Intercorp Financial Services Inc.
Fourth Quarter 2020 Earnings

Lima, Peru, February 11, 2021. Intercorp Financial Services Inc. (Lima Stock Exchange/NYSE: IFS) announced today its unaudited results for the fourth quarter 2020. These results are reported on a consolidated basis under IFRS in nominal Peruvian soles.

Intercorp Financial Services: FY20 results impacted by higher provisions, but improving in 4Q20 with ROAE at 18.1%

- 15.6% earnings growth in 4Q20 due to lower provision charges and solid results from investments
- Cost containment measures in 2020 offset negative impacts from COVID-19 on revenues
- Strong capitalization at all business segments
- Digital trends continue to support IFS' strategy

Interbank: FY20 profits undermined by high provisions and soft top line due to COVID-19, yet recovering in 4Q20

- 12.8% (+20 bps YoY) market share in loans and 13.9% (+40 bps YoY) in retail deposits by year-end
- 150 bps YoY reduction in cost of funds, down to 1.6% in 4Q20
- FY20 cost of risk at 6.1%, improving to 3.1% in 4Q20
- 60 basis point quarterly improvement in NIM after provisions
- 7.0% yearly decrease in expenses

Interseguro: FY20 profits grew 8.2% with ROAE at 18.9%

- Private and regular annuities leading a 19.1% yearly growth in premiums
- Results from investments increased 13.1% QoQ and 28.0% YoY, with ROIP reaching 6.8% in 4Q20
- Cost containment measures resulted in 4.3% yearly reduction in expenses
- Market leader in annuities with a 27.3% share in 2020

Inteligo: FY20 profits grew 21.4% with ROAE at 28.0%

- Record quarter in earnings, 39.9% QoQ growth and more than two-fold YoY
- Strong revenues in 4Q20 driven by net interest income and positive mark-to-market
- Continued growth in AUM: 5.6% QoQ and 14.7% YoY
- 4Q20 ROAE at all-time high

Intercorp Financial Services

SUMMARY

2020 Performance

Intercorp Financial Services’ profits were S/ 383.5 million in 2020, a 73.6% decrease compared to 2019. The lower net profit was mainly driven by a more than three-fold increase in impairment loss on loans and a 21.9% reduction in net fee income from financial services. These effects were partially offset by growth of 31.2% in other income and 1.4% in net interest and similar income, in addition to a 3.4% reduction in other expenses and a reversal of the income tax payment.

It is worth mentioning that IFS’ results in the comparing periods were affected by (i) the reversion of payroll deduction loan provisions for S/ 27.4 million after taxes in 2Q19; (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 impact on interest income of the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 130.4 million after taxes during 2020.

IFS’ ROAE excluding the effect of the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2020 was 6.0%.

Intercorp Financial Services' P&L Statement					
S/ million	2018	2019	2020	%chg 20/19	%chg 19/18
Interest and similar income	4,321.3	4,847.2	4,665.0	-3.8%	12.2%
Interest and similar expenses	-1,177.3	-1,424.0	-1,192.3	-16.3%	21.0%
Net interest and similar income	**3,144.0**	**3,423.3**	**3,472.7**	**1.4%**	**8.9%**
Impairment loss on loans, net of recoveries	-660.1	-750.8	-2,393.9	n.m.	13.7%
Recovery (loss) due to impairment of financial investments	13.1	-6.8	-32.9	n.m.	n.m.
Net interest and similar income after impairment loss	**2,497.0**	**2,665.7**	**1,045.8**	**-60.8%**	**6.8%**
Fee income from financial services, net	874.4	925.9	723.5	-21.9%	5.9%
Other income	408.7	592.1	776.7	31.2%	44.9%
Total premiums earned minus claims and benefits	-400.8	-279.6	-279.1	-0.2%	-30.2%
Net Premiums	681.8	689.3	615.8	-10.7%	1.1%
Adjustment of technical reserves	-362.2	-268.7	-100.8	-62.5%	-25.8%
Net claims and benefits incurred	-720.3	-700.3	-794.1	13.4%	-2.8%
Other expenses	-1,837.5	-1,978.3	-1,910.7	-3.4%	7.7%
Income before translation result and income tax	**1,541.9**	**1,925.7**	**356.3**	**-81.5%**	**24.9%**
Translation result	-35.0	17.8	-45.7	n.m.	n.m.
Income tax	-415.5	-493.3	72.9	n.m.	18.7%
Profit for the period	**1,091.4**	**1,450.1**	**383.5**	**-73.6%**	**32.9%**
Attributable to IFS' shareholders	**1,084.3**	**1,441.3**	**383.3**	**-73.4%**	**32.9%**
EPS	**9.85**	**12.80**	**3.32**		
ROAE	**16.6%**	**18.3%**	**4.5%**		
ROAA	**1.8%**	**2.1%**	**0.5%**		
Efficiency ratio	**35.7%**	**34.4%**	**32.2%**		

Net interest and similar income grew due to increases in interest on investments at Interseguro and incremental dividends received from investments at Inteligo. At Interbank, net interest and similar income remained relatively stable when compared to 2019.

Impairment loss on loans, net of recoveries increased more than three-fold in 2020 compared to the previous year. The increase in provision expenses was mainly explained by the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic, as well as by a base effect related to (i) the reversion of payroll deduction loan provisions for S/ 38.8 million in 2Q19, and (ii) the reversion of loan loss provisions for S/ 104.1 million in 4Q19 due to fine-tuning of IFRS9 models reflecting improved risk profile on customers.

The reduction in net fee income from financial services was mainly due to lower commissions from credit card services, maintenance and mailing of accounts, transfer fees and commissions on debit card services at Interbank.

Other income grew as a result of positive performance across all three subsidiaries, particularly from net gain on sale of securities at Interseguro and positive mark-to-market valuations on investments at Inteligo.

Total premiums earned less claims and benefits were S/ -279.1 million in 2020, slightly better than the S/ -279.6 million reported in 2019. The annual performance was due to a S/ 167.9 million decrease in adjustment of technical reserves, partially offset by S/ 93.8 million growth in net claims and benefits incurred and a S/ 73.6 million reduction in net premiums.

The reduction in other expenses was mostly attributed to lower salaries and employee benefits, as well as marketing and credit card expenses, both at Interbank, in addition to lower administrative expenses at Interseguro. These reductions were driven by cost containment measures implemented to offset the impacts of the COVID-19 pandemic on revenues.

The efficiency ratio was 32.2% in 2020, an improvement compared to the 34.4% registered in 2019. However, excluding (i) the one-off impact of a liability management transaction on financial expense for S/ 42.3 million in 2019; and (ii) the impact on interest income of the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 185.0 million in 2020, the efficiency ratio would have improved from 34.2% in 2019 to 31.1% in 2020.

Intercorp Financial Services' Statement of financial position					
S/ million	12.31.19	09.30.20	12.31.20	%chg 12.31.20/ 09.30.20	%chg 12.31.20/ 12.31.19
Assets					
Cash and due from banks and inter-bank funds	11,213.9	17,573.1	18,783.6	6.9%	67.5%
Financial investments	19,072.7	22,787.9	24,277.1	6.5%	27.3%
Loans, net of unearned interest	38,531.6	43,962.9	43,504.3	-1.0%	12.9%
Impairment allowance for loans	-1,394.8	-3,116.5	-2,984.9	-4.2%	n.m.
Property, furniture and equipment, net	950.9	875.0	844.4	-3.5%	-11.2%
Other assets	3,187.9	3,930.0	3,811.5	-3.0%	19.6%
Total assets	**71,562.3**	**86,012.4**	**88,236.0**	**2.6%**	**23.3%**
Liabilities and equity					
Deposits and obligations	38,093.2	45,208.9	47,149.3	4.3%	23.8%
Due to banks and correspondents and inter-bank funds	4,148.8	10,555.0	9,689.8	-8.2%	n.m.
Bonds, notes and other obligations	6,890.3	7,696.1	7,778.8	1.1%	12.9%
Insurance contract liabilities	11,426.6	11,896.6	12,501.7	5.1%	9.4%
Other liabilities	2,099.9	2,320.6	2,162.5	-6.8%	3.0%
Total liabilities	**62,658.8**	**77,677.2**	**79,282.1**	**2.1%**	**26.5%**
Equity, net					
Equity attributable to IFS' shareholders	8,856.9	8,291.7	8,908.1	7.4%	0.6%
Non-controlling interest	46.6	43.5	45.8	5.4%	-1.6%
Total equity, net	**8,903.4**	**8,335.2**	**8,953.9**	**7.4%**	**0.6%**
Total liabilities and equity net	**71,562.3**	**86,012.4**	**88,236.0**	**2.6%**	**23.3%**

4Q20 Performance

Intercorp Financial Services' net profit was S/ 377.4 million in 4Q20, a S/ 58.9 million increase QoQ, or 18.5%, but a S/ 35.4 million decrease YoY, or 8.6%.

It is worth noting that IFS' profits in the comparing periods 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 impact on interest income of the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 20.1 million after taxes in 3Q20 and S/ 14.0 million after taxes in 4Q20.

IFS annualized ROAE was 17.5% in 4Q20, higher than the 15.8% registered in 3Q20, but still below the 19.0% annualized ROAE reported in 4Q19. However, excluding the previously mentioned one-off impact of a liability management transaction in 4Q19 and the effects of the modification of contractual cash flows due to the loan rescheduling schemes offered to customers in 3Q20 and 4Q20, ROAE was 20.3% in 4Q19, 16.7% in 3Q20 and 18.1% in 4Q20.

