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

# First Quarter 2017

May, 2017

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## 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, Intercorp Financial Services ("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 Perú. InRetail Perú 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 41 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 March 31, 2017 and December 31 2016.

| | As of March 31, 2017 | | | | As of December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets | | Equity | | Assets | | Equity | |
| | (S/ in millions) | % | (S/ in millions) | % | (S/ in millions) | % | (S/ in millions) | % |
| **IFS** | | | | | | | | |
| Interbank (banking)…………………………………… | 40,031.6 | 65.1% | 4,165.4 | 44.5% | 42,402.9 | 66.6% | 4,347.9 | 49.0% |
| Interseguro (insurance)……………………………… | 6,002.7 | 9.8% | 554.4 | 5.9% | 5,795.9 | 9.1% | 453.4 | 5.1% |
| Inteligo (wealth management)………………………… | 3,795.0 | 6.2% | 707.5 | 7.6% | 4,014.6 | 6.3% | 676.5 | 7.6% |
| IFS (holding company) and eliminations……………… | -511.8 | -0.8% | -88.3 | -0.9% | -494.1 | -0.8% | -479.6 | -5.4% |
| **Total IFS………………………………………………** | 49,317.5 | 80.2% | 5,339.1 | 57.1% | 51,719.3 | 81.2% | 4,998.2 | 56.4% |
| **Intercorp Retail** | | | | | | | | |
| Supermercados Peruanos (supermarkets)………… | 2,884.1 | 4.7% | 1,020.4 | 10.9% | 2,963.6 | 4.7% | 998.9 | 11.3% |
| Inkafarma (pharmacies)……………………………… | 828.9 | 1.3% | 153.0 | 1.6% | 904.9 | 1.4% | 160.8 | 1.8% |
| InRetail Shopping Malls (shopping malls)…………… | 3,549.2 | 5.8% | 2,016.5 | 21.5% | 3,546.4 | 5.6% | 1,964.6 | 22.2% |
| Other (1)…………………………………………… | 3,518.4 | 5.7% | 1,075.4 | 11.5% | 3,516.6 | 5.5% | 1,066.7 | 12.0% |
| **Total Intercorp Retail………………………………** | 10,780.6 | 17.5% | 4,265.3 | 45.6% | 10,931.5 | 17.2% | 4,191.0 | 47.3% |
| Other subsidiaries/Intercorp (holding company) and eliminations……………………………………..… | 1,398.2 | 2.3% | -246.2 | -2.6% | 1,058.0 | 1.7% | -320.5 | -3.6% |
| **Total Consolidated…………………………………** | 61,496.4 | 100% | 9,358.2 | 100% | 63,708.8 | 100% | 8,868.7 | 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, 2017 and 2016.

| | For the three months ended March 31 | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | | |
| | (S/ millions) | | (S/ in millions) | % |
| **IFS** | | | | |
| Banking | 151.9 | 154.7 | -2.8 | -1.8% |
| Insurance | -58.8 | -104.6 | 45.8 | -43.8% |
| Wealth Management | 38.4 | 23.5 | 14.9 | 63.5% |
| IFS expenses and eliminations | -7.0 | -26.7 | 19.7 | -73.7% |
| **Total IFS** | **124.4** | **46.8** | **77.6** | **165.7%** |
| **Intercorp Retail** | | | | |
| Supermarkets | 15.1 | 12.8 | 2.3 | 17.8% |
| Pharmacies | 19.7 | 22.5 | -2.7 | -12.1% |
| Shopping malls | 36.1 | 30.4 | 5.7 | 18.9% |
| Other subsidiaries / holding company and eliminations | 2.8 | -20.4 | 23.2 | N/M |
| **Total Intercorp Retail** | **73.8** | **45.3** | **28.5** | **63.0%** |
| Other subsidiaries | -12.4 | -9.6 | -2.8 | 29.8% |
| **Net profit attributable to Intercorp** | **185.8** | **82.5** | **103.2** | **125.1%** |
| Financial expenses, net | -22.7 | -25.2 | 2.5 | -10.0% |
| General expenses | -3.9 | -5.6 | 1.8 | -31.6% |
| Other income (expenses), net | -7.0 | -9.0 | 1.9 | -21.5% |
| Foreign exchange gain (loss), net | 27.3 | 26.4 | 0.9 | 3.4% |
| **Income (expenses)** | **-6.3** | **-13.5** | **7.1** | **-53.1%** |
| **Net profit** | **179.5** | **69.1** | **110.4** | **159.8%** |

