

Intercorp Financial Services Inc. First Quarter 2020 Earnings

Lima, Peru, May 12, 2020. Intercorp Financial Services Inc. (Lima Stock Exchange/NYSE: IFS) announced today its unaudited results for the first quarter 2020. These results are reported on a consolidated basis under IFRS in nominal Peruvian soles.

Intercorp Financial Services: Profits reached S/ 145 million in 1Q20 and ROAE at 6.6% affected by higher provisions at Interbank and impacts on investments at Interseguro and Inteligo

- Relevant net income of S/ 218 million in 1Q20
- Early and fast response to an unprecedented situation has guaranteed continuity of our operations
- Reinforced liquidity and capital position to face uncertain times to come
- Clear opportunity to accelerate digital in the new normal, supported by ready-to-scale digital platform

Interbank: Net profit decreased 17.1% YoY mainly due to higher provisions, ROAE at 13.8%

- Initial impacts of COVID-19 already reflected in 1Q20 key banking indicators
- Continued growth in retail deposits and market share up to 13.7% after lockdown
- Deceleration of loan growth and activity after lockdown, especially in retail (12.3% YoY growth)
- First impact on provisions from COVID-19, NPL coverage at 136%
- CET1 improved 180 bps YoY to 12.0%, enhanced by higher capitalization

Interseguro: Quarterly results affected by negative impacts on investment portfolio due to the COVID-19 outbreak

- Net premiums grew 10.8% QoQ and 1.0% YoY mainly driven by retail insurance business
- Market leader in annuities with a 27.9% share
- ROIP of 4.2% in 1Q20, or 6.1% excluding COVID-19 one-offs, compared to 5.8% in 4Q19 and 1Q19

Inteligo: Quarterly results affected by negative impacts on investment portfolio due to the COVID-19 outbreak

- Fee income/average AUM remained stable QoQ and grew 10 bps YoY, to 1.0% in 1Q20
- AUM decreased QoQ due to mark-to-market, despite growth in net new money

Intercorp Financial Services

SUMMARY

Intercorp Financial Services' Statement of financial position					
S/ million	03.31.19	12.31.19	03.31.20	%chg 03.31.20/ 12.31.19	%chg 03.31.20/ 03.31.19
Assets					
Cash and due from banks and inter-bank funds	9,730.6	11,213.9	11,733.3	4.6%	20.6%
Financial investments	17,852.8	19,072.7	18,634.9	-2.3%	4.4%
Loans, net of unearned interest	35,019.0	38,531.6	38,556.6	0.1%	10.1%
Impairment allowance for loans	-1,396.2	-1,394.8	-1,494.5	7.2%	7.0%
Property, furniture and equipment, net	948.5	950.9	935.6	-1.6%	-1.4%
Other assets	3,601.6	3,187.9	3,445.7	8.1%	-4.3%
Total assets	65,756.2	71,562.3	71,811.6	0.3%	9.2%
Liabilities and equity					
Deposits and obligations	34,790.0	38,093.2	37,568.9	-1.4%	8.0%
Due to banks and correspondents and inter-bank funds	3,832.6	4,148.8	5,446.1	31.3%	42.1%
Bonds, notes and other obligations	6,663.2	6,890.3	6,973.4	1.2%	4.7%
Insurance contract liabilities	10,407.2	11,338.8	11,064.3	-2.4%	6.3%
Other liabilities	2,336.4	2,187.7	2,212.6	1.1%	-5.3%
Total liabilities	58,029.4	62,658.8	63,265.3	1.0%	9.0%
Equity, net					
Equity attributable to IFS' shareholders	7,686.8	8,856.9	8,499.6	-4.0%	10.6%
Non-controlling interest	40.0	46.6	46.7	0.3%	16.9%
Total equity, net	7,726.8	8,903.4	8,546.3	-4.0%	10.6%
Total liabilities and equity net	65,756.2	71,562.3	71,811.6	0.3%	9.2%

Intercorp Financial Services' net profit was S/ 144.9 million in 1Q20, a decrease of S/ 267.9 million QoQ, or 64.9%, and S/ 207.8 million YoY, or 58.9%. IFS annualized ROAE was 6.6% in 1Q20, below the 19.0% reported in both 4Q19 and 1Q19.

It is worth mentioning that IFS's results were affected by (i) 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; (ii) the one-off impact of a liability management transaction on financial expense for S/ 29.0 million after taxes in 4Q19; and (iii) the COVID-19 outbreak in 1Q20, which negatively impacted Interbank's revenue sources and asset quality, as well as Interseguro's and Inteligo's results from investments.

InterCorp Financial Services' P&L statement					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar income	1,166.7	1,249.9	1,248.2	-0.1%	7.0%
Interest and similar expenses	-342.5	-391.4	-339.5	-13.3%	-0.9%
Net interest and similar income	824.2	858.5	908.7	5.9%	10.3%
Impairment loss on loans, net of recoveries	-186.4	-147.9	-312.6	n.m.	67.7%
Recovery (loss) due to impairment of financial investments	1.9	-8.3	-40.5	n.m.	n.m.
Net interest and similar income after impairment loss	639.7	702.3	555.6	-20.9%	-13.1%
Fee income from financial services, net	223.0	250.3	220.3	-12.0%	-1.2%
Other income	138.9	181.9	39.3	-78.4%	-71.7%
Total premiums earned minus claims and benefits	-67.4	-73.0	-59.4	-18.6%	-11.8%
Net Premiums	171.2	156.1	172.9	10.8%	1.0%
Adjustment of technical reserves	-73.3	-50.1	-48.4	-3.3%	-33.9%
Net claims and benefits incurred	-165.3	-179.0	-183.9	2.7%	11.2%
Other expenses	-481.7	-513.9	-511.2	-0.5%	6.1%
Income before translation result and income tax	452.5	547.6	244.6	-55.3%	-45.9%
Translation result	10.1	12.5	-23.9	n.m.	n.m.
Income tax	-109.9	-147.3	-75.8	-48.5%	-31.0%
Profit for the period	352.7	412.8	144.9	-64.9%	-58.9%
Adjusted profit for the period⁽¹⁾	352.7	441.8	144.9	-67.2%	-58.9%
Attributable to IFS' shareholders	350.6	410.3	143.4	-65.1%	-59.1%
EPS	3.17	3.55	1.24		
ROAE	19.0%	19.0%	6.6%		
ROAA	2.2%	2.3%	0.8%		
Efficiency ratio⁽¹⁾	33.9%	33.3%	36.4%		

(1) Excluding the one-off impact of a liability management transaction in our banking segment for S/ 42.3 million, or S/ 29.0 million after taxes, in 4Q19.

