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

Fourth Quarter 2016

May, 2017

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.

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 Oh!, a consumer financing company.

Intercorp began investing in education in 2010 and is rapidly expanding its footprint into this sector. Their education businesses, Innova Schools, UTP and Zegel IPAE, are operated through other subsidiaries within Intercorp's corporate structure. Innova Schools is a scalable network of private K-12 schools operating in 35 locations across Peru. UTP consists of a university and a technical school, with more than 45,000 students. Zegel IPAE complements the education portfolio with a technical school focused on specialized business careers.

II. Results Analysis

The table below details Intercorp's assets and equity in its main businesses as of December 31, 2016 and December 31 2015.

	As of December 31, 2016				As of December 31, 2015			
	Assets		Equity		Assets		Equity	
	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%
IFS								
Interbank (banking)……………………………………	42,402.9	66.6%	4,347.9	49.0%	41,652.0	68.1%	3,745.0	46.7%
Interseguro (insurance)…………………………………	5,795.9	9.1%	453.4	5.1%	5,254.0	8.6%	337.9	4.2%
Inteligo (wealth management)…………………………	4,014.6	6.3%	676.5	7.6%	3,376.0	5.5%	579.7	7.2%
IFS (holding company) and eliminations………………	-494.1	-0.8%	-479.6	-5.4%	-281.2	-0.5%	-201.7	-2.5%
Total IFS……………………………………………	51,719.3	81.2%	4,998.2	56.4%	50,000.9	81.7%	4,460.9	55.7%
Intercorp Retail								
Supermercados Peruanos (supermarkets)…………	2,963.6	4.7%	998.9	11.3%	2,701.2	4.4%	929.2	11.6%
Inkafarma (pharmacies)………………………………	904.9	1.4%	160.8	1.8%	794.2	1.3%	138.2	1.7%
InRetail Shopping Malls (shopping malls)…………….	3,546.4	5.6%	1,964.6	22.2%	3,324.3	5.4%	1,825.4	22.8%
Other [1]………………………………………………	3,516.6	5.5%	1,066.7	12.0%	3,352.5	5.5%	1,088.3	13.6%
Total Intercorp Retail………………………………	10,931.5	17.2%	4,191.0	47.3%	10,172.2	16.6%	3,981.1	49.7%
Other subsidiaries/Intercorp (holding company) and eliminations……………………………………..…	1,058.0	1.7%	-320.5	-3.6%	990.7	1.6%	-428.5	-5.3%
Total Consolidated…………………………………	63,708.8	100%	8,868.7	100%	61,163.8	100%	8,013.5	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, 2016 and 2015.

	For the year ended December 31		Change	
	2016	2015	(S/ in millions)	%
	(S/ millions)			
IFS				
Banking	646.7	650.9	-4.2	-0.6%
Insurance	-89.3	246.4	-335.7	N/M
Wealth Management	134.4	81.5	52.9	64.9%
IFS expenses and eliminations	-39.6	-29.2	-10.4	35.6%
Total IFS	**652.2**	**949.6**	**-297.4**	**-31.3%**
Intercorp Retail				
Supermarkets	49.6	18.9	30.6	161.8%
Pharmacies	97.1	81.9	15.2	18.5%
Shopping malls	95.4	54.2	41.2	76.0%
Other subsidiaries / holding company and eliminations	-56.4	-136.8	80.4	-58.8%
Total Intercorp Retail	**185.7**	**18.2**	**167.4**	**917.5%**
Other subsidiaries	-72.3	-11.0	-61.3	557.8%
Net profit attributable to Intercorp	**765.5**	**956.9**	**-191.3**	**-20.0%**
Financial expenses, net	-71.5	-133.6	62.1	-46.5%
General expenses	-14.9	-24.4	9.5	-38.8%
Other income (expenses), net	-31.7	-35.4	3.7	-10.4%
Foreign exchange gain (loss), net	7.2	-98.1	105.3	N/M
Income (expenses)	**-110.9**	**-291.5**	**180.6**	**-62.0%**
Net profit	**654.5**	**665.4**	**-10.8**	**-1.6%**

For the year ended December 31, 2016, Intercorp´s net profit was S/ 654.5 million, a decrease of S/ 10.8 million compared to the same period in 2015. The decrease in profit was driven by lower profits from IFS (-S/ 297.4 million), partially offset by an increase in profits from Intercorp Retail (+S/ 167.4 million) an a decrease in Intercorp´s own expenses by S/ 180.6 million.