For the three months ended March 31, 2017, Intercorp´s net profit was S/ 179.5 million, an increase of S/ 110.4 million compared to the same period in 2016. The increase was driven by higher profits in IFS (S/ 77.6 million) and Intercorp Retail (S/ 28.5 million, and lower expenses (S/ 7.1million)

### ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the three months ended March 31, 2017 and 2016.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | | |
| | (S/ million) | | (S/ million) | % |
| Interest and similar income | 944.5 | 903.7 | 40.8 | 4.5% |
| Interest and similar expense | -275.2 | -259.7 | -15.5 | 6.0% |
| **Net interest and similar income** | **669.3** | **643.9** | **25.3** | **3.9%** |
| Provision for loan losses, net of recoveries | -222.7 | -199.6 | -23.1 | 11.6% |
| **Net interest and similar income after provision for loan losses** | **446.5** | **444.3** | **2.2** | **0.5%** |
| Fee income from financial services, net | 220.7 | 206.6 | 14.1 | 6.8% |
| Other income | 115.2 | 48.9 | 66.3 | 135.4% |
| Total premiums earned less claims and benefits | -125.8 | -127.5 | 1.6 | -1.3% |
| Other expenses | -448.2 | -437.9 | -10.3 | 2.4% |
| **Income before translation result and income tax** | **208.4** | **134.4** | **73.9** | **55.0%** |
| Translation result | 23.1 | 9.6 | 13.6 | 142.2% |
| Income tax | -73.6 | -83.3 | 9.8 | -11.7% |
| **Profit for the period** | **158.0** | **60.7** | **97.3** | **160.3%** |
| **Attributable to equity holders of the group (1)** | **158.6** | **60.6** | **98.0** | **161.6%** |
| **EPS** | **1.48** | **0.56** | | |
| **ROAE** | **12.2%** | **5.3%** | | |

(1) Starting December 31, 2014, Interseguro began consolidating a real estate investment shared by Interseguro and Intercorp RE 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/ 158.6 million for the three months ended March 31, 2017, increasing 161.6% compared to the corresponding period of 2016; mainly driven by a more than two-fold increase in other income, which was supported by all subsidiaries, as well as by higher fee income and well-contained other expenses. Notwithstanding, profits were negatively impacted by a low discount rate on technical reserves for annuities at Interseguro, which had also a negative impact during the corresponding period of 2016. IFS annualized ROAE was 12.2% in the three months ended March 31, 2017, above the 5.3% reported in the corresponding period of 2016.

### *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, 2017 and 2016.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | | |
| | (S/ million) | | (S/ million) | % |
| Interest and similar income | 815.0 | 792.4 | 22.6 | 2.8% |
| Interest and similar expense | -258.8 | -243.0 | -15.8 | 6.5% |
| **Net interest and similar income** | **556.2** | **549.4** | **6.8** | **1.2%** |
| Provision for loan losses, net of recoveries | -225.4 | -199.6 | -25.8 | 12.9% |
| **Net interest and similar income after provision for loan losses** | **330.7** | **349.8** | **-19.1** | **-5.5%** |
| Fee income from financial services, net | 203.3 | 189.2 | 14.1 | 7.4% |
| Other income | 93.4 | 85.3 | 8.1 | 9.5% |
| Other expenses | -379.0 | -353.7 | -25.3 | 7.2% |
| **Income before translation result and income tax** | **248.4** | **270.6** | **-22.2** | **-8.2%** |
| Translation result | 14.6 | 7.5 | 7.1 | N/M |
| Income tax | -68.5 | -76.4 | 7.9 | -10.3% |
| **Profit for the period** | **194.5** | **201.8** | **-7.3** | **-3.6%** |
| **ROAE** | **18.3%** | **21.9%** | | |
| **Efficiency ratio** | **43.3%** | **41.7%** | | |
| **NIM** | **5.6%** | **5.5%** | | |