Intercorp Financial Services' P&L statement

S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Interest and similar income	1,249.9	1,186.1	1,187.2	0.1%	-5.0%
Interest and similar expenses	-390.0	-279.4	-266.5	-4.6%	-31.7%
Net interest and similar income	**859.9**	**906.6**	**920.7**	**1.6%**	**7.1%**
Impairment loss on loans, net of recoveries	-147.9	-463.3	-327.5	-29.3%	n.m.
Recovery (loss) due to impairment of financial investments	-8.3	-2.8	22.3	n.m.	n.m.
Net interest and similar income after impairment loss	**703.7**	**440.6**	**615.5**	**39.7%**	**-12.5%**
Fee income from financial services, net	250.3	174.7	185.9	6.5%	-25.7%
Other income	181.9	267.8	282.3	5.4%	55.2%
Total premiums earned minus claims and benefits	-74.4	-63.3	-89.7	41.7%	20.4%
Net Premiums	164.6	139.6	178.4	27.7%	8.3%
Adjustment of technical reserves	-57.9	9.5	-53.5	n.m.	-7.6%
Net claims and benefits incurred	-181.1	-212.4	-214.5	1.0%	18.4%
Other expenses	-513.9	-446.7	-536.8	20.2%	4.5%
Income before translation result and income tax	**547.6**	**373.1**	**457.2**	**22.5%**	**-16.5%**
Translation result	12.5	-12.5	-3.7	-70.7%	n.m.
Income tax	-147.3	-42.1	-76.1	80.9%	-48.4%
Profit for the period	**412.8**	**318.5**	**377.4**	**18.5%**	**-8.6%**
Attributable to IFS' shareholders	**410.3**	**317.4**	**376.0**	**18.5%**	**-8.4%**
EPS	**3.55**	**2.75**	**3.26**		
ROAE	**19.0%**	**15.8%**	**17.5%**		
ROAA	**2.3%**	**1.5%**	**1.7%**		
Efficiency ratio	**34.3%**	**28.1%**	**31.8%**		

Quarter-on-quarter performance

Profits increased 18.5% QoQ due to lower impairment loss on loans and a recovery in fees at Interbank, in addition to increases in net interest and similar income at Inteligo and Interseguro, and higher other income at Inteligo. These effects were partially offset by higher other expenses across all subsidiaries, as well as by negative adjustment of technical reserves at Interseguro and a higher income tax payment at Interbank.

Net interest and similar income increased S/ 14.1 million, or 1.6% QoQ, mainly due to incremental dividends received from investments at Inteligo and Interseguro, as well as higher fixed-income investment returns at Interseguro. These effects were partially offset by a reduction in net interest and similar income at Interbank, driven by lower interest on loans.

Impairment loss on loans decreased 29.3% QoQ, mainly due to lower provision requirements in both retail and commercial loan books at Interbank.

Net fee income from financial services increased S/ 11.2 million, or 6.5% QoQ, mainly explained by higher commissions from banking services, maintenance and mailing of accounts, transfer fees and commissions on debit and credit card services, all at Interbank.

Other income increased S/ 14.5 million, or 5.4% QoQ, mainly attributable to positive mark-to-market valuations on Inteligo's proprietary investment portfolio. This was partially compensated by reductions in net gain on sale of financial investments at Interbank and Interseguro, and in valuation gain from investment property at Interseguro.

Total premiums earned minus claims and benefits at Interseguro showed a quarterly reduction of S/ 26.4 million, mainly explained by the constitution of S/ 53.5 million of technical reserves in 4Q20, compared to a S/ 9.5 million release in 3Q20. This effect was partially offset by S/ 38.8 million growth in net premiums.

Other expenses increased S/ 90.1 million, or 20.2% QoQ, mainly attributed to (i) a S/ 35.2 million effect of higher profit sharing due to the accounting of non-tax deductible voluntary provisions under local GAAP accounting standards at Interbank, (ii) the regularization in the rescue of life insurance policies at Interseguro; and (iii) the provisioning of variable compensation for the year at Inteligo.

IFS effective tax rate grew, from 11.7% in 3Q20 to 16.8% in 4Q20, mainly attributed to a higher effective tax rate at Interbank.

Year-on-year performance

Profits decreased 8.6% YoY mainly due to higher impairment loss on loans at Interbank, in addition to reductions in net fee income from financial services at all subsidiaries. Moreover, higher other expenses at all three business segments and net claims and benefits incurred at Interseguro also contributed to the YoY reduction in bottom-line. These factors were partially compensated by increases in other income and in net interest and similar income, both across all subsidiaries. Additionally, a lower effective tax rate at IFS also contributed to offset the annual reduction in earnings.

Net interest and similar income increased S/ 60.8 million, or 7.1% YoY, mainly due to lower interest expense on deposits and obligations, and on bonds, notes and other obligations, both at Interbank. Additionally, a higher return on Interseguro's fixed income portfolio and strong results on Inteligo's proprietary investment portfolio, also contributed to the annual growth in net interest and similar income.

Impairment loss on loans grew more than two-fold YoY, explained by higher provision requirements in credit cards, payroll deduction loans and cash loans, as well as in the medium-sized segment of the commercial loan book. All this was mainly attributed to the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic. It is worth noting that the YoY growth was also explained by a base effect related to the reversion of loan loss provisions in the banking segment for S/ 104.1 million in 4Q19 due to fine-tuning of IFRS9 models reflecting improved risk profile on customers.

Net fee income from financial services decreased S/ 64.4 million, or 25.7% YoY, mainly due to lower commissions from credit card services, banking services, and fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services, all at Interbank. Additionally, lower fund management fees at Inteligo also contributed to the annual reduction in net fee income from financial services.

Other income increased S/ 100.4 million, or 55.2% YoY, mainly due to positive mark-to-market valuations on proprietary portfolio investments at Inteligo, and net gain on financial assets at fair value at both Interseguro and Interbank.

On a yearly basis, total premiums earned minus claims and benefits at Interseguro decreased S/ 15.3 million explained by S/ 33.4 million higher net claims and benefits incurred, partially offset by a S/ 13.8 million increase in net premiums and a S/ 4.4 million reduction in adjustment of technical reserves.

Other expenses increased S/ 22.9 million, or 4.5% YoY, mainly due to (i) a S/ 35.2 million effect of higher profit sharing due to the accounting of non-tax deductible voluntary provisions under local GAAP accounting standards at Interbank, (ii) the regularization in the rescue of life insurance policies at Interseguro; and (iii) the provisioning of variable compensation for the year at Inteligo.

IFS effective tax rate decreased, from 26.3% in 4Q19 to 16.8% in 4Q20, mainly attributed to higher tax-exempt profits from Inteligo and Interseguro.

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					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Interbank	337.5	146.7	193.8	32.1%	-42.6%
Interseguro	34.7	66.5	37.7	-43.4%	8.7%
Inteligo	69.6	110.5	154.7	39.9%	n.m.
Corporate and eliminations	-29.0	-5.3	-8.7	65.6%	-69.8%
IFS profit for the period	**412.8**	**318.5**	**377.4**	**18.5%**	**-8.6%**

Interbank

SUMMARY

2020 Performance

Interbank posted almost break-even results in 2020, compared to profits of S/ 1,228.5 million in the previous year. The yearly performance was mainly attributed to a more than three-fold increase in impairment loss on loans and a S/ 207.3 million decrease in net fee income from financial services. These effects were partially offset by a reversal of the income tax payment and a S/ 78.0 million reduction in other expenses.

It is worth mentioning that Interbank's results in the comparing periods were affected by (i) the gain on sale of Interfondos, Interbank's former mutual funds subsidiary, to Inteligo for S/ 32.4 million after taxes in 1Q19; (ii) the reversion of payroll deduction loan provisions for S/ 27.4 million after taxes in 2Q19; (iii) the reversion of loan loss provisions for S/ 73.4 million after taxes in 4Q19 due to fine-tuning of IFRS9 models reflecting improved risk profile on customers; (iv) the one-off impact of a liability management transaction on financial expense for S/ 29.0 million after taxes in 4Q19; and (v) the impact on interest income of the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 130.4 million after taxes during 2020.

Interbank's ROAE excluding the effect of the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2020 was 2.0%.

Banking Segment's P&L Statement					
S/ million	2018	2019	2020	%chg 20/19	%chg 19/18
Interest and similar income	3,559.1	4,074.0	3,836.4	-5.8%	14.5%
Interest and similar expense	-1,067.7	-1,290.1	-1,053.4	-18.3%	20.8%
Net interest and similar income	**2,491.4**	**2,783.9**	**2,783.1**	**0.0%**	**11.7%**
Impairment loss on loans, net of recoveries	-660.9	-750.8	-2,393.9	n.m.	13.6%
Recovery (loss) due to impairment of financial investments	-0.1	0.0	0.2	n.m.	n.m.
Net interest and similar income after impairment loss	**1,830.5**	**2,033.2**	**389.3**	**-80.9%**	**11.1%**
Fee income from financial services, net	759.5	827.1	619.8	-25.1%	8.9%
Other income	309.7	434.3	444.1	2.3%	40.2%
Other expenses	-1,502.7	-1,611.5	-1,533.5	-4.8%	7.2%
Income before translation result and income tax	**1,397.0**	**1,683.1**	**-80.2**	**n.m.**	**20.5%**
Translation result	-10.2	-5.6	-6.0	6.7%	-45.2%
Income tax	-375.9	-449.0	80.5	n.m.	19.4%
Profit for the period	**1,010.9**	**1,228.5**	**-5.7**	**n.m.**	**21.5%**
ROAE	**20.2%**	**21.2%**	**n.m.**		
Efficiency ratio	**40.9%**	**38.9%**	**38.6%**		
NIM	**5.5%**	**5.6%**	**4.6%**		
NIM on loans	**9.0%**	**8.7%**	**7.8%**		

Net interest and similar remained relatively stable as a 5.8% decrease in interest and similar income was compensated by a 18.3% reduction in interest and similar expense.

The lower interest and similar income was due to reductions of 74.5% in interest on due from banks and inter-bank funds, and 5.0% in interest on loans, partially offset by 14.8% growth in interest on financial investments.

Interest on due from banks and inter-bank funds decreased S/ 80.1 million, or 74.5%, explained by a 90 basis point reduction in the average yield, partially compensated by 43.4% 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. On the other hand, the increase in the average volume was explained by higher deposits and reserve funds at the Central Bank, partially offset by a lower average balance of inter-bank funds.

Interest on loans decreased S/ 188.4 million, or 5.0%, due to a 190 basis point reduction in the average rate, partially offset by a 14.9% higher average volume. However, excluding the previously mentioned impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 2020, interest on loans would have remained relatively stable YoY.

The lower average rate on loans, from 10.9% in 2019 to 9.0% in 2020, was due to yield reductions in all client segments. In retail loans rates decreased on credit cards, 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 December 2020 was rescheduled, affecting the average yield on loans in 2020. Additionally, the incidence of the low-return loans offered to several 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 growth of 26.4% in commercial loans and 5.3% in retail loans. In the commercial portfolio, the higher average volume was mainly due to a 41.7% increase in short and medium-term loans, attributed to the disbursement of loans under the Reactiva Peru Program, despite lower balances of leasing operations and trade finance loans. In the retail portfolio, average volumes grew due to increases of 9.0% in mortgages and 4.3% in payroll deduction loans, while the average balance of credit cards slightly decreased.

Interest on financial investments increased S/ 30.9 million, or 14.8%, due to 34.8% growth in the average volume, partially offset by a 50 basis point reduction in the average yield. The increase in the average volume was mainly the result of higher average balances of sovereign bonds and global bonds. The decrease in the nominal average rate, from 3.8% in 2019 to 3.3% in 2020, was mainly explained by lower returns on global bonds, sovereign bonds, Central Bank Certificates of Deposits (CDBCR) and corporate bonds from non-financial institutions.

