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

Fourth Quarter 2015

May, 2016

Index

I. Overview

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

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

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

Intercorp began investing in education in 2010 and is rapidly expanding its footprint into this sector. Their education businesses, Innova Schools, UTP and IPAE, are operated through other subsidiaries within Intercorp's corporate structure. Innova Schools is a scalable network of private K-12 schools operating in 35 locations across Peru. UTP consists of a university and a technical school, with more than 34,000 students and approximately 1,000 classrooms and labs at 24 locations in Peru (20 in Lima). IPAE complements the education portfolio with a technical school focused on specialized business careers.

II. Results Analysis

The table below details Intercorp's assets and equity in its main businesses as of December 31, 2015 and December 31, 2014.

	As of December 31, 2015				As of December 31, 2014			
	Assets		Equity		Assets		Equity	
	(S/. in millions)	%	(S/. in millions)	%	(S/. in millions)	%	(S/. in millions)	%
IFS								
Interbank (banking)…………………………………	41,652.0	68.1%	3,745.0	46.7%	32,904.9	65.5%	3,276.2	42.7%
Interseguro (insurance)………………………………	5,254.0	8.6%	337.9	4.2%	4,743.4	9.4%	691.4	9.0%
Inteligo (wealth management)………………………	3,376.0	5.5%	579.7	7.2%	2,934.1	5.8%	478.6	6.2%
IFS (holding company) and eliminations………………	-281.2	-0.5%	-201.7	-2.5%	-217.2	-0.4%	-144.0	-1.9%
Total IFS………………………………………………	50,000.9	81.7%	4,460.9	55.7%	40,365.2	80.4%	4,302.3	56.0%
Intercorp Retail								
Supermercados Peruanos (supermarkets)…………	2,701.2	4.4%	929.2	11.6%	2,556.5	5.1%	902.3	11.8%
Inkafarma (pharmacies)………………………………	794.2	1.3%	138.2	1.7%	692.1	1.4%	126.1	1.6%
InRetail Shopping Malls (shopping malls)……………	3,324.3	5.4%	1,825.4	22.8%	3,106.5	6.2%	1,748.5	22.8%
Other (1)…………………………………………………	3,352.5	5.5%	1,088.3	13.6%	3,067.4	6.1%	1,069.3	13.9%
Total Intercorp Retail………………………………	10,172.2	16.6%	3,981.1	49.7%	9,422.6	18.8%	3,846.1	50.1%
Other subsidiaries/Intercorp (holding company) and eliminations…………………………………….…	990.7	1.6%	-428.5	-5.3%	422.3	0.8%	-471.4	-6.1%
Total Consolidated…………………………………	61,163.8	100%	8,013.5	100%	50,210.2	100%	7,677.1	100%

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

i. Intercorp

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

The following table presents information of the unconsolidated income statement regarding the contributions attributable to Intercorp, based on its equity ownership, from its primary businesses for the year ended December 31, 2015 and 2014.

	For the year ended December 31		Change	
	2015	2014		
	(S/. millions)		(S/. in millions)	%
IFS				
Banking	650.9	545.2	105.7	19.4%
Insurance	246.4	101.1	145.3	143.6%
Wealth Management	81.5	117.1	-35.5	-30.4%
IFS expenses and eliminations	-29.2	-47.9	18.7	-39.0%
Total IFS	**949.6**	**715.5**	**234.1**	**32.7%**
Intercorp Retail				
Supermarkets	18.9	10.1	8.8	N/M
Pharmacies	81.9	69.1	12.8	18.5%
Shopping malls	54.2	131.5	-77.3	-58.8%
Other subsidiaries / holding company and eliminations	-136.8	-191.5	54.7	-28.5%
Total Intercorp Retail	**18.2**	**19.3**	**-1.0**	**N/M**
Other subsidiaries	-11.6	3.8	-15.4	-406.7%
Net profit attributable to Intercorp	**956.3**	**738.5**	**217.8**	**29.5%**
Financial expenses, net	-133.6	-76.8	-56.8	73.9%
General expenses	-24.4	-16.9	-7.5	44.2%
Other income (expenses), net	-34.8	-28.1	-6.7	23.7%
Foreign exchange gain (loss), net	-98.1	-64.2	-33.9	52.7%
Income (expenses)	**-290.9**	**-186.1**	**-104.8**	**56.3%**
Net profit	**665.4**	**552.4**	**113.0**	**20.4%**

For the year ended December 31, 2015, Intercorp´s net profit was S/. 665.4 million, an increase of S/. 113.0 million compared to the same period in 2014. The growth in profit was driven by higher profits from IFS (S/. 234.1 million), partially offset by an increase in Intercorp´s own expenses by S/.104.8 million.

Intercorp´s financial expenses were S/.56.8 million higher this period, due to the premium paid in the process of refinancing Intercorp Peru Notes due 2019[1] and an impairment loss on investments available for sale (S/. 15.8 million). Foreign exchange losses increased in S/.38.3 million due to the higher depreciation of the sol against the dollar in 2015 compared with 2014.

