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

Third Quarter 2020

November, 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 63 locations across Peru and 2 in Mexico. UTP consists of a university and a technical school, with more than 70,000 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 September 30, 2020 and December 31, 2019.

	As of September 30, 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)……	66,618.5	61.2%	5,915.9	58.0%	53,019.4	56.7%	6,342.9	60.9%
Interseguro (insurance)……	14,636.2	13.4%	823.1	8.1%	13,917.6	14.9%	973.9	9.3%
Inteligo (wealth management)……	4,410.3	4.1%	893.9	8.8%	4,098.1	4.4%	853.8	8.2%
IFS (holding company) and eliminations……	347.4	0.3%	658.7	6.5%	484.5	0.5%	686.2	6.6%
Total IFS……	86,012.4	79.0%	8,291.7	81.3%	71,519.5	76.5%	8,856.9	85.0%
Intercorp Retail								
Supermercados Peruanos (food retail)……	5,198.8	4.8%	1,162.8	11.4%	5,003.2	5.4%	1,086.3	10.4%
Inkafarma (pharmacies)……	5,687.2	5.2%	764.1	7.5%	5,611.8	6.0%	776.5	7.5%
InRetail Shopping Malls (shopping malls)……	5,398.1	5.0%	2,444.5	24.0%	5,223.8	5.6%	2,524.6	24.2%
Other [(1)]……	3,658.4	3.4%	(1,019.8)	-10.0%	3,613.3	3.9%	(931.7)	-8.9%
Total Intercorp Retail……	19,942.5	18.3%	3,351.7	32.9%	19,452.0	20.8%	3,455.7	33.2%
Other subsidiaries/Intercorp (holding company) and eliminations……	2,938.6	2.7%	(1,448.5)	-14.2%	2,510.6	2.7%	(1,892.1)	-18.2%
Total Consolidated……	108,893.5	100%	10,194.8	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 nine months ended September 30, 2020 and 2019.

	For the nine-month periods ended September 30		Change	
	2020	2019		
	(S/ millions)		(S/ in millions)	%
IFS				
Banking	(139.9)	608.3	(748.2)	N/M
Insurance	97.2	95.5	1.6	1.7%
Wealth Management	64.5	99.4	(34.9)	-35.1%
IFS expenses and eliminations	(17.5)	(40.1)	22.7	-56.5%
Total IFS	**4.3**	**763.1**	**(758.8)**	**-99.4%**
Intercorp Retail				
Food Retail	54.2	30.6	23.6	77.2%
Pharmacies	120.1	122.6	(2.5)	-2.0%
Shopping malls	(6.2)	84.2	(90.4)	N/M
Other subsidiaries / holding company and eliminations	(192.3)	(24.2)	(168.0)	693.6%
Total Intercorp Retail	**(24.2)**	**213.1**	**(237.3)**	**N/M**
Other subsidiaries	(42.1)	(33.1)	(8.9)	27.0%
Net (loss) profit attributable to Intercorp	**(62.0)**	**943.0**	**(1,005.1)**	**N/M**
Financial expenses, net	(66.1)	(97.4)	31.2	-32.1%
General expenses	(24.8)	(39.5)	14.6	-37.1%
Other income (expenses), net	23.3	159.8	(136.6)	-85.4%
Foreign exchange (loss) gain, net	(76.7)	(3.2)	(73.4)	2271.1%
Total expenses	**(144.3)**	**19.8**	**(164.1)**	**N/M**
Net (loss) profit	**(206.3)**	**962.8**	**(1,169.2)**	**N/M**

For the nine months ended September 30, 2020, Intercorp showed a loss of S/ 206.3 million, a S/ 1,169.2 million decrease in net profits compared to the same period in 2019, driven by lower profits in IFS (-S/ 758.8 million) caused by the COVID-19 economic impact. Interbank explains -S/ 748.2 million due to impairment loss on loans.

Intercorp Retail also showed lower profits (S/. 237.3 million) mainly explained by the partial closure of the Shopping Malls operations and the total closure of Department Stores and Home Improvement Stores during the lockdown period, due to the National State of Emergency.

At the holding level, Intercorp Peru´s net expenses were higher in S/164 million due to the gain from the sale of IFS shares held by Intercorp Perú in 2019 (IFS IPO), and due to foreign exchange losses.

ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the nine months ended September 30, 2020 and 2019.

