately led to a translation loss of US\$18.6 million and an 18% increase in the effective tax rate. These factors resulted in the substantial drop in bottom line results and ROAE reported.

Similar as for Credicorp, this 1Q13, BCP was affected by the exchange rate move and reported US\$142 million in net income, which led to a 17% decrease in its contribution to Credicorp, which totaled US\$138.7 million. ROAE for BCP reflected this effect and dropped to 20.8%

BCP Bolivia reported net income of US\$4.8 million, up 19.7% QoQ. Net interest income remained stable as its loan book was flat, but income generation was supported by growth in non-financial income (+7.8%) and a decline in

provisions, leading to a stronger bottom line despite the tax levied on sales of foreign currency (in effect since December 2012). Edyficar on the other hand, posted a 32.8% higher operating result, but was also affected by translation results and reported a lower contribution to BAP for the Q of US\$7.9 million vs. US\$11 million last Q. Atlantic Security Bank (ASB) reported net income of US\$15.5 million in 1Q13, which represented an increase of 13.1% with regard to 4Q12's figure. This increase, which was primarily attributable to income from sales of investment assets, helped increase its annualized ROAE this quarter to 30.8%, up from 25.8% in 4Q12. At Pacifico Grupo Asegurador (PGA), net premium growth was 2.9% for the 1Q. However, due to recurring seasonal increases in claims during the rainy season which stretches from December through March of each year, technical results in the P&C business posted a drop of 67% QoQ, leading to 26.9% lower total underwriting result for PGA. The medical insurance business and the Life business had better results; however PGA also had to absorb a translation loss of about US\$2 million. Consequently, PGS's contribution to Credicorp was US\$11.3 million this Q, which reflects a 33% decrease QoQ, but represents a significant improvement of 133% YoY. ROAE was therefore 6%, or 10% when adjusting its equity for unrealized gains on the life business portfolio-investments. In 1Q13, Prima AFP's net income and contribution to Credicorp totaled US\$ 11.6 million, up 43% with regard to 4Q12. This reflects Prima's privileged position as the only entity authorized to capture all new affiliations until the new AFP winner of the latest bid is up and running. In addition, in 4Q an extraordinary deferral of income had to be implemented and explains part of the differential. Prima's ROAE reached a very strong 29.6%. Overall, Credicorp posted good operating growth, but negatively affected by the exchange rate move.

I. Credicorp Ltd.

Overview

Following a period of volatility in the markets for the US currency which led to some strengthening of the US Dollar, our local currency devalued 1.5% by the end of the 1Q13. In this context, Credicorp reported net earnings after minority interest of US\$181.5 million this Q, after deducting a US\$18.6 million translation loss from its operating results. This result was 9.3% lower than the US\$200.2 million reported in the last Q of 2012, which in turn included a translation gain of US\$30.5 million. Consequently, ROAE dropped to 17.5% for the Q.

However, operating trends were very strong with operating income increasing 16% to US\$276.5 million this 1Q from US\$ 238.3 million in 4Q12. This result is particularly positive given the impact that local currency devaluation has on income generation.

Loan book growth, measured in average daily balances was also in line with the good business activity in the Peruvian markets and reached 4.1% for the Q. However, Q-end balances fail to reflect this solid growth and showed an increase of only 0.9%. This is the result of a very steep peak in booked balances given the good commercial activity that accompanies the holiday season and beginning of summer at the end of the year and typical post-Holidays loan-repayments.

This expansion in average daily balances was reported across the portfolio. Wholesale banking grew its average daily balances 4% in the 1Q due to a strong demand for medium and long term financing despite strong competition from capital market alternatives and international banks. Further, retail banking daily outstanding balances including Edyficar grew 4.4% and reflected some seasonality: loan growth is typically lower the 1Q of every year after the Christmas season. The most extraordinary QoQ growth rates were reported at Edyficar, which posted an expansion of 11.2%, followed by mortgages with 5.6%, and consumer lending with 4.5%, while the credit card business which is being carefully monitored grew at a lower 1.7% for the Q.

