Management's Discussion and Analysis of Financial Condition and Results of Operations

Fourth Quarter 2019

May, 2020

Index

I. Overview

Intercorp is a holding company for one of Peru's largest business groups. Focused on Peru's growing middle class, it provides a variety of services to satisfy consumers' evolving preferences for modern goods and services. Intercorp's cash flows are primarily generated by dividends from subsidiaries. Intercorp's businesses are mainly focused on three industries: financial services; retail (including shopping malls); and education. Intercorp manages its businesses primarily through two principal holding companies, Intercorp Financial Services ("IFS") and Intercorp Retail.

IFS is a leading provider of financial services in the fast-growing, underpenetrated and profitable Peruvian financial system. With one of the largest distribution networks in Peru (as measured by the number of financial stores, ATMs, correspondent agents and sales force), IFS provides a wide range of products spanning banking, insurance and wealth management services to individual and commercial clients, through its main subsidiaries: Interbank, a universal bank; Interseguro, an insurance company; and Inteligo, a wealth management services provider. IFS' subsidiaries are managed with a coordinated strategy focusing on specific businesses that are believed to offer high growth, high margin opportunities.

Intercorp Retail is the holding company for retail and shopping malls businesses. Intercorp Retail controls InRetail Perú. InRetail Perú owns: a leading supermarket chain, Supermercados Peruanos; two pharmacy chains, Inkafarma and Mifarma; and the largest developer and operator of shopping malls operating under the Real Plaza brand. Separately, Intercorp Retail also controls other retail businesses, such as Promart, chain of home improvement stores, Oechsle, department store chain, and Financiera Oh!, a consumer financing company.

Intercorp began investing in education in 2010 and is rapidly expanding its footprint into this sector. Their education businesses, Innova Schools, UTP and Zegel IPAE, are operated through other subsidiaries within Intercorp's corporate structure. Innova Schools is a scalable network of private K-12 schools operating in 49 locations across Peru and 1 in Mexico. UTP consists of a university and a technical school, with more than 80,000 students. Zegel IPAE complements the education portfolio with a technical school focused on specialized business careers.

Relevant Developments

<u>Intercorp Financial Services – IPO</u>

On July 3, 2019, following the approval by the Board, Intercorp Financial Services, Subsidiary de Intercorp, filed with the Securities and Exchange Commission of the United States of America (henceforth "SEC"), a Registration Statement under Form F-1 of the Securities Exchange Act of 1933 of the United States of America, in relation with a proposal of an Initial Public Offering of IFS's common shares (henceforth "the Offering").

On July 18, 2019, IFS announced the placement of the Offering of approximately 9,000,000 common shares at a price of US$46.00 per common share. The sale was performed by (i) IFS, (ii) Interbank, (iii) Intercorp Perú Ltd., and (iv) a non-related shareholder. Also, IFS granted the Offering placers a 30-day call option for up to 1,350,000 additional new common shares, as an additional initial issuance.

As part of the Public Offering, IFS sold 2,418,754 common shares held as treasury stock (including shares sold to Interbank), as well as 1,150,000 new common shares to be issued. Intercorp Perú sold 2,531,246 shares, and the non-related shareholder sold 3,000,000 shares. Also, the Offering placers exercised the call option regarding 1,186,841 new common shares.

In this sense, Intercorp Perú and Subsidiaries jointly sold 7,286,841 shares at US$46.00 per share. The sale value amounted to approximately US$ 335.2 million (before issuance expenses).

The total impact of the Offering over Intercorp Perú's net equity, after discounting the issuance expenses, amounted to S/ 495.5 million, which is mainly explained by:

(1) Issuance of 2,336,841 shares and sale of shares held as treasury stock by IFS (2,418,754 shares) with a total impact of S/ 288 million registered in retained earnings.
(2) Sale of shares held by Intercorp Perú (2,531,246 shares), which generated a net gain of the investment cost (S/ 160.8 million) amounting to S/ 207.5 million which is presented in the caption "Gain from Initial Public Offering of Subsidiary" in the statements of income.

Intercorp Bonds

(i) In July 2019, the Company performed a private offering abroad and on the local market of bonds denominated "3.875 Senior Notes due 2029" and "5.78125 Senior Notes due 2029" for US$ 325 million and S/ 300 million, respectively. The bonds were issued under Rule 114A and Regulation S of the U.S. Securities Act of 1993 of the United States of America. The proceeds from these issuances were used mainly for:

- The repurchase and redemption of corporate bonds "5.875% Secured Notes due 2025" issued by Intercorp Perú and payment of the premium for the repurchase of said bonds.

- Payment of other financial obligations.

- The remaining balance for general corporate purposes.

Issuance expenses amounted to approximately S/ 39 million, which are presented as an issued bonds deduction; as of December 31, 2019, have accrued as part of the interest rate approximately S/ 0.5 million.

(ii) In July 2019, Intercorp Perú performed the repurchase of corporate bonds denominated "5.875% Senior Notes due 2025"; which originated the premium payment for approximately US$11.4 million (equivalent to S/ 37.6 million).

II. Results Analysis

The table below details Intercorp's assets and equity in its main businesses as of December 31, 2019 and December 31, 2018.