Interbank's profit for the three months ended March 31, 2017 reached S/ 194.5 million, a decrease of S/ 7.3 million when compared with the corresponding period of 2016. The contraction was explained by growths of S/ 25.8 million in provisions and S/ 25.3 million in other expenses, partially offset by increases of S/ 14.1 million in fees from financial services, S/ 8.1 million in other income and S/ 7.1 million in translation result.

Net interest and similar income grew 1.2% YoY due to an increase of 2.8% in interest and similar income, partially offset by a 6.5% rise in interest and similar expense.

The growth in interest and similar income was mainly due to increases of 1.5% in interest on loans and 34.2% in interest on investments available for sale.

The S/ 11.0 million growth in interest on loans was explained by a 4.3% growth in the average volume; partially offset by a 30 basis point decline in the average yield, from 12.4% in the three months ended March 31, 2016 to 12.1% in the same period of 2017. The increase in the average volume was due to growths of 4.5% in the retail portfolio and 3.9% in the commercial portfolio. The higher average volume of retail loans was explained by growths of 5.7% in other consumer loans, 5.0% in mortgages and 2.6% in credit cards. In the commercial portfolio, higher volumes resulted from growths of 9.8% in short and medium-term loans, and 3.5% in trade finance loans;

partially offset by a 12.9% decline in leasing. The decrease in the average yield was mainly explained by lower rates in credit cards and leasing loans.

Interest on investments available for sale increased by S/ 11.3 million YoY, or 34.2%, as a result of a 29.5% growth in the average volume and a 20 basis point increase in the nominal average rate. The growth in volume was a result of higher investments in fixed income instruments issued by financial institutions, sovereign bonds and Certificate of Deposit issued by BCRP (CDBCR); while the higher yield was mainly attributed to higher returns in CDBCR.

The nominal average yield on interest-earning assets increased by 20 basis points YoY, from 8.0% in the three months ended March 31, 2016 to 8.2% in the corresponding period of 2017; mainly explained by a higher return on investments, and by an 18.5% decrease in average cash balances due to lower reserve requirements at the Central Bank. These effects were partially offset by a lower yield on loans.

Interest and similar expense increased 6.5% YoY due to a 29.6% growth in interest on deposits and obligations, partially offset by decreases of 12.7% in interest due to banks and correspondents and 6.5% in interest on bonds, notes and other obligations.

Interest on deposits and obligations increased by S/ 29.2 million, or 29.6%, explained by growths of 50 basis points in the nominal average cost and 1.4% in the average volume. The higher average rate was mainly explained by a higher cost of commercial and institutional deposits; while the increase in the average volume was a result of higher retail deposits, partially offset by declines in commercial and institutional deposits.

The S/ 8.1 million, or 12.7% decrease in interest due to banks and correspondents was explained by a 12.7% decline in the average volume; while the average cost remained relatively stable YoY. The decrease in average volume was mainly due to a reduction in funding provided by correspondent banks.

Interest on bonds decreased by S/ 5.2 million, or 6.5% YoY; mainly explained by a decrease of 2.4% in the average volume, which in turn was explained by a 2.3% appreciation of the exchange rate with respect to the corresponding period of 2016.

The average cost of funds increased by 20 basis points YoY, from 2.7% in the three months ended March 31, 2016 to 2.9% in the corresponding period of 2017; mainly due to higher costs of commercial and institutional deposits, while the average cost of due to banks and correspondents remained relatively stable.

