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

Second Quarter 2017

August, 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, 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 June 30, 2017 and December 31 2016.

	As of June 30, 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)……………………………………	41,379.0	65.4%	4,386.1	46.7%	42,402.9	66.6%	4,347.9	49.0%
Interseguro (insurance)…………………………………	6,244.2	9.9%	584.5	6.2%	5,795.9	9.1%	453.4	5.1%
Inteligo (wealth management)…………………………	3,551.4	5.6%	647.7	6.9%	4,014.6	6.3%	676.5	7.6%
IFS (holding company) and eliminations………………	-535.4	-0.8%	-474.9	-5.1%	-494.1	-0.8%	-479.6	-5.4%
Total IFS………………………………………………	50,639.1	80.1%	5,143.3	54.7%	51,719.3	81.2%	4,998.2	56.4%
Intercorp Retail								
Supermercados Peruanos (supermarkets)…………	2,971.1	4.7%	1,030.5	11.0%	2,963.6	4.7%	998.9	11.3%
Inkafarma (pharmacies)………………………………	849.4	1.3%	151.7	1.6%	904.9	1.4%	160.8	1.8%
InRetail Shopping Malls (shopping malls)……………	3,587.7	5.7%	2,044.0	21.7%	3,546.4	5.6%	1,964.6	22.2%
Other [1]……………………………………………………	3,640.6	5.8%	1,090.0	11.6%	3,516.6	5.5%	1,066.7	12.0%
Total Intercorp Retail………………………………	11,048.9	17.5%	4,316.2	45.9%	10,931.5	17.2%	4,191.0	47.3%
Other subsidiaries/Intercorp (holding company) and eliminations……………………………………..…	1,554.0	2.5%	-60.0	-0.6%	1,058.0	1.7%	-320.5	-3.6%
Total Consolidated…………………………………	63,242.0	100%	9,399.5	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 six months ended June 30, 2017 and 2016.

	For the six months ended June 30		Change	
	2017	2016		
	(S/ millions)		(S/ in millions)	%
IFS				
Banking	298.4	294.0	4.4	1.5%
Insurance	-67.4	-149.4	82.0	-54.9%
Wealth Management	81.6	65.0	16.6	25.5%
IFS expenses and eliminations	-16.3	-27.8	11.5	-41.2%
Total IFS	**296.2**	**181.8**	**114.4**	**62.9%**
Intercorp Retail				
Supermarkets	22.4	19.5	2.8	14.4%
Pharmacies	40.1	48.2	-8.1	-16.9%
Shopping malls	55.2	46.7	8.5	18.3%
Other subsidiaries / holding company and eliminations	-18.6	-23.8	5.2	-21.8%
Total Intercorp Retail	**99.0**	**90.6**	**8.4**	**9.3%**
Other subsidiaries	-25.6	-35.4	9.9	-27.8%
Net profit attributable to Intercorp	**369.7**	**237.0**	**132.7**	**56.0%**
Financial expenses, net	-44.6	-46.7	2.2	-4.6%
General expenses	-8.3	-9.5	1.1	-12.0%
Other income (expenses), net	-17.7	-1.3	-16.4	1282.2%
Foreign exchange gain (loss), net	30.6	21.2	9.4	44.6%
Income (expenses)	**-40.0**	**-36.3**	**-3.7**	**10.1%**
Net profit	**329.7**	**200.5**	**129.2**	**64.4%**

For the six months ended June 30, 2017, Intercorp´s net profit was S/ 329.7 million, an increase of S/ 129.2 million compared to the same period in 2016. The increase was driven by higher profits in IFS (S/ 114.4 million) and Intercorp Retail (S/ 8.4 million).

ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the six months ended June 30, 2017 and 2016.