	As of December 31, 2019				As of December 31, 2018			
	Assets		Equity		Assets		Equity	
	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%
IFS								
Interbank (banking)………………………………………	52,975.8	56.7%	6,342.9	41.8%	47,440.4	57.8%	5,501.9	44.4%
Interseguro (insurance)…………………………………….	13,917.6	14.9%	973.9	6.4%	12,572.4	15.3%	777.1	6.3%
Inteligo (wealth management)…………………………….	4,098.1	4.4%	853.8	5.6%	3,808.9	4.6%	764.9	6.2%
IFS (holding company) and eliminations…………………	528.0	0.6%	732.8	4.8%	41.0	0.0%	44.7	0.4%
Total IFS……………………………………………………..	71,519.5	76.5%	8,903.4	58.6%	63,862.7	77.8%	7,088.5	57.2%
Intercorp Retail								
Supermercados Peruanos (supermarkets)………………	5,003.2	5.4%	1,086.3	7.2%	3,697.6	4.5%	2,227.9	18.0%
Inkafarma (pharmacies)…………………………………..	5,611.8	6.0%	776.5	5.1%	5,079.5	6.2%	1,012.4	8.2%
InRetail Shopping Malls (shopping malls)……………….	5,223.8	5.6%	2,524.6	16.6%	4,460.5	5.4%	600.8	4.8%
Other [1]……………………………………………………………	3,613.3	3.9%	1,296.3	8.5%	3,550.1	4.3%	1,279.4	10.3%
Total Intercorp Retail……………………………………..	19,452.0	20.8%	5,683.7	37.4%	16,787.7	20.4%	5,120.5	41.3%
Other subsidiaries/Intercorp (holding company) and eliminations……………………………………..…	2,510.6	2.7%	595.9	3.9%	1,474.4	1.8%	191.6	1.5%
Total Consolidated………………………………………..	93,482.1	100%	15,183.0	100%	82,124.8	100%	12,400.6	100%

[1] Includes assets and equity attributed to Intercorp Retail as a holding company and other immaterial subsidiaries of Intercorp Retail

i. Intercorp

As a holding company, Intercorp is dependent on its subsidiaries' results of operations for its earnings and cash flows. The following discussion includes the results from operations of Intercorp's subsidiaries that provide the substantial majority of the contribution to its net profit and dividend inflows.

The following table presents information of the unconsolidated income statement regarding the contributions attributable to Intercorp, based on its equity ownership, from its primary businesses for the twelve months ended December 31, 2019 and 2018.

	For the year ended December 31,		Change	
	2019	2018		
	(S/ millions)		(S/ in millions)	%
IFS				
Banking	845.0	769.8	75.1	9.8%
Insurance	128.1	(18.0)	146.1	N/M
Wealth Management	148.4	137.8	10.6	7.7%
IFS expenses and eliminations	(69.1)	(71.1)	2.0	-2.8%
Total IFS	**1,052.4**	**818.6**	**233.8**	**28.6%**
Intercorp Retail				
Supermarkets	71.3	54.3	17.0	31.4%
Pharmacies	181.7	98.9	82.7	83.6%
Shopping malls	187.7	87.8	99.8	113.6%
Other subsidiaries / holding company and eliminations	(67.9)	(91.5)	23.6	-25.8%
Total Intercorp Retail	**372.7**	**149.5**	**223.2**	**149.2%**
Other subsidiaries	(19.9)	(25.0)	5.1	-20.4%
Net profit attributable to Intercorp	**1,405.2**	**943.1**	**462.1**	**49.0%**
Financial expenses, net	(99.0)	(83.1)	(15.9)	19.1%
General expenses	(62.1)	(24.8)	(37.3)	150.0%
Other income (expenses), net	168.1	11.1	157.1	1416.6%
Foreign exchange gain (loss), net	18.2	(28.7)	46.9	N/M
Income (expenses)	**25.3**	**(125.6)**	**150.8**	**N/M**
Net profit	**1,430.5**	**817.6**	**612.9**	**75.0%**

For the twelve months ended December 31, 2019, Intercorp´s net profit was S/1,430.5 million, an increase of S/ 612.9 million compared to the same period in 2018. This was driven by IFS (S/ 233.8 million) due to higher profits from Interseguro; and by Intercorp Retail (S/ 223.2 million), due to higher net profits from Pharma and Shopping Malls; and the absence of one-time financial expenses incurred in 2018 related to the acquisition of Quicorp, at the end of January, and to the associated liability management of the acquisition financing. At the holding level, the sale of IFS shares held by Intercorp Perú generated a net gain amounting to S/ 207.5 million.

ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the year ended December 31, 2019 and 2018.

	For the year ended December 31,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	4,847.2	4,321.3	525.9	12.2%
Interest and similar expense	-1,407.9	-1,170.6	-237.3	20.3%
Net interest and similar income	**3,439.3**	**3,150.7**	**288.6**	**9.2%**
Impairment loss on loans, net of recoveries	-750.8	-660.1	-90.7	13.7%
Recovery (loss) due to impairment of financial investments	-6.8	13.1	-19.9	N/M
Net interest and similar income after impairment loss	**2,681.7**	**2,503.7**	**178.0**	**7.1%**
Fee income from financial services, net	925.9	874.4	51.5	5.9%
Other income	592.1	408.7	183.4	44.9%
Total premiums earned minus claims and benefits	-295.7	-407.5	111.8	-27.4%
Other expenses	-1,978.3	-1,837.5	-140.8	7.7%
Income before translation result and income tax	**1,925.7**	**1,541.9**	**383.8**	**24.9%**
Translation result	17.8	-35.0	52.8	N/M
Income tax	-493.3	-415.5	-77.8	18.7%
Profit for the period	**1,450.1**	**1,091.4**	**358.7**	**32.9%**
Attributable to IFS' shareholders	**1,441.3**	**1,084.3**	**357.0**	**32.9%**
EPS	**12.80**	**9.85**		
ROAE	**18.3%**	**16.6%**		

Profit attributable to shareholders was S/ 1,441.3 million for the year ended December 31, 2019, a S/ 357.0 million, or 32.9%, increase compared to the previous year. The higher profits were mainly driven by growth of S/ 288.6 million in net interest and similar income, S/ 183.4 million in other income and S/ 51.5 million in net fee income from financial services, in addition to a S/ 111.8 million improvement in net insurance underwriting result. These effects were partially offset by increases of S/ 140.8 million in other expenses and S/ 90.7 million in impairment loss on loans, net of recoveries.