The decline in profits from IFS was explained by Interseguro (-S/ 335.7 million), mainly due to a decrease in total premiums earned less claims and benefits driven by a negative discount rate impact on technical reserves.

Intercorp´s financial expenses were S/ 62.1 million lower this period, due to the premium paid in the process of refinancing Intercorp Peru Notes due 2019[1] in the same period in 2015. Foreign exchange results increased S/ 105.3 million due to the appreciation of the sol against the dollar in the year ended December 31 2016 compared with a depreciation in the same period in 2015.

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[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, 2016 and 2015.

	For the year ended December 31,		Change	
	2016	2015		
	(S/ million)		(S/ million)	%
Interest and similar income	3,704.8	3,342.7	362.1	10.8%
Interest and similar expense	-1,081.9	-921.7	-160.2	17.4%
Net interest and similar income	**2,623.0**	**2,421.0**	**202.0**	**8.3%**
Provision for loan losses, net of recoveries	-783.6	-645.8	-137.8	21.3%
Net interest and similar income after provision for loan losses	**1,839.3**	**1,775.2**	**64.1**	**3.6%**
Fee income from financial services, net	862.4	818.4	44.1	5.4%
Other income	441.3	687.5	-246.2	-35.8%
Total premiums earned less claims and benefits	-247.3	105.5	-352.8	N/M
Other expenses	-1,748.3	-1,770.1	21.9	-1.2%
Income before translation result and income tax	**1,147.5**	**1,616.5**	**-469.0**	**-29.0%**
Translation result	20.1	-25.1	45.2	N/M
Income tax	-333.9	-352.6	18.7	-5.3%
Profit for the period	**833.7**	**1,238.8**	**-405.1**	**-32.7%**
Attributable to equity holders of the group (1)	**828.1**	**1,231.8**	**-403.6**	**-32.8%**
EPS	**7.64**	**11.29**		
ROAE	**17.4%**	**28.7%**		

(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/ 828.1 million for the year ended December 31, 2016, decreasing 32.8% compared to the previous year. The decrease in profits was driven by a S/ 352.8 million negative impact in total premiums earned less claims and benefits at Interseguro, as well as a S/ 246.2 million decrease in other income, mainly explained by lower net gain on foreign exchange transactions at Interbank. Such negative impacts were partially offset by a S/ 202.0 million increase in net interest and similar income, mainly at Interbank.

IFS' ROAE was 17.4% in 2016, lower than the 28.7% reported in 2015.

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, 2016 and 2015.

	For the year ended December 31,		Change	
	2016	2015		
	(S/ million)		(S/ million)	%
Interest and similar income	3,279.4	2,961.4	318.0	10.7%
Interest and similar expense	-1,009.8	-858.5	-151.3	17.6%
Net interest and similar income	**2,269.6**	**2,102.9**	**166.7**	**7.9%**
Provision for loan losses, net of recoveries	-783.6	-643.9	-139.7	21.7%
Net interest and similar income after provision for loan losses	**1,485.9**	**1,459.0**	**27.0**	**1.8%**
Fee income from financial services, net	789.6	733.7	55.9	7.6%
Other income	343.8	506.8	-163.0	-32.2%
Other expenses	-1,469.2	-1,460.9	-8.3	0.6%
Income before translation result and income tax	**1,150.1**	**1,238.6**	**-88.4**	**-7.1%**
Translation result	0.9	-49.5	50.4	N/M
Income tax	-304.2	-320.7	16.5	-5.1%
Profit for the period	**846.8**	**868.4**	**-21.6**	**-2.5%**
ROAE	**21.4%**	**25.4%**		
Efficiency ratio	**41.6%**	**41.3%**		
NIM	**5.7%**	**6.0%**		

Interbank's profit for the year ended December 31, 2016 reached S/ 846.8 million, a slight 2.5% contraction compared to the previous year. The main factors that contributed to this result were a 32.2% reduction in other income and a 21.7% increase in provisions, partially offset by growths of 7.9% in net interest and similar income and 7.6% in fee income from financial services.

