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

## First Quarter 2016

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.

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 March 31, 2016 and March 31, 2015.

| | As of March 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)…………………………………… | 41,188.9 | 67.8% | 3,629.6 | 43.6% | 41,652.0 | 68.1% | 3,745.0 | 46.7% |
| Interseguro (insurance)……………………………… | 5,517.3 | 9.1% | 399.1 | 4.8% | 5,254.0 | 8.6% | 337.9 | 4.2% |
| Inteligo (wealth management)……………………… | 3,286.7 | 5.4% | 603.8 | 7.2% | 3,376.0 | 5.5% | 579.7 | 7.2% |
| IFS (holding company) and eliminations……………… | -304.8 | -0.5% | 138.9 | 1.7% | -281.2 | -0.5% | -201.7 | -2.5% |
| **Total IFS**………………………………………………… | 49,688.1 | 81.7% | 4,771.4 | 57.3% | 50,000.9 | 81.7% | 4,460.9 | 55.7% |
| **Intercorp Retail** | | | | | | | | |
| Supermercados Peruanos (supermarkets)………… | 2,698.0 | 4.4% | 947.5 | 11.4% | 2,701.2 | 4.4% | 929.2 | 11.6% |
| Inkafarma (pharmacies)……………………………… | 778.4 | 1.3% | 141.1 | 1.7% | 794.2 | 1.3% | 138.2 | 1.7% |
| InRetail Shopping Malls (shopping malls)…………… | 3,377.9 | 5.6% | 1,870.3 | 22.5% | 3,324.3 | 5.4% | 1,825.4 | 22.8% |
| Other (1)…………………………………………………… | 3,298.5 | 5.4% | -534.1 | -6.4% | 3,352.5 | 5.5% | 1,088.3 | 13.6% |
| **Total Intercorp Retail**……………………………… | 10,152.8 | 16.7% | 2,424.8 | 29.1% | 10,172.2 | 16.6% | 3,981.1 | 49.7% |
| Other subsidiaries/Intercorp (holding company) and eliminations……………………………………..… | 944.4 | 1.6% | 1133.5 | 13.6% | 990.7 | 1.6% | -428.5 | -5.3% |
| **Total Consolidated**………………………………… | 60,785.3 | 100% | 8,329.7 | 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 three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ millions) | | (S/ in millions) | % |
| **IFS** | | | | |
| Banking | 154.7 | 156.8 | -2.1 | -1.3% |
| Insurance | -104.6 | 25.9 | -130.5 | -504.5% |
| Wealth Management | 23.5 | 22.7 | 0.8 | 3.5% |
| IFS expenses and eliminations | -26.7 | -9.4 | -17.3 | 184.0% |
| **Total IFS** | **46.8** | **195.9** | **-149.1** | **-76.1%** |
| **Intercorp Retail** | | | | |
| Supermarkets | 12.8 | -0.5 | 13.3 | N/M |
| Pharmacies | 22.5 | 17.4 | 5.1 | 29.1% |
| Shopping malls | 30.4 | 7.3 | 23.0 | 313.8% |
| Other subsidiaries / holding company and eliminations | -20.4 | -46.6 | 26.2 | -56.2% |
| **Total Intercorp Retail** | **45.3** | **-22.3** | **67.6** | **N/M** |
| Other subsidiaries | -9.5 | -4.8 | -4.6 | 95.6% |
| **Net profit attributable to Intercorp** | **82.6** | **168.7** | **-86.1** | **-51.1%** |
| Financial expenses, net | -10.1 | -52.3 | 42.2 | -80.6% |
| General expenses | -5.6 | -5.7 | 0.0 | -0.6% |
| Other income (expenses), net | 11.3 | -8.4 | 19.6 | -234.8% |
| Foreign exchange gain (loss), net | -9.0 | -32.3 | 23.3 | -72.2% |
| **Income (expenses)** | **-13.5** | **-98.6** | **85.2** | **-86.4%** |
| **Net profit** | **69.1** | **70.1** | **-1.0** | **-1.4%** |

For the three months ended March 31, 2016, Intercorp´s net profit was S/ 69.1 million, a decrease of S/ 1 million compared to the same period in 2015. The decrease in profit was driven by lower profits from IFS (-S/ 149.1 million), offset by an increase in profits from Intercorp Retail (+S/ 67.6 million) an a decrease in Intercorp´s own expenses by S/ 85.2 million.