It is worth mentioning that in 2018 IFS adopted new mortality tables for its insurance business, which represented a negative impact of S/ 144.8 million, accounted through a higher (negative) adjustment of technical reserves. Additionally, the execution of a Liability Management transaction in the banking segment in 2019 represented a one-off financial expense of S/ 42.5 million, or S/ 29.0 million after taxes. When normalizing from these non-recurring effects in 2018 and 2019, respectively, IFS' profits would have increased 19.7% in the comparing period.

IFS ROAE was 18.3% for the year ended December 31, 2019, higher than the 16.6% reported in 2018. Excluding the non-recurring effects previously mentioned, ROAE was 18.6% in 2019, compared to 18.4% in 2018.

IFS' Segments

The following discussion details the results of operations of each of IFS's three segments: Banking, Insurance and Wealth Management.

Banking

The table below details selected financial information for our Banking segment for the year ended December 31, 2019 and 2018.

	For the year ended December 31,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	4,074.0	3,559.1	514.9	14.5%
Interest and similar expense	-1,290.1	-1,067.7	-222.3	20.8%
Net interest and similar income	**2,783.9**	**2,491.4**	**292.5**	**11.7%**
Impairment loss on loans, net of recoveries	-750.8	-660.9	-89.9	13.6%
Recovery (loss) due to impairment of financial investments	0.0	-0.1	0.1	N/M
Net interest and similar income after impairment loss	**2,033.2**	**1,830.5**	**202.7**	**11.1%**
Fee income from financial services, net	827.1	759.5	67.5	8.9%
Other income	434.3	309.7	124.6	40.2%
Other expenses	-1,611.5	-1,502.7	-108.8	7.2%
Income before translation result and income tax	**1,683.1**	**1,397.0**	**286.0**	**20.5%**
Translation result	-5.6	-10.2	4.6	N/M
Income tax	-449.0	-375.9	-73.0	19.4%
Profit for the period	**1,228.5**	**1,010.9**	**217.6**	**21.5%**
ROAE	**21.2%**	**20.2%**		
Efficiency ratio	**38.9%**	**40.9%**		
NIM	**5.6%**	**5.5%**		

Interbank's net profit reached S/ 1,228.5 million for the year ended December 31, 2019, a 21.5% increase compared to the previous year. The main factors that contributed to this result were growth of 40.2% in other income, 11.7% in net interest and similar income, and 8.9% in net fee income from financial services. These factors were partially offset by increases of 13.6% in loan loss provisions and 7.2% in other expenses.

It is worth mentioning that Interbank's results in 2019 were affected by (i) the gain on sale of Interfondos, Interbank's former mutual funds subsidiary, to Inteligo for S/ 32.4 million after taxes in 1Q19; (ii) the reversion of payroll deduction loan provisions for S/ 27.4 million after taxes in 2Q19; (iii) the reversion of loan loss provisions for S/ 73.4 million after taxes in 4Q19 due to fine-tuning of IFRS9 models reflecting improved risk profile on customers; and (iv) the one-off impact of a Liability Management transaction for S/ 29.0 million after taxes in 4Q19.

Net interest and similar income grew 11.7% due to a 14.5% increase in interest and similar income, partially offset by a 20.8% growth in interest and similar expense.

Growth in interest and similar income was due to increases of more than two-fold in interest on due from banks and inter-bank funds, and 14.2% in interest on loans, partially offset by a 5.8% decrease in interest on financial investments.

Interest on due from banks and inter-bank funds grew S/ 60.3 million, or 127.7%, explained by increases of 60 basis points in the nominal average rate and 10.5% in the average volume. The higher nominal average rate, from 0.5% for the year ended December 31, 2018, to 1.1% in 2019, was due to improved returns on reserve requirements at the Central Bank, inter-bank funds and deposits at the Central Bank. On the other hand, growth in the average volume was the result of higher balances of reserve requirements and deposits at the Central Bank, partially offset by lower restricted funds and inter-bank funds. It is worth mentioning that the increase in reserve requirements was related to higher gathering of deposits, while the lower restricted funds, to fewer Repo transactions with the Central Bank throughout the year.

The increase in interest on loans accounted for most of the growth in interest and similar income, and was attributed to a 14.1% higher average volume, while the nominal average rate remained stable, at 10.9%.

The higher average volume of loans was the result of increases of 16.6% in retail loans and 11.3% in commercial loans. In the retail portfolio, the increase was mainly explained by growth of 23.5% in credit cards, 13.1% in payroll deduction loans and 12.8% in mortgages; while in the commercial portfolio, by increases of 14.4% in trade finance loans and 12.0% in short and medium-term loans, partially offset by a 5.4% reduction in leasing operations.

The nominal average rate on loans remained stable as yield reductions of 10 basis points in both retail and commercial loans were compensated by a higher proportion of credit cards within loans, since this product contributes with a higher average yield than the rest of components, even if its nominal average rate decreased when compared to 2018.