As a result of the above, net interest margin increased by 10 basis points YoY, from 5.5% in the three months ended March 31, 2016 to 5.6% in the corresponding period of 2017.

Provision for loan losses, net of recoveries increased 12.9% YoY due to higher provisioning in commercial loans; partially offset by lower provision requirements in payroll loans. As a result, the annualized ratio of provision expense to average loans was 3.4% in the three months ended March 31, 2017, above the 3.2% registered in the correspondent period of 2016.

Fee income from financial services, net increased by S/ 14.1 million, or 7.4%, mainly due to growths of S/ 7.6 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services; and S/ 2.8 million in commissions from banking services.

Other income increased by S/ 8.1 million, mainly due to increases of S/ 4.3 million in income from the sale of a written-off loan portfolio, S/ 4.0 million in the release of accounting provisions and S/ 1.6 million in net gain on sale of securities.

Other expenses increased by S/ 25.3 million, or 7.2%; mainly explained by growths of 10.6% in administrative expenses and 3.2% in salaries and employee benefits. The efficiency ratio was 43.3% in the three months ended March 31, 2017, above the 41.7% achieved in the corresponding period of 2016.

Income before translation result and income tax decreased 8.2% during the first three months of 2017 compared to the same period of 2016, which was then positively affected by a higher translation result and a lower effective tax rate. All in all, profit for the first three months of 2017 decreased 3.6% compared to the same period of 2016.

Interbank's annualized ROAE was 18.3% in the three months ended March 31, 2017, below the 21.9% registered in the corresponding period of 2016.

*Interseguro*

The table below details selected financial information for Interseguro for the three months ended March 31, 2017 and 2016.

| | For the three months ended March 31, | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | | |
| | (S/ million) | | (S/ million) | % |
| Net interest and similar income | 85.8 | 69.7 | 16.1 | 23.1% |
| Fee income from financial services, net | -1.2 | -0.7 | -0.5 | 87.4% |
| Other income | 11.8 | -14.6 | 26.4 | N/M |
| Total premiums earned less claims and benefits | -125.8 | -127.5 | 1.7 | -1.3% |
| Other expenses | -57.8 | -67.7 | 9.9 | -14.6% |
| **Income before translation result and income tax** | **-87.2** | **-140.6** | **53.4** | **-38.0%** |
| Translation result | 8.4 | 3.2 | 5.2 | 164.7% |
| Income tax | 0.9 | 0.6 | 0.3 | 47.8% |
| **Profit for the period** | **-78.0** | **-136.9** | **58.9** | **-43.0%** |
| Attributable to non-controlling interest (1) | 2.0 | 1.4 | 0.6 | 46.9% |
| **Profit attributable to shareholders** | **-75.9** | **-135.5** | **59.6** | **-44.0%** |
| Discount rate impacts on technical reserves | -79.7 | -87.9 | 8.2 | -9.3% |
| **Profit excluding discount rate impacts** | **3.8** | **-47.6** | **51.4** | **N/M** |
| **Efficiency ratio** | **42.7%** | **N/M** | | |
| **ROAE** | **N/M** | **N/M** | | |

(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, 2017 was S/ -78.0 million, compared to S/ -136.9 million in the same period of 2016.

The improvement in bottom-line results was mainly due to increases of S/ 26.4 million in other income, S/ 16.1 million in net interest and similar income and S/ 5.2 million in translation result, coupled with a decrease of S/ 9.9 million in other expenses. Growth in other income was mainly explained by a S/ 25.3 million increase in net gain on sale of securities.

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 7.7% increase in the average volume of Interseguro's investment portfolio and an 85 basis point increase in the nominal average rate.

The adjustment of technical reserves for the three months ended March 31, 2017 was lower by S/ 51.4 million compared to the corresponding period of 2016 and it was driven mainly by a lower reserve constitution caused by lower annuity premiums and different discount rate impacts in annuities. This rate diminished by 16 basis points in the first three months of 2017 and by 21 basis points in the corresponding period of 2016.

