Intercorp

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

First Quarter 2020

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.

II. Results Analysis

The table below details Intercorp's assets and equity in its main businesses as of March 31, 2020 and December 31, 2019.

	As of March 31, 2020				As of December 31, 2019			
	Assets		Equity		Assets		Equity	
	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%
IFS								
Interbank (banking)………………………………………	53,933.6	57.2%	6,500.1	64.1%	53,019.4	56.7%	6,342.9	60.9%
Interseguro (insurance)…………………………………….	13,396.4	14.2%	344.2	3.4%	13,917.6	14.9%	973.9	9.3%
Inteligo (wealth management)…………………………….	3,970.4	4.2%	759.7	7.5%	4,098.1	4.4%	853.8	8.2%
IFS (holding company) and eliminations…………………	511.2	0.5%	895.6	8.8%	484.5	0.5%	686.2	6.6%
Total IFS…………………………………………………….	71,811.6	76.1%	8,499.6	83.8%	71,519.5	76.5%	8,856.9	85.0%
Intercorp Retail								
Supermercados Peruanos (supermarkets)………………	5,016.5	5.3%	1,091.6	10.8%	5,003.2	5.4%	1,086.3	10.4%
Inkafarma (pharmacies)………………………………….	5,730.6	6.1%	741.2	7.3%	5,611.8	6.0%	776.5	7.5%
InRetail Shopping Malls (shopping malls)……………….	5,300.4	5.6%	2,514.8	24.8%	5,223.8	5.6%	2,524.6	24.2%
Other [1]………………………………………………………	3,937.7	4.2%	(870.8)	-8.6%	3,613.3	3.9%	(931.7)	-8.9%
Total Intercorp Retail…………………………………….	19,985.1	21.2%	3,476.8	34.3%	19,452.0	20.8%	3,455.7	33.2%
Other subsidiaries/Intercorp (holding company) and eliminations…………………………………..…	2,507.1	2.7%	(1,828.6)	-18.0%	2,510.6	2.7%	(1,892.1)	-18.2%
Total Consolidated……………………………………….	94,303.8	100%	10,147.7	100%	93,482.1	100%	10,420.4	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 three months ended March 31, 2020 and 2019.

	For the three-month periods ended March 31		Change	
	2020	2019	(S/ in millions)	%
	(S/ millions)			
IFS				
Banking	155.3	186.4	(31.0)	-16.7%
Insurance	(7.3)	30.2	(37.5)	N/M
Wealth Management	(37.9)	62.0	(99.9)	N/M
IFS expenses and eliminations	(8.6)	(18.4)	9.9	-53.5%
Total IFS	**101.5**	**260.1**	**(158.6)**	**-61.0%**
Intercorp Retail				
Supermarkets	3.8	7.6	(3.8)	-50.3%
Pharmacies	38.1	42.7	(4.6)	-10.8%
Shopping malls	19.9	27.0	(7.1)	-26.3%
Other subsidiaries / holding company and eliminations	(11.7)	3.0	(14.7)	N/M
Total Intercorp Retail	**50.0**	**80.2**	**(30.2)**	**-37.7%**
Other subsidiaries	19.6	(20.7)	40.4	N/M
Net profit attributable to Intercorp	**171.2**	**319.7**	**(148.5)**	**-46.4%**
Financial expenses, net	(21.1)	(22.4)	1.3	-6.0%
General expenses	(8.7)	(6.4)	(2.3)	35.6%
Other income (expenses), net	1.5	(13.1)	14.7	N/M
Foreign exchange gain (loss), net	(34.7)	12.7	(47.3)	N/M
Income (expenses)	**(62.9)**	**(29.3)**	**(33.6)**	**114.9%**
Net profit	**108.3**	**290.4**	**(182.1)**	**-62.7%**

For the three months ended March 31, 2020, Intercorp´s net profit was S/ 108.3 million, a S/ 182.1 million decrease compared to the same period in 2019, driven by lower profits in IFS (S/ 233.8 million) were affected by the COVID-19 outbreak. The three main subsidiaries were negatively impacted: Interbank (-S/ 31 million) due to higher provisions and both Interseguro (-S/ 37.5 million) and Inteligo (-S/ 99.9 million) due to lower results from investments. At the holding level, there was a foreign exchange loss of S/ 47.3 million due to the effect of a higher exchange rate on the dollar denominated debt.

ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31,		Change	
	2020	2019		
	(S/ million)		(S/ million)	%
Interest and similar income	1,248.2	1,166.7	81.5	7.0%
Interest and similar expense	-339.5	-342.5	3.0	-0.9%
Net interest and similar income	**908.7**	**824.2**	**84.5**	**10.3%**
Impairment loss on loans, net of recoveries	-312.6	-186.4	-126.2	67.7%
Recovery (loss) due to impairment of financial investments	-40.5	1.9	-42.4	N/M
Net interest and similar income after impairment loss	**555.6**	**639.7**	**-84.1**	**-13.1%**
Fee income from financial services, net	220.3	223.0	-2.7	-1.2%
Other income	39.3	138.9	-99.6	-71.7%
Total premiums earned minus claims and benefits	-59.4	-67.4	8.0	-11.9%
Other expenses	-511.2	-481.7	-29.5	6.1%
Income before translation result and income tax	**244.6**	**452.5**	**-207.9**	**-45.9%**
Translation result	-23.9	10.1	-34.0	N/M
Income tax	-75.8	-109.9	34.1	-31.0%
Profit for the period	**144.9**	**352.7**	**-207.8**	**-58.9%**
Attributable to IFS' shareholders	**143.4**	**350.6**	**-207.2**	**-59.1%**
EPS	**1.24**	**3.17**		
ROAE	**6.6%**	**19.0%**		

Profit attributable to shareholders was S/ 143.4 million in the three months ended March 31, 2020, a S/ 207.2 million, or 59.1%, decrease compared to the corresponding period of the previous year. The lower profits were mainly due to higher impairment loss on loans at Interbank and other expenses at all three subsidiaries, in addition to reductions in other income mainly at Inteligo and Interseguro. Furthermore, a loss due to impairment of financial investments at Interseguro and negative performances in translation result at all three subsidiaries also contributed to the annual reduction in earnings. These effects were partially compensated by higher net interest and similar income at Interbank and Interseguro, as well as higher net premiums earned at Interseguro.

It is worth mentioning that IFS's results were affected by the COVID-19 outbreak in the three months ended March 31, 2020, which negatively impacted Interbank's revenue sources and asset quality, as well as Interseguro's and Inteligo's results from investments.

IFS annualized ROAE was 6.6% for the three months ended March 31, 2020, below the 19.0% reported for the corresponding period of 2019.

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 three months ended March 31, 2020 and 2019.

	For the three months ended March 31,		Change	
	2020	2019		
	(S/ million)		(S/ million)	%
Interest and similar income	1,037.1	965.0	72.1	7.5%
Interest and similar expense	-302.8	-307.4	4.6	-1.5%
Net interest and similar income	**734.3**	**657.6**	**76.7**	**11.7%**
Impairment loss on loans, net of recoveries	-312.6	-186.3	-126.3	67.8%
Recovery (loss) due to impairment of financial investments	-0.2	-0.0	-0.2	N/M
Net interest and similar income after impairment loss	**421.5**	**471.2**	**-49.7**	**-10.6%**
Fee income from financial services, net	190.4	193.4	-3.0	-1.6%
Other income	109.7	133.1	-23.4	-17.5%
Other expenses	-415.8	-390.8	-25.0	6.4%
Income before translation result and income tax	**305.8**	**406.9**	**-101.1**	**-24.8%**
Translation result	-2.9	0.2	-3.1	N/M
Income tax	-81.4	-107.4	26.0	-24.2%
Profit for the period	**221.5**	**299.7**	**-78.2**	**-26.1%**
ROAE	**13.8%**	**22.1%**		
Efficiency ratio	**38.8%**	**38.2%**		
NIM	**5.6%**	**5.5%**		