	For the six months ended June 30,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Interest and similar income	1,863.8	1,817.8	46.0	2.5%
Interest and similar expense	-552.4	-528.0	-24.3	4.6%
Net interest and similar income	**1,311.4**	**1,289.8**	**21.6**	**1.7%**
Provision for loan losses, net of recoveries	-437.0	-409.8	-27.2	6.6%
Net interest and similar income after provision for loan losses	**874.4**	**879.9**	**-5.6**	**-0.6%**
Fee income from financial services, net	438.9	422.0	16.9	4.0%
Other income	252.4	205.1	47.3	23.1%
Total premiums earned less claims and benefits	-168.8	-207.9	39.1	-18.8%
Other expenses	-896.4	-918.6	22.3	-2.4%
Income before translation result and income tax	**500.6**	**380.5**	**120.0**	**31.5%**
Translation result	20.8	25.4	-4.6	-18.1%
Income tax	-148.4	-167.3	18.9	-11.3%
Profit for the period	**373.0**	**238.7**	**134.3**	**56.3%**
Attributable to equity holders of the group (1)	**374.0**	**236.5**	**137.5**	**58.1%**
EPS	**3.50**	**2.17**		
ROAE	**14.5%**	**10.3%**		

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

Profit attributable to shareholders was S/ 374.0 million for the six months ended June 30, 2017, increasing 58.1% compared to the corresponding period of 2016; mainly driven by higher other income and an improvement in total premiums earned less claims and benefits, together with lower other expenses as well as a lower effective tax rate. IFS annualized ROAE was 14.5% in the six months ended June 30, 2017, above the 10.3% 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 six months ended June 30, 2017 and 2016.

	For the six months ended June 30,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Interest and similar income	1,660.1	1,611.5	48.6	3.0%
Interest and similar expense	-519.4	-493.5	-25.9	5.2%
Net interest and similar income	**1,140.7**	**1,118.0**	**22.7**	**2.0%**
Provision for loan losses, net of recoveries	-439.7	-409.8	-29.9	7.3%
Net interest and similar income after provision for loan losses	**701.0**	**708.2**	**-7.3**	**-1.0%**
Fee income from financial services, net	403.6	381.8	21.6	5.7%
Other income	185.1	170.1	15.0	8.8%
Other expenses	-761.8	-715.9	-45.9	6.4%
Income before translation result and income tax	**527.9**	**544.3**	**-16.4**	**-3.0%**
Translation result	13.6	9.7	3.9	40.4%
Income tax	-137.8	-152.4	14.6	-9.6%
Profit for the period	**403.7**	**401.6**	**2.1**	**0.5%**
ROAE	**18.8%**	**21.4%**		
Efficiency ratio	**42.6%**	**41.9%**		
NIM	**5.8%**	**5.8%**		

Interbank's profit for the six months ended June 30, 2017 reached S/ 403.7 million, an increase of S/ 2.1 million when compared with the corresponding period of 2016. The growth was mainly explained by increases of S/ 22.7 million in net interest and similar income, S/ 21.6 million in net fee income from financial services and S/ 15.0 million in other income, in addition to a lower effective tax rate; partially offset by increases of S/ 45.9 million in other expenses and S/ 29.9 million in provisions.

Net interest and similar income grew 2.0% YoY due to an increase of 3.0% in interest and similar income, partially offset by a 5.2% rise in interest and similar expense.

The growth in interest and similar income was mainly due to increases of 1.6% in interest on loans and 27.9% in interest on investments available for sale.

The S/ 24.8 million growth in interest on loans was explained by a 3.9% growth in the average volume; partially offset by a 30 basis point decline in the average yield, from 12.4% in the six months ended June 30, 2016 to 12.1% in the same period of 2017. The increase in the average volume was due to growths of 4.2% in the retail portfolio and 3.7% in the commercial portfolio. The higher average volume of retail loans was explained by growths of 5.7% in other consumer loans, 5.2% in mortgages and 1.3% in credit cards. In the commercial portfolio, higher volumes resulted from growths of 8.4% in short and medium-term loans and 5.4% in trade finance loans;

partially offset by an 11.5% decline in leasing. The decrease in the average yield was mainly explained by lower rates on credit cards and leasing loans; partially offset by higher yields on cash loans.

Interest on investments available for sale increased by S/ 23.4 million YoY, or 27.9%, as a result of a 24.2% 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 CDBCR; while the higher yield was mainly attributed to higher returns on CDBCR, partially offset by lower yields on sovereign bonds.

The nominal average yield on interest-earning assets increased by 10 basis points YoY, from 8.3% in the six months ended June 30, 2016 to 8.4% in the corresponding period of 2017; mainly explained by a higher return on investments, and by a 9.6% 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 5.2% YoY due to a 24.5% growth in interest on deposits and obligations, partially offset by decreases of 14.3% in interest due to banks and correspondents and 4.0% in interest on bonds, notes and other obligations.