Growth in net interest and similar income was mainly driven by increases in interest on loans and interest on investments available for sale; partially offset by growths in interest on deposits and obligations, and in interest due to banks and correspondents.

Interest and similar income increased 10.7% mainly driven by growths of 9.7% in interest on loans and 28.8% in interest on investments available for sale. The increase in interest on loans was attributed to an 8.7% growth in the average volume and a 10 basis point increase in the nominal average rate, from 12.4% in 2015 to 12.5% in 2016. The higher average volume was due to increases of 10.2% in retail loans and 6.6% in commercial loans. By currency, average balances of soles loans increased 16.4% while dollar loans decreased 7.3%.

The higher average rate was a result of higher yields on commercial loans, partially offset by lower rates on retail loans. In the commercial loan portfolio, the average rate increased by 10 basis points, due to higher yields on trade finance loans. In retail loans, the average yield decreased by 10 basis points as a consequence of lower rates on credit cards and payroll-deduction loans, partially offset by higher returns on cash loans.

The increase in interest on investments available for sale was explained by growths of 9.4% in the average volume and 60 basis points in the average yield. The increase in average volume was a result of higher investments in CDBCR and in fixed income instruments issued by financial institutions; while the increase in the nominal average rate, from 3.4% in 2015 to 4.0% in 2016, was mainly explained by higher returns on CDBCR.

The nominal average yield on interest-earning assets was 8.3% for 2016, a 10 basis point decrease with respect to the 8.4% registered for 2015, basically as a result of the greater proportion of cash and due from banks over total interest-earning assets, as they bear a much lower yield compared to the other components. Such impact was partially offset by higher returns on loans and on the investment portfolio.

Interest and similar expenses increased 17.6% with respect to the previous year. This was explained by growths of 29.6% in interest on deposits and 16.1% in interest due to banks and correspondents, while interest on bonds remained relatively stable.

The 29.6% growth in interest on deposits was due to an 11.5% increase in the average volume and a 20 basis points higher average cost. The growth in volume was attributed to increases in both retail and commercial deposits. By currency, average balances of soles deposits increased 13.5%, while dollar deposits increased 9.4%. The increase in the average cost was due to an increase in the nominal cost of soles deposits; as well as to the de-dollarization of the deposits portfolio, from 51.8% in 2015 to 45.9% in 2016, as soles deposits bear a higher cost compared to dollar deposits.

Interest due to banks increased as a result of a 16.6% growth in the average volume, partially offset by a 10 basis point decrease in the average cost. Growth in average volume was attributed to higher funding from the Central Bank, partially offset by lower funding provided by correspondent banks. The reduction in the 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.

The average cost of funds increased by 10 basis points, from 2.7% in 2015 to 2.8% in 2016, mainly due to the higher average cost of soles deposits.

As a result of the above, Interbank's net interest margin decreased by 30 basis points, from 6.0% in 2015 to 5.7% in 2016.

Provision for loan losses, net of recoveries increased 21.7% in 2016 when compared to the previous year. The increase in provision expenses was mainly a result of higher provisioning in retail loans, especially in credit cards. In this context, credit cards saw a 40 basis point deterioration in its PDL ratio in 2016, to 5.0%, partly an effect of the low growth in such product in an annual comparison.

The 7.6% increase in fee income from financial services, net was mainly attributable to an increase of S/ 49.4 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services, in addition to S/ 18.0 million in commissions from banking services, which were partially offset by an increase of S/ 14.8 million in expenses related to the sale of insurance.

Other income decreased 32.2% mainly due to a S/ 170.6 million reduction in net gain on foreign exchange transactions, partially offset by increases of S/ 4.2 million in net gain on sale of securities and S/ 4.0 million in participation from investment in associates. The decrease in income from foreign exchange transactions was related to a particularly high foreign exchange volatility in 2015 that was not repeated in 2016.

The efficiency ratio remained relatively stable, from 41.3% in 2015 to 41.6% in 2016, mainly explained by relatively flat other expenses, despite the 32.2% contraction in other income. Growths in net interest and similar income, and in fee income also supported a stable efficiency ratio in 2016.