[1] On February 2015 Intercorp issued US$98.5 million of a 15 year PEN equivalent bond, and US$250 million of 10 year US$ Senior Unsecured Notes. With the proceeds of the US$ notes Intercorp refinanced US$ 250 million of US$ 2019 Senior notes.

ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the year ended December 31, 2015 and 2014.

	For the year ended December 31,		Change	
	2015	2014	(S/ in millions)	%
	(S/ millions)			
Interest and similar income	3,342.7	2,828.7	514.0	18.2%
Interest and similar expense	-921.7	-788.9	-132.8	16.8%
Net interest and similar income	**2,421.0**	**2,039.8**	**381.2**	**18.7%**
Provision for loan losses, net of recoveries	-645.8	-425.5	-220.3	51.8%
Net interest and similar income after provision for loan losses	**1,775.2**	**1,614.3**	**160.9**	**10.0%**
Fee income from financial services, net	818.4	704.1	114.2	16.2%
Other income	687.5	539.7	147.9	27.4%
Total premiums earned less claims and benefits	105.5	-20.5	126.0	N/M
Other expenses	-1,770.1	-1,541.0	-229.2	14.9%
Income before translation result and income tax	**1,616.5**	**1,296.6**	**319.9**	**24.7%**
Translation result	-25.1	-25.0	-0.1	0.3%
Income tax	-352.6	-309.1	-43.5	14.1%
Profit for the period	**1,238.8**	**962.5**	**276.3**	**28.7%**
Attributable to equity holders of the group (1)	**1,231.8**	**949.1**	**282.7**	**29.8%**
EPS	**11.29**	**8.67**		
ROAE	**28.7%**	**24.6%**		

(1) Starting December 31, 2014, Interseguro began consolidating a real estate investment shared by Interseguro and Intercorp Real Estate Inc., a subsidiary of Intercorp Peru Ltd. Intercorp RE's part is then reported as attributable to non-controlling interest.

Profit attributable to shareholders was S/ 1,231.8 million for the year ended December 31, 2015, increasing 29.8% compared to the corresponding period of 2014, mainly explained by strong performances at Interbank and Interseguro.

The increase in profit for the period was driven by increases of S/ 381.2 million in net interest and similar income, S/ 147.9 million in other income and S/ 114.2 million in fee income from financial services, in addition to a S/ 126.0 million increase in total premiums earned less claims and benefits, which reversed from a loss of S/ 20.5 million in 2014 to a gain of S/ 105.5 million in 2015. Such positive impacts were partially offset by growths of S/ 220.3 million in provision for loan losses and S/ 229.2 million in other expenses.

IFS' Subsidiaries

The following discussion details the results of operations of each of IFS's three subsidiaries: Interbank, Interseguro and Inteligo.

Interbank

The table below details selected financial information for Interbank for the year ended December 31, 2015 and 2014.

	For the year ended December 31,		Change	
	2015	2014		
	(S/ millions)		(S/ in millions)	%
Interest and similar income	2,961.4	2,534.9	426.6	16.8%
Interest and similar expense	-858.5	-732.5	-126.0	17.2%
Net interest and similar income	**2,102.9**	**1,802.3**	**300.6**	**16.7%**
Provision for loan losses, net of recoveries	-643.9	-425.5	-218.4	51.3%
Net interest and similar income after provision for loan losses	**1,459.0**	**1,376.8**	**82.2**	**6.0%**
Fee income from financial services, net	733.7	645.1	88.6	13.7%
Other income	506.8	303.7	203.1	66.9%
Other expenses	-1,460.9	-1,286.9	-174.0	13.5%
Income before translation result and income tax	**1,238.6**	**1,038.7**	**199.8**	**19.2%**
Translation result	-49.5	-23.6	-25.9	109.3%
Income tax	-320.7	-284.0	-36.7	12.9%
Profit for the period	**868.4**	**731.1**	**137.3**	**18.8%**
ROAE	**25.4%**	**24.9%**		
Efficiency ratio	**41.3%**	**45.6%**		
NIM	**6.0%**	**6.1%**		

Interbank's profit for the year ended December 31, 2015 reached S/ 868.4 million, an 18.8% increase compared to the previous year. The main factors that contributed to this result were increases of 16.7% in net interest and similar income, 66.9% in other income and 13.7% in fee income from financial services, partially offset by growths of 51.3% and 13.5% in provision for loan losses and other expenses, respectively.

Net interest and similar income growth was mainly driven by a 16.1% increase in interest on loans, which was partially offset by growths of 49.6% in interest and fees on due to banks and correspondents and 16.7% in interest on bonds.

Interest and similar income increased 16.8% driven by a 16.1% growth in interest on loans. The increase in interest on loans was attributed to a 11.6% growth in the average volume and a 50 basis point increase in the nominal average rate, from 11.9% in 2014 to 12.4% in 2015. The higher average volume was due to increases of 16.7% in retail loans and 6.5% in commercial loans. By currency, average balances of soles loans increased 24.7% while U.S. dollar loans decreased 8.4%. The higher average rate was a result of higher yields in retail and commercial loans. In retail loans, the average yield increased by 40 basis points as a consequence of higher rates on credit cards and their higher proportion over total retail loans; yet such increase was partially offset by a decline in the average rate of payroll-deduction loans. In the commercial loan portfolio, the average rate increased by 10 basis points, due to higher yields in trade finance loans.