Interest on deposits and obligations increased by S/ 50.6 million, or 24.5%, explained by growths of 4.4% in the average volume and of 30 basis points in the nominal average cost. The higher average volume was a result of higher retail and institutional deposits, partially offset by a decline in commercial deposits; while the increase in the average rate was mainly explained by a higher cost of commercial and institutional deposits.

The S/ 18.3 million, or 14.3% decrease in interest due to banks and correspondents was explained by reductions of 10.4% in the average volume and of 20 basis points in the average cost. The decrease in average volume was mainly due to a reduction in funding provided by correspondent banks and by the Central Bank; while the lower rate was mainly a result of a decrease in the average cost of funding provided by the Central Bank.

Interest on bonds decreased by S/ 6.3 million, or 4.0% YoY; mainly explained by a decrease of 1.9% in the average volume, which in turn was explained by a 2.2% appreciation of the exchange rate with respect to the corresponding period of 2016.

The average cost of funds increased by 10 basis points YoY, from 2.8% in the six months ended June 30, 2016 to 2.9% in the corresponding period of 2017; mainly due to higher costs of commercial and institutional deposits, partially offset by a lower average cost of due to banks and correspondents.

As a result of the above, net interest margin remained stable YoY, at 5.8% in the six months ended June 30, 2017.

Provision for loan losses, net of recoveries increased by S/ 29.9 million, or 7.3%, in the six months ended June 30, 2017. Such growth was mainly a result of higher provisioning in retail loans, especially in credit cards. In this context, credit cards saw a 30 basis point deterioration in its PDL ratio, from 5.2% in the six months ended June 30, 2016 to 5.5% in the six months ended June 30, 2017; partly an effect of the low growth in such product in an annual comparison.

Fee income from financial services, net increased by S/ 21.6 million, or 5.7% YoY, mainly attributable to an increase of S/ 13.3 million in fees from maintenance of accounts and commissions from credit and debit card services, in addition to S/ 4.1 million higher commissions for banking services, which were partially offset by a decrease of S/ 1.3 million in fees for indirect loans.

Other income increased by S/ 15.0 million, or 8.8%, mainly due to increases of S/ 4.4 million in income from the sale of written-off loan portfolio and S/ 3.5 million in net gain on sale of securities. These effects were partially offset by a contraction of S/ 1.6 million in net gain on foreign exchange transactions and trading.

Other expenses increased by S/ 45.9 million, or 6.4% YoY, mainly explained by growths of 7.0% in administrative expenses and 2.7% in salaries and employee benefits. The efficiency ratio was 42.6% in the six months ended June 30, 2017, above the 41.9% achieved in the corresponding period of 2016.

Income before translation result and income tax decreased 3.0% during the first six months ended June, 2017 compared to the same period of 2016; which was then positively affected by a higher translation result and a lower effective tax rate, from 27.5% in the first six months ended June 30, 2016 to 25.5% for the corresponding period in 2017. All in all, profit for the first six months of 2017 increased 0.5% compared to the same period of 2016.

Interbank's annualized ROAE was 18.8% in the first six months ended June 30, 2017, below the 21.4% registered in the corresponding period of 2016.

Interseguro

The table below details selected financial information for Interseguro for the six months ended June 30, 2017 and 2016.

	For the six months ended June 30,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Net interest and similar income	142.2	138.0	4.2	3.0%
Fee income from financial services, net	-1.9	-1.4	-0.5	39.5%
Other income	37.3	46.7	-9.4	-20.2%
Total premiums earned less claims and benefits	-168.8	-207.9	39.1	-18.8%
Other expenses	-108.5	-172.6	64.1	-37.1%
Income before translation result and income tax	**-99.7**	**-197.1**	**97.4**	**-49.4%**
Translation result	6.3	4.1	2.2	56.1%
Income tax	1.6	0.4	1.2	N/M
Profit for the period	**-91.8**	**-192.7**	**100.9**	**-52.4%**
Attributable to non-controlling interest (1)	3.8	0.6	3.2	N/M
Profit attributable to shareholders	**-88.0**	**-192.1**	**104.1**	**-54.2%**
Discount rate impacts on technical reserves	-108.9	-143.3	34.4	-24.0%
Profit excluding discount rate impacts	**21.0**	**-48.7**	**69.7**	**N/M**
Efficiency ratio	**26.1%**	**37.7%**		
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 six months ended June 30, 2017 was S/ -91.8 million, compared to S/ -192.7 million in the same period of 2016.