Intercorp´s financial expenses were S/ 42.2 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 losses decreased S/ 23.3 million due to the appreciation of the sol against the dollar in the first quarter of 2016 compared with a depreciation in the first quarter of 2015.

[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 three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | (S/ in millions) | % |
| | (S/ millions) | | | |
| Interest and similar income | 903.7 | 753.5 | 150.1 | 19.9% |
| Interest and similar expense | -259.7 | -207.7 | -52.0 | 25.0% |
| **Net interest and similar income** | **643.9** | **545.8** | **98.1** | **18.0%** |
| Provision for loan losses, net of recoveries | -199.6 | -148.8 | -50.8 | 34.1% |
| **Net interest and similar income after provision for loan losses** | **444.3** | **397.0** | **47.4** | **11.9%** |
| Fee income from financial services, net | 206.6 | 194.8 | 11.8 | 6.0% |
| Other income | 48.9 | 171.7 | -122.8 | -71.5% |
| Total premiums earned less claims and benefits | -127.5 | -12.0 | -115.5 | N/M |
| Other expenses | -437.9 | -399.9 | -38.0 | 9.5% |
| **Income before translation result and income tax** | **134.4** | **351.6** | **-217.1** | **-61.8%** |
| Translation result | 9.6 | -10.6 | 20.2 | N/M |
| Income tax | -83.3 | -78.1 | -5.3 | 6.7% |
| **Profit for the period** | **60.7** | **262.9** | **-202.2** | **-76.9%** |
| **Attributable to equity holders of the group (1)** | **60.6** | **261.2** | **-200.6** | **-76.8%** |
| **EPS** | **0.56** | **2.39** | | |
| **ROAE** | **5.3%** | **23.9%** | | |

(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/ 60.6 million for the three months ended March 31, 2016, decreasing 76.8% compared to the corresponding period of 2015, mainly explained by higher requirements of technical reserves due to a lower discount rate, which resulted in a S/ 115.5 million decrease in total premiums earned less claims and benefits. Profits were also affected by a S/ 50.8 million increase in provisions at Interbank and by a negative impact on the investment portfolio at Interseguro. Moreover, foreign exchange volatility had also a negative impact in results. Such effects were partially offset by increases of S/ 98.1 million in net interest and similar income and S/ 11.8 million in fee income from financial services.

### *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 three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | (S/ in millions) | % |
| | (S/ millions) | | | |
| Interest and similar income | 792.4 | 668.6 | 123.8 | 18.5% |
| Interest and similar expense | -243.0 | -191.5 | -51.5 | 26.9% |
| **Net interest and similar income** | **549.4** | **477.1** | **72.3** | **15.1%** |
| Provision for loan losses, net of recoveries | -199.6 | -148.8 | -50.8 | 34.1% |
| **Net interest and similar income after provision for loan losses** | **349.8** | **328.3** | **21.5** | **6.5%** |
| Fee income from financial services, net | 189.2 | 173.2 | 16.0 | 9.2% |
| Other income | 85.3 | 125.1 | -39.7 | -31.8% |
| Other expenses | -353.7 | -340.3 | -13.4 | 3.9% |
| **Income before translation result and income tax** | **270.6** | **286.2** | **-15.6** | **-5.5%** |
| Translation result | 7.5 | -12.4 | 19.9 | N/M |
| Income tax | -76.4 | -68.6 | -7.7 | 11.2% |
| **Profit for the period** | **201.8** | **205.2** | **-3.4** | **-1.7%** |
| **ROAE** | **21.9%** | **25.5%** | | |
| **Efficiency ratio** | **41.2%** | **42.3%** | | |
| **NIM** | **5.5%** | **5.9%** | | |