Quarter-on-quarter performance

Profits decreased 64.9% QoQ mainly due to higher impairment loss on loans at Interbank, in addition to reductions in other income at Inteligo and Interseguro, and in net fee income from financial services at Interbank. 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 quarterly reduction in earnings. These effects were partially compensated by higher net interest and similar income across all subsidiaries, in addition to higher net premiums earned at Interseguro and lower other expenses, also at Interseguro.

Net interest and similar income increased 5.9% QoQ, mainly due to a base effect related to a one-off expense from a liability management transaction in 4Q19; partially offset by lower interest on loans and on due from banks and inter-bank funds, all at Interbank.

Impairment loss on loans grew more than two-fold QoQ, mainly explained by 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. It is worth noting that the QoQ growth was also explained by the reversion of loan loss provisions for S/ 104.1 million due to fine-tuning of IFRS9 models reflecting improved risk profile on Interbank's customers in 4Q19. Excluding this effect, impairment loss on loans, net of recoveries would have increased 24.1% when compared to such quarter.

Net fee income from financial services decreased 12.0% QoQ, mainly explained by reductions in commissions from credit card services, fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services, and commissions from banking services, all at Interbank. Additionally, a base effect at Inteligo due to above-average returns in various asset classes during 4Q19, as well as increased recurring income due to higher mark-to-market on AUM in such quarter, also contributed to the quarterly reduction in net fee income from financial services.

Other income decreased 78.4% QoQ mainly due to negative mark-to-market valuations and realized losses at both Inteligo and Interseguro, mostly attributed to the COVID-19 outbreak. This effect was partially offset by higher net gain on sale of financial investments at Interbank.

Total premiums earned minus claims and benefits at Interseguro showed a quarterly growth of S/ 13.6 million, explained by a S/ 16.8 million increase in net premiums and a S/ 1.7 million decrease in adjustment of technical reserves, partially offset by a S/ 4.9 million increase in net claims and benefits incurred.

Other expenses remained relatively stable QoQ as lower administrative expenses at Interseguro, mainly related to efficiencies implemented on IT services, were offset by higher incentive fees for annual performance at Inteligo.

IFS effective tax rate increased, from 26.3% in 4Q19 to 34.4% in 1Q20, mainly due to the negative contribution of Inteligo and Interseguro, in addition to the effect of a negative translation result.

Year-on-year performance

Profits decreased 58.9% YoY mostly 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.

Net interest and similar income increased 10.3% YoY, mainly driven by higher interest on loans at Interbank and income from dividends at Interseguro.

Impairment loss on loans grew 67.7% mainly as a result of the impacts of the COVID-19 outbreak on the bank's expected loss models.

Net fee income from financial services slightly decreased 1.2% YoY mainly due to higher eliminations upon consolidation, as well as to lower commissions from credit card services and higher variable expenses related to credit cards, both at Interbank. These effects were partially offset by higher brokerage fees due to increased trading volumes at Inteligo, triggered by higher price volatility and client appetite for investing or rebalancing portfolios.

Other income decreased 71.7% YoY mainly explained by negative mark-to-market valuations and realized losses at both Inteligo and Interseguro, mostly attributed to the COVID-19 outbreak.

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

Other expenses grew across all subsidiaries, in particular due to higher administrative expenses at Interbank, as well as to higher incentive fees for annual performance at Inteligo.

IFS effective tax rate increased, from 23.8% in 1Q19 to 34.4% in 1Q20, mainly attributed to the negative results at both Inteligo and Interseguro, in addition to the effect of a negative translation result.

CONTRIBUTION BY SEGMENTS

The following table shows the contribution of Interbank, Interseguro and Inteligo to Intercorp Financial Services' net profit. The performance of each of the three segments is discussed in detail in the following sections.

Intercorp Financial Services' Profit by segment					
\$/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interbank	299.7	337.5	221.5	-34.4%	-26.1%
Interseguro	28.9	34.7	-21.6	n.m.	n.m.
Inteligo	78.3	69.6	-54.7	n.m.	n.m.
Corporate and eliminations	-54.2	-29.0	-0.4	n.m.	n.m.
IFS profit for the period	352.7	412.8	144.9	-64.9%	-58.9%

Interbank

SUMMARY

Interbank's profits reached S/ 221.5 million in 1Q20, a decrease of S/ 116.0 million QoQ and S/ 78.2 million YoY. The quarterly result was mainly attributed to a S/ 164.7 million increase in impairment loss on loans and a S/ 29.3 million reduction in net fee income from financial services. These effects were partially offset by a S/ 35.8 million increase in net interest and similar income.

The annual result was mainly due to increases of S/ 126.3 million in impairment loss on loans and S/ 25.0 million in other expenses, in addition to a S/ 23.4 million decrease in other income. These effects were partially offset by a S/ 76.7 million 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 1Q19; (ii) 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; (iii) the one-off impact of a liability management transaction on financial expense for S/ 29.0 million after taxes in 4Q19; and (iv) the COVID-19 outbreak, which negatively impacted the bank's revenue sources and asset quality in 1Q20.

Interbank's ROAE was 13.8% in 1Q20, below the 21.8% registered in 4Q19 and the 22.1% reported in 1Q19. However, excluding the one-off impact of the liability management transaction in 4Q19 and the gain on sale of Interfondos in 1Q19, ROAE for such periods would have resulted in 23.6% and 19.8%, respectively.

Banking Segment's P&L Statement					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar income	965.0	1,051.7	1,037.1	-1.4%	7.5%
Interest and similar expense	-307.4	-353.2	-302.8	-14.3%	-1.5%
Net interest and similar income	657.6	698.5	734.3	5.1%	11.7%
Impairment loss on loans, net of recoveries	-186.3	-147.9	-312.6	n.m.	67.8%
Recovery (loss) due to impairment of financial investments	-0.0	0.0	-0.2	n.m.	n.m.
Net interest and similar income after impairment loss	471.2	550.6	421.5	-23.5%	-10.6%
Fee income from financial services, net	193.4	219.7	190.4	-13.4%	-1.6%
Other income	133.1	107.3	109.7	2.3%	-17.5%
Other expenses	-390.8	-413.1	-415.8	0.6%	6.4%
Income before translation result and income tax	406.9	464.5	305.8	-34.2%	-24.8%
Translation result	0.2	-3.3	-2.9	n.m.	n.m.
Income tax	-107.4	-123.7	-81.4	-34.2%	-24.2%
Profit for the period	299.7	337.5	221.5	-34.4%	-26.1%
ROAE^(1,2)	19.8%	23.6%	13.8%		
Efficiency ratio^(1,2)	40.3%	37.7%	38.8%		
NIM⁽²⁾	5.5%	5.8%	5.6%		
NIM on loans	8.6%	8.5%	8.6%		

(1) Excluding the gain on sale of Interfondos for S/ 52.6 million, or S/ 32.4 million after taxes, in 1Q19. Including this effect, ROAE and Efficiency ratio in such quarter were 22.1% and 38.2%, respectively.