The nominal average yield on interest-earning assets[2] was 8.4% for 2015, a 10 basis point decrease with respect to the 8.5% registered for 2014, mainly as a result of the higher proportion of cash and due from banks within total interest-earning assets, as they bear a much lower yield compared to the other components. The higher volume in cash and due from banks was mainly attributable to an increase of dollar funds at the Central Bank, which are related to repo transactions for local currency funding.

Interest and similar expense increased 17.2% with respect to the previous year. This was explained by growths of 49.6% in interest on due to banks and correspondents, 16.7% in interest on bonds and 3.3% in interest on deposits. Interest on due to banks increased as a result of a 71.4% growth in the average volume, partially offset by a 60 basis point decrease in the average cost. Growth in average volume was attributed to a more than ten-fold increase in local funding, which was mostly related to the repo transactions held with the Central Bank, but also explained by a 18.0% increase in funding from COFIDE. The lower average cost was mainly due to a lower proportion of funding from COFIDE over the total due to banks, as such funding bears a higher average cost.

Interest on bonds increased mainly due to a 14.8% growth in the average volume and a 10 basis point increase in the average cost. The higher volume was explained by a 12.5% average exchange rate depreciation of the sol against the U.S. dollar that resulted in a higher value of bonds denominated in dollars, which represented more than 90% of total bonds. The higher average cost was attributed to the issuance of a subordinated bond in March 2014, whose financial cost was registered partly on 2014 and completely on 2015.

The 3.3% growth in interest on deposits was due to a 10.2% increase in the average volume, partially offset by a 10 basis point reduction of the average cost. The growth in volume was attributed to increases in both retail and commercial deposits. By currency, average balances of soles deposits increased 2.7%, while dollar deposits increased 19.7%. The lower average cost was due to a decrease in the average cost of retail deposits and a decline in the proportion of institutional deposits over total deposits, as they bear a higher cost compared to other sources of deposits. Both effects were partially offset by an increase in the average cost of commercial deposits.

The average cost of funds[3] remained relatively stable in 2015 compared to 2014, at 2.7%, as the decrease in the average cost of due to banks and correspondents was offset by its greater proportion over the total funding base, as they bear a much higher average cost compared to deposits.

As a result of the above, Interbank's net interest margin decreased by 10 basis points, from 6.1% in 2014 to 6.0% in 2015.

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[2] For a more accurate reporting of the nominal average yield on interest-earning assets, total cash and due from banks and inter-bank funds are considered as interest-earning assets on the rate calculation; on previous reports only the strictly interest-earning portion was considered.

[3] For a more accurate reporting of the average cost of funds, total deposits are considered as interest-bearing liabilities on the rate calculation; on previous reports only the strictly interest-bearing portion was considered.

Provision for loan losses, net of recoveries increased 51.3% in 2015 when compared to the previous year. The increase in provision expenses was mainly a result of higher provisioning in retail loans, driven by an increase in the average volume of credit cards and other consumer loans, as well as the deterioration in credit quality registered during the year.

The 13.7% increase in fee income from financial services, net was attributable to increases of S/ 71.4 million in maintenance and mailing of accounts, transfers and credit and debit card service fees, and S/ 18.1 million in commissions from banking services. The increase in maintenance and mailing of accounts, transfers and credit and debit card service fees was related to higher volumes of credit cards and saving accounts, while the higher commissions from banking services was mainly explained by higher insurance premiums sold related to loans.

Other income grew 66.9% mainly explained by a S/ 304.4 million gain on foreign exchange transactions, partially offset by a reduction of S/ 128.9 million in net trading income, which was mainly driven by a lower income from derivative instruments that were negatively affected by the depreciation of the sol against the U.S. dollar during 2015 compared to 2014.

The efficiency ratio improved significantly, from 45.6% in 2014 to 41.3% in 2015, explained by growths of 66.9% in other income, 16.7% in net interest and similar income, and 13.7% in fee income from financial services; in addition to a controlled increase in operating expenses (+10.1% YoY).

Income before translation result and income tax grew 19.2% in 2015, which was then negatively affected by a higher loss in translation result but positively impacted by a reduction in the effective tax rate, from 28.0% in 2014 to 27.0% in 2015. All in all, profit for the period increased 18.8% compared to 2014.

Interbank's ROAE was 25.4% in 2015, above the 24.9% reported in 2014.

Interseguro

The table below details selected financial information for Interseguro for the year ended December 31, 2015 and 2014.