Interbank's profit for the three months ended March 31, 2016 reached S/ 201.8 million, a 1.7% decrease compared to the same period of the previous year. The main factors that contributed to this result were a 34.1% increase in provisions and a 31.8% decrease in other income, partially offset by growths of 15.1% in net interest and similar income and 9.2% in fee income from financial services.

Growth in net interest and similar income was mainly driven by a 16.9% increase in interest on loans, which was partially offset by growths of 56.3% in interest and fees on due to banks and correspondents and 25.5% in interest on deposits and obligations.

Interest and similar income increased 18.5% driven by a 16.9% growth in interest on loans. The increase in interest on loans was explained by increases of 12.8% in the average loan volume and 40 basis points in the average yield, from 12.0% in 1Q15 to 12.4% in 1Q16. Growth in average volume was due to increases of 14.3% in the retail portfolio and 11.1% in the commercial portfolio. The higher average volume of retail loans was due to growths of 16.4% in other consumer, 13.5% in mortgages and 12.9% in credit cards. In the commercial portfolio, volumes grew 24.6% in short and medium-term loans, partially offset by declines of 9.8% in leasing and 4.7% in trade finance loans. The higher average yield was explained by increases of 40 basis points in the average rate of the retail portfolio and 20 basis points in the commercial portfolio. The higher yield on the retail portfolio was mainly attributed to higher rates on credit cards and other consumer loans, while the increase in commercial loans was attributed to higher yields on trade finance loans and leasing, partially offset by lower returns in short and medium-term loans.

The nominal average yield on interest-earning assets[2] was 8.0% for the three months ended March 31, 2016, a 30 basis point decrease with respect to the 8.3% registered for the corresponding period of 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 expense increased 26.9% in the three months ended March 31, 2016 compared to the same period of the previous year. This was mainly explained by growths of 56.3% in interest and fees on due to banks and correspondents, and 25.5% in interest on deposits and obligations. The increase in interest and fees on due to banks and correspondents was explained by a 68.8% growth in the average volume, partially offset by a 30 basis point decline in the average cost. The higher average volume accounted for a S/ 25.9 million increase in interest expense and was due to a significant increase in local funding from the Central Bank through repo operations. The lower nominal average cost accounted for a S/ 2.9 million decrease in interest expense and was explained by a decline in the proportion of funding from COFIDE, which bears a higher average cost within total due to banks and correspondents, as well as by a decline in the nominal average cost of foreign funding.

Interest on deposits and obligations increased by S/ 20.0 million, or 25.5%, mainly attributable to a 18.3% increase in the average volume while the nominal average cost remained relatively stable. The higher average volume was a result of higher commercial and retail deposits, partially offset by a decline in institutional deposits.

The average cost of funds[3] increased by 10 basis points for the three months ended March 31, 2016 when compared to the corresponding period of 2015, from 2.6% in 2015 to 2.7% in 2016, mainly due to the greater proportion of due to banks and correspondents 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 40 basis points, from 5.9% for the three months ended March 31, 2015 to 5.5% for the three months ended March 31, 2016.

Provision for loan losses, net of recoveries increased 34.1% in the first three months of 2016 when compared to the same period of the previous year. The increase in provisions was a result of higher provisioning in retail loans, particularly in credit cards and payroll loans. This was partially offset by lower provision requirements related to the commercial loan portfolio.

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[2] For a more accurate reporting of the nominal average yield on interest-earning assets, since December 2015 total cash and due from banks and inter-bank funds are considered as interest-earning assets on the rate calculation; on reports previous to December 2015 only the strictly interest-earning portion was considered.