(2) Excluding the one-off impact of a liability management transaction for S/ 42.3 million, or S/ 29.0 million after taxes in 4Q19. Including this effect, ROAE, Efficiency ratio and NIM were 21.8%, 39.2% and 5.4% in such quarter.

INTEREST-EARNING ASSETS

Interbank's interest-earning assets reached S/ 51,799.2 million as of March 31, 2020, an increase of 1.7% QoQ and 10.5% YoY.

The quarterly growth in interest-earning assets was attributed to increases of 8.6% in financial investments and 4.3% in cash and due from banks and inter-bank funds, while loan balances remained relatively stable QoQ. Growth in financial investments was mainly a result of higher balances of sovereign bonds, global bonds and corporate bonds from financial institutions, partially compensated by a reduction in Central Bank Certificates of Deposits (CDBCR). On the other hand, the increase in cash and due from banks and inter-bank funds was due to higher deposits and restricted funds at the Central Bank, and inter-bank funds.

The YoY increase in interest-earning assets was attributed to growth of 11.7% in cash and due from banks and inter-bank funds, 10.2% in loans and 9.8% in financial investments. The increase in cash and due from banks and inter-bank funds was mainly due to higher restricted funds and deposits at the Central Bank, while growth in financial investments, to higher volumes of sovereign bonds.

Interest-earning assets					
S/ million				%chg	%chg
	03.31.19	12.31.19	03.31.20	03.31.20/ 12.31.19	03.31.20/ 03.31.19
Cash and due from banks and inter-bank funds	9,217.9	9,870.9	10,295.8	4.3%	11.7%
Financial investments	5,511.4	5,574.5	6,052.4	8.6%	9.8%
Loans	32,159.2	35,512.5	35,451.0	-0.2%	10.2%
Total interest-earning assets	46,888.5	50,957.9	51,799.2	1.7%	10.5%

Loan portfolio					
S/ million				%chg	%chg
	03.31.19	12.31.19	03.31.20	03.31.20/ 12.31.19	03.31.20/ 03.31.19
Performing loans					
Retail	17,205.6	19,161.2	19,313.4	0.8%	12.3%
Commercial	14,994.8	16,304.5	16,106.0	-1.2%	7.4%
Total performing loans	32,200.5	35,465.7	35,419.4	-0.1%	10.0%
Restructured and refinanced loans	213.7	251.2	258.8	3.0%	21.1%
Past due loans	867.2	943.2	1,004.2	6.5%	15.8%
Total gross loans	33,281.4	36,660.1	36,682.3	0.1%	10.2%
Add (less)					
Accrued and deferred interest	273.8	247.1	263.1	6.5%	-3.9%
Impairment allowance for loans	-1,396.1	-1,394.7	-1,494.4	7.2%	7.0%
Total direct loans, net	32,159.2	35,512.5	35,451.0	-0.2%	10.2%

Performing loans remained relatively stable QoQ as a 1.2% reduction in commercial loans was offset by a 0.8% growth in retail loans.

The quarterly decrease in commercial loans was mainly explained by lower leasing operations for medium-sized companies and trade finance loans in the corporate segment, partially offset by higher short and medium-term loans, mostly in the corporate segment.

The QoQ increase in retail loans was due to growth of 1.9% in other consumer loans and 1.5% in mortgages, partially compensated by a 1.2% reduction in credit cards. Growth in other consumer loans was mainly explained by higher cash loans and payroll deduction loans, while the increase in mortgages was due to a higher demand in both traditional and MiVivienda products.

Performing loans grew 10.0% YoY explained by increases of 12.3% in retail loans and 7.4% in commercial loans.

The annual growth in retail loans was mainly due to increases of 13.2% in credit cards, 12.4% in other consumer loans and 11.3% in mortgages. Other consumer loans grew as a result of higher cash loans, payroll deduction loans and car loans; while mortgages increased due to a higher demand in both traditional and MiVivienda products.

The YoY increase in commercial loans was mainly explained by higher trade finance loans for corporate and medium-sized companies, and short and medium-term lending for medium-sized companies.

Breakdown of retail loans					
S/ million	03.31.19	12.31.19	03.31.20	%chg 03.31.20/ 12.31.19	%chg 03.31.20/ 03.31.19
Consumer loans:					
Credit cards	5,125.0	5,870.0	5,800.4	-1.2%	13.2%
Other consumer	5,769.5	6,365.2	6,486.1	1.9%	12.4%
Total consumer loans	10,894.6	12,235.1	12,286.5	0.4%	12.8%
Mortgages	6,311.1	6,926.0	7,027.0	1.5%	11.3%
Total retail loans	17,205.6	19,161.2	19,313.4	0.8%	12.3%

FUNDING STRUCTURE

Funding structure					
S/ million	03.31.19	12.31.19	03.31.20	%chg 03.31.20/ 12.31.19	%chg 03.31.20/ 03.31.19
Deposits and obligations	32,561.7	35,577.8	35,062.1	-1.4%	7.7%
Due to banks and correspondents and inter-bank funds	3,512.6	3,831.4	5,087.7	32.8%	44.8%
Bonds, notes and other obligations	5,610.9	5,805.5	5,832.3	0.5%	3.9%
Total	41,685.3	45,214.6	45,982.1	1.7%	10.3%
% of funding					
Deposits and obligations	78.1%	78.7%	76.2%		
Due to banks and correspondents and inter-bank funds	8.4%	8.5%	11.1%		
Bonds, notes and other obligations	13.5%	12.8%	12.7%		

Interbank's total funding base increased 1.7% QoQ, in line with the performance of interest-earning assets. This was mainly explained by a 32.8% growth in due to banks and correspondents and inter-bank funds, partially compensated by a 1.4% reduction in deposits and obligations. Bonds, notes and other obligations remained relatively stable QoQ.

The quarterly increase in due to banks and correspondents and inter-bank funds was the result of higher short-term funding from correspondent banks abroad, as well as higher medium-term funding from the Central Bank, both associated with the bank's

strategy to increase liquidity as part of the measures implemented to deal with the COVID-19 outbreak.

The QoQ reduction in deposits and obligations was mainly due to a 23.7% reduction in institutional deposits, partially compensated by increases of 5.2% in retail deposits and 2.8% in commercial deposits.

The bank's total funding base increased 10.3% YoY, slightly below the annual growth in interest-earning assets, and was mainly explained by growth of 44.8% in due to banks and correspondents and inter-bank funds, 7.7% in deposits and obligations, and 3.9% in bonds, notes and other obligations.

The YoY increase in due to banks and correspondents and inter-bank funds was the result of higher medium-term funding from the Central Bank and COFIDE, as well as higher short-term funding from correspondent banks abroad.

The annual growth in deposits and obligations was mainly explained by increases of 15.0% in retail deposits, 2.5% in institutional deposits and 2.2% in commercial deposits.