	For the nine months ended September 30,		Change	
	2020	2019		
	(S/ million)		(S/ million)	%
Interest and similar income	3,477.8	3,597.3	-119.5	-3.3%
Interest and similar expense	-930.1	-1,037.3	107.2	-10.3%
Net interest and similar income	**2,547.6**	**2,560.0**	**-12.4**	**-0.5%**
Impairment loss on loans, net of recoveries	-2,066.4	-603.0	-1,463.4	N/M
Recovery (loss) due to impairment of financial investments	-55.2	1.5	-56.7	N/M
Net interest and similar income after impairment loss	**426.0**	**1,958.6**	**-1,532.6**	**-78.3%**
Fee income from financial services, net	537.6	675.5	-137.9	-20.4%
Other income	494.5	410.2	84.3	20.6%
Total premiums earned minus claims and benefits	-185.1	-201.9	16.8	-8.3%
Other expenses	-1,373.8	-1,464.4	90.6	-6.2%
Income before translation result and income tax	**-100.8**	**1,378.1**	**-1,478.9**	**N/M**
Translation result	-42.1	5.2	-47.3	N/M
Income tax	149.0	-346.0	495.0	N/M
Profit for the period	**6.1**	**1,037.3**	**-1,031.2**	**-99.4%**
Attributable to IFS' shareholders	**7.3**	**1,030.9**	**-1,023.6**	**-99.3%**
EPS	**0.06**	**9.21**		
ROAE	**0.1%**	**18.0%**		

IFS' profits attributable to shareholders were S/ 7.3 million in the nine months ended September 30, 2020, compared to profits of S/ 1,030.9 million in the corresponding period of the previous year. The decrease in profits was mainly due to higher impairment loss on loans at Interbank, in addition to reductions in net fee income from financial services at Interbank and Interseguro, a worsened translation result especially at Interseguro, and lower net interest and similar income at Interbank and Inteligo. These effects were partially compensated by a reversal of the income tax payment at Interbank, as well as by reductions in other expenses at all subsidiaries, and in the adjustment of technical reserves at Interseguro.

It is worth mentioning that IFS's results in the nine months ended September 30, 2020 were affected by (i) the impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic at Interbank for S/ 106.6 million after taxes; and (ii) the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic.

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 nine months ended September 30, 2020 and 2019.

	For the nine months ended September 30,		Change	
	2020	2019		
	(S/ million)		(S/ million)	%
Interest and similar income	2,877.2	3,022.3	-145.1	-4.8%
Interest and similar expense	-821.5	-936.8	115.3	-12.3%
Net interest and similar income	**2,055.7**	**2,085.4**	**-29.7**	**-1.4%**
Impairment loss on loans, net of recoveries	-2,066.4	-602.9	-1,463.5	N/M
Recovery (loss) due to impairment of financial investments	-0.2	0.0	-0.2	N/M
Net interest and similar income after impairment loss	**-10.8**	**1,482.6**	**-1,493.4**	**N/M**
Fee income from financial services, net	456.5	607.3	-150.8	-24.8%
Other income	331.7	327.0	4.7	1.4%
Other expenses	-1,119.4	-1,198.4	79.0	-6.6%
Income before translation result and income tax	**-342.0**	**1,218.6**	**-1,560.6**	**N/M**
Translation result	-4.8	-2.3	-2.5	N/M
Income tax	147.3	-325.2	472.5	N/M
Profit for the period	**-199.5**	**891.1**	**-1,090.6**	**N/M**
Efficiency ratio	**38.2%**	**38.8%**		
NIM	**4.7%**	**5.7%**		
ROAE	**N/M**	**21.1%**		

Interbank's net results reached S/ -199.5 million in the nine months ended September 30, 2020, compared to profits of S/ 891.1 million in the corresponding period of the previous year. The main factor that contributed to this result was a more than three-fold growth in impairment loss on loans, in addition to reductions of 24.8% in net fee income from financial services and 1.4% in net interest and similar income. These effects were partially offset by a reversal of the income tax payment, a 6.6% decrease in other expenses and 1.4% growth in other income.

It is worth mentioning that Interbank's comparable 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 nine months ended September 30, 2019; (ii) the impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 106.6 million after taxes in the nine months ended September 30, 2020; and (iii) the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic, also in the nine months ended September 30, 2020.

Net interest and similar income decreased 1.4% due to a 4.8% reduction in interest and similar income, partially offset by a 12.3% decrease in interest and similar expense. However, excluding the impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 151.1 million in the nine months ended September 30, 2020, net interest and similar income, and interest and similar income would have grown 5.8% and 0.2%, respectively.

The lower interest and similar income was mainly due to reductions of 73.8% in interest on due from banks and inter-bank funds, and 3.6% in interest on loans, partially offset by 10.0% growth in interest on financial investments.

Interest on due from banks and inter-bank funds decreased S/ 61.6 million, or 73.8%, explained by a 100 basis point reduction in the average yield, partially compensated by 33.9% growth in the average volume. On one hand, the decrease in the nominal average rate was mainly related to lower returns on deposits and reserve funds at the Central Bank, as well as on inter-bank funds. On the other hand, the increase in the average volume was explained by higher deposits and reserve funds at the Central Bank, partially compensated by a lower average balance of inter-bank funds.