	For the year ended December 31,		Change	
	2015	2014		
	(S/ millions)		(S/ in millions)	%
Interest and similar income	247.7	194.4	53.3	27.4%
Fee income from financial services, net	-3.2	-2.3	-0.9	39.1%
Other income	170.4	179.4	-9.0	-5.0%
Total premiums earned less claims and benefits	105.5	-20.5	126.0	N/M
Other expenses	-223.2	-184.4	-38.8	21.0%
Income before translation result and income tax	**297.2**	**166.7**	**130.5**	**78.3%**
Translation result	14.8	-8.8	23.6	N/M
Income tax	-0.1	-3.3	3.2	-97.0%
Profit for the period	**312.0**	**154.5**	**157.5**	**101.9%**
Attributable to non-controlling interest (1)	-1.0	-8.3	7.3	-88.0%
Profit attributable to shareholders	**311.0**	**146.2**	**164.8**	**112.7%**
Discount rate impacts on technical reserves	225.7	57.4	168.3	N/M
Profit excluding discount rate impacts	**85.3**	**88.9**	**-3.6**	**-4.0%**
Efficiency ratio	**12.5%**	**17.3%**		
ROAE	**67.1%**	**28.1%**		

(1) Starting December 31, 2014, Interseguro began consolidating a real estate investment shared by Interseguro and Intercorp Real Estate Inc., a subsidiary of Intercorp Peru Ltd. Intercorp RE's part is then reported as attributable to non-controlling interest.

Interseguro's profit for the year ended December 31, 2015 was S/ 312.0 million, an increase of S/ 157.5 million compared to the corresponding period of 2014.

The growth in profits was mainly due to a S/ 126.0 million increase in total premiums earned less claims and benefits, driven by a positive discount rate impact on technical reserves, and a S/ 53.3 million increase in net interest and similar income determined by the growth of Interseguro's investment portfolio. These factors were partially offset by a S/ 39.5 million increase in impairment loss on available for sale investments.

The adjustment of technical reserves for the year ended December 31, 2015 was lower by S/ 104.5 million compared to the corresponding period of 2014, driven by changes in the weighted average discount rates. As of December 31, 2015 these changes led to a higher release of technical reserves compared to the same period in 2014.

Growth in net interest and similar income was mainly due to an increase in interest on investments available-for-sale as a result of a 13.3% increase in the average volume of Interseguro's investment portfolio and a 78 basis point increase in the nominal average rate.

Total premiums earned less claims and benefits

	For the year ended December 31,		Change
	2015	2014	
	(S/ millions)		%
Net premium	775.1	675.7	14.7%
Adjustment of technical reserves	-410.6	-515.1	-20.3%
Net claims and benefits incurred	-258.9	-181.1	43.0%
Total premiums earned less claims and benefits	**105.5**	**-20.5**	**N/M**

The increase in net premiums was mainly attributable to higher Annuities and Retail Insurance premiums. The increase in Annuities was driven by Interseguro's leadership position in a market that expanded 15.1%. The increase in Retail Insurance was due to higher Credit Life Insurance premiums.

The rise in net claims and benefits incurred was due to a S/ 66.9 million increase in Annuities attributed to a larger number of pensioners and higher exchange and inflation rates.

Interseguro's ROAE for 2015 was 67.1%, above the 28.1% reported on 2014.

Inteligo

The table below details selected financial information for Inteligo for the year ended December 31, 2015 and 2014.

	For the year ended December 31,		Change	
	2015	2014		
	(S/ millions)		(S/ in millions)	%
Interest and similar income	139.7	104.9	34.9	33.2%
Interest and similar expense	-52.7	-49.0	-3.7	7.6%
Net interest and similar income	**87.1**	**55.9**	**31.1**	**55.7%**
Provision for loans losses, net of recoveries	-1.9	0.0	-1.9	N/M
Net interest and similar income after provision for loan losses	**85.1**	**55.9**	**29.2**	**52.3%**
Fee income from financial services, net	121.9	95.9	26.1	27.2%
Other income	9.9	63.5	-53.6	-84.4%
Other expenses	-111.6	-80.8	-30.8	38.1%
Income before translation result and income tax	**105.4**	**134.5**	**-29.1**	**-21.7%**
Translation result	0.1	1.2	-1.2	-93.9%
Income tax	0.1	-1.5	1.6	N/M
Profit for the period	**105.6**	**134.3**	**-28.7**	**-21.4%**
ROAE	**20.0%**	**28.1%**		
Efficiency ratio	**37.5%**	**30.4%**		

Inteligo's profit for the year ended December 31, 2015 and 2014 was S/ 105.6 million and S/ 134.3 million, respectively. The S/ 28.7 million or 21.4% decrease was attributable to lower other income and higher other expenses, despite higher net interest and similar income and an increase in fee income.

Net interest and similar income for the year ended December 31, 2015 reached S/ 87.1 million, a S/ 31.2 million or 55.7% increase when compared to the previous year.

Interest and similar income for the year ended December 31, 2015 increased by S/ 34.8 million or 33.2% when compared to the year ended December 31, 2014. The result was due to higher interest on investments available for sale and higher interest on loans as consequence of an increase in the average volume of Inteligo's loan portfolio.

Inteligo's net fee income from financial services for the year ended December 31, 2015 was S/ 121.9 million, increasing by S/ 26.0 million or 27.2% when compared to the same period in the previous year. Such growth was attributable to income from funds management services which increased by S/ 30.7 million or 34.3% compared to the year ended December 31, 2014.