### Total premiums earned less claims and benefits

| | For the three months ended March 31, | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| | (S/ million) | | % |
| Net premiums........................................................................................... | 134.7 | 177.1 | -23.9% |
| Adjustment of technical reserves………............................................... | -176.6 | -228.0 | -22.5% |
| Net claims and benefits incurred............................................................ | -83.9 | -76.6 | 9.6% |
| **Total premiums earned less claims and benefits………………..** | **-125.8** | **-127.5** | **-1.3%** |

The decline in net premiums was mainly due to a decrease of S/ 46.1 million in Annuities, partially compensated by increases of S/ 2.2 million in Retail Insurance and S/ 1.5 million in Individual Life. The decrease in Annuities was mainly related to a market contraction due to the regulation that entered into force in April 2016, allowing retirees to cash out a significant portion of their pension funds.

The growth in net claims and benefits incurred was mostly explained by a S/ 7.8 million increase in Annuities, due to a higher number of pensioners; while claims in Retail Insurance and in Individual Life slightly diminished.

*Inteligo*

The table below details selected financial information for Inteligo for the three months ended March 31, 2017 and 2016.

| | For the three months ended March 31, 2017 | 2016 | Change (S/ million) | % |
|---|---|---|---|---|
| | (S/ million) | | (S/ million) | % |
| Interest and similar income | 39.7 | 37.8 | 1.9 | 5.1% |
| Interest and similar expense | -13.9 | -13.2 | -0.7 | 5.3% |
| **Net interest and similar income** | **25.8** | **24.6** | **1.2** | **4.9%** |
| Provision for loan losses, net of recoveries | 2.7 | 0.0 | 2.7 | N/M |
| **Net interest and similar income after provision for loan losses** | **28.5** | **24.6** | **3.9** | **16.0%** |
| Fee income from financial services, net | 29.0 | 24.3 | 4.7 | 19.6% |
| Other income | 10.3 | 1.9 | 8.4 | N/M |
| Other expenses | -19.1 | -20.2 | 1.1 | -5.1% |
| **Income before translation result and income tax** | **48.6** | **30.6** | **18.0** | **59.1%** |
| Translation result | 0.0 | -0.2 | 0.2 | N/M |
| Income tax | 0.1 | 0.0 | 0.1 | N/M |
| **Profit for the period** | **48.8** | **30.4** | **18.4** | **60.6%** |
| **ROAE** | **28.2%** | **20.5%** | | |
| **Efficiency ratio** | **29.2%** | **39.7%** | | |

Inteligo's profit for the three months ended March 31, 2017 and 2016 was S/ 48.8 million and S/ 30.4 million, respectively. The S/ 18.4 million or 60.6% increase was a result of positive performances in all lines of business.

Net interest and similar income for the three months ended March 31, 2017 reached S/ 25.8 million, a S/ 1.2 million or 4.9% increase when compared to the same period of the previous year.

Interest and similar income for the three months ended March 31, 2017 increased by S/ 1.9 million or 5.1% when compared to the three months ended March 31, 2016. The result was explained by higher interest on investments available for sale.

Inteligo's net fee income from financial services for the three months ended March 31, 2017 was S/ 29.0 million, increasing by S/ 4.7 million or 19.6% when compared to the corresponding period of the previous year. Such increase was mainly attributable to a S/ 3.9 million increase in gross fees from financial services and a S/ 1.4 million decrease in other fee expenses.

Other income exhibited a more than fivefold increase in the comparing periods due to a recovery in net gain on sale of securities.

Inteligo's other expenses reached S/ 19.1 million in the three months ended March 31, 2017. The S/ 1.1 million or 5.1% YoY decrease was mostly explained by a reduction in administrative expenses due to lower third-party related services.

Inteligo's annualized ROAE for the three months ended March 31, 2017 was 28.2%, above the 20.5% registered in the same period of the previous year.