The YoY increase in bonds, notes and other obligations was mainly attributable to two bond placements in the international market in September 2019, for S/ 312 million and US\$ 400 million, both due in October 2026. This growth was partially compensated by the execution of an optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds between October and November of 2019, in addition to the execution of a call option in July 2019 for a US\$ 30 million subordinated bond in the local market.

As of March 31, 2020, the proportion of deposits and obligations to total funding was 76.2%, lower than the 78.1% reported as of March 31, 2019. Likewise, the proportion of institutional deposits to total deposits decreased from 15.6% as of March 31, 2019 to 14.8% as of March 31, 2020.

Breakdown of deposits					
S/ million	03.31.19	12.31.19	03.31.20	%chg 03.31.20/ 12.31.19	%chg 03.31.20/ 03.31.19
By customer service:					
Retail	14,626.0	15,981.9	16,816.6	5.2%	15.0%
Commercial	12,440.9	12,366.7	12,710.5	2.8%	2.2%
Institutional	5,069.2	6,806.4	5,193.8	-23.7%	2.5%
Other	425.6	422.7	341.2	-19.3%	-19.8%
Total	32,561.7	35,577.8	35,062.1	-1.4%	7.7%
By type:					
Demand	10,779.4	10,979.6	10,874.2	-1.0%	0.9%
Savings	10,680.3	11,384.9	12,580.6	10.5%	17.8%
Time	11,087.6	13,207.0	11,592.6	-12.2%	4.6%
Other	14.4	6.2	14.8	n.m.	2.8%
Total	32,561.7	35,577.8	35,062.1	-1.4%	7.7%

NET INTEREST AND SIMILAR INCOME

Net interest and similar income					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar income	965.0	1,051.7	1,037.1	-1.4%	7.5%
Interest and similar expense	-307.4	-353.2	-302.8	-14.3%	-1.5%
Net interest and similar income	657.6	698.5	734.3	5.1%	11.7%
NIM⁽¹⁾	5.5%	5.8%	5.6%	-20 bps	10 bps

(1) Excluding the one-off impact of a liability management transaction for S/ 42.3 million in 4Q19. Including this effect, NIM was 5.4% in such period.

Interest and similar income					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar income					
Due from banks and inter-bank funds	25.2	24.0	15.9	-33.5%	-36.8%
Financial investments	51.8	49.7	51.7	4.1%	-0.1%
Loans	888.0	978.1	969.4	-0.9%	9.2%
Total Interest and similar income	965.0	1,051.7	1,037.1	-1.4%	7.5%
Average interest-earning assets	47,530.3	51,372.6	52,823.1	2.8%	11.1%
Average yield on assets (annualized)	8.1%	8.2%	7.9%	-30 bps	-20 bps

Interest and similar expense					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar expense					
Deposits and obligations	-179.1	-178.3	-174.8	-1.9%	-2.4%
Due to banks and correspondents and inter-bank funds	-39.0	-39.5	-38.1	-3.5%	-2.3%
Bonds, notes and other obligations	-89.3	-135.4	-89.9	-33.6%	0.6%
Total Interest and similar expense	-307.4	-353.2	-302.8	-14.3%	-1.5%
Average interest-bearing liabilities	41,166.4	45,154.5	45,598.4	1.0%	10.8%
Average cost of funding (annualized) ⁽¹⁾	3.0%	2.8%	2.7%	-10 bps	-30 bps

(1) Excluding the one-off impact of a liability management transaction for S/ 42.3 million in 4Q19. Including this effect, the annualized average cost of funding was 3.1% in such period.

QoQ Performance

Net interest and similar income increased 5.1% QoQ due to a 14.3% decrease in interest and similar expense, partially offset by a 1.4% reduction in interest and similar income.

The lower interest and similar expense was due to reductions of 33.6% in interest on bonds, notes and other obligations, 3.5% in interest on due to banks and correspondents, and 1.9% in interest on deposits and obligations.

The reduction in interest on bonds, notes and other obligations was mainly due to a base effect related to the execution of an optional redemption of the prevailing “5.75% Senior Notes due 2020” corporate bonds in 4Q19, which implied a non-recurring financial expense of S/ 42.3 million in such quarter, as these bonds were being negotiated above its face value (above par). Excluding this effect, the financial expense on bonds would have decreased 3.5% QoQ.

Interest on due to banks and correspondents decreased S/ 1.4 million, or 3.5% QoQ, due to a reduction of 60 basis points in the average cost, partially offset by a 12.1% growth in the average volume. The lower average cost was due to reductions in rates paid on funding provided by correspondent banks abroad, inter-bank funds and funding provided by COFIDE. On the other hand, the increase in the average volume was attributed to growth in all components, mainly in funding provided by correspondent banks abroad and the Central Bank.

The quarterly decrease in interest on deposits and obligations was due to a 10 basis point reduction in the average cost, partially compensated by a 1.9% growth in the average volume. The decrease in the average cost was due to lower rates paid to commercial deposits, while rates on both retail and institutional deposits remained stable. The higher average volume was explained by growth in retail and institutional deposits, partially offset by lower commercial deposits. By currency, average balances of soles-denominated deposits grew 2.7% while average dollar-denominated deposits remained relatively stable.

The average cost of funding decreased 40 basis points QoQ, from 3.1% in 4Q19 to 2.7% in 1Q20, in line with the lower implicit cost on all components of interest-bearing liabilities. Excluding the expense of the optional redemption of corporate bonds in 4Q19, the average cost of funding would have decreased 10 basis points QoQ.

The 1.4% decrease in interest and similar income was due to reductions of 33.5% in interest on due from banks and inter-bank funds, and 0.9% in interest on loans, partially compensated by a 4.1% increase in interest on financial investments.

Interest on due from banks and inter-bank funds decreased S/ 8.1 million, or 33.5% QoQ, explained by a 40 basis points reduction in the nominal average rate, partially offset by 1.4% growth in the average volume. The decrease in the nominal average rate was due to lower returns on deposits at the Central Bank and inter-bank funds. On the other hand, the increase in the average volume was due to higher deposits at the Central Bank and inter-bank funds, partially compensated by lower reserve funds at the Central Bank.

The lower interest on loans was due to a 30 basis point reduction in the average yield, partially compensated by 2.3% growth in the average loan portfolio.

The lower average rate on loans, from 10.8% in 4Q19 to 10.5% in 1Q20, was explained by yield reductions of 50 basis points in commercial loans and 20 basis points in retail loans. The decrease in commercial loans was due to lower average rates on short and medium-term loans, trade finance loans and leasing operations. In the retail portfolio, rates decreased as the result of lower yields on mortgages and consumer 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 outbreak, a portion of the interest on loans from March 2020 was rescheduled, affecting the average yield on loans in 1Q20.