Interest on loans decreased S/ 99.3 million, or 3.6%, mainly due to a 180 basis point reduction in the average yield, partially compensated by 15.4% growth in the average volume of loans. However, excluding the impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 151.1 million in the nine months ended September 30, 2020, interest on loans would have grown 1.9%.

The annual decrease in the average rate on loans, from 10.9% for the nine months ended September 30, 2019 to 9.1% for the corresponding period of 2020, was due to reductions of 170 basis points in retail loans and 130 basis points in commercial loans. The decrease in retail loans was mainly explained by lower rates on credit cards, mostly related to the previously mentioned impact, as well as by decreases in the average yields on other consumer loans and mortgages. In the commercial portfolio, rates decreased on all types of loans. It is worth mentioning that, as a result of the loan rescheduling carried out as part of the measures implemented to deal with the COVID-19 pandemic, a portion of the interest on loans to be recorded between April and September 2020 was rescheduled, affecting the average yield on loans for the nine months ended September 30, 2020. Additionally, the incidence of the low-return loans offered to a number of commercial clients as part of the Reactiva Peru Program also had an impact on the average rate on loans.

The higher average volume of loans was attributed to increases of 24.3% in commercial loans and 7.9% in retail loans. In the commercial portfolio, the higher average volume was mainly due to increases of 34.6% in short and medium-term loans, and 2.9% in trade finance loans, attributed to the disbursement of loans under the Reactiva Peru Program. In the retail portfolio, average volumes grew mostly due to increases of 9.5% in mortgages, 5.2% in payroll deduction loans and 4.9% in credit cards.

Interest on financial investments grew 10.0% YoY due to 28.1% growth in the average volume, partially offset by 50 basis point reduction in the average yield. On one hand, the increase in the average volume was the result of higher average balances of sovereign bonds. On the other hand, the decrease in the nominal average rate, from 3.9% for the nine months ended September 30, 2019 to 3.4% for the corresponding period of 2020, was mainly a result of lower yields on global bonds, corporate bonds from non-financial institutions, sovereign bonds and Central Bank's Certificates of Deposits.

The nominal average yield on interest-earning assets decreased 180 basis points, from 8.3% for the nine months ended September 30, 2019 to 6.5% for the corresponding period of 2020, in line with the lower returns on all interest-earning assets. However, excluding the impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in the nine months ended September 30, 2020, the nominal average yield on interest-earning assets would have been 6.9% in such period.

The lower interest and similar expense was due to reductions of 18.2% in interest on deposits and obligations, and 8.8% in interest on bonds, notes and other obligations, partially offset by a 4.9% increase in interest on due to banks and correspondents.

Interest on deposits and obligations decreased S/ 96.8 million, or 18.2%, explained by a 70 basis point reduction in the average cost, from 2.2% for the nine months ended September 30, 2019 to 1.5% for the corresponding period of 2020, partially offset by 18.3% growth in the average volume. The lower average cost was due to reductions in rates paid to institutional, commercial and retail deposits. Growth in volumes came across all client segments. By currency, average balances of soles-denominated deposits grew 27.8% while average dollar-denominated deposits decreased 2.4%.

The reduction in interest on bonds, notes and other obligations was the result of higher efficiencies in this component of interest-bearing liabilities, associated with liability management transactions executed since 2019. Among these, the execution of a call option for local subordinated bonds in July 2019 and the redemption of international hybrid bonds in April 2020 contributed to a lower interest expense, although partially compensated by the issuance of a new international subordinated bond in July 2020. Additionally, the maturity of Certificates of Deposit for S/ 150 million in March 2020 also contributed to the lower interest expense of this component of the funding base.

The S/ 6.2 million, or 4.9%, increase in interest on due to banks and correspondents was the result of 68.7% growth in the average volume, partially compensated by a 160 basis point reduction in the average cost, from 4.2% for the nine months ended September 30, 2019 to 2.6% for the corresponding period of 2020. On one hand, the higher volume was explained by growth in funding from the Central Bank, correspondent banks abroad and COFIDE, as well as by higher inter-bank funds. On the other hand, the decrease in the average cost was due to lower rates paid to inter-bank funds and funding from the Central Bank, correspondent banks abroad, and COFIDE.

The average cost of funding decreased 80 basis points, from 2.9% for the nine months ended September 30, 2019 to 2.1% for the corresponding period of 2020, in line with the lower cost of all interest-bearing liabilities.

As a result of the above, net interest margin was 4.7% for the nine months ended September 30, 2020, 100 basis points lower than the 5.7% reported for the corresponding period of the previous year. However, excluding the impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in the nine months ended September 30, 2020, net interest margin would have been 5.0% in such period.