The S/ 12.9 million lower interest on financial investments was due to an 11.3% decrease in the average volume, partially offset by a 20 basis point increase in the average rate, from 3.6% for the year ended December 31, 2018, to 3.8% in 2019. The reduction in volume was a result of lower investments global bonds, Central Bank Certificates of Deposits (CDBCR), and corporate bonds, partially offset by higher balances of sovereign bonds. On the other hand, the reduction in the average rate was the result of lower returns on corporate bonds from non-financial institutions, CDBCR and sovereign bonds.

As a result of the above, the nominal average yield on interest-earning assets grew 30 basis points, from 7.9% for the year ended December 31, 2018, to 8.2% in 2019.

Interest and similar expense increased 20.8% with respect to the previous year. This was explained by growth of 25.9% in interest on bonds, notes and other obligations, and 24.4% in interest on deposits; partially offset by a decrease of 1.5% in interest on due to banks and correspondents.

Interest on bonds, notes and other obligations grew S/ 85.7 million, or 25.9% YoY, as a result of two bond placements in the international market in September 2019, for S/ 312 million and US$ 400 million, both due in October 2026, in addition to other two issuances in the local market in March 2019: (i) Certificates of Deposit for S/ 150 million due March 2020, and (ii) Corporate Bonds for S/ 150 million due March 2029. Additionally, the higher financial expense on bonds was also due to the execution of an optional redemption of the prevailing "5.75% Senior Notes due 2020" which implied a non-recurring expense of S/ 42.5 million, as these bonds were being negotiated above its face value (above par). Excluding this effect, the financial expense on bonds would have increased 13.1%.

The higher interest on deposits was due increases of 11.5% in the average volume and 20 basis points in the average cost, to 2.1%. Growth in volume was attributed to increases in commercial, retail and institutional deposits. By currency, average balances of soles deposits grew 15.8% while average dollar deposits increased 4.7%. The higher cost of deposits resulted from increases in rates paid to institutional, commercial and retail deposits. This was mainly observed in time deposits, but also in commercial current accounts and retail savings accounts.

Interest on due to banks and correspondents decreased as a result of a 5.1% reduction in the average volume, partially compensated by a 20 basis point increase in the average cost, from 4.0% for the year ended December 31, 2018 to 4.2% in 2019. The reduction in the average volume was mainly due to lower funding provided by the Central Bank, as well as to a reduction in inter-bank funds. The increase in the nominal average cost was explained by higher rates on funding from correspondent banks abroad and inter-bank funds, partially offset by a lower rate on funds provided by the Central Bank.

The average cost of funding increased 30 basis points, from 2.7% for the year ended December 31, 2018 to 3.0% in 2019, in line with the higher implicit cost of all interest-bearing liabilities. Excluding the expense of the optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds, the average cost of funding would have increased 20 basis points, to 2.9%.

As a result of the above, net interest margin was 5.6% for the year ended December 31, 2019, 10 basis points higher than the 5.5% reported in 2018. However, excluding the expense of the optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds, net interest margin would have increased 20 basis points, to 5.7%.

Impairment loss on loans, net of recoveries increased 13.6% for the year ended December 31, 2019 compared to the previous year. The increase in provision expenses was mainly a result of higher provision requirements in credit cards and mortgages, partially compensated by lower requirements in the commercial portfolio, especially in the medium-enterprise segment. It is worth mentioning that the provision expense for the year ended December 31, 2019 was impacted by (i) the reversion of payroll deduction loan provisions for S/ 38.8 million in 2Q19, and (ii) the reversion of loan loss provisions for S/ 104.1 million in 4Q19 due to fine-tuning of IFRS9 models reflecting improved risk profile on customers. Likewise, provision for loan losses in 2018 showed an S/ 83.0 million reversion of provisions in corporate loans, related to the bank's exposure to the construction sector.

The S/ 67.5 million, or 8.9%, increase in fee income from financial services was mainly attributable to higher commissions from credit card services and advisory services.

Other income grew S/ 124.6 million, or 40.2%, mainly due increases of S/ 46.6 million in net gain on foreign exchange transactions and on financial assets at fair value, and S/ 23.0 million in net gain on sale of financial investments. It is worth mentioning that, as reported in 1Q19, the higher income at Interbank from the sale of Interfondos to Inteligo is eliminated upon consolidation.

Other expenses increased S/ 108.7 million, or 7.2%, as a result of growth of 63.9% in depreciation and amortization, and 5.9% in salaries and employee benefits, partially compensated by a 0.8% reduction in administrative expenses. Expense items related to IT services and loyalty programs were among those which rose the most, as these were associated with bank's digital transformation efforts and the higher credit cards activity, respectively.

The efficiency ratio was 38.9% for the year ended December 31, 2019, an improvement compared to the 40.9% registered in 2018. However, excluding the gain on sale of Interfondos and the one-off impact of the Liability Management transaction previously mentioned, the efficiency ratio was 38.0% for the year ended December 31, 2019.

Income before translation result and income tax increased 20.5% for the year ended December 31, 2019, which was then supported by an improvement in translation result and a lower effective tax rate, from 27.1% for the year ended December 31, 2018 to 26.8% in the previous year. As a result of the above, profit for the period increased 21.5% compared to 2018.

Interbank's ROAE was 21.1% for the year ended December 31, 2019, above the 20.2% registered in 2018.

Insurance

The table below details selected financial information for our Insurance segment for the twelve months ended December 31, 2019 and 2018.