The higher average volume of loans was attributed to increases of 2.5% in commercial loans and 2.1% in retail loans. In the commercial portfolio, the higher average volume was mainly due to growth of 2.0% in short and medium-term loans, and 1.9% in trade finance loans, partially compensated by a 5.2% reduction in leasing operations. In the retail portfolio, average volumes increased 2.3% in mortgages and 1.3% in both payroll deduction loans and credit cards.

Interest on financial investments increased S/ 2.0 million, or 4.1% QoQ, due to a 9.4% growth in the average volume, partially compensated by a 10 basis point reduction in the average yield. The increase in the average volume was a consequence of higher investments in sovereign bonds, corporate bonds from financial institutions and global bonds, partially offset by lower balances of CDBCR and corporate bonds from non-financial institutions. The lower average yield was due to decreases in returns on global bonds, corporate bonds from financial institutions and CDBCR.

The nominal average yield on interest-earning assets decreased 30 basis points QoQ, from 8.2% in 4Q19 to 7.9% in 1Q20, as a consequence of the lower returns on all of the interest-earning assets.

As a result of the above, net interest margin increased 20 basis points, from 5.4% in 4Q19 to 5.6% in 1Q20. However, excluding the expense of the optional redemption of corporate bonds in 4Q19, net interest margin would have decreased 20 basis points QoQ.

YoY Performance

Net interest and similar income grew 11.7% YoY 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% in 1Q19 to 10.5% in 1Q20, 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% YoY, 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% in 1Q19 to 3.6% in 1Q20, 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, CDPCR 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 YoY, from 8.1% in 1Q19 to 7.9% in 1Q20, 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 YoY.

Interest on deposits and obligations decreased S/ 4.3 million, or 2.4% YoY, explained by a 20 basis point reduction in the average cost, from 2.2% in 1Q19 to 2.0% in 1Q20, 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% YoY, 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% in 1Q19 to 3.4% in 1Q20, 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 YoY, from 3.0% in 1Q19 to 2.7% in 1Q20, 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% in 1Q20, 10 basis points higher than the 5.5% reported in 1Q19.

IMPAIRMENT LOSS ON LOANS, NET OF RECOVERIES

Impairment loss on loans, net of recoveries increased more than two-fold QoQ and 67.8% YoY. The quarterly and annual performances were mainly explained by 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. It is worth noting that the QoQ growth was also explained by the reversion of loan loss provisions for S/ 104.1 million due to fine-tuning of IFRS9 models reflecting improved risk profile on customers in 4Q19. Excluding this effect, impairment loss on loans, net of recoveries would have increased 24.0% when compared to such quarter.

As a result of the above, the annualized ratio of impairment loss on loans to average loans was 3.4% in 1Q20, higher than the 1.7% reported in 4Q19 and the 2.3% registered

in 1Q19. However, excluding the previously mentioned reversion of provisions in 4Q19, the annualized ratio of impairment loss on loans to average loans would have increased 60 basis points QoQ.

Impairment loss on loans, net of recoveries					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Impairment loss on loans, net of recoveries ⁽¹⁾	-186.3	-147.9	-312.6	111.4%	67.8%
Impairment loss on loans/average gross loans ⁽¹⁾	2.3%	2.8%	3.4%	60 bps	110 bps
NPL ratio (at end of period)	2.9%	2.9%	2.7%	-20 bps	-20 bps
NPL coverage ratio (at end of period)	131.4%	117.7%	136.1%	n.m.	470 bps
Impairment allowance for loans	1,396.1	1,394.7	1,494.4	7.2%	7.0%

(1) Excluding 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. Including this effect, cost of risk was 1.7% in such period.

The NPL ratio decreased 20 basis points QoQ and YoY. The quarterly and annual reductions were related to improvements in the retail portfolio, as the NPL ratio in the commercial portfolio remained stable. The improvement in retail loans was associated with reductions in stage 3 and refinanced exposures in both consumer loans and mortgages. It is worth mentioning that the rescheduling of loans related to COVID-19 has not accounted for higher stage 3 nor refinanced exposures as of March 31, 2020.

Furthermore, the NPL coverage ratio was 136.1% as of March 31, 2020, higher than the 117.7% reported as of December 31, 2019, and the 131.4% registered as of March 31, 2019. NPL coverage ratio in credit cards was 221.4% as of March 31, 2020.

FEE INCOME FROM FINANCIAL SERVICES, NET

Net fee income from financial services decreased S/ 29.3 million QoQ, or 13.4%, mainly explained by reductions of S/ 13.3 million in commissions from credit card services, S/ 8.5 million in fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services, and S/ 5.3 million in commissions from banking services.

Net fee income from financial services decreased S/ 3.0 million YoY, or 1.6%, 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.

Fee income from financial services, net					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Income					
Commissions from credit card services	97.5	104.4	91.1	-12.8%	-6.6%
Commissions from banking services	76.5	91.4	86.1	-5.9%	12.5%
Maintenance and mailing of accounts, transfer fees and commissions on debit card services	57.1	64.6	56.1	-13.2%	-1.7%
Fees from indirect loans	13.8	13.4	12.9	-3.4%	-6.4%
Collection services	9.9	10.6	10.0	-6.0%	0.9%
Other	8.3	11.5	8.4	-27.0%	0.7%
Total income	263.0	295.9	264.5	-10.6%	0.6%
Expenses					
Insurance	-27.1	-24.6	-25.4	3.3%	-6.1%
Fees paid to foreign banks	-3.7	-4.4	-3.2	-26.9%	-11.9%
Other	-38.9	-47.1	-45.5	-3.6%	16.8%
Total expenses	-69.7	-76.2	-74.1	-2.7%	6.4%
Fee income from financial services, net	193.4	219.7	190.4	-13.4%	-1.6%

OTHER INCOME

Other income increased S/ 2.4 million QoQ, explained by higher net gain on sale of financial investments, partially offset by lower net gain on foreign exchange transactions and on financial assets at fair value through profit or loss, in addition to a negative base effect related to the gain on sale of written-off loans registered in 4Q19.

Other income decreased S/ 23.4 million YoY mainly due to a base effect, explained by the S/ 52.6 million gain on sale of Interfondos to Inteligo in 1Q19.

Other income					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Net gain on foreign exchange transactions and on financial assets at fair value through profit or loss	49.3	77.9	59.9 ⁽¹⁾	-23.1%	21.4%
Net gain on sale of financial investments	11.5	2.1	37.5	n.m.	n.m.
Other	72.2	27.4	12.4	-54.7%	-82.8%
Total other income	133.1	107.3	109.7	2.3%	-17.5%

(1) Includes S/ 131.3 million of net gain on foreign exchange transactions and S/ -71.5 million of net gain (loss) on financial assets at fair value through profit or loss (derivatives).