Other income decreased by S/ 53.6 million or 84.4% in the comparing periods as a result of lower net gains on sale of securities and lower net trading gains.

Inteligo's other expenses reached S/ 111.6 million for the year ended December 31, 2015. The S/ 30.8 million or 38.1% increase was attributable to a S/ 14.1 million higher impairment loss on available for sale investments as well as higher administrative expenses.

Inteligo's ROAE was 20.0% in 2015, below the 28.1% registered in 2014.

iii. Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the year ended December 31, 2015 and 2014.

	For the year ended December 31,		Change	
	2015	2014		
	(S/. in millions)		(S/. in millions)	%
Total Revenues	8,535.5	7,594.6	941.0	12.4%
Cost of Sales	-5,987.0	-5,417.1	-569.9	10.5%
Gross Profit	**2,548.5**	**2,177.4**	**371.1**	**17.0%**
Selling Expenses	-1,659.5	-1,485.6	-174.0	11.7%
Administrative Expenses	-362.8	-329.2	-33.6	10.2%
Other Income (expense)	70.0	164.2	-94.2	-57.3%
Operating profit	**596.2**	**526.8**	**69.4**	**13.2%**
Financial income (expense), net	-503.7	-474.5	-29.2	6.2%
Income tax expense	-63.8	-56.1	-7.7	13.7%
Net profit (loss)	**28.8**	**-3.7**	**32.5**	**N/M**
Attribuible to:				
Intercorp Retail's shareholders	28.8	12.0	16.8	140.1%
Minority Interest	0.1	15.8	-15.7	N/M
Adjusted EBITDA	**804.5**	**603.8**	**200.7**	**33.2%**
Adjusted EBITDA Margin	9.4%	8.0%	1.5%	-

Intercorp Retail reported a net profit of S/28.8 million for the year ended December 31, 2015, representing an increase when compared to the net loss of S/3.7 million in the corresponding period in 2014, as a result of an increase in operating profit.

Intercorp Retail's gross profit increased 17.0% for the year ended 31, 2015 when compared to the corresponding period 2014.This growth was primarily the result of new store openings, same store sales growth and increases in GLA by its main operating subsidiaries.

The following discussion details the results of operations of Intercorp Retail's primary subsidiaries: Supermercados Peruanos, InkaFarma and InRetail Shopping Malls. Intercorp Retail's earnings from Supermercados, InkaFarma and InRetail Shopping Malls were partially offset by losses from other retail business held through Intercorp Retail. Detailed financial information from other retail, education and other related businesses because they do not contribute materially to Intercorp's financial results.

Intercorp Retail's Subsidiaries

The following discussion details the results of operations of Intercorp Retail's primary subsidiaries: Supermercados Peruanos, Inkafarma and InRetail Shopping Malls. Intercorp Retail's earnings from Supermercados Peruanos, Inkafarma and InRetail Shopping Malls were partially offset by losses from our other retail business held through Intercorp Retail. Detailed financial information from other retail, education and other related businesses is not included because it does not contribute materially to Intercorp's financial results.

Supermercados Peruanos

The table below details selected financial information for Supermercados Peruanos for the year ended December 31, 2015 and 2014.

	For the year ended December 31,		Change	
	2015	2014		
	(S/. in millions)		(S/. in millions)	%
Total Revenues	4,077.0	3,756.7	320.4	8.5%
Cost of Sales	-3012.5	-2794.1	-218.5	7.8%
Gross Profit	**1064.5**	**962.6**	**101.9**	**10.6%**
Selling Expenses	-830.4	-753.8	-76.5	10.1%
Administrative Expenses	-94.7	-84.0	-10.8	12.8%
Other Income (expense)	10.3	11.4	-1.1	**-9.8%**
Operating profit	**149.7**	**136.2**	**13.5**	**9.9%**
Financial income (expense), net	-99.3	-110.1	10.8	-9.8%
Income tax expense	-23.5	-11.7	-11.9	101.7%
Net profit (loss)	**26.9**	**14.4**	**12.5**	**86.4%**
EBITDA	**258.7**	**231.5**	**27.2**	**11.8%**
EBITDA Margin	**6.3%**	**6.2%**	**-**	**-**

Supermercados Peruanos reported a net income of S/26.9 million for the year ended December 31, 2015 compared to a net income of S/14.4 million in the corresponding period of 2014. This increase was mainly generated by a higher operating profit in 2015 (S/149.7 million) in comparison to the same period of 2014 (S/136.2 million). In addition, the supermarkets had lower financial expenses (S/99.3 million) as of December 2015 compared to the same period in 2014 (S/110.1 million). Excluding exchange losses, financial expenses (net) decreased from S/78.0 million in 2014 to S/50.8 million in 2015. Additionally, during 2014 Supermercados Peruanos had an extraordinary income of S/.11.1 million from the sale of an unused land plot.