Impairment loss on loans, net of recoveries increased more than three-fold in the nine months ended September 30, 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 small and medium-sized companies, all in relation to the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic. These adjustments included: (i) the update of macroeconomic variables used in our forward-looking risk models; (ii) the migration within stages of retail exposures subject to multiple installments or total debt rescheduling; and (iii) a case-by-case risk analysis within our commercial loan book.

The S/ 150.8 million, or 24.8%, decrease in net fee income from financial services was mainly due to a S/ 130.6 million reduction in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services.

Other income increased S/ 4.7 million, or 1.4%, mainly due to higher net gain on sale of securities and net gain on foreign exchange transactions, partially compensated by a reduction in net gain on valuation of trading securities.

Other expenses decreased S/ 79.0 million, or 6.6%, as a result of reductions in salaries and employee benefits and administrative expenses, attributed to cost containment measures implemented to offset the impacts of the COVID-19 pandemic on revenues.

The efficiency ratio was 38.2% in the nine months ended September 30, 2020, compared to the 38.8% registered in the corresponding period of 2019. However, excluding the impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic, the efficiency ratio would have been 36.3% in the nine months ended September 30, 2020, which also represents an improvement compared to the corresponding period of 2019.

Income before translation result and income tax was S/ -342.0 million in the nine months ended September 30, 2020, which was then compensated by a reversal of the income tax payment.

As a result of the above, net result for the period was S/ -199.5 million in the nine months ended September 30, 2020, compared to profits of S/ 891.1 million registered in the corresponding period of 2019.

Insurance

The table below details selected financial information for our Insurance segment for the nine months ended September 30, 2020 and 2019.

	For the nine months ended September 30,		Change	
	2020	2019		
	(S/ million)		(S/ million)	%
Net interest and similar income	413.4	402.0	11.4	2.8%
Recovery (loss) due to impairment of financial investments	-47.7	2.1	-49.8	N/M
Net interest and similar income after impairment loss	**365.7**	**404.1**	**-38.4**	**-9.5%**
Fee income from financial services, net	-3.8	-3.1	-0.7	21.5%
Other income	143.4	118.4	25.0	21.1%
Total premiums earned minus claims and benefits	-185.1	-201.9	16.8	-8.3%
Other expenses	-192.0	-219.9	27.9	-12.7%
Income before translation result and income tax	**128.2**	**97.6**	**30.6**	**31.3%**
Translation result	-24.7	-1.9	-22.8	N/M
Income tax	0.0	0.0	0	N/M
Profit for the period	**103.4**	**95.7**	**7.7**	**8.1%**
Profit attributable to IFS' shareholders	**103.4**	**95.7**	**7.7**	**8.1%**
Efficiency ratio	**10.6%**	**13.1%**		
ROAE	**19.6%**	**14.1%**		

Interseguro's profit attributable to IFS' shareholders in the nine months ended September 30, 2020 was S/ 103.4 million, an increase of S/ 7.7 million compared to the corresponding period of the previous year.

Growth in net profit was mainly the result of a S/ 27.9 million decrease in other expenses, mostly related to cost containment measures implemented to deal with the COVID-19 pandemic, in addition to S/ 25.0 million higher other income and a S/ 16.8 million improvement in total premiums earned minus claims and benefits. These factors were partially offset by a negative performance of S/ 49.8 million in impairment loss on financial investments.

Net interest and similar income was S/ 413.4 million in the nine months ended September 30, 2020, an S/ 11.4 million increase compared to the corresponding period of the previous year. The result was explained by S/ 22.1 million growth in interest and similar income, attributable to higher organic growth of the fixed income portfolio, partially offset by a S/ 10.6 million increase in interest and similar expenses.

Loss due to impairment of financial investments was S/ 47.7 million in the nine months ended September 30, 2020, compared to a recovery of S/ 2.1 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 pandemic.

Other income was S/ 143.4 million, a S/ 25.0 million increase, mainly due to growth of S/ 58.1 million in net gain on sale of securities, partially offset by decreases of S/ 32.7 million in net gain on valuation of real estate investments and S/ 7.2 million in rental income, both related to the impact of the COVID19 pandemic in the real estate market.

Other expenses were S/ 192.0 million in the nine months ended September 30, 2020, a S/ 27.9 million reduction compared to the corresponding period of the previous year. This was mainly due to decreases of S/ 15.2 million in varied technical insurance expenses and S/ 11.0 million in administrative expenses.