Given the sound growth in average daily balances throughout the Q, net interest income expanded 4.6%. The strength of this growth is not fully evident given the effect of the devaluation. Furthermore, NIM for loans improved 16bps to 8.15% as a result of the good expansion of outstanding balances for most retail products, as well as stronger income generation following the price corrections introduced last year. However, a 9bp decrease in BAP's global NIM was reported for the Q as a result of increased investments in Central Bank CDs, an activity which depresses the total NIM

given that they offer low or negligible margins, but reduces the effective tax rate through the tax shields they generate, which in turn makes them an attractive investment. This led this indicator to situate at 4.87% in 1Q13.

Non-financial income contracted slightly mainly due to lower gains on the sale of securities.

Q-end balances, which fail to reflect growth with the same clarity as average daily balances, reported low growth of 0.9% and made the PDL-ratio increase stronger. PDL expansion was, however, within our expectation as the retail portfolio matures, and the portfolio mix continues to move towards a higher concentration of retail banking loans. Thus, Credicorp's PDL ratio jumped 24 bps to 1.97% in the 1Q for total delinquencies and 21bps to 1.35% for 90-day delinquencies. In fact, given that delinquencies are well within expected ranges, and the low growth in Q-end balances, the level of provisions remained below the expected level of 2% of loans, reaching only 1.8% of the average portfolio.

The insurance business, however, did not have a good quarter since the P&C segment of the insurance business, suffered severe casualties during the rainy season which extends from December to March, and reported a sharp drop in technical results of 67% QoQ, leading to the 29.8% drop in total underwriting results of the insurance group. Furthermore, the medical services venture reported also 26.6% lower technical results of US\$5.5 million for the Q.

Operating expenses dropped 8.1% after the seasonally high peak of the 4Q. This trend repeats every year, and is also present this 1Q despite the continuing expansion of the business (14 new branches opened and 81 new ATMs installed in the period). The contraction in expenses reported in our USD results was helped along by the exchange rate move and was mainly evident in the administrative and general expenses.

The fluctuations in the exchange rate, which resulted in 1.5% devaluation for the 1Q13, affected several lines softening growth of both income and expenses, and led to a translation loss of US\$18.6 million and an 18% increase in the effective tax rate, which resulted in a substantial drop in both bottom line results and ROAE.

Notwithstanding, behind the impact of the devaluation of the currency, the results of Credicorp's businesses are strong and in line with the expected growth and profitability ratios, portfolio quality is sound, provisions are lower than expected and fee income remains strong, which led to solid growth in operating income.

Credicorp Ltd. US\$ 000	Quarter			Change %		
	1Q13	4Q12	1Q12	QoQ	YoY	
Net Interest income	450,648	430,736	372,252	4.6 %	21.1 %	
Net provisions for loan losses	(94,782)	(102,964)	(69,639)	-7.9 %	36.1 %	
Non financial income	282,199	290,576	237,819	-2.9 %	18.7 %	
Insurance services technical result	35,717	50,894	5,536	-29.8 %	545.2 %	
Medical Services Technical Result	5,534	7,538	4,306	-26.6 %	28.5 %	
Operating expenses (1)	(402,857)	(438,465)	(310,571)	-8.1 %	29.7 %	
Operating income (2)	276,459	238,315	239,703	16.0 %	15.3 %	
Core operating income	276,459	238,315	239,703	16.0 %	15.3 %	
Non core operating income	-	-	-	-	-	
Translation results	(18,646)	30,475	13,185	-161.2 %	-241.4 %	
Income taxes	(72,400)	(61,585)	(60,073)	17.6 %	20.5 %	
Net income	185,413	207,204	192,814	-10.5 %	-3.8 %	
Minority Interest	3,891	7,016	3,702	-44.5 %	5.1 %	
Net income attributed to Credicorp	181,522	200,189	189,113	-9.3 %	-4.0 %	
Net income / share (US\$)	2.28	2.51	2.37	-9.3 %	-4.0 %	
Total loans	21,674,015	21,476,520	18,094,523	0.9 %	19.8 %	
Deposits and obligations	25,303,600	24,050,779	21,181,704	5.2 %	19.5 %	
Net shareholders' equity	4,120,184	4,167,968	3,493,753	-1.1 %	17.9 %	
Net interest margin	4.87 %	4.96 %	5.03 %			
Efficiency ratio	43.7 %	48.4 %	40.7 %			
Return on average shareholders' equity	17.5 %	19.6 %	22.0 %			
PDL ratio	1.97 %	1.73 %	1.66 %			
PDL over 90 days	1.35 %	1.14 %	1.16 %			
NPL ratio (3)	2.60 %	2.39 %	2.21 %			
Coverage ratio of PDLs	172.8 %	187.7 %	188.0 %			
Coverage of NPLs	131.2 %	136.0 %	141.0 %			
Employees	27,013	26,541	22,863			

