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

Second Quarter 2018

August, 2018

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; two pharmacy chains, Inkafarma and Mifarma; 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 49 locations across Peru. UTP consists of a university and a technical school, with more than 72,000 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, 2018 and January 1, 2018.

	As of June 30, 2018				As of January 1, 2018				As of December 31, 2017			
	Assets		Equity		Assets		Equity		Assets		Equity	
	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%
IFS												
Interbank (banking)……	44,890.4	57.9%	4,951.4	42.1%	45,587.3	61.8%	4,821.6	45.9%	45,554.5	61.7%	4,923.5	46.9%
Interseguro (insurance)……	12,186.8	15.7%	860.5	7.3%	12,258.5	16.6%	392.7	3.7%	12,258.5	16.6%	392.7	3.7%
Inteligo (wealth management)……	3,130.9	4.0%	641.9	5.5%	3,013.9	4.1%	709.8	6.8%	3,013.9	4.1%	709.8	6.8%
IFS (holding company) and eliminations……	-64.4	-0.1%	46.9	0.4%	-303.3	-0.4%	-189.1	-1.8%	-303.3	-0.4%	-189.1	-1.8%
Total IFS……	60,143.7	77.5%	6,500.7	55.3%	60,556.4	82.0%	5,735.0	54.6%	60,523.7	82.0%	5,836.9	55.6%
Intercorp Retail												
Supermercados Peruanos (supermarkets)……	3,405.0	4.4%	967.0	8.2%	3,321.4	4.5%	1,083.2	10.3%	3,321.4	4.5%	1,083.2	10.3%
InRetail Pharma (pharmacies)……	4,696.6	6.1%	472.1	4.0%	783.8	1.1%	124.4	1.2%	783.8	1.1%	124.4	1.2%
InRetail Shopping Malls (shopping malls)……	4,269.9	5.5%	2,159.1	18.4%	3,668.9	5.0%	2,114.9	20.2%	3,668.9	5.0%	2,114.9	20.2%
Other [1]……	3,331.6	4.3%	1,355.3	11.5%	3,794.9	5.1%	1,192.0	11.4%	3,808.1	5.2%	1,205.3	11.5%
Total Intercorp Retail……	15,703.1	20.2%	4,953.5	42.2%	11,569.0	15.7%	4,514.5	43.0%	11,582.2	15.7%	4,527.8	43.1%
Other subsidiaries/Intercorp (holding company) and eliminations……	1,712.8	2.2%	296.5	2.5%	1,704.3	2.3%	130.2	1.2%	1,704.3	2.3%	130.2	1.2%
Total Consolidated……	77,559.6	100%	11,750.7	100%	73,829.7	100%	10,379.7	99%	73,810.2	100%	10,494.9	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, 2018 and 2017.

	For the six months ended June 30		Change	
	2018	2017		
	(S/ millions)		(S/ in millions)	%
IFS				
Banking	400.5	298.4	102.1	34.2%
Insurance	-52.2	18.5	-70.7	N/M
Wealth Management	65.2	81.6	-16.4	-20.0%
IFS expenses and eliminations	-33.7	-16.3	-17.4	106.2%
Total IFS	**379.9**	**382.2**	**-2.3**	**-0.6%**
Intercorp Retail				
Supermarkets	21.8	22.4	-0.5	-2.3%
Pharmacies	14.7	40.1	-25.3	-63.3%
Shopping malls	29.8	55.2	-25.4	-46.0%
Other subsidiaries / holding company and eliminations	-92.7	-18.6	-74.1	399.0%
Total Intercorp Retail	**-26.4**	**99.0**	**-125.4**	**N/M**
Other subsidiaries	2.1	-25.6	27.7	N/M
Net profit attributable to Intercorp	**355.6**	**455.6**	**-100.0**	**-22.0%**
Financial expenses, net	-41.6	-44.6	3.0	-6.7%
General expenses	-12.0	-8.3	-3.6	43.4%
Other income (expenses), net	-11.1	-17.7	6.6	-37.4%
Foreign exchange gain (loss), net	-3.3	30.6	-33.9	N/M
Income (expenses)	**-67.9**	**-40.0**	**-28.0**	**70.0%**
Net profit	**287.7**	**415.7**	**-128.0**	**-30.8%**

For the six months ended June 30, 2018, Intercorp´s net profit was S/ 287.7 million, a decrease of S/ 128.0 million compared to the same period in 2017. The decrease was driven by losses at Intercorp Retail (S/ -125.4 million), and higher expenses at the holding level (S/ 28 million) due to lower foreign exchange results.

The net profit attributable to Intercorp is lower in S/ 100 million, explained by a lower net profit of Intercorp Retail due to one-time expenses related to premiums of bonds cancellations of InRetail Consumer and InRetail Shopping Malls, in the context of debt restructuration operations. Foreign exchange results were also negative.

ii. IFS

IFS implemented two accounting changes in 2Q18 aimed to reflect correctly the Insurance Segment's results under international accounting standards. The application of these changes does not require a restatement of results previously reported.