### 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, 2017 and 2016.

| | For the three months ended March 31 | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 2,426.0 | 2,225.8 | 200.2 | 9.0% |
| Cost of Sales | -1,698.6 | -1,575.9 | -122.7 | 7.8% |
| **Gross Profit** | **727.4** | **650.0** | **77.4** | **11.9%** |
| Selling Expenses | -471.0 | -433.8 | -37.2 | 8.6% |
| Administrative Expenses | -109.3 | -93.8 | -15.5 | 16.5% |
| Other Income (expense) | 11.1 | 1.1 | 10.0 | 903.2% |
| **Operating profit** | **158.2** | **123.5** | **34.7** | **28.1%** |
| Financial income (expense), net | -14.4 | -25.2 | 10.7 | -42.7% |
| Income tax expense | -43.0 | -31.4 | -11.6 | 36.9% |
| **Net profit (loss)** | **100.8** | **67.0** | **33.9** | **50.6%** |
| **Attribuible to:** | | | | |
| Intercorp Retail's shareholders | 65.4 | 45.1 | 20.3 | |
| Minority Interest | 35.4 | 21.9 | 13.5 | |
| **Adjusted EBITDA** | **217.9** | **182.5** | **35.4** | **19.4%** |
| Adjusted EBITDA Margin | 9.0% | 8.2% | | +78bps |

Intercorp Retail reported a net profit of S/ 100.8 million in the first quarter of 2017, an increase of S/33.9 million compared to the same period of 2016, as a result of an increase in operating profit of S/ 34.7 million.

Intercorp Retail's gross profit increased 11.9% in the first three months of 2017. 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. Detailed financial information from other related businesses is not presented 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.

*Supermercados Peruanos*

The table below details selected financial information for Supermercados Peruanos for the three months ended March 31, 2017 and 2016.

| | For the three months ended March 31 | | Change | |
|---|---|---|---|---|
| | **2017** | **2016** | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 1,151.5 | 1,038.4 | 113.1 | 10.9% |
| Cost of Sales | -857.2 | -770.6 | -86.6 | 11.2% |
| **Gross Profit** | **294.2** | **267.7** | **26.5** | **9.9%** |
| Selling Expenses | -230.1 | -213.7 | -16.4 | 7.7% |
| Administrative Expenses | -28.4 | -26.3 | -2.1 | 7.9% |
| Other Income (expense) | 5.2 | 7.0 | -1.8 | -25.9% |
| **Operating profit** | **40.9** | **34.7** | **6.2** | **17.9%** |
| Financial income (expense), net | -6.0 | -6.7 | 0.7 | -10.0% |
| Income tax expense | -13.5 | -9.8 | -3.7 | 37.5% |
| **Net profit (loss)** | **21.4** | **18.2** | **3.2** | **17.4%** |
| **EBITDA** | **70.7** | **64.1** | **6.6** | **10.3%** |
| **EBITDA Margin** | **6.1%** | **6.2%** | **-** | **-3 bps** |

Supermercados Peruanos reported a net profit of S/ 21.4 million in the first quarter of 2017 compared to S/ 18.2 million in the same period of the previous year. This increase was generated by the combined effect of higher operating profit of S/ 40.9 million in the first quarter of 2017, compared to S/ 34.7 million in the same period of 2016, and lower financial expenses in the first quarter of 2017 (S/ 6.0 million) compared to the same period in the previous year (S/ 6.7 million).

Supermercados Peruanos' gross profit increased 9.9% in the first quarter of 2017, compared to the same period in 2016. This growth is mainly explained by a Same Store Sales ("SSS") growth of 7.9%, an increase of 10,000 sqm of additional supermarkets sales area since first quarter 2016 (+3.4% over the last twelve months) and higher rental revenues. The increase in SSS in mainly explained by a combination of the roll out of the Every-Day-Low-Price ("EDLP") strategy, significant growth in Back to School categories and an increase in sales of basic need products due to the coastal flooding in the north of Peru.