As a result of the above, the nominal average yield on interest-earning assets decreased 190 basis points, from 8.2% in 2019 to 6.3% in 2020. 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 nominal average yield on interest-earning assets would have decreased 160 basis points YoY, from 8.2% in 2019 to 6.6% in 2020.

The 18.3% lower interest and similar expense was due to reductions of 24.4% in interest on deposits and obligations, and 17.2% 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/ 173.2 million, or 24.4%, explained by an 80 basis point reduction in the average cost, from 2.1% in 2019 to 1.3% in 2020, partially offset by 19.8% 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 increased 27.8% while average dollar-denominated deposits grew 5.8%.

The reduction in interest on bonds, notes and other obligations was explained by: (i) a base effect from 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); (ii) higher efficiencies in this component of interest-bearing liabilities, associated with liability management transactions executed throughout 2020, such as the redemption of international hybrid bonds in April 2020 followed by the issuance of a new international subordinated bond in July 2020; and (iii) the maturity of Certificates of Deposit for S/ 150 million in March 2020. Excluding the expense of the optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds, interest on bonds, notes and other obligations would have decreased 7.9% YoY.

Interest on due to banks and correspondents grew as a result of 83.5% growth in the average volume, partially compensated by a 180 basis point reduction in the average cost, from 4.2% in 2019 to 2.4% in 2020. On one hand, the increase in the average volume was due to higher funding provided by the Central Bank, related to the bank's participation in the Reactiva Peru Program. On the other hand, the reduction in the average cost was explained by lower rates paid to all types of funding, especially inter-bank funds and that provided by the Central Bank.

The average cost of funding decreased 100 basis points, from 3.0% in 2019 to 2.0% in 2020, in line with the lower implicit cost of all interest-bearing liabilities. Excluding the expense of the optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds, the average cost of funding would have decreased 90 basis points, from 2.9% in 2019 to 2.0% in 2020.

As a result of the above, net interest margin was 4.6% in 2020, 100 basis points lower than the 5.6% reported in 2019. However, excluding (i) the expense of the optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds in 2019, and (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 in 2020, net interest margin would have decreased 80 basis points YoY, from 5.7% in 2019 to 4.9% in 2020.

Impairment loss on loans, net of recoveries increased more than three-fold in 2020 compared to the previous year. The increase in provision expenses was mainly related to the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic, as well as to a base effect related to (i) the reversion of payroll deduction loan provisions for S/ 38.8 million in 2Q19, and (ii) the reversion of loan loss provisions for S/ 104.1 million in 4Q19 due to fine-tuning of IFRS9 models reflecting improved risk profile on customers.

The S/ 207.3 million, or 25.1%, decrease in net fee income from financial services was mainly attributable to lower commissions from credit card services, maintenance and mailing of accounts, transfer fees and commissions on debit card services.

Other income grew S/ 9.8 million, or 2.3%, mainly due to increases in net gain on sale of financial investments, and in net gain of foreign exchange transactions and on financial assets at fair value through profit or loss.

Other expenses decreased S/ 78.0 million, or 4.8%, mainly as a result of lower salaries and employee benefits, as well as marketing and credit card expenses, all driven by cost containment measures implemented to offset the impacts of the COVID-19 pandemic on revenues.

The efficiency ratio was 38.6% in 2020, an improvement compared to the 38.9% registered in 2019. However, excluding (i) the gain on sale of Interfondos, Interbank's former mutual funds subsidiary, to Inteligo for S/ 52.6 million in 2019, (ii) the one-off impact of a liability management transaction on financial expense for S/ 42.3 million in 2019, and (iii) 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/ 185.0 million in 2020, the efficiency ratio would have improved from 39.0% in 2019 to 36.8% in 2020.

Results before translation result and income tax were S/ -80.2 million in 2020, a loss which was then almost completely offset by a reversal of the income tax payment. As a result of the above, net results for the period were S/ -5.7 million in 2020 compared to profits of S/ 1,228.5 million in 2019. Excluding the previously mentioned impact from the modification of contractual cash flows, Interbank's profits would have reached S/ 124.8 million in 2020.

4Q20 Performance

Interbank's profits were S/ 193.8 million in 4Q20, an increase of S/ 47.1 million QoQ, or 32.1%, but a decrease of S/ 143.7 million YoY, or 42.6%. The quarterly result was mainly attributed to a S/ 135.6 million reduction in impairment loss on loans and a S/ 10.2 million growth in net fee income from financial services. These effects were partially offset by increases of S/ 46.8 million in other expenses and S/ 32.2 million in tax payments, as well as by a S/ 14.8 million decrease in net interest and similar income.

The annual performance in net profit was mainly due to a S/ 179.7 million growth in impairment loss on loans and a S/ 56.4 million reduction in net fee income from financial services. These effects were partially compensated by a lower effective tax rate and a S/ 28.8 million increase in net interest and similar income.

It is worth mentioning that Interbank's results in the comparing periods 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 impacts on interest income of the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 20.1 million after taxes in 3Q20 and S/ 14.0 million after taxes in 4Q20.

Interbank’s ROAE was 12.8% in 4Q20, an improvement compared to the 10.1% registered in 3Q20, but still lower than the 21.8% reported in 4Q19. Excluding the one-off impact of the liability management transaction in 4Q19 and the impacts from the modification of contractual cash flows in 3Q20 and 4Q20, ROAE for such periods would have resulted in 23.6%, 11.5% and 13.7%, respectively.

Banking Segment's P&L Statement					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Interest and similar income	1,051.7	987.0	959.2	-2.8%	-8.8%
Interest and similar expense	-353.2	-244.8	-231.9	-5.3%	-34.3%
Net interest and similar income	**698.5**	**742.1**	**727.3**	**-2.0%**	**4.1%**
Impairment loss on loans, net of recoveries	-147.9	-463.2	-327.6	-29.3%	n.m.
Recovery (loss) due to impairment of financial investments	0.0	-0.1	0.3	n.m.	n.m.
Net interest and similar income after impairment loss	**550.6**	**278.8**	**400.1**	**43.5%**	**-27.3%**
Fee income from financial services, net	219.7	153.1	163.3	6.7%	-25.7%
Other income	107.3	119.7	112.5	-6.0%	4.8%
Other expenses	-413.1	-367.3	-414.1	12.7%	0.2%
Income before translation result and income tax	**464.5**	**184.3**	**261.8**	**42.0%**	**-43.6%**
Translation result	-3.3	-3.0	-1.2	-60.8%	-64.8%
Income tax	-123.7	-34.6	-66.8	93.0%	-46.0%
Profit for the period	**337.5**	**146.7**	**193.8**	**32.1%**	**-42.6%**
ROAE	**21.8%**	**10.1%**	**12.8%**		
Efficiency ratio	**39.2%**	**35.2%**	**39.7%**		
NIM	**5.4%**	**4.6%**	**4.3%**		
NIM on loans	**8.5%**	**8.0%**	**7.7%**		

INTEREST-EARNING ASSETS

Interbank’s interest-earning assets reached S/ 65,545.9 million as of December 31, 2020, an increase of 2.4% QoQ and 28.6% YoY.

The quarterly growth in interest-earning assets was attributed to increases of 8.5% in cash and due from banks and inter-bank funds, and 5.9% in financial investments, partially offset by a 0.9% decrease in loans. Growth in cash and due from banks and inter-bank funds was mainly due to higher deposits at the Central Bank. The increase in financial investments was mainly a result of higher balances of sovereign bonds, CDBCR and global bonds, partially compensated by reductions in corporate bonds from financial and non-financial institutions.

The YoY increase in interest-earning assets was attributed to growth of 79.5% in cash and due from banks and inter-bank funds, 60.8% in financial investments, and 9.4% in loans. Growth in cash and due from banks and inter-bank funds resulted mainly from higher deposits at the Central Bank, while the increase in financial investments, from higher volumes of sovereign bonds and global bonds.

Interest-earning assets					
S/ million				%chg	%chg
	12.31.19	09.30.20	12.31.20	12.31.20/ 09.30.20	12.31.20/ 12.31.19
Cash and due from banks and inter-bank funds	9,870.9	16,338.4	17,720.5	8.5%	79.5%
Financial investments	5,574.5	8,470.4	8,966.3	5.9%	60.8%
Loans	35,512.5	39,222.8	38,859.0	-0.9%	9.4%
Total interest-earning assets	**50,957.9**	**64,031.6**	**65,545.9**	**2.4%**	**28.6%**

Loan portfolio					
S/ million				%chg	%chg
	12.31.19	09.30.20	12.31.20	12.31.20/ 09.30.20	12.31.20/ 12.31.19
Performing loans					
Retail	19,161.2	18,272.0	17,837.1	-2.4%	-6.9%
Commercial	16,304.5	22,269.3	21,914.2	-1.6%	34.4%
Total performing loans	**35,465.7**	**40,541.2**	**39,751.3**	**-1.9%**	**12.1%**
Restructured and refinanced loans	251.2	272.8	287.1	5.3%	14.3%
Past due loans	943.2	1,147.0	1,405.2	22.5%	49.0%
Total gross loans	**36,660.1**	**41,961.0**	**41,443.6**	**-1.2%**	**13.0%**
Add (less)					
Accrued and deferred interest	247.1	378.0	400.1	5.8%	61.9%
Impairment allowance for loans	-1,394.7	-3,116.2	-2,984.7	-4.2%	n.m.
Total direct loans, net	**35,512.5**	**39,222.8**	**38,859.0**	**-0.9%**	**9.4%**

The QoQ and YoY evolution in the loan portfolio was mostly explained by disbursements and prepayments of commercial loans under the Reactiva Peru Program. As of December 31, 2020, these loans amounted S/ 6,616.5 million, compared to a balance of S/ 6,709.4 million as of September 30, 2020.

Performing loans decreased 1.9% QoQ due to reductions of 2.4% in retail loans and 1.6% in commercial loans. Excluding the effect of the Reactiva Peru Program in the comparing periods, performing loans and commercial loans would have decreased 2.1% and 1.7% QoQ, respectively.

The quarterly decrease in retail loans was due to reductions of 11.4% in credit cards and 6.9% in other consumer loans, partially offset by growth of 3.2% in mortgages and 0.6% in payroll deduction loans. The reduction in other consumer loans was explained by lower cash loans and vehicle loans, while the increase in mortgages, by higher demand in both traditional and MiVivienda products.

The QoQ decrease in commercial loans was mainly explained by lower short and medium-term lending, mostly to small-sized and corporate segments, as well as by a reduction of trade finance loans in the corporate segment. These effects were partially offset by higher short and medium-term lending to the medium-sized segment.