Income before translation result and income tax decreased 7.1% in 2016, which was then positively affected by a recovery in translation result and a lower effective tax rate, from 27.0% in 2015 to 26.4% in 2016. All in all, profit for the period decreased 2.5% compared to 2015.

Interbank's ROAE was 21.4% in 2016, below the 25.4% reported in 2015.

Interseguro

The table below details selected financial information for Interseguro for the year ended December 31, 2016 and 2015.

	For the year ended December 31,		Change	
	2016	2015		
	(S/ million)		(S/ million)	%
Net interest and similar income	278.5	247.7	30.8	12.4%
Fee income from financial services, net	-3.0	-3.2	0.2	-7.2%
Other income	78.0	170.4	-92.4	-54.2%
Total premiums earned less claims and benefits	-247.3	105.5	-352.8	N/M
Other expenses	-228.8	-223.2	-5.6	2.5%
Income before translation result and income tax	**-122.6**	**297.2**	**-419.8**	**N/M**
Translation result	8.1	14.8	-6.7	-45.2%
Income tax	-0.7	-0.1	-0.6	N/M
Profit for the period	**-115.1**	**312.0**	**-427.1**	**N/M**
Attributable to non-controlling interest (1)	0.3	-1.0	1.3	N/M
Profit attributable to shareholders	**-114.8**	**311.0**	**-425.8**	**N/M**
Discount rate impacts on technical reserves	-119.6	225.7	-345.3	N/M
Profit excluding discount rate impacts	**4.8**	**85.3**	**-80.5**	**N/M**
Efficiency ratio	**23.5%**	**12.5%**		
ROAE	**N/M**	**67.1%**		

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

Interseguro's result for the year ended December 31, 2016 was S/ -114.8 million, compared to profits of S/ 311.0 million in 2015.

The yearly performance was mainly due to a decrease of S/ 352.8 million in total premiums earned less claims and benefits, and a S/ 92.4 million reduction in other income. The decline in other income was largely explained by a decrease of S/ 67.4 million in net gain on sale of securities and a S/ 28.1 million reduction in net gain on valuation of real estate investments.

The adjustment of technical reserves for the year ended December 31, 2016 was higher by S/ 110.7 million compared to 2015 and it was driven mainly by different discount rate impacts in annuities. This rate diminished by 28 bps in 2016, in contrast to the 60 bps growth in 2015.

Net interest and similar income in 2016 was S/ 278.5 million, an increase of S/ 30.8 million YoY. Growth in 2016 was mainly due to higher interest on fixed income and equity investments as a result of increases of 13.6% in the average volume of Interseguro's investment portfolio.

Total premiums earned less claims and benefits

	For the year ended December 31,		
	2016	2015	Change
	(S/ million)		%
Net premiums	592.2	775.1	-23.6%
Adjustment of technical reserves	-521.3	-410.6	27.0%
Net claims and benefits incurred	-318.2	-258.9	22.9%
Total premiums earned less claims and benefits	**-247.3**	**105.5**	**N/M**

The decline in net premiums was mainly due to a decrease of S/ 210.2 million in Annuities, partially compensated by a S/ 20.9 million increase in Retail Insurance. The decrease in Annuities was driven by a market contraction caused by the entry into force of a new law that allows retirees to withdraw 95.5% of their pension funds.

The increase in Retail Insurance was observed particularly in Credit Life Insurance and Card Protection.

Inteligo

The table below details selected financial information for Inteligo for the year ended December 31, 2016 and 2015.