The improvement in bottom-line results was mainly due to a reduction of S/ 64.1 million in other expenses, coupled with an increase of S/ 39.1 million in total premiums earned less claims and benefits. These effects were partially offset by a decrease of S/ 9.4 million in other income.

The reduction in other expenses was mainly explained by a S/ 71.9 million decrease in impairment loss on available-for-sale investments, partially offset by an increase of S/ 8.5 million in third party commissions.

Growth in total premiums earned less claims and benefits was mainly explained by a decrease of S/ 85.9 million in adjustment of technical reserves, partially offset by a reduction of S/ 26.4 million in net premiums, coupled with an increase of S/ 20.4 million in net claims and benefits incurred.

The adjustment of technical reserves for the six months ended June 30, 2017 was lower by S/ 85.9 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 23 basis points in the first six months of 2017 and by 31 basis points in the corresponding period of 2016.

Total premiums earned less claims and benefits

	For the six months ended June 30,		
	2017	2016	Change
	(S/ million)		%
Net premiums	280.8	307.2	-8.6%
Adjustment of technical reserves	-277.6	-363.5	-23.6%
Net claims and benefits incurred	-172.0	-151.6	13.5%
Total premiums earned less claims and benefits	**-168.8**	**-207.9**	**-18.8%**

The decline in net premiums was mainly due to a decrease of S/ 36.6 million in Annuities, partially compensated by increases of S/ 7.8 million in Retail Insurance and S/ 2.5 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 an S/ 18.7 million increase in Annuities, due to a higher number of pensioners, and a S/ 2.6 million increase in Retail Insurance; while claims in Individual Life slightly diminished.

Inteligo

The table below details selected financial information for Inteligo for the six months ended June 30, 2017 and 2016.

	For the six months ended June 30,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Interest and similar income	78.9	78.9	0.0	0.0%
Interest and similar expense	-28.1	-27.4	-0.7	2.7%
Net interest and similar income	**50.8**	**51.5**	**-0.7**	**-1.5%**
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	**53.5**	**51.5**	**2.0**	**3.7%**
Fee income from financial services, net	57.8	55.5	2.3	4.3%
Other income	31.5	18.3	13.2	72.4%
Other expenses	-39.1	-40.8	1.7	-4.3%
Income before translation result and income tax	**103.8**	**84.5**	**19.3**	**22.8%**
Translation result	0.5	-0.5	1.0	N/M
Income tax	0.1	0.1	0.0	N/M
Profit for the period	**104.4**	**84.1**	**20.3**	**24.1%**
ROAE	**30.8%**	**29.5%**		
Efficiency ratio	**27.8%**	**32.6%**		

Inteligo's profit for the six months ended June 30, 2017 and 2016 was S/ 104.4 million and S/ 84.1 million, respectively. The S/ 20.3 million or 24.1% increase was mainly attributable to positive performances in net fee income from financial services and other income.

Net interest and similar income for the six months ended June 30, 2017 reached S/ 50.8 million, a S/ 0.7 million or 1.5% decrease when compared to the same period of the previous year.

Interest and similar income for the six months ended June 30, 2017 remained stable compared to the same period of the previous year. When compared to the six months ended June 30, 2016, interest and similar expenses slightly increased due to higher expenses related to deposits and obligations.

Inteligo's net fee income from financial services for the six months ended June 30, 2017 was S/ 57.8 million, increasing by S/ 2.3 million or 4.3% when compared to the corresponding period of the previous year. Such increase was mainly attributable to a S/ 3.7 million growth in income from funds management.

Other income exhibited a S/ 13.2 million or 72.4% increase in the comparing periods due to a more than twofold increase in net gain on sale of securities, partially offset by a net trading loss.

Inteligo's other expenses reached S/ 39.1 million for the six months ended June 30, 2017. The S/ 1.7 million or 4.3% decrease was mostly explained by a reduction in administrative expenses due to lower third-party related services.

Inteligo's annualized ROAE for the six months ended June 30, 2017 was 30.8%, above the 29.5% registered in the same period of the previous year.

iii. Intercorp Retail

The table below sets forth the main components orf Intercorp Retail´s consolidated income statementet for the six months ended June 30, 2017 and 2016.