[3] For a more accurate reporting of the average cost of funds, since December 2015 total deposits are considered as interest-bearing liabilities on the rate calculation; on reports previous to December 2015 only the strictly interest-bearing portion was considered.

The 9.2% increase in fee income from financial services, net was attributable to increases of S/ 16.8 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services; and S/ 5.8 million in commissions from banking services. The increase in maintenance and mailing of accounts, interchange fees, transfers and credit and debit card service fees was a result of higher volumes of credit cards and saving accounts, while the increase in commissions from banking services was explained by higher income from insurance premiums sold for Interseguro.

Other income decreased 31.8% mainly explained by a reduction of S/ 36.5 million in net gain on foreign exchange transactions; in addition to the sale of a written-off loan portfolio, worth S/ 8.6 million accounted as other in the first three months of 2015, which was not repeated in the corresponding period of 2016.

The efficiency ratio improved, from 42.3% for the three months ended March 31, 2015 to 41.2% for the three months ended March 31, 2016, explained by growths of 15.1% in net interest and similar income and 9.2% in fee income from financial services; in addition to a controlled increase in other expenses (+3.9% growth during the first three months of 2016, compared to the same period of 2015).

Income before translation result and income tax decreased 5.5% during the first three months of 2016 compared to the same period of 2015, which was then positively affected by a gain in translation result but negatively impacted by a higher effective tax rate, from 25.1% for the three months ended March 31, 2015 to 27.5% for the three months ended March 31, 2016. All in all, profit for the first three months of 2016 decreased 1.7% compared to the same period of 2015.

*Interseguro*

The table below details selected financial information for Interseguro for the three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ millions) | | (S/ in millions) | % |
| Interest and similar income........ | 69.7 | 53.3 | 16.4 | 30.8% |
| Fee income from financial services, net ........ | -0.7 | -0.7 | 0 | 0.0% |
| Other income ........ | -14.6 | 41.0 | -55.6 | N/M |
| Total premiums earned less claims and benefits........ | -127.5 | -12.0 | -115.5 | N/M |
| Other expenses........ | -67.7 | -47.4 | -20.3 | 42.8% |
| **Income before translation result and income tax** ........ | **-140.6** | **34.2** | **-174.8** | **N/M** |
| Translation result ........ | 3.2 | -0.7 | 3.9 | N/M |
| Income tax ........ | 0.6 | 0.2 | 0.4 | 200.0% |
| **Profit for the period**........ | **-136.9** | **33.8** | **-170.7** | **N/M** |
| Attributable to non-controlling interest (1) ........ | 1.4 | -0.2 | 1.6 | N/M |
| **Profit attributable to shareholders**........ | **-135.5** | **33.6** | **-169.1** | **N/M** |
| Discount rate impacts on technical reserves........ | -87.9 | 28.0 | -115.9 | N/M |
| **Profit excluding discount rate impacts**........ | **-47.6** | **5.6** | **-53.2** | **N/M** |
| **Efficiency ratio**........ | **N/M** | **17.0%** | | |
| **ROAE**........ | **N/M** | **23.3%** | | |

(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 three months ended March 31, 2016 was S/ -136.9 million, a decrease of S/ 170.7 million compared to the corresponding period of 2015.

The decline in profits was mainly due to a S/ 115.5 million decrease in total premiums earned less claims and benefits driven by a negative discount rate impact on technical reserves, a S/ 36.6 million reduction in net gain on sale of securities, as well as a S/ 16.8 million increase in impairment loss on available-for-sale investments and a S/ 15.4 million decrease in valuation gain from investment property. These factors were partially offset by a S/ 16.4 million increase in interest and similar income determined by the growth of Interseguro's investment portfolio.