	For the year ended December 31,		Change	
	2016	2015		
	(S/ million)		(S/ million)	%
Interest and similar income	152.1	139.7	12.4	8.9%
Interest and similar expense	-59.4	-52.7	-6.7	12.7%
Net interest and similar income	**92.7**	**87.1**	**5.6**	**6.5%**
Provision for loan losses, net of recoveries	0.0	-1.9	1.9	N/M
Net interest and similar income after provision for loan losses	**92.7**	**85.1**	**7.6**	**8.9%**
Fee income from financial services, net	116.9	121.9	-5.0	-4.2%
Other income	47.4	9.9	37.5	N/M
Other expenses	-85.8	-111.6	25.8	-23.1%
Income before translation result and income tax	**171.2**	**105.4**	**65.8**	**62.4%**
Translation result	-0.9	0.1	-1.0	N/M
Income tax	0.7	0.1	0.6	N/M
Profit for the period	**171.0**	**105.6**	**65.4**	**62.0%**
ROAE	**28.4%**	**20.0%**		
Efficiency ratio	**33.4%**	**37.5%**		

Inteligo's profit for the year ended December 31, 2016 and 2015 was S/ 171.0 million and S/ 105.6 million, respectively. The S/ 65.4 million or 62.0% increase was attributable to an increase in net interest and similar income, a solid growth in other income and a decrease in other expenses, partially offset by a reduction in fee income from financial services.

Net interest and similar income for the year ended December 31, 2016 reached S/ 92.7 million, a S/ 5.6 million or 6.5% increase when compared to the previous year.

Interest and similar income for the year ended December 31, 2016 increased by S/ 12.4 million or 8.9% when compared to the year ended December 31, 2015. The result was explained by higher interest on investments available for sale and higher interest on loans.

Inteligo’s net fee income from financial services for the year ended December 31, 2016 was S/ 116.9 million, decreasing by S/ 5.0 million or 4.2% when compared to the previous year. Such decrease was attributable to lower income from funds management services which decreased by S/ 18.3 million when compared to the year ended December 31, 2015. This result was partially offset by a S/ 9.6 increase in brokerage and custody services fees and lower related expenses.

Other income increased by S/ 37.5 million in the comparing periods as a result of higher net trading gain and net gain on sale of securities.

Inteligo’s other expenses reached S/ 85.8 million for the year ended December 31, 2016. The S/ 25.8 million or 23.1% decrease was mainly explained by a S/ 29.4 million impairment loss on available for sale investments reported in 2015. Excluding such charge, total other expenses were higher by S/ 3.6 million or 4.4% when compared to the previous year.

Inteligo’s ROAE was 28.4% in 2016, above the 20.0% registered in 2015.

iii. Intercorp Retail

The table below sets forth the main components of Intercorp Retail´s consolidated income statement for the year ended December 31, 2016 and 2015.

	For the year ended December 31		Change	
	2016	2015		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	9,304.3	8,535.5	768.8	9.0%
Cost of Sales	-6,436.3	-5,987.0	-449.3	7.5%
Gross Profit	**2,868.0**	**2,548.5**	**319.5**	**12.5%**
Selling Expenses	-1,813.2	-1,659.5	-153.7	9.3%
Administrative Expenses	-424.1	-362.8	-61.3	16.9%
Other Income (expense)	44.5	70.0	-25.5	-36.4%
Operating profit	**675.2**	**596.2**	**79.0**	**13.2%**
Financial income (expense), net	-244.6	-503.7	259.1	-51.4%
Income tax expense	-158.5	-63.8	-94.7	148.6%
Net profit (loss)	**272.1**	**28.8**	**243.3**	**846.2%**
Attribuible to:				
Intercorp Retail's shareholders	167.9	28.8	139.1	
Minority Interest	104.2	0.1	104.1	
Adjusted EBITDA	**906.1**	**804.5**	**101.6**	**12.6%**
Adjusted EBITDA Margin	9.7%	9.4%		+31bps

Intercorp Retail reported a net profit of S/ 272.1 million in 2016, an increase of S/243.3 million compared to 2015, as a result of an increase in operating profit and due to a net exchange gain (non-cash) of S/ 9.5 million as opposed to a net exchange (non-cash) loss of S/ 201.9 million in 2015.

Intercorp Retail's gross profit increased 12.5% in 2016. This growth was primarily the result of new store openings, as well as same store sales growth and higher rebates due to better negotiation with suppliers.

The following discussion details the operating results of Intercorp Retail's primary subsidiaries: Supermercados Peruanos, Inkafarma and InRetail Shopping Malls. We do not present detailed financial information from our 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 other retail business held through Intercorp Retail.

Supermercados Peruanos

The table below details selected financial information for Supermercados Peruanos for the year ended December 31, 2016 and 2015.