(1) Employees' profit sharing is registered in Salaries and Employees Benefits since 1Q11 due to local regulator's decision.

(2) Income before translation results and income taxes.

(3) NPLs: Non-performing loans = Past due loans + Refinanced and restructured loans. NPL Ratio = NPLs / Total loans.

Credicorp – The Sum of Its Parts

Credicorp's business development in 1Q13 continued to be strong, but felt the impact of a slight devaluation which, given the nature of our business and the particularities of our financial system generated some translation losses and distorted to certain extent the evaluation of our business performance given that significant portions of our business are today Nuevos Soles denominated, and our portfolios are becoming also predominantly denominated in Nuevos Soles.

Therefore, we focus on analyzing our real business trends and results beyond the distortions generated by the exchange rate fluctuations to make the appropriate management decisions to support growth over the next few years. Our strategy remains focused on growth, and we are confident that we are taking an adequate approach to growing our retail business using cutting-edge tools for retail risk management, adjusting our pension fund business to the new regulatory framework, and confronting the challenges that lay ahead in the process to get our new Regional Investment Bank up and running.

Similar to Credicorp, BCP was also affected by the exchange rate move and reported US\$141.9 million in net income. This led to a 17% decrease in its contribution to Credicorp, which totaled US\$138.7 million (excluding the investment banking activities which are now reported separately at BCP Capital and in the future at Credicorp Capital). As previously explained, BCP's business expansion this Q was sound and income generation remained strong, though affected by the translation losses generated by the small devaluation of our local currency we referred to before. ROAE for BCP reflected this effect and dropped to 20.8% for the Q.

Earnings contribution to Credicorp US\$ 000	Quarter			Change %	
	1Q13	4Q12	1Q12	QoQ	YoY
Banco de Crédito BCP (1)	138,740	166,701	166,602	-17 %	-17 %
BCB (2)	4,674	3,904	5,420	20 %	-14 %
Edyficar	7,853	10,942	7,733	-28 %	2 %
BCP Capital (3)	2,891	3,059	-	-6 %	100 %
Pacifico Grupo Asegurador	11,259	16,895	4,823	-33 %	133 %
Atlantic Security Bank	15,501	13,706	11,552	13 %	34 %
Prima	11,617	8,123	9,166	43 %	27 %
Eliminations (4)	-	(4,284)	-	100%	0 %
Credicorp Inv. (5)	2,231	3,337	-	-33 %	100 %
Credicorp Ltd. (6)	1,884	(5,681)	(2,499)	133 %	175 %
Others (7)	(2,601)	(1,667)	(532)	-56 %	-389 %
Net income attributable to Credicorp	181,522	200,189	189,113	-9 %	-4 %

(1) Includes Banco de Crédito de Bolivia and Edyficar.

(2) Figure is lower than the net income generated by BCB because Credicorp owns directly and indirectly 97.7% of BCP.

(3) BCP Capital is composed of Credibolsa, Credifondo, Credititulos and the Corporate Finance Business.

(4) Elimination resulted from Prima's sale of property to PPS.