The adjustment of technical reserves for the three months ended March 31, 2016 was higher by S/ 71.5 million compared to the corresponding period of 2015, driven by changes in the weighted average discount rates. As of March 31, 2016 these changes led to a higher adjustment of technical reserves compared to the same period in 2015.

Growth in interest and similar income was mainly due to an increase in interest on investments available-for-sale as a result of a 12.2% increase in the average volume of Interseguro's investment portfolio and a 98 basis point increase in the nominal average rate.

### Total premiums earned less claims and benefits

| | For the three months ended March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | Change |
| | (S/ millions) | | % |
| Net premiums | 177.1 | 204.3 | -13.3% |
| Adjustment of technical reserves | -228.0 | -156.5 | 45.7% |
| Net claims and benefits incurred | -76.6 | -59.9 | 27.9% |
| **Total premiums earned less claims and benefits** | **-127.5** | **-12.0** | **N/M** |

The decrease in net premiums was mainly attributable to a market contraction in Annuities due to a recently passed law which will allow retirees from the private pension fund system to withdraw up to 95.5% of their retirement funds upon retirement.

The rise in net claims and benefits incurred was due to a S/ 14.5 million increase in Annuities attributed to a larger number of pensioners and higher exchange and inflation rates.

*Inteligo*

The table below details selected financial information for Inteligo for the three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ millions) | | (S/ in millions) | % |
| Interest and similar income | 37.8 | 27.7 | 10.1 | 36.3% |
| Interest and similar expense | -13.2 | -13.4 | 0.2 | -1.3% |
| **Net interest and similar income** | **24.6** | **14.3** | **10.3** | **71.4%** |
| Fee income from financial services, net | 24.3 | 31.2 | -6.9 | -22.3% |
| Other income | 1.9 | 8.5 | -6.6 | -77.5% |
| Other expenses | -20.2 | -17.9 | -2.3 | 12.6% |
| **Income before translation result and income tax** | **30.6** | **36.2** | **-5.6** | **-15.4%** |
| Translation result | -0.2 | 0.0 | -0.2 | N/M |
| Income tax | 0.0 | 0.0 | 0.0 | N/M |
| **Profit for the period** | **30.4** | **36.1** | **-5.7** | **-15.9%** |
| **ROAE** | **20.5%** | **29.1%** | | |
| **Efficiency ratio** | **39.7%** | **33.1%** | | |

Inteligo's profit for the three months ended March 31, 2016 and 2015 was S/ 30.4 million and S/ 36.1 million, respectively. The S/ 5.7 million or 15.9% decrease was attributed to higher other expenses and lower fee income and other income.

Net interest and similar income for the three months ended March 31, 2016 reached S/ 24.6 million, a S/ 10.3 million or 71.4% increase when compared to the same period in the previous year.

Interest and similar income for the three months ended March 31, 2016 increased by S/ 10.1 million or 36.3% when compared to the three months ended March 31, 2015. The result was due to higher income on available for sale investments and also higher interest on loans as a result of an increase in the average volume of Inteligo's loan portfolio.

Inteligo's net fee income from financial services for the three months ended March 31, 2016 was S/ 24.3 million, decreasing by S/ 6.9 million or 22.3% when compared to the same period in the previous year. Such decrease was attributable to lower income from funds management services which decreased by S/ 6.1 million or 20.1% when compared to the three months ended March 31, 2015.

Other income decreased by S/ 6.6 million or 77.5% in the comparing periods as a result of a lower net trading gain.

Inteligo's other expenses reached S/ 20.2 million for the three months ended March 31, 2016. The S/ 2.3 million or 12.6% increase was mainly attributable to higher administrative expenses related to third-party services.