	For the year ended December 31		Change	
	2016	2015		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	4,241.0	4,077.0	163.9	4.0%
Cost of Sales	-3,110.6	-3,012.5	-98.1	3.3%
Gross Profit	**1130.3**	**1064.5**	**65.8**	**6.2%**
Selling Expenses	-894.9	-830.4	-64.5	7.8%
Administrative Expenses	-102.3	-94.7	-7.6	8.0%
Other Income (expense)	24.6	10.3	14.3	138.3%
Operating profit	**157.7**	**149.7**	**8.0**	**5.3%**
Financial income (expense), net	-45.9	-99.3	53.3	-53.7%
Income tax expense	-42.0	-23.5	-18.5	78.5%
Net profit (loss)	**69.7**	**26.9**	**42.8**	**159.0%**
EBITDA	**277.0**	**258.7**	**18.3**	**7.1%**
EBITDA Margin	**6.5%**	**6.3%**	**-**	**+19 bps**

Supermercados Peruanos reported a net profit of S/ 69.7 million in 2016 compared to S/ 26.9 million in the previous year. This increase was generated by the combined effect of a higher operating profit of S/ 157.7 million in 2016, compared to S/ 149.7 million in 2015, and lower financial expenses in 2016 (S/ 45.9 million) compared to the previous year (S/ 99.2 million) explained by exchange gains in 2016 (S/ 5.7 million) as opposed to exchange losses in 2015 (S/ 48.4 million).

The increase in gross profit was the result of an increase in revenues due to 9k sqm of additional sales area (+3.2%) and SSS growth of 1.2% in 2016, coupled with higher rebates and logistic revenues.

In the last quarter of 2015, Supermercados Peruanos formed a JV with Financiera Oh! to further align commercial efforts in increasing sales in the supermarkets by using Tarjeta Oh!. Through this JV, Supermercados continues to contribute with commercial and marketing campaigns to increase the use of Tarjeta Oh!, as has been the case for the past several years, and in exchange Supermercados Peruanos receives a share of the JV´s net income, instead of billing Financiera Oh! for the expenses incurred. As a result, income from the JV is registered as other operating income in the consolidated financial statements. To be able to properly compare both years, the JV´s income is added to this quarter´s SG&A. Doing so, selling and administrative expenses grew 7.1% in 2016, because of an increase in personnel and operational expenses as explained before. As a percentage of revenues, these expenses were 23.0%

InkaFarma

The table below details selected financial information for Inkafarma for the year ended December 31, 2016 and 2015.

	For the year ended December 31		Change	
	2016	2015		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	2624.4	2339.1	285.3	12.2%
Cost of Sales	-1766.9	-1598.7	-168.2	10.5%
Gross Profit	**857.4**	**740.3**	**117.1**	**15.8%**
Selling Expenses	-592.6	-520.2	-72.4	13.9%
Administrative Expenses	-62.0	-54.6	-7.4	13.5%
Other Income (expense)	-1.1	1.2	-2.2	-
Operating profit	**201.7**	**166.7**	**35.1**	**21.0%**
Financial income (expense), net	-1.1	0.3	-1.4	-418.8%
Income tax expense	-64.2	-50.6	-13.6	26.8%
Net profit (loss)	**136.5**	**116.4**	**20.1**	**17.3%**
EBITDA	**241.4**	**202.5**	**38.9**	**19.2%**
EBITDA Margin	**9.2%**	**8.7%**	**-**	**+54 bps**

Inkafarma reported S/ 136.5 million in net profit in 2016, which represented an increase of 17.3% compared to the previous year. This increase was mainly due to an increase in operating profit.

Inkafarma's gross profit increased 15.8% in 2016. This increase was driven by same store sales growth of 5.9% and 201 additional stores (186, net of closings) in operation during 2016. Additionally, gross margin improved from 31.7% in 2015 to 32.7% in 2016, mainly due a change in the mix of products sold, increased penetration of high margin products and higher rebates and rental revenues.

Inkafarma's selling and administrative expenses grew 13.9% in 2016, mainly due to higher operational expenses from store openings and higher rent expenses, compensated by in-store employee efficiencies and dilution of overhead costs. Thus, as a percentage of pharmacies revenues, selling and administrative expenses were 24.9% in 2016, slightly higher than 24.6% in 2015.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the year ended December 31, 2016 and 2015.