OTHER EXPENSES

Other expenses remained relatively stable QoQ and grew S/ 25.0 million YoY, or 6.4%.

The annual growth in other expenses was explained by increases in salaries and employee benefits, IT services and amortization expenses.

The efficiency ratio was 38.8% in 1Q20, below the 39.2% reported in 4Q19, but above the 38.2% registered in 1Q19. However, excluding the one-off impacts from the liability management transaction in 4Q19 and the gain on sale of Interfondos in 1Q19, efficiency ratio for such periods was 37.7% and 40.3%, respectively.

Other expenses					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Salaries and employee benefits	-162.3	-164.2	-168.6	2.7%	3.9%
Administrative expenses	-157.9	-180.0	-175.4	-2.6%	11.1%
Depreciation and amortization	-55.4	-58.3	-57.4	-1.5%	3.7%
Other	-15.3	-10.6	-14.3	34.5%	-6.6%
Total other expenses	-390.8	-413.1	-415.8	0.6%	6.4%
Efficiency ratio⁽¹⁾	40.3%	37.7%	38.8%	110 bps	-150 bps

(1) Excluding the gain on sale of Interfondos for S/ 52.6 million in 1Q19 and the one-off impact of a liability management transaction for S/ 42.3 million in 4Q19. Including these effects, efficiency ratio was 38.2% in 1Q19 and 39.2% in 4Q19.

REGULATORY CAPITAL

The ratio of regulatory capital to risk-weighted assets (RWA) was 16.1% as of March 31, 2020, higher than the 15.2% registered as of December 31, 2019, but lower than the 16.4% reported as of March 31, 2019.

In 1Q20, regulatory capital increased 7.6% QoQ, while RWA grew 1.2% mainly due to higher capital requirements for credit risk, which includes the effect of growth in loans and financial investments.

The annual reduction in the capital ratio was due to a 12.8% growth in RWA, partially offset by a 10.7% increase in regulatory capital. The YoY increase in RWA was mostly attributed to loan growth and the higher risk weights applied to intangible assets by disposition of the SBS, with impact on the bank's increasing digital investments. The annual increase in regulatory capital was mainly a result of the addition of S/ 731.1 million in capital, reserves and earnings with capitalization agreement during the last twelve months, as well as the lower deduction in regulatory capital due to the sale of IFS' shares in July 2019 as part of IFS' IPO in NYSE, partially compensated by the elimination of a US\$ 30 million subordinated bond, which was called for early redemption in July 2019.

It is worth mentioning that in 2017 the SBS initiated the implementation of an additional set of Basel III measures. Among these, it stands out that there will be an annual 10% phase out of all Tier I instruments issued prior to the publication by the SBS of the new subordinated debt regulation. Additionally, the amount not computable as primary capital could be eligible as secondary capital. As of March 31, 2020, 40% of the US\$ 200 million junior subordinated bond issued in April 2010 no longer count as primary capital, higher than the percentage registered as of December 31, 2019. This resulted in a US\$ 20 million YoY reduction in primary capital, equivalent to the amount now registered as secondary capital.

As of March 31, 2020, Interbank's capital ratio of 16.1% was significantly higher than its risk-adjusted minimum capital ratio requirement, established at 11.4%. The minimum regulatory capital ratio requirement was 10.0%, while the additional capital requirement for Interbank was 1.4% as of March 31, 2020. Furthermore, Core Equity Tier 1 (CET1) as of March 31, 2020 increased 180 basis points YoY, to 12.0%, mainly as a result of the strengthened capitalization and the lower deduction in regulatory capital due to the sale of IFS' shares in July 2019 as part of IFS' IPO in NYSE, and despite the 12.8% growth in RWA in the comparable period.

Regulatory capital					
S/ million	03.31.19	12.31.19	03.31.20	%chg 03.31.20/ 12.31.19	%chg 03.31.20/ 03.31.19
Tier I capital	5,452.8	5,721.7	6,218.8	8.7%	14.0%
Tier II capital	2,014.1	1,957.6	2,045.2	4.5%	1.5%
Total regulatory capital	7,466.9	7,679.3	8,264.0	7.6%	10.7%
Risk-weighted assets	45,446.8	50,673.8	51,265.3	1.2%	12.8%
BIS ratio	16.4%	15.2%	16.1%	90 bps	-30 bps
Tier I capital / risk-weighted assets	12.0%	11.3%	12.1%	80 bps	10 bps
CET1	10.2%	11.6%	12.0%	40 bps	180 bps

Interseguro

SUMMARY

Interseguro's results reached S/ -21.6 million in 1Q20, compared to profits of S/ 34.7 million in 4Q19 and S/ 28.9 million in 1Q19.

The quarterly reduction was mainly explained by a S/ 33.3 million decrease in other income, a deterioration of S/ 31.8 million in loss due to impairment of financial investments, and a negative performance in translation result of S/ 24.3 million. These factors were partially offset by increases of S/ 13.6 million in total premiums earned minus claims and benefits, and S/ 13.4 million in net interest and similar income, as well as by a S/ 6.5 million reduction in other expenses.

The annual 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.

Insurance Segment's P&L Statement					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar income	156.8	155.6	167.9	7.9%	7.1%
Interest and similar expenses	-20.3	-22.3	-21.2	-4.7%	4.2%
Net Interest and similar income	136.5	133.3	146.7	10.0%	7.5%
Recovery (loss) due to impairment of financial investments	2.4	-8.3	-40.1	n.m.	n.m.
Net Interest and similar income after impairment loss	138.8	125.0	106.6	-14.7%	-23.2%
Fee income from financial services, net	-1.0	-0.8	-1.0	23.5%	2.8%
Other income	24.8	50.6	17.3	-65.9%	-30.5%
Total premiums earned minus claims and benefits	-67.4	-73.0	-59.4	-18.6%	-11.8%
Net premiums	171.2	156.1	172.9	10.8%	1.0%
Adjustment of technical reserves	-73.3	-50.1	-48.4	-3.3%	-33.9%
Net claims and benefits incurred	-165.3	-179.0	-183.9	2.7%	11.2%
Other expenses	-70.7	-78.9	-72.4	-8.2%	2.4%
Income before translation result and income tax	24.6	22.9	-9.0	n.m.	n.m.
Translation result	4.4	11.7	-12.6	n.m.	n.m.
Income tax	-	-	-	n.m.	n.m.
Profit for the period	28.9	34.7	-21.6	n.m.	n.m.
Attributable to non-controlling interest	-	-	-	n.m.	n.m.
Profit attributable to shareholders	28.9	34.7	-21.6	n.m.	n.m.
ROAE	12.8%	14.7%	n.m.		
Efficiency ratio	13.2%	14.2%	12.0%		