Interbank's net profit reached S/ 221.5 million in the three months ended March 31, 2020, a 26.1% decrease compared to the corresponding period of the previous year. The main factors that contributed to this result were growth of 67.8% in impairment loss on loans and 6.4% in other expenses, in addition to a 17.5% reduction in other income. These effects were partially offset by an 11.7% increase in net interest and similar income.

It is worth mentioning that Interbank's results 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 the three months ended March 31, 2019; and (ii) the COVID-19 outbreak, which negatively impacted the bank's revenue sources and asset quality in the three months ended March 31, 2020.

Net interest and similar income grew 11.7% due to a 7.5% increase in interest and similar income, and a 1.5% reduction in interest and similar expense.

Growth in interest and similar income was mainly due to a 9.2% increase in interest on loans, partially offset by a 36.8% decrease in interest on due to banks and inter-bank funds. Interest on financial investments remained relatively stable.

The increase in interest on loans was due to an 11.4% growth in the average volume of loans, partially compensated by a 20 basis point reduction in the average yield.

The higher average volume of loans was attributed to increases of 14.1% in retail loans and 8.2% in commercial loans. In the retail portfolio, volumes grew 17.0% in credit cards, 12.0% in mortgages and 8.8% in payroll deduction loans. In the commercial portfolio, the higher average volume was mainly due to growth of 19.8% in trade finance loans and 2.5% in short and medium-term loans, partially offset by an 11.7% reduction in leasing operations.

The annual decrease in the average rate on loans, from 10.7% for the three months ended March 31, 2019 to 10.5% for the corresponding period of 2020, was due to an 80 basis point reduction in commercial loans, partially compensated by a 10 basis point growth in retail loans. The decrease in commercial loans was due to lower yields on all types of loans, while the increase in retail loans, to higher yields on credit cards. It is worth mentioning that the lower rates on commercial loans were partially explained by the loan rescheduling carried out as part of the measures implemented to deal with the COVID-19 outbreak.

Interest on due from banks and inter-bank funds decreased S/ 9.3 million, or 36.8%, explained by a 60 basis point reduction in the average yield, partially compensated by a 15.7% growth in the average volume. The decrease in the nominal average rate was mainly related to lower returns on deposits and reserve funds at the Central Bank, partially offset by higher yields on inter-bank funds. On the other hand, the increase in the average volume was explained by higher reserve funds and deposits at the Central Bank, partially compensated by a lower average balance of inter-bank funds.

Interest on financial investments remained stable as a 10 basis point reduction in the average yield, from 3.7% for the three months ended March 31, 2019 to 3.6% for the corresponding period of 2020, was offset by a 2.7% increase in the average volume. The decrease in the average rate was due to lower yields on global bonds, sovereign bonds, CDBCR and corporate bonds from non-financial institutions. On the other hand, the increase in the average volume was the result of higher average balances of sovereign bonds.

The nominal average yield on interest-earning assets decreased 20 basis points, from 8.1% for the three months ended March 31, 2019 to 7.9% for the corresponding period of 2020, in line with the lower returns on all of the interest-earning assets.

The lower interest and similar expense was due to reductions of 2.4% in interest on deposits and obligations, and 2.3% in interest on due to banks and correspondents. Interest on bonds remained relatively stable.

Interest on deposits and obligations decreased S/ 4.3 million, or 2.4%, explained by a 20 basis point reduction in the average cost, from 2.2% for the three months ended March 31, 2019 to 2.0% for the corresponding period of 2020, partially offset by a 10.6% growth in the average volume. The lower average cost was due to reductions in rates paid to institutional and commercial deposits, partially compensated by a higher rate on retail deposits. The higher average volume was explained by growth in institutional, retail and commercial deposits. By currency, average balances of soles-denominated deposits grew 19.4% while average dollar-denominated deposits decreased 3.5%.