	For the six months ended June 30		Change	
	2017	2016		
	(S/ in millions)		(S/ in millions)	%
Total Revenues……	4,839.3	4,456.9	382.4	8.6%
Cost of Sales……	-3,361.8	-3,112.2	-249.6	8.0%
Gross Profit……	**1,477.5**	**1,344.7**	**132.8**	**9.9%**
Selling Expenses……	-947.4	-875.4	-72.0	8.2%
Administrative Expenses……	-227.8	-203.9	-23.9	11.7%
Other Income (expense)……	19.3	10.8	8.5	78.9%
Operating profit ……	**321.5**	**276.2**	**45.4**	**16.4%**
Financial income (expense), net……	-80.6	-77.5	-3.2	4.1%
Income tax expense……	-89.7	-67.9	-21.8	32.2%
Net profit (loss)……	**151.2**	**130.8**	**20.4**	**15.6%**
Attribuible to:				
Intercorp Retail's shareholders……	93.7	45.7	48.0	
Minority Interest……	57.4	85.0	-27.6	
Adjusted EBITDA……	**442.4**	**395.6**	**46.8**	**11.8%**
Adjusted EBITDA Margin……	9.1%	8.9%		+27bps

Intercorp Retail reported a net profit of S/ 151.2 million as of June 2017, representing an increase of 15.6% compared to the same period in 2016. This is a result of an increase in operating profit due to lower increases in cost of sales and selling expenses compared to revenues increase.

Intercorp Retail's gross profit increased 9.9% for the six months ended June 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. Ddetailed 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 six months ended June 30, 2017 and 2016.

	For the six months ended June 30		Change	
	2017	2016		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	2,252.6	2,043.6	209.0	10.2%
Cost of Sales	-1,668.0	-1,508.9	-159.1	10.5%
Gross Profit	**584.6**	**534.7**	**49.9**	**9.3%**
Selling Expenses	-461.4	-430.8	-30.6	7.1%
Administrative Expenses	-58.5	-53.1	-5.4	10.1%
Other Income (expense)	9.5	9.8	-0.3	-3.2%
Operating profit	**74.3**	**60.6**	**13.6**	**22.5%**
Financial income (expense), net	-18.2	-17.7	-0.5	2.6%
Income tax expense	-24.5	-15.4	-9.1	58.8%
Net profit (loss)	**31.5**	**27.5**	**4.1**	**14.8%**
EBITDA	**134.0**	**119.6**	**14.4**	**12.1%**
EBITDA Margin	**6.0%**	**5.9%**	**-**	**+10 bps**

Supermercados Peruanos reported a net income of S/ 31.5 million in the first six months of 2017 compared to S/ 27.5 million in the same period of the previous year. This increase was generated mainly by a higher operating profit of S/ 74.3 million in the first six months of 2017, compared to S/ 60.6 million in the same period of 2016, partially compensated by a higher income tax expense in the first half of 2017 (S/ 24.5 million) compared to the same period of the previous year (S/ 15.4 million).

Supermercados Peruanos' gross profit increased 9.3% in the first six months of 2017, compared to the same period in 2016. The growth is mainly explained by a SSS growth of 6.8%, an increase of 13k sqm of additional supermarkets sales area since Q2'16 (+4.7% over the last twelve months) and higher rental revenues. The increase in SSS is mainly explained by the combined positive effects of the Everyday Low Prices (EDLP) strategy and the Back to school campaign (first four months of 2017).

Supermercados Peruanos' selling and administrative expenses grew 7.4% in the first six months of 2017 compared to the same period in 2016. Thus, as a percentage of revenues, selling and administrative expenses decreased from 23.7% in the first six months of 2016 to 23.1% 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 in May 2016.

Inkafarma

The table below details selected financial information for Inkafarma for the six months ended June 30, 2017 and 2016.

	For the six months ended June 30		Change	
	2017	**2016**		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	1323.5	1273.4	50.1	3.9%
Cost of Sales	-888.5	-863.0	-25.4	2.9%
Gross Profit	**435.1**	**410.4**	**24.7**	**6.0%**
Selling Expenses	-316.7	-283.5	-33.2	11.7%
Administrative Expenses	-31.9	-29.5	-2.4	8.2%
Other Income (expense)	-2.6	-0.2	-2.4	1418.8%
Operating profit	**83.8**	**97.2**	**-13.4**	**-13.8%**
Financial income (expense), net	-0.6	-0.8	0.1	-18.4%
Income tax expense	-26.7	-28.7	2.0	-6.9%
Net profit (loss)	**56.5**	**67.8**	**-11.3**	**-16.6%**
EBITDA	**106.0**	**116.4**	**-10.4**	**-8.9%**
EBITDA Margin	**8.0%**	**9.1%**	**-**	**-113 bps**

Inkafarma reported S/ 56.5 million in net profit in the first six months of 2017, which represented a decrease of 16.6% compared to the same period of the previous year mainly due to higher operating expenses of new stores in early stages of operation.