The increase in gross profit was primarily the result of revenue growth driven by same store sales growth of 3.7% and an increase in sales area of 18k sqm, 6.8% additional since December 31, 2014. Additionally, gross margin increased from 25.6% to 26.1% due to innovative promotions and campaigns, higher rebates and store opening contributions, higher rental and logistic revenues and lower shrinkage due to logistic and operational initiatives.

Supermercados Peruanos' selling and administrative expenses increased 10.4% in the year ended December 31, 2015 as compared to the corresponding period in 2014. This increase is explained by higher dollar-denominated rental expenses due to further depreciation of the PEN, as well as higher operational expenses related to new stores in early stages of operation. These effects were partially compensated by higher in-store efficiencies. As a percentage of supermarket revenues, selling and administrative expenses increased from 22.3% to 22.7%.

Inkafarma

The table below details selected financial information for Inkafarma for the year ended December 31, 2015 and 2014.

	For the year ended December 31,		Change	
	2015	**2014**		
	(S/. in millions)		**(S/. in millions)**	**%**
Total Revenues……	2,339.1	2,086.1	253.0	12.1%
Cost of Sales……	-1598.7	-1430.5	-168.2	11.8%
Gross Profit……	**740.3**	**655.6**	**84.8**	**12.9%**
Selling Expenses……	-520.2	-450.3	-69.9	15.5%
Administrative Expenses……	-54.6	-56.8	2.2	-3.9%
Other Income (expense)……	1.2	8.4	-7.2	**-86.3%**
Operating profit ……	**166.7**	**156.9**	**9.8**	**6.3%**
Financial income (expense), net……	0.3	-5.1	5.4	-106.5%
Income tax expense……	-50.6	-53.1	2.5	-4.7%
Net profit (loss)……	**116.4**	**98.7**	**17.7**	**18.0%**
EBITDA……	**202.5**	**184.6**	**17.8**	**9.7%**
EBITDA Margin……	**8.7%**	**8.9%**	**-**	**-**

Inkafarma reported S/116.4 million in net profit for the year ended December 31, 2015, which represented an increase of 18.0% compared to the same period in 2014. This increase was mainly due to an increase in gross profit.

Inkafarma's gross profit increased 12.9% in the year ended December 31, 2015 compared to the corresponding period in 2014. This increase was driven by same store sales growth of 5.1% and 84 net additional stores (101 new stores, 17 closures) in operation since December 31, 2014 (representing a 10.0% increase in number of stores). Additionally, gross margin improved from 31.4% to 31.7% mainly due a change in the mix of products sold and a reduction in shrinkage.

Inkafarma's selling and administrative expenses grew S/.67.7 million, or 13.4%, in 2015, compared to 2014, mainly due to higher operational expenses from new stores in early stages of operation and dollar-denominated rental expenses. This increase was partially compensated by in-store employee efficiencies and dilution of warehouse expenses. As a percentage of pharmacies revenues, selling and administrative expenses increased from 24.3% to 24.6%.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the year ended December 31, 2015 and 2014.

	For the year ended December 31, 2015	2014	Change (S/. in millions)	%
	(S/. in millions)			
Total Revenues	435.1	349.4	85.7	24.5%
Cost of Sales	-134.6	-118.3	-16.2	13.7%
Gross Profit	**300.6**	**231.0**	**69.5**	**30.1%**
Selling Expenses	-7.9	-6.6	-1.2	18.5%
Administrative Expenses	-25.2	-22.9	-2.2	9.6%
Other Income (expense)	33.8	149.2	-115.4	-77.4%
Operating profit	**301.3**	**350.6**	**-49.3**	**-14.1%**
Financial income (expense), net	-184.5	-135.7	-48.8	36.0%
Income tax expense	-7.2	-39.9	32.7	-81.9%
Net profit (loss)	**109.6**	**175.1**	**-65.5**	**-37.4%**
Net rental Income	**328.6**	**252.0**	**76.6**	**30.4%**
Adjusted EBITDA	**271.9**	**202.1**	**69.8**	**34.6%**
Adjusted EBITDA / Net Rental Income	**82.8%**	**80.2%**	**-**	**-**

InRetail Shopping Malls reported S/109.6 million in net profit for the year ended December 31, 2015, which represented a decrease of 37.4% compared to the same period of 2014. This decrease was mainly explained by lower operating profits due to lower mark-to-market income as of December 2015 (S/37.6 million) compared to the same period in 2014 (S/150.0 million). InRetail Shopping Malls' investment properties are marked to fair market value quarterly. In 2015 this gain was generated primarily to shopping mall expansions. In addition, the decrease in net income was due to higher foreign exchange losses in 2015 (S/81.0 million) in comparison to a smaller loss in 2014 (S/54.9 million), and higher financial expenses due to an increase in financial obligations, a one-time expense due to the repurchase of its dollar-denominated bonds, and the acquisition of a US$200 million Call Spread at an annual cost of 1.84% which protects it from exchange rate variations between S/.3.225 and S/.3.75 until maturity in July 2021.