The S/ 0.9 million, or 2.3%, decrease in interest on due to banks and correspondents was the result of an 80 basis point reduction in the average cost, from 4.2% for the three months ended March 31, 2019 to 3.4% for the corresponding period of 2020, partially compensated by a 19.2% growth in the average volume. The decrease in the average cost was due to lower rates paid to inter-bank funds and funding from correspondent banks abroad, the Central Bank and COFIDE. On the other hand, the higher average volume was explained by growth in funding from the Central Bank, correspondent banks abroad and COFIDE, as well as by higher inter-bank funds.

The average cost of funding decreased 30 basis points, from 3.0% for the three months ended March 31, 2019 to 2.7% for the corresponding period of 2020, in line with the lower cost on deposits and obligations, and on due to banks and correspondents.

As a result of the above, net interest margin was 5.6% for the three months ended March 31, 2020, 10 basis points higher than the 5.5% reported for the corresponding period of the previous year.

Impairment loss on loans, net of recoveries increased 67.8% in the three months ended March 31, 2020, compared to the corresponding period of the previous year. This was mainly a result of higher requirements in credit cards and other consumer loans, as well as in exposures to medium-sized companies and small-sized companies, all related to the impacts of the COVID-19 outbreak on the bank's expected loss models.

The S/ 3.0 million, or 1.6%, decrease in net fee income from financial services was mainly due to a S/ 6.4 million reduction in commissions from credit card services, as well as to higher variable expenses related to credit cards. These effects were partially offset by S/ 9.6 million higher commissions from banking services.

Other income decreased S/ 23.4 million, or 17.5%, mainly due to a base effect, explained by the S/ 52.6 million gain on sale of Interfondos to Inteligo in the three months ended March 31, 2019.

Other expenses grew S/ 25.0 million, or 6.4%, as a result of increases in salaries and employee benefits, IT services and amortization expenses.

The efficiency ratio was 38.8% in the three months ended March 31, 2020, compared to the 38.2% registered in the corresponding period of 2019. However, excluding the gain on sale of Interfondos in the three months ended March 31, 2019, efficiency ratio for such period was 40.3%.

Income before translation result and income tax decreased 24.8% in the three months ended March 31, 2020, which was then affected by a negative translation result and a higher effective tax rate, from 26.4% in the three months ended March 31, 2019 to 26.9% for the corresponding period of 2020.

As a result of the above, profit for the period decreased 26.1% in the three months ended March 31, 2020, compared to the corresponding period of 2019.

Interbank's ROAE was 13.8% for the three months ended March 31, 2020, below the 22.1% reported for the corresponding period of the previous year.

Insurance

The table below details selected financial information for our Insurance segment for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31,		Change	
	2020	2019		
	(S/ million)		(S/ million)	%
Net interest and similar income	146.7	136.5	10.2	7.5%
Recovery (loss) due to impairment of financial investments	-40.1	2.4	-42.5	N/M
Net interest and similar income after impairment loss	**106.6**	**138.8**	**-32.2**	**-23.2%**
Fee income from financial services, net	-1.0	-1.0	0	2.8%
Other income	17.3	24.8	-7.5	-30.5%
Total premiums earned minus claims and benefits	-59.4	-67.4	8.0	-11.8%
Other expenses	-72.4	-70.7	-1.7	2.4%
Income before translation result and income tax	**-9.0**	**24.6**	**-33.6**	**N/M**
Translation result	-12.6	4.4	-17.0	N/M
Income tax	0.0	0.0	0	N/M
Profit for the period	**-21.6**	**28.9**	**-50.5**	**N/M**
Profit attributable to IFS' shareholders	**-21.6**	**28.9**	**-50.5**	**N/M**
Efficiency ratio	**12.0%**	**13.2%**		
ROAE	**N/M**	**12.8%**		

Interseguro's result attributable to IFS' shareholders in the three months ended March 31, 2020 was S/ -21.6 million, compared to a profit of S/ 28.9 million in the corresponding period of the previous year.