(5) Credicorp Investments is composed of BCP Chile, IMTrust, Credicorp Inv. Individual.

(6) Includes taxes on BCP's and PPS's dividends, and other expenses at the holding company level.

(7) Includes Grupo Crédito excluding Prima (Servicorp and Emisiones BCP Latam), others of Atlantic Security Holding Corporation and others of Credicorp Ltd.

BCP Bolivia reported net income of US\$ 4.8 million, up 19.7% QoQ. Net interest income remained solid thanks to good portfolio growth that was supported by an expansion in non-financial income (+7.8%) and a decline in provisions, which led to a stronger bottom line despite the tax levied on sales of foreign currency (in effect since

December 2012).

Edyficar evolved extremely well this 1Q13 and reported a 32.8% increase in operating income to reach US\$ 14 million. This was primarily due to excellent portfolio growth of 6.6% for the Q, low delinquencies and therefore low provisions. However, also Edyficar suffered the effects of the currency fluctuation and the strengthening of the US Dollar and reported a translation loss that depressed net income to US\$ 8 million, 28.2% down from US\$11.2 million in 4Q12.

Atlantic Security Bank (ASB) reported net income of US\$15.5 million in 1Q13, which represented an increase of 13.1% with regard to 4Q12's figure. Although ASB's wealth management business performed well and increased its core results 3.6% for the Q, the stronger bottom line increase was attributable primarily to income from sales of investment assets as a specific fund was liquidated, which helped increase its annualized ROAE this quarter to 30.8%, up from the 25.8% reported in 4Q12.

At Pacifico Grupo Asegurador (PGA), net premium growth was 2.9% for the 1Q. However, recurring seasonal increases in claims during the rainy season which stretches from December through March of each year, led to 67% lower technical results QoQ for that business segment (but 220% better than a year ago), becoming the main reason for the drop in total underwriting results for PGA of 29.8%. The Life business also had a good contribution to PGA of US\$ 14.9 million. Furthermore, it is important to point out that the FX impact on the insurance group represented US\$2 million in translation losses, contributing to the drop of PGA's contribution to Credicorp, which reached US\$11.3 million this Q, 33% less than the 4Q12. However, on a yearly comparison, PGA performed significantly better in all business segments, something reflected in its bottom line results which were 133% higher this 1Q of 2013. ROAE was therefore 10% when adjusting its equity deducting unrealized gains on the life business portfolio-investments, and 6% with reported equity.

In 1Q13, Prima AFP's net income and contribution to Credicorp totaled US\$11.6 million, up 43% with regard to 4Q12. This reflects Prima's privileged position as the only entity authorized to capture new affiliations until the new AFP winner of the latest bid is up and running, which is expected to be until June. In addition, in 4Q an extraordinary deferral of income had to be implemented and explains part of the differential. Consequently, Prima's ROAE reached a very strong 29.6%.

Credicorp Investments consolidated part of the results of the investment bank (IM Trust, Chile) because the process of transferring assets and business to the newly created regional investment bank, Credicorp Capital, is still underway.

Credicorp Ltd's line mainly includes provisions for tax retention on dividends paid to Credicorp and interest on investments in specific Peruvian companies. This 1Q, tax provisions were extensively off-set by dividend income leaving US\$1.9 million additional income for Credicorp.

The *Others* account encompasses the holding's different companies, mainly Grupo Crédito, which controls start-up operations such as Tarjeta Naranja (which is still in the red and explains most of the loss reported) and no longer holds the investment banking entities which are now separate and in the process of consolidation under Credicorp Capital.

Overall, Credicorp posted good growth and operating performance for the Q. Its earnings generation was robust despite significant investments and cost expansion, but significantly affected by the FX volatility and devaluation of the local currency for the period. ROAE was therefore strongly affected and dropped to 17.5% for the 1Q13.

The chart below is included for the first time in this report and reflects Credicorp's capital requirements and capital position as a holding.