Supermercados Peruanos' selling and administrative expenses grew 7.7% in the first quarter of 2017 compared to the same period in 2016. Thus, as a percentage of revenues, selling and administrative expenses decreased from 23.2% in the first quarter of 2016 to 22.4% in the same period in 2017, mainly explained by fixed cost dilutions, which offset the increase in personnel expenses due to a 13% increase in minimum wage since May 2016.

*Inkafarma*

The table below details selected financial information for Inkafarma for the three months ended March 31, 2017 and 2016.

| | For the three months ended March 31 | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 662.1 | 629.4 | 32.7 | 5.2% |
| Cost of Sales | -449.4 | -429.9 | -19.5 | 4.5% |
| **Gross Profit** | **212.7** | **199.5** | **13.2** | **6.6%** |
| Selling Expenses | -154.9 | -139.2 | -15.8 | 11.3% |
| Administrative Expenses | -15.7 | -14.4 | -1.2 | 8.5% |
| Other Income (expense) | -1.2 | -0.2 | -1.1 | - |
| **Operating profit** | **40.8** | **45.7** | **-4.9** | **-10.6%** |
| Financial income (expense), net | -0.6 | -0.4 | -0.2 | 41.5% |
| Income tax expense | -12.3 | -13.4 | 1.1 | -8.0% |
| **Net profit (loss)** | **28.0** | **31.9** | **-4.0** | **-12.4%** |
| **EBITDA** | **51.8** | **55.0** | **-3.3** | **-5.9%** |
| **EBITDA Margin** | **7.8%** | **8.7%** | **-** | **-93 bps** |

Inkafarma reported S/ 28.0 million in net profit in the first quarter of 2017, which represented a decrease of 12.4% compared to the same period of the previous year.

Inkafarma's gross profit increased 6.6% in the first quarter of 2017. This increase was driven by 203 additional stores since Q1'16, in spite of negative SSS of 3.3%. Additionally, gross margin improved from 31.7% in the first quarter of 2016 to 32.1% in the same period in 2017. The slowdown in revenues is mainly explained by the cannibalization effect of the significant number of stores opened in the last twelve months, slower consumption nationwide exacerbated by the floods in the north of Peru and an alleged improvement in inventory management in the public hospitals and pharmacies.

Inkafarma's selling and administrative expenses grew 11.1% in the first quarter of 2017, compared to the same period in 2016. As a percentage of revenues, selling and administrative expenses increased from 24.4% in the first quarter of 2016 to 25.8% in the same period of 2017, due to a combination of increased operational expenses from new stores in early stages of operation and an increase in logistic expenses as a result of the floods in the north of Peru.

*InRetail Shopping Malls*

The table below details selected financial information for InRetail Shopping Malls for the three months ended March 31, 2017 and 2016.

| | For the three months ended March 31 | | Change | |
|---|---|---|---|---|
| | 2017 | 2016 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 111.5 | 107.7 | 3.8 | 3.6% |
| Cost of Sales | -38.4 | -33.9 | -4.5 | 13.4% |
| **Gross Profit** | **73.1** | **73.8** | **-0.7** | **-0.9%** |
| Selling Expenses | -1.8 | -2.3 | 0.5 | -23.2% |
| Administrative Expenses | -5.8 | -6.0 | 0.2 | -3.4% |
| Other Income (expense) | 4.4 | 0.8 | 3.6 | 462.9% |
| **Operating profit** | **69.9** | **66.2** | **3.6** | **5.5%** |
| Financial income (expense), net | -20.0 | -22.3 | 2.2 | -9.9% |
| Income tax expense | -15.0 | -13.4 | -1.7 | 12.3% |
| **Net profit (loss)** | **34.8** | **30.6** | **4.2** | **13.7%** |
| **Net rental Income** | **84.7** | **81.2** | **3.5** | **4.3%** |
| **Adjusted EBITDA** | **67.2** | **66.6** | **0.5** | **0.8%** |
| **Adjusted EBITDA / Net Rental Income** | **79.3%** | **82.1%** | **-** | **-273 bps** |

InRetail Shopping Malls reported S/ 34.8 million in net profit in the first quarter of 2017, which represented an increase of 13.7% compared to the same period in 2016. This increase was mainly explained by an increase in operating profit mainly due to an increase in mark to market gains of S/ 3.6 million in the first quarter of 2017 compared to S/ 0.4 million in the same period of 2016 and lower financial expenses due to a net exchange gain (non-cash) of S/ 7.7 million in the first quarter of 2017, compared to a net exchange gain of S/ 6.3 million in the same period in 2016.