RESULTS FROM INVESTMENTS

Results from Investments ⁽¹⁾					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar income	156.8	155.6	167.9	7.9%	7.1%
Interest and similar expenses	-9.5	-11.9	-10.0	-15.8%	5.5%
Net interest and similar income	147.3	143.7	157.9	9.9%	7.2%
Recovery (loss) due to impairment of financial investments	2.4	-8.3	-40.1	n.m.	n.m.
Net Interest and similar income after impairment loss	149.7	135.4	117.8	-13.0%	-21.3%
Net gain (loss) on sale of financial investments	-6.2	13.5	23.9	77.7%	n.m.
Net gain (loss) on financial assets at fair value through profit or loss	15.5	12.3	-31.6	n.m.	n.m.
Rental income	9.0	11.3	9.1	-19.5%	0.6%
Gain on sale of investment property	-	-1.2	-	n.m.	n.m.
Valuation gain (loss) from investment property	1.3	9.8	11.5	16.7%	n.m.
Other ⁽¹⁾	-3.2	-3.2	-3.4	5.1%	5.3%
Other income	16.5	42.4	9.5	-77.6%	-42.4%
Results from investments	166.1	177.8	127.3	-28.4%	-23.4%

(1) Only includes transactions related to investments.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income related to investments was S/ 157.9 million in 1Q20, an increase of S/ 14.2 million, or 9.9%, QoQ and S/ 10.6 million, or 7.2%, YoY.

The quarterly growth was mainly explained by a S/ 12.3 million increase in interest and similar income, mostly attributed to a higher inflation rate that had a positive impact on returns of the fixed income portfolio.

The annual increase was largely explained by an S/ 11.9 million growth in interest and similar income, due to improved returns on the equity portfolio attributable to higher income from dividends received in 1Q20 which did not exist in 1Q19. Additionally, a higher organic growth of the fixed income portfolio also contributed to the YoY growth in net interest and similar income.

RECOVERY (LOSS) DUE TO IMPAIRMENT OF FINANCIAL INVESTMENTS

Loss due to impairment of financial investments was S/ 40.1 million in 1Q20, compared to a loss of S/ 8.3 million in 4Q19 and a recovery of S/ 2.4 million in 1Q19.

The quarterly and annual performances were mainly due to an additional provision for impairment on a fixed income investment that had been downgraded in relation to the COVID-19 outbreak.

OTHER INCOME

Other income related to investments was S/ 9.5 million in 1Q20, a decrease of S/ 32.9 million QoQ and S/ 7.0 million YoY.

The quarterly and annual results were mainly explained by lower net gain (loss) on financial assets at fair value, mostly related to negative mark-to-market valuations as a result of the COVID-19 outbreak. The quarterly reduction was partially offset by an increase in net gain on sale of financial investments, while the annual decrease, by growth in net gain on sale of financial investments and in valuation gain from investment property.

TOTAL PREMIUMS EARNED MINUS CLAIMS AND BENEFITS

Total Premiums Earned Minus Claims And Benefits					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Net premiums	171.2	156.1	172.9	10.8%	1.0%
Adjustment of technical reserves	-73.3	-50.1	-48.4	-3.3%	-33.9%
Net claims and benefits incurred	-165.3	-179.0	-183.9	2.7%	11.2%
Total premiums earned minus claims and benefits	-67.4	-73.0	-59.4	-18.6%	-11.8%

Total premiums earned minus claims and benefits were S/ -59.4 million in 1Q20, an increase of S/ 13.6 million QoQ and S/ 8.0 million YoY.

The quarterly growth was the result of a S/ 16.8 million increase in net premiums and a S/ 1.7 million decrease in adjustment of technical reserves, partially offset by a S/ 4.9 million increase in net claims and benefits incurred.

The annual performance was 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.

NET PREMIUMS

Net Premiums by Business Line					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Annuities	80.9	62.6	72.8	16.3%	-10.1%
D&S	0.7	0.0	0.1	n.m.	-82.9%
Individual Life	32.1	34.3	32.6	-4.9%	1.4%
Retail Insurance	57.5	59.2	67.4	13.8%	17.2%
Net Premiums	171.2	156.1	172.9	10.8%	1.0%

Net premiums were S/ 172.9 million in 1Q20, an increase of S/ 16.8 million, or 10.8%, QoQ and S/ 1.7 million, or 1.0%, YoY.

The quarterly result was due to growth of S/ 10.2 million in annuities and S/ 8.2 million in retail insurance. The increase in annuities was explained by a higher commercial deployment in the first two months of the quarter, while growth in retail insurance, to increases in premiums for card protection insurance and credit life insurance. These factors were partially compensated by a reduction of S/ 1.7 million in individual life premiums.

The annual performance 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

Adjustment of Technical Reserves by Business Line					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Annuities	-49.7	-27.0	-44.0	63.0%	-11.4%
Individual Life	-21.9	-23.5	7.2	n.m.	n.m.
Retail Insurance	-1.7	0.4	-11.6	n.m.	n.m.
Adjustment of technical reserves	-73.3	-50.1	-48.4	-3.3%	-33.9%

Adjustment of technical reserves was S/ 48.4 million in 1Q20, a decrease of S/ 1.7 million QoQ and S/ 24.9 million YoY.

The quarterly and annual reductions were 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.

Furthermore, the quarterly decrease was partially offset by increases of S/ 17.0 million in adjustment of technical reserves for annuities and S/ 12.0 million for retail insurance. The former was mostly related to higher technical reserves for inflation-indexed annuities due to growth in inflation rate and sales, while the latter, 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.

On the other hand, the annual reduction in adjustment of technical reserves was also explained by a S/ 5.7 million decrease in annuities, partially offset by an increase of S/ 9.9 million in retail insurance.

NET CLAIMS AND BENEFITS INCURRED

Net Claims and Benefits Incurred by Business Line					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Annuities	-150.0	-162.3	-161.4	-0.6%	7.6%
D&S	0.6	-1.2	-0.4	-70.4%	n.m.
Individual Life	0.8	-1.4	-1.5	3.6%	n.m.
Retail Insurance	-16.6	-14.0	-20.6	47.1%	23.6%
Net claims and benefits incurred	-165.3	-179.0	-183.9	2.7%	11.2%

Net claims and benefits incurred reached S/ 183.9 million in 1Q20, an increase of S/ 4.9 million QoQ and S/ 18.6 million YoY.

The quarterly growth was mainly the result of a S/ 6.6 million increase in retail insurance claims, mostly related to credit life insurance.

The annual increase 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.

OTHER EXPENSES

Other Expenses					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Salaries and employee benefits	-18.0	-19.7	-18.9	-3.9%	5.2%
Administrative expenses	-11.1	-15.7	-9.2	-41.5%	-16.9%
Depreciation and amortization	-5.0	-5.7	-6.4	11.5%	26.8%
Expenses related to rental income	-1.5	-1.1	-1.4	26.7%	-9.1%
Other	-35.1	-36.7	-36.5	-0.4%	4.2%
Other expenses	-70.7	-78.9	-72.4	-8.2%	2.4%

Other expenses decreased S/ 6.5 million QoQ, or 8.2%, and grew S/ 1.7 million YoY, or 2.4%.