	For the year ended December 31,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Net interest and similar income	556.1	556.6	-0.5	-0.1%
Recovery (loss) due to impairment of financial investments	-6.2	11.3	-17.5	N/M
Net interest and similar income after impairment loss	**550.0**	**568.0**	**-18.0**	**-3.2%**
Fee income from financial services, net	-4.0	-4.6	0.6	-13.3%
Other income	169.0	67.6	101.4	N/M
Total premiums earned minus claims and benefits	-295.7	-407.5	111.8	-27.4%
Other expenses	-298.7	-273.7	-25.0	9.2%
Income before translation result and income tax	**120.6**	**-50.1**	**170.7**	**N/M**
Translation result	9.8	-11.4	21.2	N/M
Income tax	0.0	0.0	0	N/M
Profit for the period	**130.4**	**-61.5**	**191.9**	**N/M**
Profit attributable to IFS' shareholders	**130.4**	**-61.5**	**191.9**	**56.5%**
Efficiency ratio	**13.1%**	**14.4%**		
ROAE	**14.2%**	**N/M**		

Interseguro's profits attributable to IFS' shareholders for the year ended December 31, 2019 were S/ 130.4 million, compared to a loss of S/ -61.5 million in 2018.

The yearly performance was mainly due to increases of S/ 111.8 million in total premiums earned less claims and benefits, and S/ 101.4 million in other income, in addition to a positive performance in translation result. These factors were partially offset by a S/ 25.0 million increase in other expenses, as well as a S/ 18.0 million decrease in net interest and similar income after impairment loss.

The annual increase in total premiums earned minus claims and benefits was mainly explained by a base effect related to a one-time adjustment of S/ -144.8 million in technical reserves in 2018, as a result of the full adoption of new mortality tables published by the Peruvian regulatory entity (Superintendencia de Banca y Seguros) in 2017.

Net interest and similar income was S/ 556.1 million in 2019, a slight decrease of S/ 0.5 million, mainly explained by a S/ 2.1 million growth in interest and similar expenses, partially offset by a S/ 1.5 million increase in interest and similar income.

Loss due to impairment of financial investments was S/ -6.2 million, compared to a recovery of S/ 11.3 million in 2018, attributable to a S/ 10.7 million reversion of provisions for impairment loss on investments which were sold in 2018.

Other income was S/ 169.0 million, a S/ 101.4 million growth, mainly due to increases of S/ 69.9 million in net gain on sale of securities, S/ 20.0 million in net trading result and S/ 15.9 million in rental income from real estate investments. These factors were partially offset by a decrease of S/ 11.9 million in net gain on sale of real estate investments.

Other expenses were S/ 298.7 million in 2019, a S/ 25.0 million growth, mainly explained by increases of S/ 10.4 million in third-party commissions, S/ 9.4 million in administrative expenses and S/ 5.4 million in depreciation and amortization.

Total premiums earned less claims and benefits

	For the year ended December 31,		
	2019	2018	Change
	(S/ million)		%
Net premiums	649.1	645.4	0.6%
Adjustment of technical reserves	-222.5	-316.8	-29.8%
Net claims and benefits incurred	-722.3	-736.0	-1.9%
Total premiums earned minus claims and benefits	**-295.7**	**-407.5**	**-27.4%**

The yearly growth in net premiums was mainly due to increases of S/ 32.1 million in retail insurance, S/ 13.1 million in annuities and S/ 4.7 million in individual life, partially offset by a decrease of S/ 46.1 million in disability and survivorship. The reduction in disability and survivorship was due to Seguros Sura's contract expiration in December 2018.

The lower adjustment of technical reserves in 2019 was driven mainly by a decrease of S/ 137.2 million in annuities, partially offset by increases of S/ 41.4 million in individual life and S/ 1.5 million in retail insurance. Reduction in technical reserves for annuities was attributable to the base effect of the one-time adjustment in 2018, as previously mentioned. Increases in adjustment of technical reserves in individual life were mainly explained by a higher profitability of flex life products, which are characterized by investing the funds received from clients in equity instruments.

The reduction in net claims and benefits incurred was mainly explained by a decrease of S/ 48.5 million in disability and survivorship claims, partially offset by an increase of S/ 34.9 million in annuity benefits.

It is worth noting that, results in net premiums and net claims and benefits incurred for the year ended December 31, 2019 were affected by Seguros Sura's disability and survivorship contract expiration in December 2018.

Interseguro's ROAE was 14.2% for the year ended December 31, 2019, higher than the 9.4% reported in 2018, after adjusting the effect of the adoption of new mortality tables, as previously mentioned.

Wealth Management

The table below details selected financial information for our Wealth Management segment for the year ended December 31, 2019 and 2018.

	For the year ended December 31,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	168.0	154.1	13.9	9.0%
Interest and similar expense	-61.5	-44.1	-17.4	39.4%
Net interest and similar income	**106.5**	**110.0**	**-3.5**	**-3.2%**
Impairment loss on loans, net of recoveries	0.0	0.8	-0.8	N/M
Recovery (loss) due to impairment of financial investments	-0.7	1.8	-2.5	N/M
Net interest and similar income after impairment loss	**105.8**	**112.6**	**-6.8**	**-6.0%**
Fee income from financial services, net	164.3	164.2	0.1	0.1%
Other income	58.4	33.2	25.2	75.8%
Other expenses	-123.3	-106.5	-16.8	15.8%
Income before translation result and income tax	**205.3**	**203.5**	**1.8**	**0.9%**
Translation result	1.4	-0.2	1.6	N/M
Income tax	-6.4	-5.7	-0.7	12.1%
Profit for the period	**200.3**	**197.5**	**2.7**	**1.4%**
ROAE	**24.7%**	**25.7%**		
Efficiency ratio	**37.3%**	**35.2%**		

Inteligo's net profit for the year ended December 31, 2019 and 2018 was S/ 200.3 million and S/ 197.5 million, respectively. The S/ 2.7 million, or 1.4%, increase was mainly attributable to a positive performance in other income due to improved market conditions by year-end, partially offset by higher other expenses.