Inkafarma's gross profit increased 6.0% in the first six months of 2017. This increase was driven by 217 additional stores since Q2'16, in spite of negative SSS of 4.5%. Additionally, gross margin improved from 32.2% in the first six months of 2016 to 32.9% 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 and slower consumption nationwide.

Inkafarma's selling and administrative expenses grew 11.4% in the first six months of 2017, compared to the same period in 2016. As a percentage of revenues, selling and administrative expenses increased from 24.6% in the first six months of 2016 to 26.3% 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 in the first quarter of this year.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the six months ended June 30, 2017 and 2016.

	For the six months ended June 30		Change	
	2017	2016		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	229.9	218.7	11.2	5.1%
Cost of Sales	-79.0	-67.9	-11.1	16.4%
Gross Profit	**150.9**	**150.8**	**0.1**	**0.1%**
Selling Expenses	-3.8	-3.4	-0.3	9.5%
Administrative Expenses	-12.0	-12.3	0.3	-2.2%
Other Income (expense)	6.0	3.6	2.4	66.7%
Operating profit	**141.1**	**138.7**	**2.4**	**1.8%**
Financial income (expense), net	-46.8	-46.3	-0.5	1.2%
Income tax expense	-29.6	-28.0	-1.6	5.7%
Net profit (loss)	**64.7**	**64.4**	**0.3**	**0.4%**
Net rental Income	**172.6**	**166.0**	**6.5**	**3.9%**
Adjusted EBITDA	**138.3**	**137.1**	**1.2**	**0.9%**
Adjusted EBITDA / Net Rental Income	**80.2%**	**82.6%**	**-**	**-243 bps**

InRetail Shopping Malls reported S/ 64.7 million in net profit in the first six months of 2017, which represented an increase of 0.4% compared to the same period in 2016. This increase is mainly explained by an increase in operating profit mainly due to an increase in mark to market gain: S/ 4.7 million in the first six months of 2017 compared to S/ 3.3 million in the same period of 2016.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 5.1% in the first six months 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/ 166.0 million in the first six months of 2016 to S/ 172.6 million in the same period of 2017 (a 3.9% growth).

InRetail Shopping Malls' selling and administrative expenses increased 0.3% in the first six months 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 six months of 2017, in comparison to 7.2% 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 six months ended June 30	
	2017	2016
	(S/ millions)	
Operating activities		
Net profit for the period	329.8	200.5
Adjustments to reconcile net income to net cash		
Participation in income of Subsidiaries	(369.7)	(236.8)
Gain on derivate financial instruments	3.2	(16.1)
(Increase) decrease of other accounts receivable	(6.5)	39.7
Impairment loss on available-for-sale investments	-	0.3
Increase (decrease) of interest, provisions and other accounts payable*	(43.8)	(10.7)
Net cash provided by (used in) operating activities	**(87.1)**	**(23.1)**
Investing activities		
Dividends received	399.0	372.5
Capital contribution to Subsidiaries, net of capital reductions	(168.5)	(71.7)
Maturity of available-for-sale investments	-	48.3
Acquisition of investment property	-	(20.6)
Purchase of available-for-sale investments	-	(1.7)
Net cash provided by investing activities	**230.5**	**326.9**
Financing activities		
Issuance (payment) of notes	(40.3)	-
Issuance (payment) of corporate bonds and interests	-	(25.6)
Loans received from third parties, net*	80.0	-
Loans received from Subsidiaries and related parties, net	(121.6)	(177.1)
Payment of dividends	(49.3)	(52.9)
Net cash used in financing activities	**(131.2)**	**(255.5)**
Net cash (decrease) increase	**12.2**	**48.2**
Balance of cash at the beginning of period	**1.8**	**5.0**
Balance of cash at the end of period	**14.0**	**53.2**

Net cash used in operating activities increased by S/ 64.0 million for the six months ended June 30, 2017 when compared to the corresponding period in 2016.