Total premiums earned less claims and benefits

	For the nine months ended September 30,		
	2020	2019	Change
	(S/ million)		%
Net premiums	421.2	493.1	-14.6%
Adjustment of technical reserves	-33.6	-180.7	-81.4%
Net claims and benefits incurred	-572.6	-514.2	11.4%
Total premiums earned minus claims and benefits	**-185.1**	**-201.9**	**-8.3%**

Total premiums earned minus claims and benefits increased S/ 16.8 million explained by a S/ 147.1 million decrease in adjustment of technical reserves, partially offset by a S/ 71.9 million reduction in net premiums and S/ 58.4 million growth in net claims and benefits incurred.

The 14.6% reduction in net premiums was mainly due to reductions of S/ 66.2 million in annuities and S/ 4.6 million in retail insurance.

It is worth mentioning that the overall activity in net premiums was affected by the national lockdown implemented to face the COVID-19 pandemic, which mostly impacted the annuity segment of the insurance market.

Adjustment of technical reserves decreased S/ 147.1 million in the nine months ended September 30, 2020, mainly due to a release of technical reserves for annuities mostly related to (i) the effect of lower sales, (ii) a higher mortality rate resulting from the COVID-19 pandemic, and (iii) lower technical reserves for inflation indexed annuities due to the decrease in inflation rate. Likewise, a S/ 20.3 million release of reserves in individual life also contributed to the reduction in adjustment of technical reserves, mainly associated with lower profitability of flex life products, which are linked to equity investments on behalf of clients.

Growth in net claims and benefits incurred was mainly explained by increases of S/ 24.9 million in annuity benefits, S/ 23.7 million in retail insurance and S/ 7.8 million in individual life. It is worth noting that the annual increase in retail insurance claims was mostly related to higher claims in Credit Life Insurance, as a result of the higher mortality associated to the COVID-19 pandemic.

Interseguro's annualized ROAE was 19.6% for the nine months ended September 30, 2020, higher than the 14.1% reported for the corresponding period of 2019.

Wealth Management

The table below details selected financial information for the nine months ended September 30, 2020 and 2019.

	For the nine months ended September 30,		Change	
	2020	2019		
	(S/ million)		(S/ million)	%
Interest and similar income	112.3	127.0	-14.7	-11.6%
Interest and similar expense	-40.9	-45.2	4.3	-9.5%
Net interest and similar income	**71.4**	**81.8**	**-10.4**	**-12.7%**
Impairment loss on loans, net of recoveries	-0.1	0.0	-0.1	40.5%
Recovery (loss) due to impairment of financial investments	-7.3	-0.6	-6.7	N/M
Net interest and similar income after impairment loss	**64.0**	**81.1**	**-17.1**	**-21.1%**
Fee income from financial services, net	123.5	117.3	6.2	5.3%
Other income	-0.3	28.4	-28.7	N/M
Other expenses	-88.8	-90.2	1.4	-1.5%
Income before translation result and income tax	**98.3**	**136.7**	**-38.4**	**-28.1%**
Translation result	-5.8	-0.9	-4.9	N/M
Income tax	-4.1	-5.2	1.1	-20.8%
Profit for the period	**88.5**	**130.6**	**-42.1**	**-32.3%**
Efficiency ratio	**45.6%**	**39.5%**		
ROAE	**14.5%**	**21.7%**		

Inteligo's profits for the nine months ended September 30, 2020 and 2019 were S/ 88.5 million and S/ 130.6 million, respectively. The S/ 42.1 million, or 32.2%, decrease was mainly explained by negative mark-to-market valuations in the three months ended March 31, 2020, partially offset by strong gains in the proprietary portfolio afterwards.

Net interest and similar income decreased S/ 10.4 million, or 12.7%. This reduction was due to a contraction in the spread between the loan rate and the deposit rate, in addition to lower interest generated by inter-bank fund placements in the nine months ended September 30, 2020.

Net fee income from financial services was S/ 123.5 million, a S/ 6.2 million, or 5.3%, increase mainly explained by higher brokerage fees due to increased trading volumes, triggered by higher market volatility which contributed to client appetite for investing or rebalancing portfolios.

Other income (loss) was S/ -0.3 million, a decrease of S/ 28.7 million, mainly attributable to negative mark-to-market valuations and realized losses on Inteligo's proprietary portfolio in the three months ended March 31, 2020, partially offset by gains afterwards, following the recovery of the financial markets.

Inteligo's other expenses reached S/ 88.8 million in the nine months ended September 30, 2020, a decrease of S/ 1.4 million, or 1.5%, mainly related to a lower depreciation of fixed assets and expense containment initiatives implemented after the COVID-19 pandemic breakout in March 2020.

Inteligo's annualized ROAE for the nine months ended September 30, 2020 was 14.5%, lower than the 21.7% registered for the corresponding period of 2019.

iii. Intercorp Retail

Results of Operations for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2019.

Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the nine months ended September 30, 2020 and 2019.