Net interest and similar income decreased S/ 3.5 million, or 3.2%. This was mainly explained by a compression in spreads due to slightly higher rates paid to client deposits.

Net fee income from financial services was S/ 164.3 million, relatively stable compared to the year before.

Other income was S/ 58.4 million, a S/ 25.2 million, or 75.8%, increase mainly attributable to positive mark-to-market valuations on investments.

Other expenses increased S/ 16.8 million, or 15.8%, mainly explained by the amortization of assets acquired as part of the Interfondos transaction and the constitution of Inteligo USA earlier in the year.

Inteligo's ROAE was 24.7% for the year ended December 31, 2019, below the 25.7% registered in 2018.

iii. Intercorp Retail

Results of Operations for the year ended December 31, 2019 compared to year ended December 31, 2018

Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the twelve months ended December 31,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues	15,842.3	14,692.5	1,149.8	7.8%
Cost of sales	-11,034.0	-10,333.9	700.0	6.8%
Gross profit	**4,808.3**	**4,358.6**	**449.8**	**10.3%**
Selling and Administrative expenses	-3,625.9	-3,362.0	263.9	7.8%
Other income (expense)	167.0	53.5	113.5	212.2%
Operating profit	**1,349.4**	**1,050.1**	**299.3**	**28.5%**
Financial income (expense), net	-411.5	-571.8	-160.3	-28.0%
Income tax expense	-339.5	-231.4	108.0	46.7%
Net profit (loss)	**598.5**	**246.8**	**351.6**	**142.5%**
Attributable to:				
Intercorp Retail's shareholders	332.9	142.0	190.9	
Minority interest	265.6	104.8	160.7	
Adjusted EBITDA	**1,595.1**	**1,384.3**	**210.7**	**15.2%**
Adjusted EBITDA margin	10.1%	9.4%		65bps

Intercorp Retail reported net profit of S/ 598.5 million as of December 31 2019, representing an increase of S/ 351.6 million compared to 2018. This is mainly a result of good operational performance of our business segments and the absence of one-time financial expenses incurred in 2018 related to the acquisition of Quicorp, at the end of January, and to the associated liability management of the acquisition financing.

Intercorp Retail's gross profit increased 10.3% in 2019. This growth was mainly due to a high single-digit revenue growth in Food Retail and double-digit revenue growth in Shopping Malls, despite a contraction in revenues in the MDM unit in the Pharma segment.

The following discussion details the operating results of Intercorp Retail's primary segments: Food Retail, InRetail Pharma and InRetail Shopping Malls. We do not present detailed financial information for our other related businesses because they do not contribute materially to Intercorp's financial results.

Intercorp Retail's Segments

Food Retail

The table below details selected financial information for Supermercados Peruanos for 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the twelve months ended December 31,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues	5,762.4	5,144.6	617.8	12.0%
Cost of sales	-4,246.8	-3,784.2	462.7	12.2%
Gross profit	**1,515.6**	**1,360.5**	**155.1**	**11.4%**
Selling and Administrative expenses	-1,291.7	-1,162.8	129.0	11.1%
Other income (expense)	-26.7	-14.3	-12.4	86.9%
Operating profit	**250.6**	**212.0**	**38.6**	**18.2%**
Financial income (expense)	-75.1	-78.3	-3.3	-4.2%
Income tax expense	-63.8	-54.7	9.0	16.5%
Net profit	**111.7**	**79.0**	**32.8**	**41.5%**
Adjusted EBIDTA	**400.3**	**344.3**	**56.0**	**16.3%**
Adjusted EBITDA margin	6.9%	6.7%	-	25bps

Food Retail reported a net income of S/ 111.7 million in 2019 compared to S/ 79.0 million in 2018. This increase was mainly generated by a solid performance of the segment and double digit revenues growth.

Food Retail's gross profit increased 11.4% in 2019, compared to 2018. This growth is mainly explained by: (i) the opening of 2 Plaza Vea stores, 1 Economax and 120 net Mass stores since 2018, and (ii) a positive same store sales growth of 4.1%.

Food Retail's selling and administrative expenses grew 11.1% in 2019 compared to 2018. As a percentage of revenues, these expenses decreased from 22.6% in 2018 to 22.4%, in 2019, mainly due to higher employee productivity and fixed cost dilution.

InRetail Pharma

The table below details selected financial information for InRetail Pharma for 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the twelve months ended December 31,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues	6,851.7	6,703.9	147.8	2.2%
Cost of sales	-4,721.6	-4,769.1	-47.6	-1.0%
Gross profit	**2,130.1**	**1,934.8**	**195.3**	**10.1%**
Selling and Administrative expenses	-1,537.4	-1,503.7	33.7	2.2%
Other income (expense)	-6.3	4.6	-10.9	-236.2%
Operating profit	**599.0**	**426.5**	**172.5**	**40.5%**
Financial income (expense), net	-133.7	-181.8	-48.1	-26.4%
Income tax expense	-150.7	-90.1	60.7	67.4%
Net profit	**314.5**	**154.6**	**159.9**	**103.5%**
Adjusted EBITDA	**710.7**	**539.7**	**171.0**	**31.7%**
Adjusted EBITDA margin	10.4%	8.1%	-	232bps

InRetail Pharma reported S/ 314.5 million of net profit in 2019, which represented an increase of 103.5% compared to the same period of 2018, which included one-time financial expenses related to the Quicorp acquisition.

InRetail Pharma's gross profit increased 10.1% in 2019 compared to 2018. Additionally, gross margin increased from 28.9% in 2018 to 31.1% in 2019, due to a strong gross margin expansion in the pharmacies unit.