Net cash used in investing activities decreased by S/ 96.3 million for the six months ended June 30, 2017 when compared to the corresponding period in 2016. This decrease was primarily driven by capital contributions to education and retail subsidiaries.

Net cash from financing activities increased by S/ 124.3 million for the six months ended June 30, 2017 when compared to the corresponding period in 2016. This increase was explained by higher short terms loans in first semester of 2017.

ii. Dividends Received by Intercorp

The following table sets forth details regarding the dividends received by Intercorp from its subsidiaries for the six months ended June 30, 2017 and 2016.

	For the six months ended June 30			For the year ended December 31,	
	2017	2017	2016	2016	2015
	(US$. in millions)(1)	(S/ in millions)		(S/ in millions)	
IFS(2)…………	109.2	355.4	369.0	369.0	419.1
Intercorp Retail…………	11.6	37.8	0.0	0.0	0.0
Other subsidiaries…………	2.0	6.4	4.4	4.4	1.2
	122.8	**399.6**	**373.4**	**373.4**	**420.3**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.253 = US$1.00
(2) Inteligo has been included in IFS in 2014. Prior to August 2014 Inteligo was not part of IFS and paid dividends directly to Intercorp.

Dividends Paid by Intercorp's Subsidiaries

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

IFS

The following table sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit for the prior year) for IFS for the six months ended June 30, 2017 and 2016. The dividends declared and paid by IFS are in US dollars.

	For the six months ended June 30		
	2017	2017	2016
	(US$. in millions) (1)	(S/ in millions)	
IFS			
Dividends declared and paid…………	**146.5**	**475.8**	**493.5**
Net profit..(2)…………	256.7	833.7	1,231.8
Dividend payout ratio…………	**57.1%**	**57.1%**	**40.1%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.248= 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 six months June 30, 2017 and 2016.

	For the six months ended June 30		
	2017	**2017**	**2016**
	(US$. in millions) [1]	**(S/ in millions)**	
Interbank			
Dividends declared and paid…………………………………	**121.0**	**393.7**	**379.5**
Net profit. [2]…………………………………………………	269.0	875.1	860.3
Dividend payout ratio…………………………………………	**45%**	**45%**	**45%**
Interseguro			
Dividends declared and paid…………………………………	**13.1**	**42.5**	**52.0**
Net profit. [2]…………………………………………………	26.4	85.8	100.3
Dividend payout ratio…………………………………………	**50%**	**50%**	**52%**
Inteligo			
Dividends declared and paid…………………………………	**40.5**	**131.7**	**94.6**
Net profit. [2]…………………………………………………	51.0	165.9	118.5
Dividend payout ratio…………………………………………	**80%**	**80%**	**80%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.253 = US$1.00 , the exchange rate reported on June 30, 2017 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.

Intercorp Retail

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 Intercorp Retail for the six months ended June 30, 2017. The dividends declared and paid by Intercorp Retail are in US dollars

	For the six months ended June 30	
	2017	2017
	(US$. in millions) (1)	(S/ in millions)
Intercorp Retail		
Dividends declared and paid (2)………………………………	**11.6**	**37.8**
Net profit …………………………………………………	51.2	166.6
Dividend payout ratio…………………………………………	**23%**	**23%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.253 = US$1.00 , the exchange rate reported on June 30, 2017 by the SBS.

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

Intercorp Retail's subsidiaries

The following tables sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit) for InRetail Peru (Intercorp Retail's subsidiary) for the six months June 30, 2017.

	For the six months ended June 30	
	2017	2017
	(US$. in millions) (1)	(S/ in millions)
InRetail Peru		
Dividends declared and paid(2) ………………………………	**20.0**	**65.0**
Net profit(3) …………………………………………………	18.0	58.6
Dividend payout ratio(4)…………………………………………	**83%**	**83%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.249= US$1.00 , the exchange rate reported on the day of the operation

(2) Includes US$ 15 million of 2016 net profit and US$ 5 million of 2017 net profit in advance

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

(4) Calculated over the US$15 million dividend

iii. Indebtedness

Unconsolidated

As of June 30, 2017, Intercorp had S/ 1,233 million (US$379 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,099 million of long-term indebtedness comprised of S/ 801 million (US$246 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 298 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/ 15 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$157 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.