### iii. Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 2,225.8 | 1,977.9 | 247.9 | 12.5% |
| Cost of Sales | -1,575.9 | -1,395.3 | -180.6 | 12.9% |
| **Gross Profit** | **650.0** | **582.6** | **67.3** | **11.6%** |
| Selling Expenses | -433.8 | -388.6 | -45.2 | 11.6% |
| Administrative Expenses | -93.8 | -87.4 | -6.4 | 7.4% |
| Other Income (expense) | 1.1 | 7.0 | -5.9 | -83.9% |
| **Operating profit** | **123.5** | **113.7** | **9.8** | **8.6%** |
| Financial income (expense), net | -25.2 | -129.2 | 104.0 | -80.5% |
| Income tax expense | -31.4 | -11.2 | -20.2 | 179.8% |
| **Net profit (loss)** | **67.0** | **-26.7** | **93.7** | **-** |
| **Attribuible to:** | | | | |
| Intercorp Retail's shareholders | 45.1 | -14.2 | 59.3 | -418.7% |
| Minority Interest | -21.9 | 12.5 | -34.4 | -274.4% |
| **Adjusted EBITDA** | **182.5** | **161.0** | **21.4** | **13.3%** |
| Adjusted EBITDA Margin | 8.2% | 8.1% | 0.1% | |

Intercorp Retail reported net profit of S/ 67.0 million for the three months ended March 31, 2016, representing an increase of S/ 93.7 million compared to the corresponding period in 2015, as a result of an increase in operating profit and a net exchange gain (non-cash) of S/ 14.4 million.

Intercorp Retail's gross profit increased 11.6% for the three months ended March 31, 2016 when compared to the corresponding period 2015.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 our other retail business held through Intercorp Retail. Detailed financial information from other retail, education and other related businesses is not included 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. 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 three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2014 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues………… | 1,038.4 | 972.8 | 65.5 | 6.7% |
| Cost of Sales………… | -770.6 | -722.3 | -48.3 | 6.7% |
| **Gross Profit…………** | **267.7** | **250.5** | **17.2** | **6.9%** |
| Selling Expenses………… | -213.7 | -196.1 | -17.7 | 9.0% |
| Administrative Expenses………… | -26.3 | -23.0 | -3.3 | 14.4% |
| Other Income (expense)………… | 7.0 | -0.8 | 7.9 | N/M |
| **Operating profit …………** | **34.7** | **30.6** | **4.1** | **13.4%** |
| Financial income (expense), net………… | -6.7 | -29.4 | 22.7 | -77.3% |
| Income tax expense………… | -9.8 | -1.9 | -7.9 | 412.4% |
| **Net profit (loss)…………** | **18.2** | **-0.7** | **18.9** | **N/M** |
| **EBITDA…………** | **163.0** | **146.3** | **16.8** | **11.5%** |
| **EBITDA Margin…………** | **5.6%** | **5.5%** | **-** | **-** |

Supermercados Peruanos reported a net income of S/ 18.2 million for the three months ended March 31, 2016 compared to a net loss of S/ 0.7 million in the corresponding period in 2015. This increase was mainly generated by a higher operating profit in the three months ended 2016 (S/34.7) in comparison to the same period in 2015 (S/ 30.6 million). In addition, the supermarkets had lower financial expenses (S/ 6.7 million) as of March 2016 compared to the same period in 2015 (S/ 29.4 million). Excluding exchange rate results, financial expenses (net) increased from S/11.5 million in the three months ended 2015 to S/ 12.4 million in the same period in 2016.

The increase in gross profit was primarily the result of revenue growth driven by same store sales growth of 3.4% and an increase in sales area of 13k sqm, 5.8% additional since March 31, 2015. Additionally, this increase was also due to the innovative promotions and campaigns, higher rental and logistic revenues and lower shrinkage due to operational efficiencies.