The reduction was mainly a result of a loss due to impairment of financial investments for S/ 42.5 million, a negative performance in translation result of S/ 17.0 million, and a S/ 7.5 million decrease in other income, partially offset by increases of S/ 10.2 million in net interest and similar income and S/ 8.0 million in total premiums earned minus claims and benefits.

Net interest and similar income was S/ 146.7 million in the three months ended March 31, 2020, an increase of S/ 10.2 million compared to the corresponding period of the previous year. The result was largely explained by an S/ 11.1 million growth in interest and similar income, due to improved returns on the equity portfolio attributable to higher income from dividends received in the three months ended March 31, 2020, which did not exist in the corresponding period of 2019. Additionally, a higher organic growth of the fixed income portfolio also contributed to the growth in net interest and similar income.

Loss due to impairment of financial investments was S/ 40.1 million in the three months ended March 31, 2020, compared to a recovery of S/ 2.4 million in the corresponding period of 2019, attributable to an additional provision for impairment on a fixed income investment that had been downgraded in relation to the COVID-19 outbreak.

Other income was S/ 17.3 million, a S/ 7.5 million decrease, mainly due to a reduction of S/ 47.1 million in net trading result, partially offset by increases of S/ 30.1 million in net gain on sale of securities and S/ 10.2 million in net gain on valuation of real estate investments.

Other expenses were S/ 72.4 million in the three months ended March 31, 2020, a S/ 1.7 million growth compared to the corresponding period of the previous year. This was mainly due to growth of S/ 1.4 million in both other expenses such as third-party commissions, and depreciation and amortization charges, in addition to a S/ 0.9 million increase in salaries and employee benefits, partially offset by a reduction of S/ 1.9 million in administrative expenses.

Total premiums earned less claims and benefits

	For the three months ended March 31,		
	2020	2019	Change
	(S/ million)		%
Net premiums	172.9	171.2	1.0%
Adjustment of technical reserves	-48.4	-73.3	-33.9%
Net claims and benefits incurred	-183.9	-165.3	11.2%
Total premiums earned minus claims and benefits	**-59.4**	**-67.4**	**-11.8%**

Total premiums earned minus claims and benefits increased S/ 8.0 million explained by a S/ 24.9 million reduction in adjustment of technical reserves and a S/ 1.7 million increase in net premiums, partially offset by an S/ 18.6 million growth in net claims and benefits incurred.

The 1.0% growth in net premiums was mainly due to an increase of S/ 9.9 million in retail insurance, explained by higher premiums for credit life insurance and card protection insurance, partially offset by a reduction of S/ 8.1 million in annuities.

Adjustment of technical reserves decreased S/ 24.9 million in the three months ended March 31, 2020, mainly related to a release of technical reserves for individual life, in turn associated with a lower profitability of flex life products, which are linked to equity investments on behalf of clients. Moreover, a S/ 5.7 million decrease in annuities also contributed to the reduction in adjustment of technical reserves. These effects were partially offset by a S/ 9.9 million growth in retail insurance, related to a one-time provision expense in card protection insurance to assess the potential increase of unemployment in the following months as a consequence of the COVID-19 outbreak.

The growth in net claims and benefits incurred was explained by increases of S/ 11.4 million in annuity benefits, S/ 4.0 million in retail insurance claims, S/ 2.3 million in individual life claims and S/ 1.0 million in disability and survivorship claims.

Wealth Management

The table below details selected financial information for the year ended December 31, 2020 and 2019.