InRetail Pharma's selling and administrative expenses were S/1,537.4 million in 2019, which represented an increase of 2.2% over 2018. As a percentage of revenues, these expenses were 22.4%, in line with 2018.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the twelve months ended December 31,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues	543.0	507.7	35.2	6.9%
Cost of sales	-180.5	-165.2	15.3	9.3%
Gross profit	**362.4**	**342.5**	**19.9**	**5.8%**
Selling and Administrative expenses	-41.6	-40.7	0.9	2.3%
Other income (expense)	176.8	23.3	153.6	659.6%
Operating profit	**497.7**	**325.1**	**172.6**	**53.1%**
Financial income (expense), net	-109.3	-150.0	-40.7	-27.1%
Income tax expense	-120.4	-51.8	68.5	132.3%
Net profit	**268.1**	**123.3**	**144.7**	**117.3%**
Adjusted EBITDA	**325.2**	**310.7**	**14.5**	**4.7%**
Adjusted EBITDA / Net Rental Income	78.5%	79.6%	-	-118bps

InRetail Shopping Malls reported S/ 268.1 million of net profit in 2019, which represented an increase of 117.3% compared to 2018, which included one-time financial expenses of the liability management related to the Quicorp acquisition. Net Income was positively impacted by mark to market of Real Plaza Puruchuco and other investment properties.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 6.9% in 2019. This growth was mainly explained by higher tenant SSS growth of 3.3% in the year, due to an improved tenant mix across our malls and the opening of Real Plaza Puruchuco on November 13th 2019. Net rental income is defined as total income minus reimbursable operating costs related to the maintenance and management of our shopping malls. These operating costs are billed directly to tenants and are also reported as income from rendering of services. For 2019, net rental income increased from S/390 million in 2018, to S/414 million in 2019 (a 6.2% growth).

In 2019, InRetail Shopping Malls' selling and administrative were S/41.6 million, an increase of 2.3% over 2018. As a percentage of revenues, these expenses decreased from 8.0% to 7.7%.

III. Other financial information

i. Liquidity and Capital Resources

Intercorp's main source of cash flows are the dividends received from its subsidiaries. Almost all of Intercorp's dividends have been contributed by IFS. Its main uses of funds have been investments in subsidiaries, interest payments on its financial obligations and the payment of dividends to its shareholders. Intercorp typically pays dividends to its shareholders in four quarterly installments after such dividends are declared at its annual general shareholders meeting. The table below provides information regarding the cash flows of Intercorp.

	For the year ended December 31,	
	2019	2018
	(S/ millions)	
Operating activities		
Net profit for the period……	1,430.3	817.2
Adjustments to reconcile net income to net cash		
Gain from participation in income of Subsidiaries, net ……	(1,405.0)	(942.8)
Gain on initial public offering of Subsidiary shares ……	(207.5)	(0.5)
Loss on valuation of trading derivative financial instruments ……	1.7	2.1
Loss (gain) on valuation of financial investments ……	24.1	(41.5)
Changes in fair value of investment property ……	(21.6)	(4.6)
Exchange difference ……	(4.0)	32.3
Net changes in asset and liability accounts		
(Increase) decrease of other accounts receivable……	(26.4)	(2.4)
Increase (decrease) of interest, provisions and other accounts payable……	(70.2)	(1.6)
Net cash provided by (used in) operating activities……	**(278.6)**	**(141.7)**
Investing activities		
Dividends received……	559.8	389.9
Sale of Subsidiary shares, net of commissions paid ……	368.3	0.0
Subscription and purchase of investment, net of retreat of capital ……	(71.6)	0.0
Capital contribution to Subsidiaries, net of capital reductions……	(589.2)	(233.4)
Sale of financial investments at fair value through other comprehensive income ……	0.0	16.3
Net cash provided by investing activities……	**267.2**	**172.8**
Financing activities		
Emission of corporate bonds	1,371.5	0.0
Repurchase and redemption of corporate bonds	(833.0)	0.0
Loans received fromthird parties, net ……	(64.1)	19.0
Loans received from Subsidiaries and related parties, net……	(153.0)	43.0
Payment of dividends……	(100.1)	(99.1)
Net cash used in financing activities……	**221.3**	**(37.1)**
Net cash (decrease) increase……	**210.0**	**(6.0)**
Gain on derivate financial instruments……		
Balance of cash at the beginning of period……	**7.5**	**13.5**
Balance of cash at the end of period……	**217.5**	**7.5**

Net cash used in operating activities increased in S/ 136.8 million for the twelve months ended December 31, 2019 when compared to the corresponding period in 2018 and Net cash provided by investing activities increased in S/ 94.4 million during the same period of time due to higher dividends received and the sale of IFS shares, partially offset by higher investments in subsidiaries. Finally, net cash from financing activities increased in S/ 258.4 million for the twelve months ended December 31, 2019 due to the issuance of corporate bonds (net of repurchase of prior bonds and payment of short term loans).

ii. Dividends Received by Intercorp

The following table sets forth details regarding the dividends received by Intercorp from its subsidiaries for the twelve months ended December 31, 2019 and 2018.

	For the years ended December 31			For the year ended December 31,		
	2019	2019	2018	2018	2018	2017
	(US$. in millions)(1)	(S/ in millions)		(US$. in millions)(1)	(S/ in millions)	
IFS……………………………………………	147.1	488.3	381.0	117.7	381.0	354.8
Intercorp Retail……………………………	18.0	60.1	0.0	0.0	0.0	37.7
Other subsidiaries…………………………	3.5	11.5	8.9	2.7	8.9	6.4
	168.6	**559.8**	**389.9**	**120.4**	**389.9**	**399.0**

Dividends Paid by Intercorp's Subsidiaries

IFS has been the main source of recurring dividends for Intercorp. Below we discuss the dividend policies of IFS and its subsidiaries Interbank, Interseguro and Inteligo.