	For the year ended December 31		Change	
	2016	2015		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	457.9	435.1	22.7	5.2%
Cost of Sales	-143.1	-134.6	-8.5	6.3%
Gross Profit	**314.8**	**300.6**	**14.2**	**4.7%**
Selling Expenses	-6.3	-7.9	1.6	-20.4%
Administrative Expenses	-26.4	-25.2	-1.2	4.8%
Other Income (expense)	11.5	33.8	-22.3	-65.9%
Operating profit	**293.7**	**301.3**	**-7.6**	**-2.5%**
Financial income (expense), net	-109.7	-184.5	74.8	-40.6%
Income tax expense	-56.1	-7.2	-48.9	677.6%
Net profit (loss)	**127.9**	**109.6**	**18.3**	**16.7%**
Net rental Income	**348.8**	**328.6**	**20.2**	**6.2%**
Adjusted EBITDA	**286.2**	**271.9**	**14.3**	**5.3%**
Adjusted EBITDA / Net Rental Income	**82.1%**	**82.8%**	**-**	**-69 bps**

InRetail Shopping Malls reported S/ 127.9 million in net profit in 2016, which represented an increase of 16.7% from 2015. This increase was mainly explained by a net exchange gain (non-cash) of S/ 3.9 million in 2016, compared to a net exchange loss of S/ 81.0 million in 2015.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 5.2% in 2016 due to the revenue contribution from additional 43k sqm of additional GLA (+7.4% in 2016), and additional income from new publicity spaces inside our malls. 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/ 328.6 million in 2015 to S/ 348.8 million in 2016.

In 2016, InRetail Shopping Malls' selling and administrative expenses decreased 1.2%. As a percentage of shopping malls revenues, selling and administrative expenses were 7.1% in 2016, in comparison to 7.6% in 2015. This reduction is mainly explained by fixed costs dilution.

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, 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	
	2016	2015
	(S/ millions)	
Operating activities		
Net profit for the year	654.5	665.4
Adjustments to reconcile net income to net cash		
Participation in income of Subsidiaries	-765.4	-956.9
(Gain) loss on derivative financial instruments	-16.1	1.5
Decrease (increase) of other accounts receivable	8.7	-11.4
Impairment loss on available-for-sale investments	0.3	19.7
Increase of interest, provisions and other accounts payable	14.8	79.1
Net cash used in operating activities	**-103.2**	**-202.6**
Investing activities		
Dividends received	373.4	421.5
Loans collected from shareholder and related parties	16.8	12.5
Loans granted to shareholder	-	-18.2
Capital contribution to Subsidiaries, net of capital reductions	-146.1	-126.9
Maturity of available-for-sale investments	48.3	-
Acquisition of investment property	-26.2	-98.9
Acquisition of non-controlling interest	-3.7	-
Purchase of available-for-sale investments	-1.7	-64.8
Net cash provided by investing activities	**260.9**	**125.1**
Financing activities		
Issuance (payment) of notes	-	-89.3
Issuance (payment) of corporate bonds and interests	-	302.50
Loans received from (paid to) subsidiaries, net	-58.8	-106.0
Payment of dividends	-102.1	-88.6
Net cash used in financing activities	**-160.9**	**18.6**
Net cash (decrease) increase	**-3.2**	**-58.8**
Balance of cash at the beginning of period	**5.0**	**63.9**
Balance of cash at the end of period	**1.8**	**5.0**

Net cash used in operating activities increased by S/ 99.4 million for the year ended December 31, 2016 when compared to the corresponding period in 2015. This was mainly driven by the expenses regarding a non-recurring transaction (the refinance of the 2019 bonds) in the first semester of 2015. 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/ 135.7 million for the year ended December 31, 2016 when compared to the corresponding period in 2015. This increase was primarily driven by purchase of available-for-sale investments of Peruvian Government Bonds during the first semester of 2015 and the maturity of Peruvian Government Bonds during the first semester of 2016, partially offset by lower dividends received in 2016.