Performing loans grew 12.1% YoY explained by a 34.4% increase in commercial loans, partially compensated by a 6.9% reduction in retail loans. Excluding the effect of the Reactiva Peru Program, performing loans and commercial loans would have decreased 6.6% and 6.2% YoY, respectively.

The annual growth in commercial loans was mainly explained by higher short and medium-term lending in the corporate segment.

The YoY decrease in retail loans was due to reductions of 26.1% in credit cards and 12.9% in other consumer loans, partially compensated by increases of 6.6% in mortgages and 0.4% in payroll deduction loans. The reduction in other consumer loans was a result of lower cash loans and vehicle loans, while growth in mortgages was due to higher demand in both traditional and MiVivienda products.

It is worth mentioning that, as of December 31, 2020, and in line with the measures implemented to help our customers to overcome the impacts from the COVID-19 pandemic, 400 thousand clients had their loans rescheduled, out of which approximately 385 thousand were retail clients and around 14 thousand, commercial clients. Loans that were subject to some kind of rescheduling represented S/ 10.5 billion or 25.2% of our total portfolio. Of these, S/ 7.5 billion were retail loans (39.1% of total retail loans), and the remaining S/ 3.0 billion were commercial loans (13.2% of total commercial loans).

Breakdown of retail loans					
S/ million	12.31.19	09.30.20	12.31.20	%chg 12.31.20/ 09.30.20	%chg 12.31.20/ 12.31.19
Consumer loans:					
Credit cards	5,870.0	4,895.4	4,339.5	-11.4%	-26.1%
Payroll deduction loans [1]	4,302.4	4,292.5	4,318.9	0.6%	0.4%
Other consumer	2,062.7	1,928.7	1,796.1	-6.9%	-12.9%
Total consumer loans	**12,235.1**	**11,116.6**	**10,454.6**	**-6.0%**	**-14.6%**
Mortgages	6,926.0	7,155.4	7,382.5	3.2%	6.6%
Total retail loans	**19,161.2**	**18,272.0**	**17,837.1**	**-2.4%**	**-6.9%**

(1) Payroll deduction loans to public sector employees.

FUNDING STRUCTURE

Funding structure					
S/ million	12.31.19	09.30.20	12.31.20	%chg 12.31.20/ 09.30.20	%chg 12.31.20/ 12.31.19
Deposits and obligations	35,577.8	42,538.2	44,576.8	4.8%	25.3%
Due to banks and correspondents and inter-bank funds	3,831.4	10,254.6	9,388.1	-8.4%	n.m.
Bonds, notes and other obligations	5,805.5	6,412.2	6,491.9	1.2%	11.8%
Total	**45,214.6**	**59,205.0**	**60,456.9**	**2.1%**	**33.7%**
% of funding					
Deposits and obligations	78.7%	71.9%	73.7%		
Due to banks and correspondents and inter-bank funds	8.5%	17.3%	15.6%		
Bonds, notes and other obligations	12.8%	10.8%	10.7%		

Interbank's funding base continued to expand on strong deposits growth and inflows of long-term debt provided by the Central Bank, associated with the bank's active involvement in the auctions of funds for the Reactiva Peru Program. As of December 31, 2020, the balance of such special funding was S/ 5,887.9 million, compared to S/ 5,713.6 million as of September 30, 2020.

The bank's total funding base increased 2.1% QoQ, slightly below the performance of interest-earning assets. This was explained by growth of 4.8% in deposits and obligations, and 1.2% in bonds, notes and other obligations, partially offset by an 8.4%

reduction in due to banks and correspondents and inter-bank funds. Excluding the effect of the Reactiva Peru Program's funds, the bank's total funding base would have increased 2.0% QoQ, while due to banks and correspondents and inter-bank funds would have decreased 22.9%.

The quarterly increase in deposits and obligations was mainly due to growth of 24.8% in institutional deposits and 6.4% in retail deposits, partially compensated by a 4.7% decrease in commercial deposits.

The QoQ growth in bonds, notes and other obligations was mainly attributable to a 0.7% depreciation of the foreign exchange rate with respect to 3Q20.

The quarterly decrease in due to banks and correspondents and inter-bank funds was due to lower funding from correspondent banks abroad, partially offset by higher funding from COFIDE.

The bank's total funding base grew 33.7% YoY, above the annual growth in interest-earning assets, and was explained by increases of more than two-fold in due to banks and correspondents and inter-bank funds, 25.3% in deposits and obligations, and 11.8% in bonds, notes and other obligations. Excluding the effect of the Reactiva Peru Program's funds, the bank's total funding base would have increased 20.7% YoY, but due to banks and correspondents and inter-bank funds would have decreased 8.6%.

The YoY increase in due to banks and correspondents and inter-bank funds was the result of higher long-term funding from the Central Bank, associated with the bank's participation in the auctions of funds for the Reactiva Peru Program. Higher funding from COFIDE also contributed to growth in due to banks and correspondents and inter-bank funds when compared to 4Q19. These effects were partially offset by a lower funding from correspondent banks abroad.

The annual growth in deposits and obligations was mainly explained by increases of 30.2% in retail deposits, 25.4% in commercial deposits, and 15.8% in institutional deposits.

The YoY increase in bonds, notes and other obligations was mainly attributable to the placement in the international market of a US$ 300 million subordinated bond in June 2020, in addition to a 9.3% depreciation of the foreign exchange rate with respect to 4Q19. It is worth mentioning that these effects were partially compensated by the execution of an optional redemption of the prevailing hybrid bonds "8.50% Junior Subordinated Notes due 2070" for US$ 200 million in April 2020.

As of December 31, 2020, the proportion of deposits and obligations to total funding was 73.7%, lower than the 78.7% reported as of December 31, 2019. Likewise, the proportion of institutional deposits to total deposits decreased from 19.1% as of December 31, 2019 to 17.7% as of December 31, 2020.

Breakdown of deposits					
S/ million				%chg	%chg
	12.31.19	09.30.20	12.31.20	12.31.20/ 09.30.20	12.31.20/ 12.31.19
By customer service:					
Retail	15,981.9	19,561.2	20,810.5	6.4%	30.2%
Commercial	12,366.7	16,272.8	15,502.8	-4.7%	25.4%
Institutional	6,806.4	6,313.7	7,880.5	24.8%	15.8%
Other	422.7	390.5	383.0	-1.9%	-9.4%
Total	**35,577.8**	**42,538.2**	**44,576.8**	**4.8%**	**25.3%**
By type:					
Demand	10,979.6	13,801.8	12,726.3	-7.8%	15.9%
Savings	11,384.9	16,067.0	17,852.3	11.1%	56.8%
Time	13,207.0	12,655.4	13,992.2	10.6%	5.9%
Other	6.2	14.0	6.0	-56.9%	-3.0%
Total	**35,577.8**	**42,538.2**	**44,576.8**	**4.8%**	**25.3%**

NET INTEREST AND SIMILAR INCOME

Net interest and similar income					
S/ million				%chg	%chg
	4Q19	3Q20	4Q20	QoQ	YoY
Interest and similar income	1,051.7	987.0	959.2	-2.8%	-8.8%
Interest and similar expense	-353.2	-244.8	-231.9	-5.3%	-34.3%
Net interest and similar income	**698.5**	**742.1**	**727.3**	**-2.0%**	**4.1%**
NIM	**5.4%**	**4.6%**	**4.3%**	**-30 bps**	**-110 bps**

Interest and similar income					
S/ million				%chg	%chg
	4Q19	3Q20	4Q20	QoQ	YoY
Interest and similar income					
Due from banks and inter-bank funds	24.0	3.9	5.5	39.5%	-77.1%
Financial investments	49.7	64.8	64.7	-0.2%	30.2%
Loans	978.1	918.2	889.0	-3.2%	-9.1%
Total Interest and similar income	**1,051.7**	**987.0**	**959.2**	**-2.8%**	**-8.8%**
Average interest-earning assets	51,372.6	64,491.4	67,839.2	5.2%	32.1%
Average yield on assets (annualized)	8.2%	6.1%	5.7%	-40 bps	-250 bps

Interest and similar expense					
S/ million				%chg	%chg
	4Q19	3Q20	4Q20	QoQ	YoY
Interest and similar expense					
Deposits and obligations	-178.3	-113.6	-101.9	-10.3%	-42.8%
Due to banks and correspondents and inter-bank funds	-39.5	-45.5	-41.4	-8.9%	4.9%
Bonds, notes and other obligations	-135.4	-85.7	-88.5	3.3%	-34.6%
Total Interest and similar expense	**-353.2**	**-244.8**	**-231.9**	**-5.3%**	**-34.3%**
Average interest-bearing liabilities	45,154.5	57,336.5	59,830.9	4.4%	32.5%
Average cost of funding (annualized)	3.1%	1.7%	1.6%	-10 bps	-150 bps

QoQ Performance

Net interest and similar income decreased 2.0% QoQ due to a 2.8% reduction in interest and similar income, partially offset by a 5.3% decrease in interest and similar expense. However, excluding the impacts from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic for S/ 28.5 million in 3Q20 and S/ 19.9 million in 4Q20, interest and similar income, and net interest and similar income would have decreased 3.6% and 3.0% QoQ, respectively.

The lower interest and similar income was due to a 3.2% reduction in interest on loans, partially offset by 39.5% growth in interest on due from banks and inter-bank funds. Interest on financial investments remained relatively stable QoQ.

Interest on loans decreased S/ 29.2 million, or 3.2% QoQ, as the result of a 50 basis point reduction in the average yield, partially compensated by 1.7% growth in the average loan portfolio. However, excluding the previously mentioned impacts from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 3Q20 and 4Q20, interest on loans would have decreased 4.0% QoQ.

The lower average rate on loans, from 8.9% in 3Q20 to 8.4% in 4Q20, was explained by a yield reduction of 70 basis points in commercial loans, partially offset by a 20 basis point growth in retail loans. The yield decrease in commercial loans was explained by lower rates in short and medium-term loans, trade finance loans and leasing operations. In the retail portfolio, rates grew in credit cards and payroll deduction loans, partially compensated by lower average yields on other consumer loans and mortgages. 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 December 2020 was rescheduled, affecting the average yield on loans in 3Q20 and 4Q20. Additionally, the incidence of the low-return loans offered to several 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 a 4.2% increase in commercial loans, partially offset by a 0.9% decrease in retail loans. In the commercial portfolio, the higher average volume was mostly due to 5.9% growth in short and medium-term loans, partially offset by reductions of 9.3% in trade finance loans and 4.8% in leasing operations. In the retail portfolio, average volumes decreased mainly due to reductions of 5.4% in both credit cards and other consumer loans, partially compensated by increases of 2.6% in mortgages and 0.9% in payroll deduction loans.