First, the application of a proper discount rate for the calculation of technical reserves on the mismatched portion of annuity obligations had a positive impact of S/ 7 million in IFS' results, as well as of S/ 519 million in equity. This new rate consists of a risk free rate plus an iliquidity premium, as opposed to the risk-adjusted portfolio rate plus a 3% fixed rate previously used.

The second change consisted in the adoption of Peruvian mortality tables published in March 2018 by the Peruvian regulatory entity, in replacement of the Chilean mortality tables formerly employed, which dated from 2009. This change had a negative effect of S/ 145 million in both results and equity in 2Q18. The adoption has been implemented in full starting 2Q18 for IFRS accounting purposes, as opposed to the gradual 10-year implementation permitted by the regulator under local GAAP accounting standards.

The table below sets forth the main components of IFS' consolidated income statement for the six months ended June 30, 2018 and 2017.

	For the six months ended June 30,		Change	
	2018	2017		
	(S/ million)		(S/ million)	%
Interest and similar income	2,106.5	1,863.8	242.7	13.0%
Interest and similar expense	-552.9	-552.4	-0.5	0.1%
Net interest and similar income	**1,553.5**	**1,311.4**	**242.2**	**18.5%**
Provision for loan losses, net of recoveries	-285.5	-437.0	151.5	-34.7%
Net interest and similar income after provision for loan losses	**1,268.1**	**874.4**	**393.7**	**45.0%**
Fee income from financial services, net	445.8	414.6	31.2	7.5%
Other income	170.9	239.5	-68.5	-28.6%
Total premiums earned less claims and benefits	-265.1	-59.9	-205.1	342.3%
Other expenses	-899.8	-859.1	-40.7	4.7%
Income before translation result and income tax	**719.9**	**609.4**	**110.5**	**18.1%**
Translation result	-6.9	20.8	-27.8	N/M
Income tax	-218.1	-148.4	-69.7	46.9%
Profit for the period	**494.9**	**481.8**	**13.1**	**2.7%**
Attributable to equity holders of the group (1)	**491.3**	**482.8**	**8.5**	**1.8%**
EPS	**4.48**	**4.52**		
ROAE	**15.9%**	**18.7%**		

(1) During the period 4Q14-3Q17, Interseguro consolidated a real estate investment shared by Interseguro and Intercorp Real Estate Inc., a subsidiary of Intercorp Peru Ltd. Intercorp RE's part was then reported as attributable to non-controlling interest.

Profit attributable to shareholders was S/ 491.3 million for the six months ended June 30, 2018, a 1.8% increase compared to the corresponding period of 2017. This was mainly due to growths in net interest and similar income, and fees from financial services, in addition to a lower provision expense. These factors were partially offset by a one-time S/ 144.8 million adjustment of technical reserves due to the adoption of new mortality tables at the insurance business, in addition to a decrease in other income, as well as an increase in other expenses and a higher effective tax rate. IFS annualized ROAE was 15.9% for the six months ended June 30, 2018, below the 18.7% reported for the corresponding period of 2017, mostly explained by the increase in equity due to the change in the discount rate at the insurance business previously mentioned.

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, 2018 and 2017.

	For the six months ended June 30,		Change	
	2018	2017		
	(S/ million)		(S/ million)	%
Interest and similar income	1,723.9	1,660.1	63.8	3.8%
Interest and similar expense	-503.3	-519.4	16.1	-3.1%
Net interest and similar income	**1,220.6**	**1,140.7**	**79.9**	**7.0%**
Provision for loan losses, net of recoveries	-286.2	-439.7	153.5	-34.9%
Net interest and similar income after provision for loan losses	**934.4**	**701.0**	**233.4**	**33.3%**
Fee income from financial services, net	395.4	379.3	16.2	4.3%
Other income	154.8	172.1	-17.3	-10.1%
Other expenses	-743.0	-724.5	-18.5	2.6%
Income before translation result and income tax	**741.6**	**527.9**	**213.7**	**40.5%**
Translation result	-1.6	13.6	-15.2	N/M
Income tax	-204.5	-137.8	-66.7	48.4%
Profit for the period	**535.4**	**403.7**	**131.8**	**32.6%**
ROAE	**22.2%**	**18.8%**		
Efficiency ratio	**40.7%**	**41.3%**		
NIM	**5.6%**	**5.8%**		

Interbank's profit for the six months ended June 30, 2018 reached S/ 535.4 million, a S/ 131.8 million growth when compared to the corresponding period of 2017. The increase in net profit was supported by growths of S/ 79.9 million in net interest and similar income and S/ 16.2 million in fee income from financial services, together with a reduction of S/ 153.5 million in provisions. These effects were partially offset by a S/ 17.3 million decrease in other income, an S/ 18.5 million increase in other expenses and a slightly negative translation result.

Net interest and similar income grew 7.0% due to a 3.8% growth in interest and similar income, in addition to a 3.1% decrease in interest and similar expense.