Net cash from financing activities decreased by S/ 179.5 million for the year ended December 31, 2016 when compared to the corresponding period in 2015. This decrease was explained by higher net funds borrowed in 2015 (Issuance of soles bonds partially offset by payments of short term loans).

ii. Dividends Received by Intercorp

The following table sets forth details regarding the dividends received by Intercorp from its subsidiaries for the year December 31, 2016 and 2015.

	For the year ended December 31			For the year ended December 31,	
	2016	2016	2015	2015	2014
	(US$. in millions)(1)	(S/ in millions)		(S/ in millions)	
IFS (2)	109.9	369.0	419.1	419.1	311.8
Other subsidiaries	1.3	4.4	1.2	1.2	0.0
	110.2	**372.5**	**420.3**	**420.3**	**311.8**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.356= US$1.00 , the exchange rate reported on the day of the operation
(2) Inteligo has been included in IFS in 2014. Prior to August 2014 Inteligo w as 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 30, 2016 and 2015. The dividends declared and paid by IFS are in US dollars.

	For the year ended December 31		
	2016	2016	2015
	(US$. in millions) (1)	(S/ in millions)	
IFS			
Dividends declared and paid	**147.0**	**493.5**	**564.2**
Net profit (2)	364.5	1,223.4	949.1
Dividend payout ratio	**40.3%**	**40.3%**	**59.4%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.356= US$1.00 , the exchange rate reported on the day of the operation
(2) Refers to net profit for the previous fiscal year.

IFS's subsidiaries

The following tables sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit) for IFS's subsidiaries for the year ended December 31, 2016 and 2015.

	For the year ended December 31		
	2016	**2016**	**2015**
	(US$. in millions) [1]	**(S/ in millions)**	
Interbank			
Dividends declared and paid	**113.1**	**379.5**	**318.9**
Net profit [2]	251.3	843.4	708.7
Dividend payout ratio	**45.0%**	**45.0%**	**45.0%**
Interseguro			
Dividends declared and paid	**15.6**	**52.3**	**207.0**
Net profit [2]	29.9	100.3	207.0
Dividend payout ratio	**52.2%**	**52.2%**	**100.0%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.356 = US$1.00 , the exchange rate reported on December 30, 2016 by the SBS.

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

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

	For the year ended December 31		
	2016	2016	2015[3]
Inteligo	(US$. in millions) [1]	(S/ in millions)	
Dividends declared and paid………………………………	28.2	94.6	124.0
Net profit.[2]…………………………………..…………………	35.3	118.4	155.6
Dividend payout ratio………………………...……………	80%	80%	80%

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.356 = US$1.00 , the exchange rate reported on December 31, 2016 by the SBS.
(2) Refers to net profit for the previous fiscal year.
(3) Information is presented for Inteligo Bank instead of Inteligo, which is a holding company and a direct subsidiary of IFS effective as of August 1, 2014, because dividends from Inteligo are primarily generated by Inteligo Bank.
(+) Inteligo bank used to declare and pay dividends on a quarterly basis up to August 2014. After its acquisition by IFS, and In line with Interbank and Interseguro, Inteligo´s dividends are proposed annually.
(+) Dividends declared before August 2014 by Inteligo were paid directly by Inteligo to Intercorp. For the year 2014, dividends paid by Inteligo Bank to Inteligo were US$ 21.5 million, of which US$ 6.9 million were distributed directly to Intercorp in cash and the remainder was invested in a real estate project wholly owned by Intercorp. Dividends declared after August 1, 2014 amounted to US$ 16.2 million and were distributed by Inteligo to IFS in the first half of 2015.

iii. Indebtedness

Unconsolidated

As of December 31, 2016, Intercorp had S/ 1,303 million (US$388 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,130 million of long-term indebtedness comprised of S/ 812 million (US$246 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 297 million of the Senior Notes due 2030 (net of issuance expenses), and short-term indebtedness of S/ 179 million comprised of S/ 40 million of outstanding junior notes that were issued in 2014 and S/ 139 million of accounts payable to its subsidiaries. As of the same date, Intercorp had guaranteed up to US$158 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Homecenters Peruanos, Colegios Peruanos, Financiera Oh! and Urbi, US$147 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.