Interest on due from banks and inter-bank funds grew S/ 1.6 million, or 39.5% QoQ, explained by 12.9% growth in the average volume, while the nominal average rate remained stable. The increase in the average volume was due to higher deposits and reserve funds at the Central Bank.

Interest on financial investments remained relatively stable as a 20 basis point reduction in the average yield was partially offset by 8.5% growth in the average volume. The decrease in the average yield was due to lower returns on CDBCR, sovereign bonds and corporate bonds from financial institutions, partially compensated by higher returns on corporate bonds from non-financial institutions and global bonds. The increase in the average volume was a consequence of higher investments in sovereign bonds, CDBCR and global bonds, partially offset by lower balances of corporate bonds from financial and non-financial institutions.

The nominal average yield on interest-earning assets decreased 40 basis points QoQ, from 6.1% in 3Q20 to 5.7% in 4Q20, as a consequence of the lower returns on loans and investments. However, excluding the impacts from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic, the nominal average yield on interest-earning assets would have decreased 50 basis points, from 6.3% in 3Q20 to 5.8% in 4Q20.

The lower interest and similar expense was due to reductions of 10.3% in interest on deposits and obligations, and 8.9% in interest on due to banks and correspondents, partially compensated by a 3.3% increase in interest on bonds, notes and other obligations.

The quarterly decrease in interest on deposits and obligations was due to a 20 basis point reduction in the average cost, partially compensated by 3.7% growth in the average volume. The decrease in the average cost was due to lower rates paid to institutional and retail deposits, associated with the low interest rate environment. The higher average volume was explained by growth in all segments of deposits. By currency, average balances of dollar-denominated deposits grew 4.0% while average soles-denominated deposits increased 3.6%.

Interest on due to banks and correspondents decreased S/ 4.1 million, or 8.9% QoQ, due to a 30 basis point reduction in the average cost, partially offset by 9.5% growth in the average volume. On one hand, the lower average cost was mainly due to reductions in rates paid to funding provided by the Central Bank in the context of the Reactiva Peru Program. On the other hand, the increase in the average volume was mostly attributed to higher funding from the Central Bank, related to the bank's participation in the Reactiva Peru Program.

The increase in interest on bonds, notes and other obligations was mainly due to 1.2% growth in the average volume of these obligations, in part explained by a 1.2% depreciation of the average foreign exchange rate with respect to 3Q20.

The average cost of funding decreased 10 basis points QoQ, from 1.7% in 3Q20 to 1.6% in 4Q20, in line with the lower implicit cost of deposits and due to banks and correspondents.

As a result of the above, net interest margin was 4.3% in 4Q20, 30 basis points lower than the 4.6% reported in 3Q20. However, excluding the impacts from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic, net interest margin would have decreased 40 basis points, from 4.8% in 3Q20 to 4.4% in 4Q20.

<u>YoY Performance</u>

Net interest and similar income increased 4.1% YoY due to a 34.3% reduction in interest and similar expense, partially offset by an 8.8% decrease in interest and similar income. 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/ 19.9 million in 4Q20, interest and similar income would have decreased 6.9% YoY, and net interest and similar income would have grown 7.0% YoY.

The lower interest and similar expense was due to reductions of 42.8% in interest on deposits and obligations, and 34.6% 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/ 76.4 million, or 42.8% YoY, explained by a 120 basis point reduction in the average cost, from 2.1% in 4Q19 to 0.9% in 4Q20, partially offset by 25.7% 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 increased 30.1% while average dollar-denominated deposits grew 17.1%.

The reduction in interest on bonds, notes and other obligations was explained by: (i) a base effect from 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); (ii) higher efficiencies in this component of interest-bearing liabilities, associated with liability management transactions executed throughout 2020, such as the redemption of international hybrid bonds in April 2020 followed by the issuance of a new international subordinated bond in July 2020; and (iii) the maturity of Certificates of Deposit for S/ 150 million in March 2020. Excluding the expense of the optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds, interest on bonds, notes and other obligations would have decreased 5.0% YoY.

The S/ 1.9 million, or 4.9% YoY, increase in interest on due to banks and correspondents was the result of a more than two-fold growth in the average volume, partially compensated by a 230 basis point reduction in the average cost, from 4.0% in 4Q19 to 1.7% in 4Q20. On one hand, the increase in the average volume was due to higher funding provided by the Central Bank, related to the bank's participation in the Reactiva Peru Program. On the other hand, the reduction in the average cost was explained by lower rates paid to funding provided by the Central Bank and COFIDE.

The average cost of funding decreased 150 basis points YoY, from 3.1% in 4Q19 to 1.6% in 4Q20, in line with the lower implicit cost of all interest-bearing liabilities. However, excluding the expense of the optional redemption of the prevailing "5.75% Senior Notes due 2020" corporate bonds, the average cost of funding would have decreased 120 basis points, from 2.8% in 4Q19 to 1.6% in 4Q20.

The lower interest and similar income was due to reductions of 77.1% in interest on due from banks and inter-bank funds, and 9.1% in interest on loans, partially offset by 30.2% growth in interest on financial investments.

Interest on due from banks and inter-bank funds decreased S/ 18.5 million, or 77.1% YoY, explained by a 90 basis point reduction in the average yield, partially compensated by 71.2% growth in the average volume. On one hand, the decrease in the nominal average rate was mainly related to a lower rate on inter-bank funds, as well as to lower returns on deposits and reserve funds at the Central Bank. On the other hand, the increase in the average volume was explained by higher deposits and reserve funds at the Central Bank, partially offset by a lower average balance of inter-bank funds.

Interest on loans decreased S/ 89.1 million, or 9.1% YoY, due to a 240 basis point reduction in the average yield, partially offset by 16.6% growth in the average volume.

However, excluding the previously mentioned impact from the modification of contractual cash flows due to the loan rescheduling schemes offered to customers affected by the COVID-19 pandemic in 4Q20, interest on loans would have decreased 7.1% YoY.

The annual decrease in the average rate on loans, from 10.8% in 4Q19 to 8.4% in 4Q20, was due to reductions of 200 basis points in commercial loans and 120 basis points in retail loans. The decrease in commercial loans was explained by lower rates on all types of loans, while the reduction in the retail portfolio, to lower average yields on other consumer loans and mortgages, partially offset by higher rates on credit cards and payroll deduction 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 December 2020 was rescheduled, affecting the average yield on loans in 4Q20. Additionally, the incidence of the low-return loans offered to several 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 39.4% growth in commercial loans, partially offset by a 2.1% reduction in retail loans. In the commercial portfolio, the higher average volume was mainly due to a 72.0% increase in short and medium-term loans, attributed to the disbursement of loans under the Reactiva Peru Program, despite lower balances of trade finance loans and leasing operations. In the retail portfolio, average volumes decreased mainly due to reductions of 14.8% in credit cards and 1.4% in other consumer loans, partially compensated by increases of 7.0% in mortgages and 1.1% in payroll deduction loans.

Interest on financial investments increased S/ 15.0 million, or 30.2% YoY, due to 64.0% growth in the average volume, partially offset by a 70 basis point reduction in the average yield. The increase in the average volume was the result of higher average balances of sovereign bonds, global bonds and corporate bonds from financial institutions. The decrease in the nominal average rate, from 3.7% in 4Q19 to 3.0% in 4Q20, was explained by lower returns on global bonds, sovereign bonds, CDBCR and corporate bonds from financial institutions.

The nominal average yield on interest-earning assets decreased 250 basis points YoY, from 8.2% in 4Q19 to 5.7% in 4Q20, in line with the lower returns on all components of 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, the nominal average yield on interest-earning assets would have decreased 240 basis points YoY, from 8.2% in 4Q19 to 5.8% in 4Q20.

As a result of the above, net interest margin was 4.3% in 4Q20, 110 basis points lower than the 5.4% reported in 4Q19. However, excluding (i) the expense of the optional redemption of the prevailing “5.75% Senior Notes due 2020” corporate bonds in 4Q19 and (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 in 4Q20, net interest margin would have decreased 140 basis points YoY, from 5.8% in 4Q19 to 4.4% in 4Q20.

IMPAIRMENT LOSS ON LOANS, NET OF RECOVERIES

Impairment loss on loans, net of recoveries decreased 29.3% QoQ and grew more than two-fold YoY.

The quarterly reduction was due to lower provision requirements in both retail and commercial loan books. In the retail portfolio, the reduction in provisions was mainly driven by credit cards, while in the commercial portfolio, by corporate and SME loans.

The annual increase in provisions was mainly explained by higher requirements in credit cards, payroll deduction loans and cash loans, as well as in the medium-sized segment of the commercial loan book. All this was mainly attributed to the adjustments of the bank's expected loss models to address the impact of the COVID-19 pandemic. It is worth noting that the YoY growth was also explained by a base effect related to the reversion of loan loss provisions for S/ 104.1 million in 4Q19 due to fine-tuning of IFRS9 models reflecting improved risk profile on customers. Excluding this effect, impairment loss on loans, net of recoveries would have increased 30.0% YoY.

As a result of the above, the annualized ratio of impairment loss on loans to average loans was 3.1% in 4Q20, lower than the 4.5% reported in 3Q20, but higher than the 1.7% registered in 4Q19. However, excluding the previously mentioned reversion of provisions, the annualized ratio of impairment loss on loans to average loans would have increased 30 basis points YoY, from 2.8% in 4Q19 to 3.1% in 4Q20.

Impairment loss on loans, net of recoveries					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Impairment loss on loans, net of recoveries	-147.9	-463.2	-327.6	-29.3%	n.m.
Impairment loss on loans/average gross loans	2.8%(1)	4.5%	3.1%	-140 bps	30 bps
NPL ratio (at end of period)	2.9%	3.4%	3.6%	20 bps	70 bps
NPL coverage ratio (at end of period)	117.7%	196.5%	181.5%	n.m.	n.m.
Impairment allowance for loans	1,394.7	3,116.2	2,984.7	-4.2%	n.m.

(1) Excluding the reversion of loan loss provisions for S/ 104.1 million in 4Q19 due to fine-tuning of IFRS9 models reflecting improved risk profile on customers. Including this effect, cost of risk was 1.7% in such period.

The NPL ratio grew 20 basis points QoQ and 70 basis points YoY, to 3.6%. On one hand, the quarterly growth was due to a 40 basis point increase in retail loans' NPL, mainly driven by credit cards. On the other hand, the annual growth was explained by a 230 basis point growth in the retail portfolio, partially offset by a 30 basis point reduction in the commercial portfolio.