Regulatory Capital and Capital Adequacy Ratios	Balance as of			Change %		
	Mar13	Dec12	Mar12	13 / Dic 12	Mar 13 / Mar 12	
US\$ (000)						
Capital (1)	490,051	505,164	504,256	-3.0 %	-2.8	%
Legal and Other capital reserves (2)	2,895,550	2,306,561	2,319,050	25.5 %	24.9	%
Minority interest (3)	105,263	95,450	53,513	10.3 %	96.7	%
Loan loss reserves (4)	300,817	297,825	242,969	1.0 %	23.8	%

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Perpetual subordinated debt	227,500	227,500	222,439	0.0 %	2.3	%
Subordinated Debt	1,138,246	1,133,970	790,057	0.4 %	44.1	%
Investments in equity and subordinated debt of financial and insurance companies	(203,023)	(198,756)	(208,257)	2.1 %	-2.5	%
Goodwill	(376,410)	(392,097)	(195,655)	-4.0 %	92.4	%
Deduction for Tier I Limit (50% of Regulatory capital) (5)	-	-	(3,721)	-	-100.0	%
Total Regulatory Capital (A)	4,577,993	3,975,616	3,728,372	15.2 %	22.8	%
Tier I (6)	2,801,815	2,168,561	1,862,326	29.2 %	50.4	%
Tier II (7) + Tier III (8)	1,776,178	1,807,055	1,862,326	-1.7 %	-4.6	%
Financial Consolidated Group (FCG) Regulatory Capital Requirements (9)	3,476,635	3,367,681	2,452,058	3.2 %	41.8	%
Insurance Consolidated Group (ICG) Capital Requirements (10)	294,896	274,620	231,416	7.4 %	27.4	%
Deduction from consolidation on the Financial Consolidated Group	(48,136)	(24,179)	(24,363)	99.1 %	97.6	%
Deduction from consolidation on the Insurance Consolidated Group	-	-	-	-	-	
Total Regulatory Capital Requirements (B)	3,723,395	3,618,122	2,659,111	2.9 %	40.0	%
Regulatory Capital Ratio (A) / (B)	1.23	1.10	1.40	11.9 %	-12.3	%
Required Regulatory Capital Ratio (11)	1.00	1.00	1.00			

FCG = Financial consolidated group.

ICG = Insurance consolidated group.

(1) As of march, 2013, capital includes US\$ 471.9 million of capital stock , US\$ 93.0 million of additional capital and (US\$ 74.9 million) of treasury stocks.

(2) *Legal and Other capital reserves include special reserves (those that can be reduced only after receiving approval from the Peruvian regulator - US\$ 2,458 million, "reservas restringidas") and voluntary reserves ("reservas facultativas", US\$ 437 million).*

(3) *Minority Interest includes US\$ 105.1 million from minority interest Tier I capital stock and reserves and USS 0.1 million from minority interest tier II capital stock and reserves.*

(4) *Up to 1.25% of total risk-weighted assets of Banco de Crédito del Perú (US\$ 2,210.5 million), Banco de Crédito de Bolivia (US\$ 88.0 million), Solución Empresa Administradora Hipotecaria (US\$ 14.9 million), Financiera Edyficar (US\$ 86.1 million) and Atlantic Security Bank (US\$ 113.9 million).*

(5) *Tier II + Tier III can not be more than 50% of total regulatory capital.*

(6) *Tier II = Capital + special reserves + tier I capital stock and reserves from minority interest Goodwill - (0.5 x Investment in equity and subordinated debt of financial and insurance companies) + Perpetual subordinated debt.*

(7) *Tier II = Subordinated debt + minority interest tier II capital stock and reserves + Loan loss reserves - (0.5 x Investment in equity and subordinated debt of financial and insurance companies).*

(8) *Tier III = Subordinated debt covering market risk only.*

(9) Includes regulatory capital requirements of the financial consolidated group.

(10) Includes regulatory capital requirements of the insurance consolidated group.

(11) Regulatory Capital / Total Regulatory Capital Requirements (legal minimum = 1.00).