	For the three months ended March 31,		Change	
	2020	2019	(S/ million)	%
	(S/ million)			
Interest and similar income	41.1	45.6	-4.5	-9.9%
Interest and similar expense	-15.5	-14.9	-0.6	4.6%
Net interest and similar income	**25.5**	**30.7**	**-5.2**	**-16.9%**
Impairment loss on loans, net of recoveries	0.0	-0.1	0.1	-90.5%
Recovery (loss) due to impairment of financial investments	-0.2	-0.5	0.3	-59.6%
Net interest and similar income after impairment loss	**25.3**	**30.2**	**-4.9**	**-16.0%**
Fee income from financial services, net	43.0	38.9	4.1	10.5%
Other income	-85.8	36.8	-122.6	N/M
Other expenses	-34.9	-26.9	-8.0	29.7%
Income before translation result and income tax	**-52.3**	**79.0**	**-131.3**	**N/M**
Translation result	-3.0	0.7	-3.7	N/M
Income tax	0.7	-1.4	2.1	N/M
Profit for the period	**-54.7**	**78.3**	**-133.0**	**N/M**
ROAE	**N/M**	**38.1%**		
Efficiency ratio	**N/M**	**25.2%**		

Inteligo's bottom-line result in the three months ended March 31, 2020 was S/ -54.7 million, compared to profits of S/ 78.3 million in the corresponding period of the previous year. This was mainly explained by the higher volatility of global financial markets during the second half of the first quarter of the year, mainly attributable to the COVID-19 outbreak.

Net interest and similar income decreased S/ 5.2 million, or 16.9%. This reduction was mainly attributed to lower average returns on financial investments and higher costs of client deposits.

Net fee income from financial services was S/ 43.0 million, an increase of S/ 4.1 million, or 10.5%, mainly explained by higher brokerage fees due to increased trading volumes, triggered by higher price volatility and client appetite for investing or rebalancing portfolios.

Other income (loss) was S/ -85.8 million, a decrease of S/ 122.6 million compared to the corresponding period of 2019, attributable to negative mark-to-market valuations and realized losses on Inteligo's proprietary portfolio during the second half of the first quarter of the year, mainly as a result of the COVID-19 outbreak.

iii. Intercorp Retail

Results of Operations for the three months ended March 31, 2019 compared to the three months ended March 31, 2019.

Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31			
	2020	2019	Change	
	(S/ million)		(S/ million)	%
Total revenues	4,029.0	3,898.4	130.6	3.4%
Cost of sales	-2,824.7	-2,722.9	101.8	3.7%
Gross profit	**1,204.3**	**1,175.5**	**28.9**	**2.5%**
Selling and administrative expenses	-909.3	-885.9	23.5	2.6%
Other income (expense)	31.6	17.2	14.5	84.5%
Operating profit	**326.6**	**306.7**	**19.9**	**6.5%**
Financial income (expense), net	-178.6	-113.0	65.6	58.0%
Income tax expense	-59.0	-66.4	-7.4	-11.2%
Net profit (loss)	**89.1**	**127.3**	**-38.3**	**-30.1%**
Attributable to:				
Intercorp Retail's shareholders	62.0	77.2	-15.2	
Minority interest	27.1	50.1	-23.1	
Adjusted EBITDA	**503.0**	**472.7**	**30.3**	**6.4%**
Adjusted EBITDA margin	12.5%	12.1%		36bps

Intercorp Retail reported a net profit of S/89.1 million as of March 31, 2020, representing a decrease of S/38.3 million compared to the same period of 2019. This reduction is mainly explained by a higher exchange rate loss of S/51 million in the first quarter of 2020, of which S/38 million relates to the loss on dollar denominated lease liabilities as per IFRS 16, compared to a S/18 million exchange rate gain in the same period of 2019, of which S/13 million were from the IFRS 16 effect.

Intercorp Retail's gross profit increased 2.5% in the first quarter of 2020, despite the start of the National State of Emergency on March 16, 2020. Revenues were positively impacted by the Food Retail segment, compensating the slowdown in Pharma and the closure of our Shopping Malls, Department Stores and Home Improvement Stores.