Furthermore, the NPL coverage ratio was 181.5% as of December 31, 2020, lower than the 196.5% reported as of September 30, 2020, but higher than the 117.7% registered as of December 31, 2019. NPL coverage ratio in credit cards was 270.0% as of December 31, 2020.

FEE INCOME FROM FINANCIAL SERVICES, NET

Net fee income from financial services grew S/ 10.2 million QoQ, or 6.7%, mainly explained by increases of S/ 9.9 million in commissions from banking services, S/ 3.6 million in fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services, and S/ 2.5 million in commissions from credit card services.

Net fee income from financial services decreased S/ 56.4 million YoY, or 25.7%, mainly due to reductions of S/ 33.7 million in commissions from credit card services, S/ 11.8 million in commissions from banking services, and S/ 10.3 million in fees from maintenance and mailing of accounts, transfer fees and commissions on debit card services.

Fee income from financial services, net					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Income					
Commissions from credit card services	104.4	68.2	70.7	3.7%	-32.3%
Commissions from banking services	91.4	69.7	79.6	14.2%	-13.0%
Maintenance and mailing of accounts, transfer fees and commissions on debit card services	64.6	50.7	54.3	7.2%	-15.9%
Fees from indirect loans	13.4	13.3	14.8	11.1%	10.6%
Collection services	10.6	11.4	11.5	0.8%	8.6%
Other	11.5	7.9	10.7	35.3%	-6.9%
Total income	**295.9**	**221.1**	**241.6**	**9.3%**	**-18.4%**
Expenses					
Insurance	-24.6	-24.3	-27.2	11.9%	10.5%
Fees paid to foreign banks	-4.4	-4.0	-4.9	20.9%	10.4%
Other	-47.1	-39.7	-46.2	16.5%	-2.1%
Total expenses	**-76.2**	**-68.0**	**-78.3**	**15.1%**	**2.7%**
Fee income from financial services, net	**219.7**	**153.1**	**163.3**	**6.7%**	**-25.7%**

OTHER INCOME

Other income decreased S/ 7.2 million QoQ, mainly explained by a lower net gain on sale of financial investments, partially offset by an increase in net gain on foreign exchange transactions and on financial assets at fair value through profit or loss.

Other income grew S/ 5.2 million YoY due to increases in net gain on sale of financial investments and net gain on foreign exchange transactions and on financial assets at fair value through profit or loss.

Other income					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Net gain on foreign exchange transactions and on financial assets at fair value through profit or loss	77.9	71.0	79.4 (1)	11.8%	2.0%
Net gain on sale of financial investments	2.1	28.3	7.7	-72.9%	n.m.
Other	27.4	20.4	25.4	24.7%	-7.1%
Total other income	**107.3**	**119.7**	**112.5**	**-6.0%**	**4.8%**

(1) Includes S/ 69.7 million of net gain on foreign exchange transactions and S/ 9.7 million of net gain (loss) on financial assets at fair value though profit or loss (derivatives).

OTHER EXPENSES

Other expenses increased S/ 46.8 million QoQ, or 12.7%, and remained relatively stable YoY.

The quarterly growth in expenses was mainly attributed to a S/ 35.2 million effect of higher profit sharing due to the accounting of non-tax deductible voluntary provisions under local GAAP accounting standards.

The efficiency ratio was 39.7% in 4Q20, compared to the 35.2% reported in 3Q20 and the 39.2% registered in 4Q19. However, excluding the one-off impact of the liability management transaction in 4Q19 and the impacts from the modification of contractual cash flows in 3Q20 and 4Q20, the efficiency ratio would have been 37.7% in 4Q19, 34.2% in 3Q20 and 38.9% in 4Q20.

Other expenses					
S/ million				%chg	%chg
	4Q19	3Q20	4Q20	QoQ	YoY
Salaries and employee benefits	-164.2	-128.3	-170.0	32.5%	3.6%
Administrative expenses	-180.0	-173.0	-163.3	-5.6%	-9.3%
Depreciation and amortization	-58.3	-55.9	-64.4	15.2%	10.3%
Other	-10.6	-10.1	-16.3	61.3%	54.1%
Total other expenses	**-413.1**	**-367.3**	**-414.1**	**12.7%**	**0.2%**
Efficiency ratio	**39.2%**	**35.2%**	**39.7%**	**450 bps**	**50 bps**

REGULATORY CAPITAL

The ratio of regulatory capital to risk-weighted assets (RWA) was 17.0% as of December 31, 2020, in line with that reported as of September 30, 2020, but higher than the 15.2% registered as of December 31, 2019.

In 4Q20, regulatory capital slightly decreased 0.3% QoQ. Meanwhile, RWA also decreased 0.4% QoQ due to lower capital requirements for credit risk, given the reductions in retail and commercial loans.

The annual increase in the total capital ratio was due to 13.8% growth in regulatory capital, partially offset by a 1.5% increase in RWA. Regulatory capital increased as a result of the addition of S/ 671.1 million in capital, reserves and earnings with capitalization agreement during the last twelve months, as well as the "4.00% Subordinated Notes due 2030" for US$300 million issued in July 2020. These effects were partially compensated by the execution of an optional redemption of US$ 200 million hybrid bonds in April 2020. 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.

As of December 31, 2020, Interbank's capital ratio of 17.0% was significantly higher than its risk-adjusted minimum capital ratio requirement, established at 10.7%. The minimum regulatory capital ratio requirement was 10.0%, while the additional capital requirement for Interbank was 0.7% as of December 31, 2020. Furthermore, Core Equity Tier 1 (CET1) was 11.5% as of December 31, 2020, slightly below the 11.6% reported as of December 31, 2019.

Regulatory capital					
S/ million				%chg	%chg
	12.31.19	09.30.20	12.31.20	12.31.20/ 09.30.20	12.31.20/ 12.31.19
Tier I capital	5,721.7	5,932.3	5,930.7	0.0%	3.7%
Tier II capital	1,957.6	2,840.2	2,811.5	-1.0%	43.6%
Total regulatory capital	7,679.3	8,772.6	8,742.1	-0.3%	13.8%
Risk-weighted assets (RWA)	50,673.8	51,680.2	51,451.8	-0.4%	1.5%
Total capital ratio	**15.2%**	**17.0%**	**17.0%**	**0 bps**	**180 bps**
Tier I capital / RWA	**11.3%**	**11.5%**	**11.5%**	**0 bps**	**20 bps**
CET1	**11.6%**	**11.4%**	**11.5%**	**10 bps**	**-10 bps**

Interseguro

SUMMARY

2020 Performance

Interseguro's profits reached S/ 141.1 million in 2020, a S/ 10.7 million, or 8.2%, increase compared to the previous year.

The yearly performance was mainly due to increases of S/ 32.7 million in other income, mostly explained by net gain on sale of securities, and S/ 30.9 million in net interest and similar income, as well as to a S/ 12.7 million reduction in other expenses, mainly related to efficiencies implemented during the year. These effects were partially offset by a S/ 36.4 million negative performance in translation result and a S/ 27.6 million higher loss due to impairment of financial investments.

Insurance Segment's P&L Statement					
S/ million	2018	2019	2020	%chg 20/19	%chg 19/18
Interest and similar income	611.0	612.5	655.0	6.9%	0.3%
Interest and similar expenses	-61.1	-72.5	-84.0	15.9%	18.7%
Net Interest and similar income	**549.9**	**540.1**	**571.0**	**5.7%**	**-1.8%**
Recovery (loss) due to impairment of financial investments	11.3	-6.2	-33.8	n.m.	n.m.
Net Interest and similar income after impairment loss	**561.3**	**533.9**	**537.2**	**0.6%**	**-4.9%**
Fee income from financial services, net	-4.6	-4.0	-6.1	52.2%	-13.3%
Other income	67.6	169.0	201.7	19.3%	n.m.
Total premiums earned minus claims and benefits	-400.8	-279.6	-279.1	-0.2%	-30.2%
Net premiums	681.8	689.4	615.8	-10.7%	1.1%
Adjustment of technical reserves	-362.2	-268.7	-100.8	-62.5%	-25.8%
Net claims and benefits incurred	-720.3	-700.3	-794.1	13.4%	-2.8%
Other expenses	-273.7	-298.7	-286.0	-4.3%	9.2%
Income before translation result and income tax	**-50.1**	**120.6**	**167.7**	**39.1%**	**n.m.**
Translation result	-11.4	9.8	-26.6	n.m.	n.m.
Income tax	-	-	-	n.m.	n.m.
Profit for the period	**-61.5**	**130.4**	**141.1**	**8.2%**	**n.m.**
New mortality tables impact on technical reserves	-144.8	-	-		
Profit excluding change in mortality tables	**83.3**	**130.4**	**141.1**		
ROAE	**n.m.**	**14.2%**	**18.9%**		
ROAE excl. change in mortality tables	**9.4%**	**14.2%**	**18.9%**		
Efficiency ratio	**14.6%**	**13.3%**	**11.0%**		

Net interest and similar income was S/ 571.0 million in 2020, an increase of S/ 30.9 million compared to 2019, mainly explained by S/ 42.5 million growth in interest and similar income, partially offset by a S/ 11.5 million increase in interest and similar expenses.

Loss due to impairment of financial investments was S/ -33.8 million, compared to a loss of S/ -6.2 million in the previous year, a deterioration of S/ 27.6 million attributable to an additional provision for impairment on a fixed income investment that was downgraded in relation to the COVID-19 outbreak.

Other income was S/ 201.7 million, a S/ 32.7 million growth compared to 2019, mainly due to increases of S/ 65.8 million in net gain on sale of securities, S/ 20.6 million in net trading result and S/ 7.2 million in net gain on sale of real estate investments. These factors were partially offset by decreases of S/ 49.1 million in net gain on valuation of real estate investments and S/ 9.3 million in rental income.

Total premiums earned less claims and benefits were S/ -279.1 million in 2020, slightly better than the S/ -279.6 million reported in 2019. The annual performance was due to a S/ 167.9 million decrease in adjustment of technical reserves, partially offset by S/ 93.8 million growth in net claims and benefits incurred and a S/ 73.6 million reduction in net premiums.

The yearly performance in net premiums was mainly due to decreases of S/ 67.8 million in annuities and S/ 8.9 million in retail insurance, mostly associated to card protection products, partially offset by a S/ 3.1 million increase in individual life premiums.

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 later recovered during 3Q20 and 4Q20 in all segments.