In general terms, Credicorp maintains a comfortable level of capitalization, which is 1.23 times higher than the minimum required regulatory capital according to the regulator's principles (Basel 2). It is important to point out that Tier1 capital represents 61.2% of Credicorp's total regulatory capital as of March 2013.

As is evident in the table, the lion's share of capital requirements is associated to the financial business, where BCP represents 77.9%.

Credicorp's income generation, coupled with the corporation's policies on retained earnings, dividend payments, capitalization of earnings and reserve building, has allowed Credicorp to build a comfortable capital reserve to support its business expansion.

In addition, Credicorp has approximately US\$ 600 million in liquid investments that could be used at any time to reinforce its regulatory capital.

II. Banco de Crédito del Perú Consolidated

Summary 1Q13

In 1Q13, BCP reported net income of US\$ 141.9 million, which represents a ROAE of 20.8% and a ROAA of 1.6%. Although this figure is 17% lower than that registered last quarter, it is important to note that this decline was attributable to the 1.5% quarterly devaluation in the Nuevo Sol against the US Dollar. In fact, if we analyze the operating income (US\$ 221.6 million on 1Q13), which is also affected by the devaluation of the Nuevo Sol, it reported a significant increase of 16.7% QoQ, which indicates that the banking business has actually performed extremely well despite the variation in the exchange rate.

If we exclude the impact of approximately US\$ 24.2 million that was generated by a devaluation in the Nuevo Sol (US\$ 15.7 million for translation loss, US\$ 4.7 million for expenses related to foreign currency forwards, and US\$ 3.8 million to increase income tax provisions), net income would have totaled US\$ 166.1 million in 1Q13 with a ROAE of 24.4% and an ROAA of 1.8%.

Good business development this quarter is evident in the growth posted in BCP's operating income, which was due primarily to:

- Growth of +4.4% in net interest income (NII), which would have been +5.7% had the Nuevo Sol not devaluated. This expansion was due primarily to +3.1% growth in interest income on loans; this was in line with a +4.1% QoQ increase in average daily balances, which was due primarily to the good dynamic seen in Wholesale Banking (+4% QoQ) and Retail Banking (+3.8% QoQ). The aforementioned offset the slight increase in interest expenses (+1.7% QoQ);
- ii) The +7.2% increase in fee income from banking services, which helped significantly offset the decline in gains on sales of securities (-75.9%);
- iii) The -8.2% reduction in net provisions for loan losses due to fewer charge-offs of this quarter; and
- iv) The -5.1% decline in operating expenses. This was due primarily to the -14.5% contraction in administrative expenses, which is in line with the seasonality that affects these items in the fourth quarter of every year and the effect of the devaluation of the Nuevo Sol, which accounts for approximately 23% of the reduction in operating expenses in 1Q13.

The satisfactory evolution of NII contributed to the fact that the NIM only fell 11 bps -despite a significant investment in BCR Certificates of Deposits (which reduce the NIM given that their benefit is reflected in the tax shield they generate)- and situated at 4.96% this quarter. Nevertheless, the NIM on loans continued its upward trend and increased 16 bps due to the dynamic in Retail Banking as well as the slight improvement in Corporate Banking's margins, which was associated with the mid-term financing placed this quarter.

The efficiency ratio improved significantly, going from 55.7% last quarter to 50.6% due to a 4.6% QoQ increase in core income and the aforementioned reduction in operating expenses.

D> (i) sole power to vote or to direct the vote: COPS III 219,106 COPS IV 173,731 COPS IV
 OFF 223,826 PSERS 28,359 Sankaty
 Advisors 61,827 PRO 60,311 SHIP 39,630 UCAL 17,216 (ii) shared power to vote or to direct the
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 OFF 223,826 PSERS 28,359 Sankaty
 Advisors 61,827 PRO 60,311 SHIP 39,630 UCAL 17,216 (iv) shared power to dispose or to direct the disposition
 of: 0

Item 5.

Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following.

Item 6.

Ownership of More than Five Percent on Behalf of Another Person Not Applicable.