	For the nine months ended September 30			
	2020	2019	Change	
	(S/ million)		(S/ million)	%
Total revenues	12,018.1	11,625.6	392.5	3.4%
Cost of sales	-8,707.8	-8,104.6	603.3	7.4%
Gross profit	**3,310.3**	**3,521.0**	**-210.7**	**-6.0%**
Selling and administrative expenses	-2,670.5	-2,644.3	26.2	1.0%
Other income (expense)	44.6	60.7	-16.1	-26.6%
Operating profit	**684.3**	**937.5**	**-253.1**	**-27.0%**
Financial income (expense), net	-530.1	-396.5	133.5	33.7%
Income tax expense	-115.8	-200.0	-84.2	-42.1%
Net profit (loss)	**38.5**	**340.9**	**-302.4**	**-88.7%**
Attributable to:				
Intercorp Retail's shareholders	35.5	200.5	-165.0	
Minority interest	3.0	140.4	-137.4	
Adjusted EBITDA	**1,234.3**	**1,431.2**	**-196.9**	**-13.8%**
Adjusted EBITDA margin	10.3%	12.3%		-204bps

Intercorp Retail reported a net profit of S/38.5 million as of September 30, 2020, representing a decrease of S/302.4 million compared to the same period of 2019. This is mainly explained by the partial closure of our Shopping Malls and the total closure of our Department Stores and Home Improvement Stores during the lockdown period, due to the National State of Emergency. Net profit was also negatively impacted by a higher exchange rate loss which relates to the loss on dollar denominated lease liabilities as per IFRS 16.

Intercorp Retail's gross profit decreased 6.0% in the first nine months of 2020, compared to the same period in 2019. Revenues were positively impacted by the Food Retail segment, compensating the significant decrease in revenues from our Shopping Malls, Department Stores and Home Improvement Stores, due to the National State of Emergency, as explained before.

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 nine months ended September 30, 2020 and 2019.

	For the nine months ended September 30			
	2020	2019	Change	
	(S/ million)		(S/ million)	%
Total revenues	4,992.3	4,189.5	802.8	19.2%
Cost of sales	-3,709.0	-3,097.7	611.3	19.7%
Gross profit	**1,283.3**	**1,091.8**	**191.5**	**17.5%**
Selling and administrative expenses	-997.5	-944.7	52.8	5.6%
Other income (expense)	-6.6	36.9	-43.5	-
Operating profit	**279.2**	**184.0**	**95.1**	**51.7%**
Financial income (expense)	-171.9	-105.1	66.8	63.6%
Income tax expense	-40.8	-35.8	5.0	14.0%
Net profit	**66.5**	**43.2**	**23.3**	**54.0%**
Adjusted EBITDA	**478.6**	**356.0**	**122.6**	**34.4%**
Adjusted EBITDA margin	9.6%	8.5%	-	109bps

Food Retail reported a net profit of S/66.5 million in the first nine months of 2020 compared to S/43.2 million in the same period of 2019. This increase is mainly explained by a strong increase in revenues, better fixed cost dilution and cost saving initiatives aiming to offset incremental expenses related to COVID-19.

Food Retail's gross profit increased 17.5% in the first nine months of 2020, compared to the same period of 2019. This growth is explained by a strong same store sales growth of 16.7% in the nine months of 2020, which was positively impacted by a strong increase in both food and non-food categories, and across all formats. Gross margin decreased from 26.1% in the first nine months of 2019 to 25.7% in the same period of 2020, mainly due to the higher penetration of new formats and e-commerce.

Food Retail's selling and administrative expenses grew 5.6% in the first nine months of 2020 compared to the same period of 2019. As a percentage of revenues, these expenses decreased from 22.5% to 20.0%, mainly due to better fixed cost dilution, and cost saving initiatives, aiming to offset incremental expenses related to COVID-19, as explained before.

InRetail Pharma

The table below details selected financial information for InRetail Pharma for the nine months ended September 30, 2020 and 2019.

	For the nine months ended September 30			
	2020	2019	Change	
	(S/ million)		(S/ million)	%
Total revenues	5,279.2	5,111.2	168.0	3.3%
Cost of sales	-3,673.9	-3,542.3	131.6	3.7%
Gross profit	**1,605.3**	**1,568.9**	**36.4**	**2.3%**
Selling and administrative expenses	-1,146.5	-1,136.0	10.5	0.9%
Other income (expense)	3.0	1.3	1.7	127.5%
Operating profit	**461.8**	**434.2**	**27.6**	**6.4%**
Financial income (expense), net	-169.4	-138.0	31.5	22.8%
Income tax expense	-97.5	-97.3	0.3	0.3%
Net profit	**194.8**	**199.0**	**-4.2**	**-2.1%**
Adjusted EBITDA	**724.7**	**690.9**	**33.9**	**4.9%**
Adjusted EBITDA margin	13.7%	13.5%	-	21bps

InRetail Pharma reported S/194.8 million of net profit in the first nine months of 2020, which represented a decrease of 2.1% 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.