The lower adjustment of technical reserves in 2020 was driven mainly by decreases of S/ 137.4 million in annuities, S/ 20.3 million in individual life and S/ 10.2 million in retail insurance. The reduction in technical reserves for annuities was attributable to a release of technical reserves for annuities, mostly related to (i) a higher mortality rate resulting from the COVID-19 pandemic, and (ii) the effect of lower sales.

Other expenses were S/ 286.0 million in 2020, a S/ 12.7 million decrease when compared to 2019, mainly explained by lower administrative expenses due to the efficiencies implemented throughout the year to deal with the impact of the COVID-19 pandemic.

4Q20 Performance

Interseguro's profits reached S/ 37.7 million in 4Q20, a decrease of S/ 28.8 million QoQ, but an increase of S/ 3.0 million YoY.

The quarterly result was mainly explained by growth of S/ 30.1 million in other expenses, mostly related to a regularization in the rescue of life insurance policies, and a reduction of S/ 26.4 million in total premiums earned minus claims and benefits, in addition to a S/ 4.2 million contraction in other income. These factors were partially offset by a S/ 13.4 million increase in net interest and similar income, a S/ 16.4 million reversion of provision for impairment loss, and a S/ 2.8 million improvement in translation result.

The annual increase in net profit was mainly due to growth of S/ 18.4 million in net interest and similar income and S/ 7.7 million in other income, in addition to a S/ 22.2 million positive effect in loss due to impairment of financial investments. These effects were partially offset by a reduction of S/ 15.3 million in total premiums earned minus claims and benefits, and an increase of S/ 15.1 million in other expenses. Additionally, a S/ 13.6 million negative effect in translation result also contributed to partially offset the yearly increase in profits.

Interseguro's ROAE was 17.1% in 4Q20, below the 35.7% reported in 3Q20, but above the 14.7% registered in 4Q19.

Insurance Segment's P&L Statement					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Interest and similar income	155.6	160.5	176.0	9.6%	13.1%
Interest and similar expenses	-20.8	-20.7	-22.7	9.7%	9.2%
Net Interest and similar income	**134.8**	**139.8**	**153.2**	**9.6%**	**13.7%**
Recovery (loss) due to impairment of financial investments	-8.3	-2.5	13.9	n.m.	n.m.
Net Interest and similar income after impairment loss	**126.5**	**137.3**	**167.1**	**21.7%**	**32.1%**
Fee income from financial services, net	-0.8	-1.5	-2.2	46.5%	n.m.
Other income	50.6	62.5	58.3	-6.8%	15.1%
Total premiums earned minus claims and benefits	-74.4	-63.3	-89.7	41.7%	20.4%
Net premiums	164.6	139.6	178.4	27.7%	8.3%
Adjustment of technical reserves	-57.9	9.5	-53.5	n.m.	-7.6%
Net claims and benefits incurred	-181.1	-212.4	-214.5	1.0%	18.4%
Other expenses	-78.9	-63.9	-94.0	47.2%	19.1%
Income before translation result and income tax	**22.9**	**71.2**	**39.5**	**-44.5%**	**72.3%**
Translation result	11.7	-4.7	-1.9	-60.2%	n.m.
Income tax	-	-	-	n.m.	n.m.
Profit for the period	**34.7**	**66.5**	**37.7**	**-43.4%**	**8.7%**
ROAE	**14.7%**	**35.7%**	**17.1%**		
Efficiency ratio	**14.1%**	**9.5%**	**12.1%**		

RESULTS FROM INVESTMENTS

Results from Investments (1)					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Interest and similar income	155.6	160.5	176.0	9.6%	13.1%
Interest and similar expenses	-10.4	-9.2	-10.9	18.1%	4.0%
Net interest and similar income	**145.2**	**151.3**	**165.1**	**9.1%**	**13.7%**
Recovery (loss) due to impairment of financial investments	-8.3	-2.5	13.9	n.m.	n.m.
Net Interest and similar income after impairment loss	**136.9**	**148.9**	**179.0**	**20.3%**	**30.8%**
Net gain (loss) on sale of financial investments	13.5	25.7	21.2	-17.8%	57.1%
Net gain (loss) on financial assets at fair value through profit or loss	12.3	18.0	30.4	69.3%	n.m.
Rental income	11.3	9.6	9.1	-4.4%	-18.8%
Gain on sale of investment property	-1.2	-	-	n.m.	n.m.
Valuation gain (loss) from investment property	9.8	5.4	-6.5	n.m.	n.m.
Other(1)	-3.2	-4.6	-3.9	-15.7%	20.8%
Other income	**42.4**	**54.1**	**50.3**	**-6.9%**	**18.6%**
Results from investments	**179.3**	**202.9**	**229.3**	**13.0%**	**27.9%**

(1) Only includes transactions related to investments.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income related to investments was S/ 165.1 million in 4Q20, an increase of S/ 13.8 million, or 9.1%, QoQ and S/ 19.9 million, or 13.7%, YoY.

The quarterly and annual performances were mainly explained by increases of S/ 15.5 million and S/ 20.4 million in interest and similar income, respectively, mostly attributed to a higher return of the fixed income portfolio and to incremental dividends.

RECOVERY (LOSS) DUE TO IMPAIRMENT OF FINANCIAL INVESTMENTS

Recovery due to impairment of financial investments was S/ 13.9 million in 4Q20, compared to losses of S/ 2.5 million in 3Q20 and S/ 8.3 million in 4Q19.

The quarterly and annual performances were mainly due to a reversion of provision for impairment loss related to a fixed income investment that was downgraded in relation to the COVID-19 outbreak in 1Q20.

OTHER INCOME

Other income related to investments was S/ 50.3 million in 4Q20, a decrease of S/ 3.8 million QoQ, but an increase of S/ 7.9 million YoY.

The quarterly reduction was mainly due to decreases of S/ 11.9 million in valuation gain from investment property and S/ 4.5 million in net gain on sale of financial investments, partially offset by S/ 12.4 million growth in net gain on financial assets at fair value.

The annual increase was mainly explained by growth of S/ 18.1 million in net gain on financial assets at fair value and S/ 7.7 million in net gain on sale of financial investments, partially offset by decreases of S/ 16.3 million in valuation gain from investment property and S/ 2.2 million in rental income.

TOTAL PREMIUMS EARNED MINUS CLAIMS AND BENEFITS

Total Premiums Earned Minus Claims And Benefits					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Net premiums	164.6	139.6	178.4	27.7%	8.3%
Adjustment of technical reserves	-57.9	9.5	-53.5	n.m.	-7.6%
Net claims and benefits incurred	-181.1	-212.4	-214.5	1.0%	18.4%
Total premiums earned minus claims and benefits	**-74.4**	**-63.3**	**-89.7**	**41.7%**	**20.4%**

Total premiums earned minus claims and benefits were S/ -89.7 million in 4Q20, a decrease of S/ 26.4 million QoQ and S/ 15.3 million YoY.

The quarterly reduction was mainly due to the constitution of S/ 53.5 million of technical reserves in 4Q20, compared to a S/ 9.5 million release in 3Q20. This effect was partially offset by S/ 38.8 million growth in net premiums.

The annual performance was explained by S/ 33.4 million higher net claims and benefits incurred, partially offset by a S/ 13.8 million increase in net premiums and a S/ 4.4 million reduction in adjustment of technical reserves.

NET PREMIUMS

Net Premiums by Business Line					
S/ million				%chg	%chg
	4Q19	3Q20	4Q20	QoQ	YoY
Annuities	71.1	50.2	85.9	71.2%	20.7%
D&S	0.0	0.1	0.1	n.m.	n.m.
Individual Life	34.3	34.9	37.5	7.5%	9.6%
Retail Insurance	59.2	54.5	54.8	0.6%	-7.4%
Net Premiums	**164.6**	**139.6**	**178.4**	**27.7%**	**8.3%**

Net premiums were S/ 178.4 million in 4Q20, an increase of S/ 38.8 million, or 27.7%, QoQ and S/ 13.8 million, or 8.3%, YoY.

The quarterly result was due to growth of S/ 35.7 million in annuities and S/ 2.6 million in individual life. The higher annuities were a result of better market conditions, which drove premiums even above pre COVID-19 levels, while individual life premiums grew due to an improvement in the collection of premiums.

The annual performance in net premiums was mainly due to increases of S/ 14.8 million in annuities and S/ 3.2 million in individual life. These factors were partially offset by a S/ 4.4 million reduction in retail insurance premiums, explained by decreases in premiums related to credit life insurance and card protection insurance products.

ADJUSTMENT OF TECHNICAL RESERVES

Adjustment of Technical Reserves by Business Line					
S/ million				%chg	%chg
	4Q19	3Q20	4Q20	QoQ	YoY
Annuities	-34.8	22.4	-34.1	n.m.	-2.1%
Individual Life	-23.5	-19.4	-23.4	20.3%	-0.4%
Retail Insurance	0.4	6.6	4.0	-39.5%	n.m.
Adjustment of technical reserves	**-57.9**	**9.5**	**-53.5**	**n.m.**	**-7.6%**

Adjustment of technical reserves was S/ 53.5 million in 4Q20, compared to a S/ 9.5 million release in 3Q20 and a S/ 57.9 million requirement in 4Q19.

The quarterly performance was mainly explained by a base effect related to a S/ 22.4 million release in technical reserves for annuities in 3Q20 that became a S/ 34.1 million requirement in 4Q20 due to higher sales and a lower mortality rate.

The annual reduction in adjustment of technical reserves was mainly explained by a S/ 3.6 million higher release in retail insurance and a S/ 0.7 million decrease in technical reserves for annuities.

NET CLAIMS AND BENEFITS INCURRED

Net Claims and Benefits Incurred by Business Line					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Annuities	-164.5	-166.3	-174.3	4.8%	6.0%
D&S	-1.2	-0.1	0.1	n.m.	n.m.
Individual Life	-1.4	-6.3	-3.9	-38.4%	n.m.
Retail Insurance	-14.0	-39.7	-36.4	-8.4%	n.m.
Net claims and benefits incurred	**-181.1**	**-212.4**	**-214.5**	**1.0%**	**18.4%**

Net claims and benefits incurred reached S/ 214.5 million in 4Q20, an increase of S/ 2.1 million QoQ and S/ 33.4 million YoY.

The quarterly growth was mainly the result of an S/ 8.0 million increase in annuity benefits, partially offset by reductions of S/ 3.3 million in retail insurance, attributable to lower claims in credit life insurance, and S/ 2.4 million in individual life claims.

The annual performance in net claims and benefits incurred was explained by a S/ 22.4 million increase in retail insurance, mostly explained by higher claims in credit life insurance related to the COVID-19 mortality in Peru. Additionally, increases of S/ 9.8 million in annuity benefits and S/ 2.5 million in individual life claims also contributed to the YoY growth in net claims and benefits incurred.