Item 7.

Identification and Classification of the Subsidiary which Acquired the Security Being Reported on by the Parent Holding Company: Not Applicable.

Item 8.

Identification and Classification of Members of the Group Not Applicable.

Item 9.

Notice of Dissolution of Group Not Applicable.

Item 10. **Certification**

By signing below, the undersigned certifies that, to the best of its knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Dated: February 10, 2012

SANKATY CREDIT OPPORTUNITIES III, L.P.

By: Sankaty Credit Opportunities Investors III, LLC, its general partner

By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine

Name: Jonathan S. Lavine

Title: Managing Member

SANKATY CREDIT OPPORTUNITIES IV, L.P.

By: Sankaty Credit Opportunities Investors IV, LLC, its general partner

By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine

Name: Jonathan S. Lavine

Title: Managing Member

SANKATY CREDIT OPPORTUNITIES (OFFSHORE) IV, L.P.

By: Sankaty Credit Opportunities Investors (Offshore) IV, L.P., its general partner.

By: Sankaty Credit Member (Offshore), Ltd., its general partner

By: /s/ Jonathan S. Lavine

Name: Jonathan S. Lavine

Title: Managing Member

SANKATY MANAGED ACCOUNT (PSERS), L.P.

By: Sankaty Managed Account Investors, LLC, its general partner

By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine

Name: Jonathan S. Lavine

Title: Managing Member

SANKATY ADVISORS, LLC
as power-of-attorney for a managed account client

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

PROSPECT HARBOR CREDIT PARTNERS, L.P.

By: Prospect Harbor investors, LLC, its general partner
By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

SANKATY HIGH INCOME PARTNERSHIP, L.P.

By: Sankaty High Income Investors, L.P., its general partner
By: Sankaty Credit Member, its general partner

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

SANKATY MANAGED ACCOUNT (UCAL), L.P.

By: Sankaty Managed Account Investors (UCAL), LLC,
its general partner
By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

AGREEMENT REGARDING THE JOINT FILING OF SCHEDULE 13G

The undersigned hereby agree as follows:

- (1) Each of them is individually eligible to use the Schedule 13G to which this Exhibit is attached, and such Schedule 13G/A is filed on behalf of each of them; and
- (2) Each of them is responsible for the timely filing of such Schedule 13G and any amendments thereto, and for the completeness and accuracy of such information concerning such person contained therein; but none of them is responsible for the completeness or accuracy of the information concerning the other persons making this filing, unless such person knows or has reason to believe that such information is inaccurate.

Dated: February 10, 2012

SANKATY CREDIT OPPORTUNITIES III, L.P.

By: Sankaty Credit Opportunities Investors III, LLC, its
general partner

By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

SANKATY CREDIT OPPORTUNITIES IV, L.P.

By: Sankaty Credit Opportunities Investors IV, LLC, its
general partner

By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

SANKATY CREDIT OPPORTUNITIES (OFFSHORE)
IV, L.P.

By: Sankaty Credit Opportunities Investors (Offshore)
IV, L.P., its general partner.

By: Sankaty Credit Member (Offshore), Ltd., its general
partner

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

SANKATY MANAGED ACCOUNT (PSERS), L.P.

By: Sankaty Managed Account Investors, LLC, its
general partner
By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

SANKATY ADVISORS, LLC

as power-of-attorney for a managed account client

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

PROSPECT HARBOR CREDIT PARTNERS, L.P.

By: Prospect Harbor investors, LLC, its general partner
By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

SANKATY HIGH INCOME PARTNERSHIP, L.P.

By: Sankaty High Income Investors, L.P., its general
partner
By: Sankaty Credit Member, its general partner

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member

SANKATY MANAGED ACCOUNT (UCAL), L.P.

By: Sankaty Managed Account Investors (UCAL), LLC,
its general partner
By: Sankaty Credit Member, LLC, its managing member

By: /s/ Jonathan S. Lavine
Name: Jonathan S. Lavine
Title: Managing Member