The quarterly reduction was mainly due to decreases of S/ 6.5 million in administrative expenses, explained by efficiencies implemented on IT services, and S/ 0.8 million in salaries and employee benefits, partially offset by increases of S/ 0.7 million in depreciation and amortization charges, and S/ 0.3 million in expenses related to rental income.

The annual result in other expenses 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.

Inteligo

SUMMARY

Inteligo's bottom-line result was S/ -54.7 million in 1Q20, compared to profits of S/ 69.6 million in 4Q19 and S/ 78.3 million in 1Q19.

The main driver behind the QoQ and YoY performance was the higher volatility of global financial markets during the second half of the quarter, mainly attributable to the COVID-19 outbreak. This generated negative mark-to-market valuations on the proprietary portfolio during the period, as well as realized losses under certain investment strategies. It is worth mentioning that interest and similar income remained relatively stable QoQ, despite an environment of low rates on funds available and short-term spread compression in loans to clients.

From a business development perspective, albeit impacted by the limited mobility due to the implementation of lockdown measures, Inteligo's prospection process showed positive results in terms of new account openings and the generation of net new money.

Wealth Management Segment's P&L Statement					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar income	45.6	41.0	41.1	0.3%	-9.9%
Interest and similar expense	-14.9	-16.3	-15.5	-4.4%	4.6%
Net interest and similar income	30.7	24.7	25.5	3.4%	-16.9%
Impairment loss on loans, net of recoveries	-0.1	0.0	0.0	n.m.	n.m.
Recovery (loss) due to impairment of financial investments	-0.5	0.0	-0.2	n.m.	n.m.
Net interest and similar income after impairment loss	30.2	24.7	25.3	2.5%	-16.0%
Fee income from financial services, net	38.9	47.0	43.0	-8.5%	10.5%
Other income	36.8	30.0	-85.8	n.m.	n.m.
Other expenses	-26.9	-33.2	-34.9	5.2%	29.7%
Income before translation result and income tax	79.0	68.6	-52.3	n.m.	n.m.
Translation result	0.7	2.3	-3.0	n.m.	n.m.
Income tax	-1.4	-1.3	0.7	n.m.	n.m.
Profit for the period	78.3	69.6	-54.7	n.m.	n.m.
ROAE	38.1%	33.6%	n.m.		
Efficiency ratio	25.2%	32.4%	n.m.		

ASSETS UNDER MANAGEMENT & DEPOSITS

AUM reached S/ 18,005.9 million in 1Q20, a S/ 287.1 million or 1.6% decrease QoQ and a S/ 236.8 million or 1.3% growth YoY.

The quarterly reduction in AUM was mostly related to negative mark-to-market valuations as a result of the COVID-19 outbreak, despite growth in net new money for the period. On the other hand, the annual increase was mainly explained by new account openings, which generated an influx of funds after strengthened prospection and client conversion strategies at Inteligo.

Client deposits reached S/ 2,886.8 million in 1Q20, remaining relatively stable QoQ and growing S/ 338.4 million, or 13.3% YoY, mainly due to new account openings.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Interest and similar income					
Due from banks and inter-bank funds	2.1	4.0	2.7	-32.4%	29.6%
Financial Investments	25.3	18.8	21.2	12.5%	-16.4%
Loans	18.2	18.2	17.2	-5.2%	-5.3%
Total interest and similar income	45.6	41.0	41.1	0.3%	-9.9%
Interest and similar expense					
Deposits and obligations	-11.5	-14.3	-13.7	-3.6%	19.6%
Due to banks and correspondents	-3.4	-2.0	-1.8	-10.1%	-46.6%
Total interest and similar expense	-14.9	-16.3	-15.5	-4.4%	4.6%
Net interest and similar income	30.7	24.7	25.5	3.4%	-16.9%

Inteligo's net interest and similar income was S/ 25.5 million in 1Q20, a S/ 0.8 million or 3.4% increase when compared with 4Q19. This was mainly explained by an increase in interest income driven by a higher average balance of fixed income investments, in addition to a reduction in interest expense related to lower funding costs of both client deposits and external lines of credit.

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

FEE INCOME FROM FINANCIAL SERVICES

Fee income from financial services, net					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Income					
Brokerage and custody services	3.9	3.4	5.7	70.2%	46.9%
Funds management	35.4	44.0	37.7	-14.5%	6.4%
Total income	39.3	47.4	43.4	-8.5%	10.4%
Expenses					
Brokerage and custody services	-0.2	-0.3	-0.1	-48.6%	-44.6%
Others	-0.1	-0.1	-0.2	69.2%	63.4%
Total expenses	-0.4	-0.4	-0.4	-8.6%	-5.3%
Fee income from financial services, net	38.9	47.0	43.0	-8.5%	10.5%

Net fee income from financial services was S/ 43.0 million in 1Q20, a decrease of S/ 4.0 million, or 8.5% when compared to the previous quarter. The reduction in fee income for the quarter was mainly explained by a base effect due to above-average returns in various asset classes during 4Q19, as well as increased recurring income due to higher mark-to-market on AUM in such quarter.

On a YoY basis, net fee income from financial services increased 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

Other income					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Net gain on sale of financial investments	24.5	-0.2	-33.1	n.m.	n.m.
Net trading gain (loss)	14.8	32.5	-51.2	n.m.	n.m.
Other	-2.5	-2.4	-1.4	-38.5%	-42.2%
Total other income	36.8	30.0	-85.8	n.m.	n.m.

Inteligo's other income (loss) reached S/ -85.8 million in 1Q20, a decrease of S/ 115.8 million QoQ and S/ 122.6 million YoY, attributable to negative mark-to-market valuations and realized losses on Inteligo's proprietary portfolio during the second half of the quarter, mainly as a result of the COVID-19 outbreak.

OTHER EXPENSES

Other expenses					
S/ million	1Q19	4Q19	1Q20	%chg QoQ	%chg YoY
Salaries and employee benefits	-15.1	-17.8	-20.9	17.2%	38.1%
Administrative expenses	-9.2	-10.6	-10.0	-5.2%	8.2%
Depreciation and amortization	-2.5	-4.6	-4.0	-13.4%	61.1%
Other	-0.1	-0.2	0.0	n.m.	n.m.
Total other expenses	-26.9	-33.2	-34.9	5.2%	29.7%
Efficiency ratio	25.2%	32.4%	n.m.		

Other expenses reached S/ 34.9 million in 1Q20, an increase of S/ 1.7 million, or 5.2% QoQ, and S/ 8.0 million, or 29.7% YoY. The result was mainly related to incentive fees for annual performance.