InRetail Pharma's gross profit increased 2.3% in the first nine months of 2020 compared to the same period of 2019. For the nine months ended September 2020, gross margin was 30.4% in comparison to 30.7% in the same period in 2019, mainly due to a gross margin reduction in the MDM unit, which was affected by a change in client mix in the distribution unit in the context of COVID-19.

InRetail Pharma's selling and administrative expenses were S/1,147 million in the first nine months of 2020, which registered a slight increase of 0.9% over the same period in 2019. As a percentage of revenues, these expenses decreased from 22.2% to 21.7%.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the nine months ended September 30, 2020 and 2019.

	For the nine months ended September 30			
	2020	2019	Change	
	(S/ million)		(S/ million)	%
Total revenues	267.8	389.0	-121.2	-31.1%
Cost of sales	-108.7	-126.2	-17.6	-13.9%
Gross profit	**159.1**	**262.7**	**-103.6**	**-39.4%**
Selling and administrative expenses	-37.0	-29.3	7.7	26.4%
Other income (expense)	-32.4	19.2	-51.6	-
Operating profit	**89.7**	**252.7**	**-163.0**	**-64.5%**
Financial income (expense), net	-102.4	-85.1	17.3	20.4%
Income tax expense	3.1	-50.3	-53.3	-
Net profit	**-9.6**	**117.4**	**-126.9**	**-**
Adjusted EBITDA	**131.9**	**242.3**	**-110.3**	**-45.5%**
Adjusted EBITDA / Net Rental Income	69.6%	81.3%	-	-1,175bps

InRetail Shopping Malls reported a net loss of S/9.6 million in the first nine months of 2020. Net Income was mainly impacted by the negative performance of the segment in the context of the pandemic, and by the FX loss related to the dollar denominated lease liabilities as per IFRS 16.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, decreased 31.1% in the first nine months of 2020, impacted by the restrictions on GLA openings as well as temporary rent reductions in the context of the pandemic. From March 16 until June 22, our Shopping Malls operated only supermarkets, pharmacies and bank branches, which represented approximately ~20% of GLA due to the National State of Emergency. Since June 22, non-essential retail stores started gradually reopening within our Shopping Malls, as soon as authorized by Government. During Q3'20, our Shopping Malls went from ~59% of GLA opened at the beginning of the quarter to ~76% of GLA open by the end of 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/297.8 million in the first nine months of 2019, to S/189.6 million in the same period of 2020 (a 36.3% decrease).

In the first nine months of 2020, InRetail Shopping Malls' selling and administrative were S/37.0 million, an increase of 26.4% over the same period of 2019, mainly due to a higher provision for doubtful accounts. As a percentage of revenues, these expenses increased from 7.5% to 13.8%.

III. Other financial information

i. Liquidity and Capital Resources

Intercorp's main source of cash flows are the dividends received from its subsidiaries. Intercorp's dividends have been contributed mainly by IFS and the rest by Intercorp Retail. 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 beginning in june after such dividends are declared at its annual general shareholders meeting. In 2020 no dividends have been declared. The table below provides information regarding the cash flows of Intercorp.

	For the nine-month periods ended September 30	
	2020	2019
	(S/ millions)	
Operating activities		
Net (loss) profit for the period	(206.3)	963.1
Adjustments to reconcile net income to net cash		
Loss (gain) from participation in income of Subsidiaries, net	62.0	(939.9)
Gain on initial public offering of Subsidiary shares	0.0	(207.5)
Loss on valuation of trading derivative financial instruments	0.2	1.7
(Gain) loss on valuation of financial investments	(17.4)	17.3
Changes in fair value of investment property	(13.5)	(0.7)
Exchange difference from corporate bonds and others	84.8	22.4
Net changes in asset and liability accounts		
Decrease (increase) of other accounts receivable	8.1	(22.2)
Decrease of interest, provisions and other accounts payable	(27.6)	(66.9)
Net cash used in operating activities	**(109.9)**	**(232.7)**
Investing activities		
Dividends received	574.4	559.8
Acquisition of subsidiary's shares	(5.3)	0.0
Financial investments net of amortization	(182.4)	(69.5)
Capital contribution to Subsidiaries	(153.1)	(472.2)
Sale of Subsidiary shares, net of commissions	0.0	368.3
Net cash provided by investing activities	**233.6**	**386.4**
Financing activities		
Issuance of corporate bonds	0.0	1,371.5
Amortization of bonds	0.0	(833.0)
Loans paid to third parties	0.0	(153.0)
Loans paid to Subsidiaries	0.0	(65.3)
Payment of dividends	(26.3)	(74.7)
Net cash (used in) provided by financing activities	**(26.3)**	**245.6**
Net cash increase	**97.4**	**399.2**
Balance of cash at the beginning of period	**217.5**	**7.5**
Balance of cash at the end of period	**314.9**	**406.7**