OTHER EXPENSES

Other Expenses					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Salaries and employee benefits	-19.7	-17.7	-21.8	23.5%	10.9%
Administrative expenses	-15.7	-9.3	-12.2	31.0%	-22.1%
Depreciation and amortization	-5.7	-6.4	-6.4	0.6%	12.1%
Expenses related to rental income	-1.1	-0.3	-1.1	n.m.	-3.7%
Other	-36.7	-30.1	-52.5	74.1%	43.0%
Other expenses	**-78.9**	**-63.9**	**-94.0**	**47.2%**	**19.1%**

Other expenses increased S/ 30.1 million QoQ, or 47.2%, and S/ 15.1 million YoY, or 19.1%.

The quarterly and annual expense growth were mainly explained by the regularization in the rescue of life insurance policies. Additionally, the quarterly performance was also explained by increases of S/ 4.1 million in salaries and employee benefits and S/ 2.9 million in administrative expenses.

Inteligo

SUMMARY

2020 Performance

Inteligo's profits reached S/ 243.1 million in 2020, a S/ 42.8 million, or 21.4%, increase compared to the previous year. This result was mainly attributable to 82.4% growth in other income, mainly due to strong investment results for the year, partially offset by slightly higher other expenses.

On the commercial front, Inteligo's prospection process showed good results in terms of new account openings and AUM growth both in Private Wealth Management and Mutual Funds. Accordingly, Inteligo's AUM increased 14.7% in 2020.

Consequently, Inteligo's ROAE was 28.0% in 2020, notably higher than the 24.7% reported in 2019.

Wealth Management Segment's P&L Statement					
S/ million	2018	2019	2020	%chg 20/19	%chg 19/18
Interest and similar income	154.1	168.0	163.4	-2.7%	9.0%
Interest and similar expenses	-44.1	-61.5	-51.7	-16.0%	39.4%
Net interest and similar income	**110.0**	**106.5**	**111.8**	**4.9%**	**-3.2%**
Impairment loss on loans, net of recoveries	0.8	0.0	0.0	-11.2%	n.m.
Recovery (loss) due to impairment of financial investments	1.8	-0.7	0.7	n.m.	n.m.
Net interest and similar income after impairment loss	**112.6**	**105.8**	**112.5**	**6.3%**	**-6.0%**
Fee income from financial services, net	164.2	164.3	164.0	-0.2%	0.1%
Other income	33.2	58.4	106.6	82.4%	75.8%
Other expenses	-106.5	-123.3	-128.0	3.8%	15.8%
Income before translation result and income tax	**203.5**	**205.3**	**255.0**	**24.2%**	**0.9%**
Translation result	-0.2	1.4	-3.8	n.m.	n.m.
Income tax	-5.7	-6.4	-8.0	24.6%	12.1%
Profit for the period	**197.5**	**200.3**	**243.1**	**21.4%**	**1.4%**
ROAE	**25.7%**	**24.7%**	**28.0%**		
Efficiency ratio	**35.2%**	**37.3%**	**33.3%**		

Inteligo's net interest and similar income was S/ 111.8 million in 2020, a S/ 5.3 million, or 4.9%, increase compared to 2019. This was mainly explained by incremental dividends received from investments during the year, partially offset by a compression of the net interest margin in the lending business.

Net fee income from financial services was S/ 164.0 million, stable on a YoY basis.

Other income from financial services was S/ 106.6 million, a S/ 48.2 million or 82.4% increase when compared to 2019, mainly attributable to positive mark-to-market valuations on investments.

Other expenses increased S/ 4.7 million, or 3.8% in 2020, mainly explained by incremental salaries and employee benefits, partially contained by expense reduction initiatives implemented following the COVID-19 pandemic breakout in March 2020.

4Q20 Performance

Inteligo's net profit in 4Q20 was S/ 154.7 million, an increase of S/ 44.2 million QoQ and S/ 85.1 million YoY.

The main driver of the notably positive performance in 4Q20 was the contribution of other income, which accounted for extraordinarily strong gains for the period, mainly associated with positive mark-to-market conditions in Inteligo's proprietary portfolio. Also in line with the positive portfolio performance, solid growth in net interest and similar income helped further the quarterly result.

From a business development perspective, Inteligo's prospection process continued to show positive results in terms of new account openings and assets under management growth. Inteligo's AUM grew 5.6% QoQ and 14.7% YoY as of December 31, 2020.

Consequently, Inteligo's ROAE was 62.8% in 4Q20, higher than the 53.5% reported in 3Q20 and the 33.6% registered in 4Q19. Furthermore, the efficiency ratio remained at competitive levels.

Wealth Management Segment's P&L Statement					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Interest and similar income	41.0	37.9	51.1	34.9%	24.8%
Interest and similar expenses	-16.3	-12.8	-10.8	-16.3%	-33.9%
Net interest and similar income	**24.7**	**25.1**	**40.4**	**61.1%**	**63.4%**
Impairment loss on loans, net of recoveries	0.0	0.0	0.0	n.m.	89.6%
Recovery (loss) due to impairment of financial investments	0.0	-0.2	8.1	n.m.	n.m.
Net interest and similar income after impairment loss	**24.7**	**24.8**	**48.5**	**95.2%**	**96.2%**
Fee income from financial services, net	47.0	40.1	40.5	1.0%	-13.9%
Other income	30.0	75.2	106.9	42.2%	n.m.
Other expenses	-33.2	-27.3	-39.2	43.4%	18.3%
Income before translation result and income tax	**68.6**	**112.7**	**156.6**	**38.9%**	**n.m.**
Translation result	2.3	-0.2	1.9	n.m.	-16.5%
Income tax	-1.3	-2.1	-3.9	88.7%	n.m.
Profit for the period	**69.6**	**110.5**	**154.7**	**39.9%**	**n.m.**
ROAE	**33.6%**	**53.5%**	**62.8%**		
Efficiency ratio	**32.4%**	**19.5%**	**20.6%**		

ASSETS UNDER MANAGEMENT & DEPOSITS

AUM reached S/ 20,988.8 million in 4Q20, a S/ 1,108.9 million or 5.6% increase QoQ and a S/ 2,695.9 million or 14.7% growth YoY; mostly due to strengthened mark-to-market valuations from the appreciation of client assets and the foreign exchange rate, as well as due to the execution of successful client prospection and conversion strategies throughout the year.

Client deposits were S/ 2,855.5 million in 4Q20, a decrease of S/ 309.4 million or 9.8% QoQ, and S/ 23.0 million or 0.8% YoY. This was mainly related to clients' higher liquidity needs after the onset of the COVID-19 pandemic.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Interest and similar income					
Due from banks and inter-bank funds	4.0	1.4	1.1	-19.6%	-72.6%
Financial Investments	18.8	20.8	34.2	64.6%	81.6%
Loans	18.2	15.8	15.9	0.5%	-12.6%
Total interest and similar income	**41.0**	**37.9**	**51.1**	**34.9%**	**24.8%**
Interest and similar expenses					
Deposits and obligations	-13.6	-11.2	-9.8	-12.4%	-27.7%
Due to banks and correspondents	-2.6	-1.6	-0.9	-43.4%	-65.7%
Total interest and similar expenses	**-16.3**	**-12.8**	**-10.8**	**-16.3%**	**-33.9%**
Net interest and similar income	**24.7**	**25.1**	**40.4**	**61.1%**	**63.4%**

Inteligo's net interest and similar income was S/ 40.4 million in 4Q20, a S/ 15.3 million, or 61.1% increase when compared with 3Q20. This was mainly explained by incremental dividends received from investments during the quarter.

Net interest and similar income increased S/ 15.7 million or 63.4% YoY, mainly explained by strong results in Inteligo's investment portfolio and an increase in interest income generated by a higher average balance of fixed income investments for the period. Nonetheless, there was also an effect related to a net interest margin compression, associated with the lending business.

FEE INCOME FROM FINANCIAL SERVICES

Fee income from financial services, net					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Income					
Brokerage and custody services	3.4	2.2	2.2	1.2%	-33.0%
Funds management	44.0	38.2	38.6	1.1%	-12.3%
Total income	**47.4**	**40.4**	**40.9**	**1.1%**	**-13.7%**
Expenses					
Brokerage and custody services	-0.3	-0.1	-0.2	10.4%	-38.0%
Others	-0.1	-0.2	-0.3	31.1%	94.0%
Total expenses	**-0.4**	**-0.3**	**-0.4**	**22.3%**	**6.8%**
Fee income from financial services, net	**47.0**	**40.1**	**40.5**	**1.0%**	**-13.9%**

Net fee income from financial services was S/ 40.5 million in 4Q20, an increase of S/ 0.4 million, or 1.0% when compared to the previous quarter. Results were relatively stable following unchanged trading volumes and recurring fees from clients.

On a YoY basis, net fee income from financial services decreased S/ 6.5 million, or 13.9%, mainly explained by lower fund management fees due to the partial recomposition of client portfolios from mutual and private equity funds to other asset classes.

OTHER INCOME

Other income					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Net gain on sale of financial investments	-0.2	-6.3	23.3	n.m.	n.m.
Net trading gain (loss)	32.5	82.8	84.6	2.1%	n.m.
Other	-2.4	-1.4	-1.0	-24.2%	-55.8%
Total other income	**30.0**	**75.2**	**106.9**	**42.2%**	**n.m.**

Inteligo's other income reached S/ 106.9 million in 4Q20, an increase of S/ 31.7 million QoQ and S/ 76.9 million YoY, mainly attributable to the effect of positive mark-to-market valuations on proprietary portfolio investments.

OTHER EXPENSES

Other expenses					
S/ million	4Q19	3Q20	4Q20	%chg QoQ	%chg YoY
Salaries and employee benefits	-17.8	-15.4	-24.0	56.0%	34.6%
Administrative expenses	-10.6	-8.6	-11.2	29.6%	5.8%
Depreciation and amortization	-4.6	-3.4	-3.6	5.8%	-22.2%
Other	-0.2	0.0	-0.5	n.m.	n.m.
Total other expenses	**-33.2**	**-27.3**	**-39.2**	**43.4%**	**18.3%**
Efficiency ratio	**32.4%**	**19.5%**	**20.6%**		

Other expenses reached S/ 39.2 million in 4Q20, an increase of S/ 11.9 million, or 43.4% QoQ, mainly due to the provisioning of variable compensation for the year, as well as to incremental administrative expenses for the quarter after increased operational activity.

On a yearly basis, other expenses increased S/ 6.0 million, or 18.3% YoY, as a result of higher salaries and employee benefits, and administrative expenses. The lower depreciation and amortization for the period partially offset the annual increase in expenses.