InRetail Shopping Malls revenues, which are mainly rental income from property investments, grew S/85.7 million, or 24.5% in the year ended December 31, 2015, compared to the same period in 2014, due to the revenue contribution from one additional mall in operation, Real Plaza Sullana (acquired at the end of May 2015 for S/48 million, 14k sqm), and shopping mall expansions since December 31, 2014 (a total of 29k sqm of additional GLA, or a 5.3% increase over the past 12 months). Net rental income is defined as total income minus reimbursable operating costs related to the maintenance and management of our shopping malls. These operating costs are billed directly to tenants and are also reported as income from rendering of services. InRetail Shopping malls net rental income increased from S/252.0 million in 2014 to S/328.6 million in 2015 (a growth of 30.4%).

InRetail Shopping Malls selling and administrative expenses increased S/3.4 million, or 11.6% in the year ended December 31, 2015 compared to the same period in 2014. The main factors that impacted the selling and administrative expenses were the operation of one additional shopping mall, expansions of existing shopping malls and higher personnel expenses. As a percentage of shopping malls revenues, selling and administrative expenses decreased from 8.5% in the year ended December 31, 2014 to 7.6% in the same period in 2015, explained by fixed cost dilutions.

III. Other financial information

i. Liquidity and Capital Resources

Intercorp's main source of cash flows is dividends received from its subsidiaries. Substantially all of Intercorp's dividends have been contributed by IFS and its subsidiaries. Intercorp also receives distributions and other proceeds from investments in the ordinary course of business. Its main uses of funds have been investments in subsidiaries, particularly in Intercorp Retail and in Intercorp's subsidiaries focused on education services, the payment of interest on its financial obligations and the payment of dividends to its shareholders. Intercorp typically pays dividends to its shareholders in four quarterly installments after such dividends are declared at its annual general shareholders meeting. The table below provides information regarding the cash flows of Intercorp

	For the year ended December 31	
	2015	2014
	(S/. millions)	
Operating activities		
Net income	665.4	552.4
Adjustments to reconcile net income to net cash		
Share of profit in Subsidiaries	-956.3	-738.5
Accounts receivable	-11.4	1.4
Impairment loss on investments available for sale	19.7	
Increase (decrease) of interest, provisions and other accounts payable	80.1	47.7
Loss from sale of Subsidiary		2.8
Net cash used in operating activities	**-202.6**	**-134.2**
Investing activities		
Dividends received	421.5	311.8
Loans collected from related parties	12.5	10.2
Loans granted to subsidiaries	-18.2	-15.6
Capital contribution to subsidiaries, net of capital reduction	-126.9	-268.6
Purchase of available-for-sale investments	-64.8	-23.7
Sale of available-for-sale investments	-	54.0
Real estate investment	-98.9	-
Net cash provided by investing activities	**125.1**	**67.9**
Financing activities		
Issuance (payment) of notes	-89.3	92.0
Issuance (payment) of corporate bonds	302.5	
Loans received from (paid to) subsidiaries, net	-106.0	96.0
Payment of dividends	-88.6	-65.5
Net cash used in financing activities	**18.6**	**122.5**
Net cash (decrease) increase	**-58.8**	**56.3**
Balance of cash at the beginning of period	**63.9**	**7.6**
Balance of cash at the end of period	**5.0**	**63.9**

Net cash used in operating activities decreased by S/.68.4 million during the year ended December 31, 2015 when compared to the corresponding period in 2014. This was mainly driven by the expenses regarding a non-recurring transaction (the refinance of the 2019 bonds). All interests due and a premium were paid for the early repayment of the corporate bonds, and there were cash outflows related to the issuance of the new bonds due 2025 (mainly fees).

Net cash provided by investing activities increased by S/.57.2 million during the year ended December 31, 2015 when compared to the corresponding period in 2014. This increase was primarily driven by higher dividends received from IFS during the second quarter of 2015 which increased by S/. 109.7 million compared to the corresponding period in 2014, and by a lower level of investments in subsidiaries, partially offset by investments in real estate (S/. 98.9 million).

Net cash from financing activities decreased by S/. 103.9 million during the year ended December 31, 2015 when compared to the corresponding period in 2014. This decrease was primarily driven by the payment of short term loans and dividends, partially offset by the by the Issuance of soles bonds.

ii. Dividends Received by Intercorp

The following table sets forth details regarding the dividends received by Intercorp from its subsidiaries for the year ended December 31, 2015 and 2014.

	For the year ended December 31			For the year ended December 31,	
	2015	2015	2014	2014	2013
	(US$. in millions)(1)	(S/. in millions)		(S/. in millions)	
IFS (2)	134.4	419.1	311.8	311.8	311.4
Other subsidiaries	0.4	1.2	0.0	0.0	9.7
	134.8	**420.3**	**311.8**	**311.8**	**321.0**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.112 = US$1.00 , the exchange rate reported on the day of the operation
(2) Inteligo has been included in IFS in 2014 and 2013 to make the figures comparable. Prior to August 2014 Inteligo was not part of IFS and paid dividends directly to Intercorp.

Dividends Paid by Intercorp's Subsidiaries

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

IFS

The following table sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit for the prior year) for IFS for the year ended December 31, 2015 and 2014. The dividends declared and paid by IFS are in US dollars.