InRetail Shopping Malls' revenues, which are mainly rental income from investment property grew 3.6% in the first quarter of 2017 in comparison to the same period in 2016, mainly due to mall expansions and inflation-related adjustments. 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/ 81.2 million in the first quarter of 2016 to S/ 84.7 million in the same period of 2017 (a 4.3% growth).

InRetail Shopping Malls' selling and administrative expenses decreased 9.0% in the first quarter of 2017 compared to the same period in 2016. As a percentage of shopping malls revenues, selling and administrative expenses were 6.8% in the first quarter of 2017, in comparison to 7.7% in the same period in 2016.

# 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 three months ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| | (S/ millions) | |
| **Operating activities** | | |
| Net profit for the period | 179.5 | 69.1 |
| **Adjustments to reconcile net income to net cash** | | |
| Participation in income of Subsidiaries | -185.8 | -82.5 |
| Gain on derivate financial instruments | | -15.1 |
| (Increase) decrease of other accounts receivable | -14.1 | 10.7 |
| Increase (decrease) of interest, provisions and other accounts payable* | -35.6 | -24.3 |
| **Net cash provided by (used in) operating activities** | **-56.0** | **-42.0** |
| **Investing activities** | | |
| Dividends received | | 3.5 |
| Capital contribution to Subsidiaries, net of capital reductions | -104.1 | -7.9 |
| **Net cash provided by investing activities** | **-104.1** | **-4.4** |
| **Financing activities** | | |
| Loans received fromthird parties, net* | 80.5 | |
| Loans received from Subsidiaries and related parties, net | 116.0 | 72.0 |
| Payment of dividends | -25.2 | -25.6 |
| **Net cash used in financing activities** | **171.3** | **46.4** |
| **Net cash (decrease) increase** | **11.2** | **0.0** |
| **Balance of cash at the beginning of period** | **1.8** | **5.0** |
| **Balance of cash at the end of period** | **13.0** | **5.0** |

(*) Differs from the *Separate financial statements as of March 31, 2017, December 31, 2016 and for the three-month periods ended March 31, 2017 and 2016,* which includes a funding source with a third party for S/ 80 million in Increase (decrease) of interest, provisions and other accounts payable.

Net cash used in operating activities increased by S/ 14.0 million for the three months ended March 31, 2017 when compared to the corresponding period in 2016.

Net cash used in investing activities increased by S/ 99.7 million for the three months ended March 31, 2017 when compared to the corresponding period in 2016. This increase was primarily driven by capital contribution to education and retail subsidiaries.

Net cash from financing activities increased by S/ 124.9 million for the three months ended March 31, 2017 when compared to the corresponding period in 2016. This increase was explained by higher short terms loans in first quarter of 2017.

### ii. Dividends Received by Intercorp

Intercorp has not received dividends from its subsidiary IFS during the first quarter of 2017. IFS distributes its dividends in the second quarter of each year.

### iii. Indebtedness

***Unconsolidated***

As of March 31, 2017, Intercorp had S/ 1,474 million (US$454 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,096 million of long-term indebtedness comprised of S/ 798 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/ 378 million comprised of S/ 39 million of outstanding junior notes that were issued in 2016 and S/ 259 million of accounts payable to its subsidiaries and S/ 80 million of accounts payable to third parties . As of the same date, Intercorp had guaranteed up to US$162 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Homecenters Peruanos, Colegios Peruanos, Financiera Oh! and Urbi, US$148 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.