Supermercados Peruanos' selling and administrative expenses increased 9.6% in the three months ended March 31, 2016 compared to the corresponding period in 2015. In the last quarter of 2015, a JV with Financiera Uno (FUNO) was formed to further align commercial efforts in increasing sales in supermarkets by using Tarjeta Oh!. Through this JV, Supermercados continues to contribute with marketing and commercial campaigns to increase the use of Tarjeta Oh!, as has been the case for the past several years, but in exchange we Supermercados now receives a share of the JV´s net income, instead of billing FUNO for all the expenses incurred. As a result, income from the JV (S/ 4.6 million) is registered as other operating income in the consolidated financial statements. To be able to properly compare both quarters, it is needed to add the JV´s income to this quarter´s SG&A. Doing so, selling and administrative expenses grew 7.4% in Q1'16, as a result of improved employee productivity and store efficiencies, despite higher expenses from new stores in early stages of operations. As a percentage of supermarket revenues, selling and administrative, expenses represent 22.7% in Q1'16 versus 22.5% in Q1'15.

*Inkafarma*

The table below details selected financial information for InkaFarma for the three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 629.4 | 549.7 | 79.7 | 14.5% |
| Cost of Sales | -429.9 | -377.4 | -52.5 | 13.9% |
| **Gross Profit** | **199.5** | **172.3** | **27.2** | **15.8%** |
| Selling Expenses | -139.2 | -121.6 | -17.5 | 14.4% |
| Administrative Expenses | -14.4 | -14.1 | -0.4 | 2.5% |
| Other Income (expense) | -0.2 | 0.1 | -0.3 | N/M |
| **Operating profit** | **45.7** | **36.7** | **9.0** | **24.5%** |
| Financial income (expense), net | -0.4 | -0.9 | 0.5 | -56.1% |
| Income tax expense | -13.4 | -11.0 | -2.4 | 21.8% |
| **Net profit (loss)** | **31.9** | **24.8** | **7.1** | **28.6%** |
| **EBITDA** | **55.0** | **44.8** | **10.2** | **22.8%** |
| **EBITDA Margin** | **8.7%** | **8.2%** | **-** | **-** |

InkaFarma reported S/ 31.9 million in net profit for the three months ended March 31, 2016, which represented an increase of 28.6% compared to the same period in 2015. This increase was mainly due to an increase in operating profit.

InkaFarma's gross profit increased 15.8% in the three months ended March 31, 2016 compared to the corresponding period in 2015. This increase was driven by same store sales growth of 9.0% and the additional stores in operation since March 31, 2015. Additionally, gross margin improved from 31.3% 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/ 17.9 million, or 13.2%, in the three months ended March 31, 2016, compared to the same period in 2015, mainly due to higher operational expenses from new stores in early stages of operation and dollar-denominated rental expenses. This increase was compensated by logistic efficiencies due to better distribution routes, store employee efficiencies and overhead costs dilution. Thus, as a percentage of pharmacies revenues, selling and administrative expenses decreased from 24.7% to 24.4%.

*InRetail Shopping Malls*

The table below details selected financial information for InRetail Shopping Malls for the three months ended March 31, 2016 and 2015.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 107.7 | 102.8 | 4.9 | 4.8% |
| Cost of Sales | -33.9 | -32.1 | -1.8 | 5.5% |
| **Gross Profit** | **73.8** | **70.6** | **3.1** | **4.4%** |
| Selling Expenses | -2.3 | -1.9 | -0.5 | 25.9% |
| Administrative Expenses | -6.0 | -6.1 | 0.1 | -1.6% |
| Other Income (expense) | 0.8 | 6.1 | -5.4 | -87.4% |
| **Operating profit** | **66.2** | **68.8** | **-2.6** | **-3.8%** |
| Financial income (expense), net | -22.3 | -51.9 | 29.6 | -57.1% |
| Income tax expense | -13.4 | -4.1 | -9.3 | 224.8% |
| **Net profit (loss)** | **30.6** | **12.9** | **17.7** | **137.8%** |
| **Net rental Income** | **328.6** | **252.0** | | |
| **Adjusted EBITDA** | **66.6** | **63.3** | **3.4** | **5.3%** |
| **Adjusted EBITDA / Net Rental Income** | **20.3%** | **25.1%** | | |

InRetail Shopping Malls reported S/30.6 million in net profit for the three months ended March 31, 2016, which represented an increase of 137.8% compared to the same period in 2015. This increase was mainly explained by a net exchange gain (non-cash) of S/ 6.3 million in the first quarter of 2016, compares to a net exchange loss of S/ 29.5 million in the same period in 2015, due to the appreciation of the sol.