Net cash used in operating activities decreased S/ 122.9 million for the nine months ended September 30, 2020 when compared to the corresponding period in 2019 and Net cash provided by investing activities decreased in S/ 152.8 million during the same period of time due to lower capital contributions to subsidiaries, partially offset by financial investments net of amortization. Finally, net cash from financing activities decreased in S/ 271.8 million for the nine months ended September 30, 2020 because no loans were received from third parties and subsidiaries, and no dividends were distributed to shareholders beginning the second quarter after the annual shareholders meeting agreement.

ii. Dividends Received by Intercorp

The following table sets forth details regarding the dividends received by Intercorp from its subsidiaries for the nine months ended September 30, 2020 and December 31, 2019.

	For the nine-month periods ended September 30			For the year ended December 31,		
	2020	2020	2019	2019	2019	2018
	(US$. in millions)(1)	(S/ in millions)		(US$. in millions)	(S/ in millions)	
IFS[(1)]……………………………………….	142.7	493.1	488.3	147.1	488.3	381.0
Intercorp Retail[(2)]…………………………	18.0	61.3	60.1	18.0	60.1	0.0
Other subsidiaries[(3)]………………………	5.8	19.9	11.5	3.5	11.5	8.9
	166.5	**574.4**	**559.8**	**168.6**	**559.8**	**389.9**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.456 = US$1.00
(2) Translated to U.S. dollars for convenience only at the rate of S/ 3.406 = US$1.00
(3) Translated to U.S. dollars for convenience only at the rate of S/ 3.412 = US$1.00

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 nine months ended September 30, 2020 and 2019. The dividends declared and paid by IFS are in US dollars.

	For the nine-month periods ended September 30		
.	2020	2020	2019
	(US$. in millions) (1)	(S/ in millions)	
IFS			
Dividends declared and paid………….	**202.0**	**698.2**	**654.5**
Net profit [(2)]………………………….....	417.0	1,441.3	1,084.3
Dividend payout ratio…………………..	**48.4%**	**48.4%**	**60.4%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.456= 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 nine months ended September 30, 2020 and 2019.

	For the nine-month periods ended September 30		
	2020	**2020**	**2019**
	(US$. in millions) [(1)]	**(S/ in millions)**	
Interbank			
Dividends declared and paid………….	**87.5**	**302.3**	**467.0**
Net profit [(2)]…………………………....	349.7	1,208.5	1,037.9
Dividend payout ratio…………………..	**25.0%**	**25.0%**	**45.0%**
Interseguro			
Dividends declared and paid………….	**57.8**	**199.7**	**138.0**
Net profit [(2)]…………………………....	125.9	435.0	361.1
Dividend payout ratio…………………..	**45.9%**	**45.9%**	**38.2%**
Inteligo			
Dividends declared and paid………….	**30.0**	**103.7**	**101.2**
Net profit [(2)]……………………………	58.1	200.8	192.2
Dividend payout ratio…………………..	**51.6%**	**51.6%**	**52.7%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.456= 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 year 2019, 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.

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 nine months ended September 30, 2019. The dividends declared and paid by Intercorp Retail are in US dollars

	For the nine-month periods ended September 30		
	2020	2020	2019
	(US$. in millions) (1)	(S/ in millions)	(S/ in millions)
Intercorp Retail			
Dividends declared and paid…………	**18.0**	**61.3**	**60.1**
Net profit (2)……………………………	92.6	315.3	142.0
Dividend payout ratio…………………..	**19.4%**	**19.4%**	**42.3%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.406 = 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 nine months, ended September 30, 2020.

	For the nine-month periods ended September 30		
	2020	2020	2019
	(US$. in millions) (1)	(S/ in millions)	(S/ in millions)
InRetail Peru			
Dividends declared and paid ………….	**58.0**	**197.9**	**118.1**
Net profit(2) ………………………………	34.6	118.2	182.1
Dividend payout ratio…………………..	**167.5%**	**167.5%**	**64.8%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.412= US$1.00 , the exchange rate reported on the day of the operation.

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

iii. Indebtedness

Unconsolidated

As of September 30, 2020, Intercorp had S/ 1,693.6 million (US$ 470.8 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of long-term indebtedness: S/ 1,098 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/ 296.3 million of Senior Notes due 2029 (net of issuance expenses). As of the same date, Intercorp had guaranteed up to US$ 84.3 million of indebtedness in favor of un-affiliated third parties of its subsidiaries.