	For the year ended December 31		
	2015	2015	2014 (3)
	(US$. in millions) (1)	(S/. in millions)	
IFS			
Dividends declared and paid	**181.0**	**564.2**	**443.6**
Net profit (2)	304.5	949.1	744.6
Dividend payout ratio	**59.4%**	**59.4%**	**59.6%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.117 = US$1.00 , the exchange rate reported on the day of the oper
(2) Refers to net profit for the previous fiscal year.
(3) Excluding Inteligo

IFS's subsidiaries

The following tables sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit) for IFS's subsidiaries for the year ended December 31, 2015 and 2014.

	For the year ended December 31		
	2015	**2015**	**2014**
	(US$. in millions) (1)	**(S/. in millions)**	
Interbank			
Dividends declared and paid………………………………	**93.5**	**318.9**	**290.3**
Net profit. (2)………………………………………………	207.8	708.7	647.1
Dividend payout ratio…………………………………………	**45.0%**	**45.0%**	**44.9%**
Interseguro			
Dividends declared and paid………………………………	**60.7**	**207.0**	**147.9**
Net profit. (2)………………………………………………	60.7	207.0	152.4
Dividend payout ratio…………………………………………	**100.0%**	**100.0%**	**97.0%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.411 = US$1.00 , the exchange rate reported on December 31, 2015 by the SBS.

Interbank's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. Dividend distributions depend on several factors, including: (i) net profit; (2) planned capital expenditures; (3) capital and legal reserve requirements; and (4) prevailing market conditions. Up to 2015, the stated policy of Interbank was to distribute up to 50% of distributable income (which is net profit minus required legal reserves, which are equivalent to 10% of net profit). For 2013, 2014 and 2015 Interbank declared and distributed as dividends approximately 50% of its distributable income. For the years 2016-2018, the stated policy is to distribute a minimum of 20% of net profits of each year.

Interseguro's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. The stated policy of Interseguro was to distribute a minimum of 50% of distributable income. For 2016, the policy is to distribute at least 30% of distributable income.

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

Inteligo changed its dividends policy after its acquisition by IFS. Before its acquisition by IFS became effective on August 1, 2014, Inteligo declared and paid dividends on a quarterly basis. After such acquisition, in line with the dividend policies of Interbank and Interseguro, Inteligo's dividends will be proposed annually by its board of directors and will be subject to approval at its general shareholders' meeting. Dividend distributions will depend on several factors, including (1) approval by Inteligo's shareholders of the dividend proposal; (2) net profit; (3) planned capital expenditures; and (4) prevailing market conditions. Dividends distributed to IFS by Inteligo are mainly generated by Inteligo Bank. The dividend policy of Inteligo Bank is to distribute up to 80% of its net profit for the previous year. Inteligo Bank intends to pay future dividends on an annual basis.

Inteligo [(2)]	**2014** (US$. in millions) (1)	**2014** (S/. in millions)	**2013**
Dividends declared and paid………………………………	37.7	128.6	97.9
Net profit…………………………………..…………………	47.3	161.3	127.7
Dividend payout ratio……………………….…………….	80%	80%	77%

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.411 = US$1.00 , the exchange rate reported on December 31, 2015 by the SBS.

(2) Information is presented for Inteligo Bank instead of Inteligo, w hich is a holding company and a direct subsidiary of IFS effective as of August 1, 2014, because dividends from Inteligo are primarily generated by Inteligo Bank.

(+) Inteligo bank used to declare and pay dividends on a quarterly basis up to August 2014. After its acquisition by IFS, and In line w ith Interbank and Interseguro, Inteligo´s dividends are proposed annually. The table show s net profits and dividends declared and paid by Inteligo Bank to Inteligo for the periods indicated, except for a dividend of US$16.2 million out of profits of 2014 that w as paid in the first half of 2015.

(+) Dividends declared before August 2014 by Inteligo w ere paid directly by Inteligo to Intercorp. For the year 2014 and 2013, dividends paid by Inteligo Bank to Inteligo w ere US$ 21.5 million and US$ 30.8 million, respectively, of w hich US$ 6.9 million and US$15.8 million, respectively, w ere distributed directly to Intercorp and the remainder w as invested in a real estate project w holly ow ned by Intercorp. Dividends declared after August 1, 2014 amounted to US$ 16.2 million and w ere distributed by Inteligo to IFS in the first half of 2015.

iii. Indebtedness

Unconsolidated

As of December 31, 2014, Intercorp had S/.1,380.4 million (US$404.7 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/.1,154.0 million of long-term indebtedness comprised of S/.809.8 million (US$.250 million) of the Senior Notes due 2025 and S/.301.5 million of the Senior Notes due 2030, and short-term indebtedness of S/. 226.4 million comprised of S/. 40.9 million of outstanding junior notes that were issued in 2014 and S/.185.4 million of accounts payable to its subsidiaries. As of the same date, Intercorp had guaranteed up to US$155.9 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Homecenters Peruanos, Colegios Peruanos, Financiera Uno and Club de Socios, US$139.7 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.