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 the three months ended March 31, 2020 and 2019.

	For the three months ended March 31			
	2020	2019	Change	
	(S/ million)		(S/ million)	%
Total revenues	1,594.1	1,439.6	154.5	10.7%
Cost of sales	-1,196.3	-1,076.8	119.5	11.1%
Gross profit	**397.9**	**362.8**	**35.0**	**9.7%**
Selling and administrative expenses	-328.1	-319.7	8.4	2.6%
Other income (expense)	2.9	9.5	-6.5	-69.1%
Operating profit	**72.7**	**52.6**	**20.1**	**38.2%**
Financial income (expense)	-60.9	-29.3	31.6	107.7%
Income tax expense	-6.5	-12.6	-6.1	-48.6%
Net profit	**5.3**	**10.7**	**-5.4**	**-50.2%**
Adjusted EBIDTA	**139.1**	**116.7**	**22.4**	**19.2%**
Adjusted EBITDA margin	8.7%	8.1%	-	62bps

Food Retail reported a net profit of S/5.3 million in the first quarter of 2020 compared to S/10.7 million in the same period of 2019. This reduction is mainly explained by a higher exchange rate loss related to the loss on dollar denominated lease liabilities as per IFRS 16, explained before.

Food Retail's gross profit increased 9.7% in the first quarter of 2020, compared to the same period of 2019. This growth is mainly explained by a same store sales growth of 7.5%, positively impacted by a strong increase in food categories, compensating the negative performance in non-food since the start of the National State of Emergency due to the restrictions imposed on the sale and delivery of non-food categories. Gross margin decreased from 25.2% in the first quarter of 2019 to 25.0% in the same period of 2020, mainly due to the higher penetration of new formats.

Food Retail's selling and administrative expenses grew 2.6% in the first quarter of 2020 compared to the same period of 2019. As a percentage of revenues, these expenses decreased from 22.2% in the first quarter of 2020 to 20.6% in the first quarter of 2019, mainly due to fixed cost dilution, despite COVID-19 additional expenses.

InRetail Pharma

The table below details selected financial information for InRetail Pharma for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31			
	2020	2019	Change	
	(S/ million)		(S/ million)	%
Total revenues	1,705.1	1,704.5	0.6	0.0%
Cost of sales	-1,175.2	-1,186.7	-11.6	-1.0%
Gross profit	**529.9**	**517.8**	**12.1**	**2.3%**
Selling and administrative expenses	-381.9	-384.9	-3.0	-0.8%
Other income (expense)	2.6	0.2	2.4	1289.1%
Operating profit	**150.6**	**133.0**	**17.5**	**13.2%**
Financial income (expense), net	-60.0	-38.0	22.1	58.1%
Income tax expense	-28.9	-26.0	2.9	11.3%
Net profit	**61.7**	**69.1**	**-7.5**	**-10.8%**
Adjusted EBITDA	**239.7**	**213.5**	**26.1**	**12.2%**
Adjusted EBITDA margin	14.1%	12.5%	-	153bps

InRetail Pharma reported S/61.7 million of net profit in the first quarter of 2020, which represented a decrease of -10.8% compared to the same period of 2019. This reduction is mainly explained by a higher exchange rate loss related to the loss on dollar denominated lease liabilities as per IFRS 16, explained before.

InRetail Pharma's gross profit increased 2.3% in the first quarter of 2020 compared to the same period of 2019. Gross margin increased from 30.4% in the first quarter of 2019, to 31.1% in the same period of 2020, positively affected by a strong gross margin in the Pharmacies unit due to higher rebates.

InRetail Pharma's selling and administrative expenses were S/381.9 million in the first quarter of 2020, which represented a slight decrease of 0.8% over the same period in 2019. As a percentage of revenues, selling and administrative expenses were 22.4% in the first quarter of 2020, compared to 22.6% in the same period of 2019.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the three months ended March 31, 2020 and 2019.