IFS

The following table sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit for the prior year) for IFS for the twelve months ended December 31, 2019 and 2018. The dividends declared and paid by IFS are in US dollars.

	For the years ended December 31		
	2019	2019	2018
	(US$. in millions) (1)	(S/ in millions)	
IFS			
Dividends declared and paid………….	**165.9**	**559.6**	**511.3**
Net profit..(2)……………………………	321.5	1,084.3	1,027.4
Dividend payout ratio…………………	**51.6%**	**51.6%**	**49.8%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.373= US$1.00 , the exchange rate reported on the day of the operation.
(2) Refers to net profit for the previous fiscal year.

IFS's subsidiaries

The following tables sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit) for IFS's subsidiaries for the twelve months ended December 31, 2019 and 2018.

	For the years ended December 31		
	2019	2019	2018
	(US$. in millions) (1)	(S/ in millions)	
Interbank			
Dividends declared and paid…………..	**138.5**	**467.0**	**405.9**
Net profit.(2)……………………………...	307.7	1,037.9	902.0
Dividend payout ratio…………………..	**45%**	**45%**	**45%**
Interseguro			
Dividends declared and paid………….	**40.9**	**138.0**	**100.0**
Net profit.(2)………………………………	107.1	361.1	103.7
Dividend payout ratio……………………	**38%**	**38%**	**96%**
Inteligo Bank			
Dividends declared and paid………….	**30.0**	**101.2**	**152.1**
Net profit(2)……………………………...	57.0	192.2	190.1
Dividend payout ratio……………………	**53%**	**53%**	**80%**

(1) Translated to U.S. dollars for convenience only at the rate of S/3.373= US$1.00 , the exchange rate reported on the day of the operation.

(2) Refers to net profit for the previous fiscal year.

Interbank's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. Dividend distributions depend on several factors, including: (i) net profit; (2) planned capital expenditures; (3) capital and legal reserve requirements; and (4) prevailing market conditions. Up to 2015, the stated policy of Interbank was to distribute up to 50% of distributable income (which is net profit minus required legal reserves, which are equivalent to 10% of net profit). For 2013, 2014 and 2015 Interbank declared and distributed as dividends approximately 50% of its distributable income. For the years 2019-2021, the stated policy is to distribute a minimum of 20% of net profits of each year.

Interseguro's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. The stated policy of Interseguro (2019) is to distribute a minimum of 30% of distributable income. This policy is revised annually.

Dividend distributions depend on several factors, including: (i) net profit; (ii) planned capital expenditures; (iii) capital and legal reserve requirements; and (iv) prevailing market conditions.

Inteligo changed its dividends policy after its acquisition by IFS. Before its acquisition by IFS became effective on August 1, 2014, Inteligo declared and paid dividends on a quarterly basis. After such acquisition, in line with the dividend policies of Interbank and Interseguro, Inteligo's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. Dividend distributions depend on several factors, including (1) approval by Inteligo's shareholders of the dividend proposal; (2) net profit; (3) planned capital expenditures; and (4) prevailing market conditions. Dividends distributed to IFS by Inteligo are mainly generated by Inteligo Bank. The dividend policy of Inteligo Bank is to distribute up to 70% of its net profit for the previous year. Inteligo Bank intends to pay future dividends on an annual basis.

Intercorp Retail

The following table sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit for the prior year) for Intercorp Retail for the twelve months ended December 31, 2019. The dividends declared and paid by Intercorp Retail are in US dollars

	For the years ended December 31		
	2019	**2019**	**2018**
	(US$. in millions) (1)	**(S/ in millions)**	
Intercorp Retail			
Dividends declared and paid (2)……….	**18.0**	**60.7**	**0.0**
Net profit ………………………………..	42.1	142.0	0.0
Dividend payout ratio…………………..	**43%**	**43%**	**n/a**

(1) Translated to U.S. dollars for convenience only at the rate of S/3.373= US$1.00 , the exchange rate reported on the day of the operation.

(2) Refers to net profit for the previous fiscal year.

Intercorp Retail's subsidiaries

The following tables sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit) for InRetail Peru (Intercorp Retail's subsidiary) for the twelve months ended December 31, 2019.

	For the year ended December 31		
	2019	**2019**	**2018**
	(US$. in millions) (1)	**(S/ in millions)**	
InRetail Peru			
Dividends declared and paid …………	**35.0**	**118.1**	**0.0**
Net profit(2) ………………………………	54.0	182.1	0.0
Dividend payout ratio(3)…………………	**65%**	**65%**	**n/a**

(1) Translated to U.S. dollars for convenience only at the rate of S/3.373= US$1.00 , the exchange rate reported on the day of the operation.

(2) Refers to net profit for the previous fiscal year.

(3) Calculated over the US$15 million dividend

iii. Indebtedness

Unconsolidated

As of December 31, 2019, Intercorp had S/ 1,604.4 million (US$ 480.2 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of long-term indebtedness comprised of S/ 1,010.1 million (US$ 302 million) of Senior Notes due 2029 (net of issuance expenses), S/ 298.2 million of Senior Notes due 2030 (net of issuance expenses) and S/ 296 million of Senior Notes due 2029 (net of issuance expenses). As of the same date, Intercorp had guaranteed up to US$ 99.7 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas and Colegios Peruanos.