InRetail Shopping Malls revenues, which are mainly rental income from property investments, grew S/ 3.1 million, or 4.4% in the three months ended March 31, 2016, compared to the same period in 2015, 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 March 31, 2015 (a total of 24k sqm of additional GLA, or a 4.3% 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/76.3 million in the three months ended December 31, 2015 to S/ 81.2 million in the same period in 2016.

InRetail Shopping Malls selling and administrative expenses increased S/ 0.4 million, or 4.8% in the three months ended March 31, 2016 compared to the same period in 2015. The main factors that impacted the selling and administrative expenses were the operation of one additional shopping mall and expansions of existing shopping malls. As a percentage of shopping malls revenues, selling and administrative expenses was 7.7% in the first quarter of 2016, in line with the same period in 2015.

## 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 three months ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (S/ millions) | |
| **Operating activities** | | |
| Net income | 69.1 | 70.1 |
| **Adjustments to reconcile net income to net cash** | | |
| Share of profit in Subsidiaries | -82.5 | -168.7 |
| Income from valuation of derivate financial instruments | -15.1 | -0.3 |
| Accounts receivable | 10.7 | -3.8 |
| Increase (decrease) of interest, provisions and other accounts payable | -24.3 | -36.5 |
| Loss from sale of Subsidiary | | |
| **Net cash used in operating activities** | **-42.0** | **-139.2** |
| **Investing activities** | | |
| Dividends received | 3.5 | |
| Loans granted to subsidiaries | | -3.8 |
| Capital contribution to subsidiaries, net of capital reduction | -7.9 | -5.6 |
| Acquisition of available-for-sale investments | | -63.5 |
| **Net cash provided by investing activities** | **-4.4** | **-73.0** |
| **Financing activities** | | |
| Issuance (payment) of notes | | 302.5 |
| Issuance (payment) of corporate bonds | | -41.99 |
| Loans received from (paid to) subsidiaries, net | 72.0 | -67.3 |
| Payment of dividends | -25.6 | -18.7 |
| **Net cash used in financing activities** | **46.4** | **174.5** |
| **Net cash (decrease) increase** | **0.0** | **-37.7** |
| **Balance of cash at the beginning of period** | **5.0** | **63.9** |
| **Balance of cash at the end of period** | **5.0** | **26.1** |

Net cash used in operating activities increased by S/ 97.3 million during the three months ended March 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 quarter 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/ 68.5 million during the three months ended March 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 quarter of 2015 and dividends received from Intercorp Investment in 2016.

Net cash from financing activities decreased by S/ 128.1 million during the year ended December 31, 2015 when compared to the corresponding period in 2014. 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

Intercorp has not received dividends from its subsidiary IFS during the first quarter of 2016. IFS distributes its dividends in the second quarter of each year. Intercorp has received dividends from Intercorp Investment amounting to US$ 1.0 million during the first quarter of 2016.

### iii. Indebtedness

***Unconsolidated***

As of March 31, 2016, Intercorp had S/ 1,420.9 million (US$427.2 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,123.1 million of long-term indebtedness comprised of S/ 825.7 million (US$.245 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 297.4 million of the Senior Notes due 2030 (net of issuance expenses), and short-term indebtedness of S/ 297.8 million comprised of S/ 40.4 million of outstanding junior notes that were issued in 2014 and S/ 257.4 million of accounts payable to its subsidiaries. As of the same date, Intercorp had guaranteed up to US$155.2 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$149.0 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.