	For the three months ended March 31			
	2020	2019	Change	
	(S/ million)		(S/ million)	%
Total revenues	128.4	127.3	1.1	0.9%
Cost of sales	-47.0	-42.4	4.6	10.9%
Gross profit	**81.5**	**84.9**	**-3.5**	**-4.1%**
Selling and administrative expenses	-11.0	-9.1	1.8	19.9%
Other income (expense)	7.3	3.4	3.9	113.7%
Operating profit	**77.8**	**79.2**	**-1.4**	**-1.8%**
Financial income (expense), net	-36.7	-25.3	11.5	45.4%
Income tax expense	-14.4	-16.3	-1.9	-11.9%
Net profit	**26.7**	**37.6**	**-10.9**	**-29.0%**
Adjusted EBITDA	**73.6**	**78.9**	**-5.3**	**-6.7%**
Adjusted EBITDA / Net Rental Income	79.2%	81.6%	-	-244bps

InRetail Shopping Malls reported S/26.7 million of net profit in the first quarter of 2020, which represented a decrease of 29.0% compared to the same period of 2019. This reduction is mainly explained by a higher exchange rate loss related to the loss on dollar denominated lease liabilities as per IFRS 16, explained before.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 0.9% in the first quarter of 2020. This growth is mainly explained by revenues of Real Plaza Puruchuco compensating the closure of our Shopping Malls on March 16, 2020 due to the National State of Emergency. We registered a tenant SSS increase of 0.7% in the quarter. 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. Net rental income decreased from S/96.6 million in 2019, to S/92.9 million in 2020 (a 3.8% reduction).

For the first quarter of 2020, InRetail Shopping Malls' selling and administrative were S/11.0 million, an increase of 19.9% over the same period of 2019, mainly due to expenses related to the operation of the new Real Plaza Puruchuco mall. As a percentage of revenues, these expenses increased from 7.2% to 8.5%.

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 three-month periods ended March 31	
	2020	2019
	(S/ millions)	
Operating activities		
Net profit for the period	108.3	290.5
Adjustments to reconcile net income to net cash		
Gain from participation in income of Subsidiaries, net	(171.2)	(319.8)
Loss (gain) on valuation of financial investments	(3.9)	0.6
Changes in fair value of investment property	(6.0)	2.4
Exchange difference from corporate bonds and others	39.0	(11.9)
Net changes in asset and liability accounts		
Decrease (increase) of other accounts receivable	8.7	(0.0)
Decrease of interest, provisions and other accounts payable	(20.4)	(7.9)
Net cash used in operating activities	**(45.5)**	**(46.2)**
Investing activities		
Retreat of capital of financial investment	12.7	0.0
Capital contribution to Subsidiaries	(25.7)	(37.6)
Net cash used in investing activities	**(13.0)**	**(37.6)**
Financing activities		
Loans received from Subsidiaries and related parties, net	0.0	104.0
Payment of dividends	(26.3)	(24.7)
Net cash (used in) provided by financing activities	**(26.3)**	**79.3**
Net cash decrease	**(84.8)**	**(4.4)**
Balance of cash at the beginning of period	**217.5**	**7.5**
Balance of cash at the end of period	**132.6**	**3.0**

Net cash used in operating activities decreased S/ 0.7 million for the three months ended March 31, 2020 when compared to the corresponding period in 2019 and Net cash provided by investing activities increased in S/ 24.6 million during the same period of time due to lower capital contributions to subsidiaries. Finally, net cash from financing activities decreased in S/ 80.4 million for the three months ended March 31, 2020 because no loans were received from third parties and subsidiaries.

ii. Indebtedness

Unconsolidated

As of March 31, 2020, Intercorp had S/ 1,642.2 million (US$ 477.8 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of long-term indebtedness: S/ 1,047.7 million (US$ 305 million) of Senior Notes due 2029 (net of issuance expenses), S/ 298.3 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$ 98.8 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas and Colegios Peruanos.