Growth in interest and similar income was mainly due to increases of 3.0% in interest on loans, 97.5% in interest on due from banks and inter-bank funds and 7.2% in interest on investments available for sale.

The increase in interest on loans was due to a 9.2% increase in the average volume of loans, partially compensated by a 70 basis point contraction in the average yield, from 12.1% for the six months ended June 30, 2017 to 11.4% in the same period of 2018. The higher average volume of loans was attributed to growths of 10.6% in retail loans and 7.9% in commercial loans. In the retail portfolio, the higher average volume was mainly due to increases of 13.7% in mortgages, 10.3% in other consumer loans and 6.8% in the average balance of credit cards. In the commercial portfolio, volumes increased 25.2% in trade finance loans and 6.1% in short and medium-term loans, partially compensated by a 1.1% contraction in leasing operations. On the other hand, the decrease in the average rate was explained by lower yields in both retail and commercial loans. In retail loans, the reduction was due to lower returns on credit cards and payroll loans, while in commercial loans, to lower rates on trade finance loans and short and medium-term loans.

Interest on due from banks and inter-bank funds grew by S/ 9.5 million, or 97.5%, explained by a 20 basis point increase in the nominal average rate, partially offset by a 2.8% decrease in the average volume. The increase in the nominal average rate was due to higher returns on reserve requirements and deposits at the Central Bank, while the reduction in the average volume was due to lower reserve requirements at the Central Bank, partially offset by higher deposits at the Central Bank and inter-bank funds.

Interest on investments available for sale increased S/ 7.7 million, or 7.2%, as a result of a 35.5% growth in the average volume, partially offset by a 100 basis point decrease in the nominal average rate, from 4.7% for the six months ended June 31, 2017 to 3.7% for the corresponding period of 2018. The growth in volume was a result of higher investments in sovereign and global bonds, and in CDBCR, while the reduction in the average rate was due to lower returns on CDBCR and sovereign bonds, in addition to a lower base of shares owned on IFS, which contributed with income from dividends in the corresponding periods.

The nominal average yield on interest-earning assets decreased 50 basis points, from 8.4% for the six months ended June 31, 2017 to 7.9% for the corresponding period of 2018, mainly explained by the lower yields on loans and on investments available for sale.

Interest and similar expense decreased 3.1% as a result of a 21.1% reduction in interest on due to banks and correspondents, partially offset by increases of 2.0% in interest on deposits and obligations, and 1.2% in interest on bonds, notes and other obligations.

The S/ 23.2 million, or 21.1%, decrease in interest on due to banks and correspondents was explained by a 20.9% reduction in the average volume, while the average cost remained stable. The decrease in average volume was mainly due to lower funding provided by the Central Bank and COFIDE, as well as by lower inter-bank funds.

Interest on deposits and obligations increased S/ 5.3 million, or 2.0%, explained by a 14.2% growth in the average volume, partially offset by a 20 basis point decrease in the nominal average cost. The higher average volume was explained by higher balances of institutional, retail and commercial deposits. By currency, average soles deposits grew 20.4% while average dollar deposits increased 5.9%. The reduction in the average cost was due to a 60 basis point decrease in rates paid to soles deposits, partially compensated by a 20 basis point increase in the cost of dollar deposits.

Interest on bonds, notes and other obligations increased S/ 1.9 million, or 1.2%, mainly explained by the issuance of a senior bond in the international market for US$ 200 million in January 2018; in addition to hedging transactions for a total amount of US$ 250 million, executed throughout the year. These effects were partially offset by a lower nominal average cost, as a result of a bond exchange program also executed in January 2018.

The average cost of funds decreased 30 basis points, from 2.9% for the six months ended June 30, 2017 to 2.6% for the corresponding period of 2018. This was the result of the lower costs of bonds and deposits, as well as a higher proportion of deposits to total funding, since they contribute with a lower average cost than the rest of the sources of funding.

As a result of the above, net interest margin declined 20 basis points, from 5.8% for the six months ended June 30, 2017 to 5.6% for the corresponding period of 2018.

Provision for loan losses, net of recoveries decreased 34.9% due to a release of provisions in corporate loans, related to the bank's exposure to the construction sector, as well as lower provision requirements in retail loans and corporate loans. As a result, the annualized ratio of provision expense to average loans was 2.0% for the six months ended June 30, 2018, below the 3.3% registered in the corresponding period of 2017.

Net fee income from financial services increased S/ 16.2 million, or 4.3%, mainly due to growths of S/ 13.2 million in commissions from credit card services, S/ 4.2 million in fees from funds management, S/ 3.3 million in fees for indirect loans and S/ 2.2 million in collection services, partially offset by a S/ 8.7 million increase in expenses from financial services.

Other income decreased S/ 17.3 million, mainly due to a S/ 10.8 million decrease in net gain on sale of securities.

Other expenses increased S/ 18.5 million, or 2.6%; mainly explained by growths of 6.9% in depreciation and amortization, 3.2% in administrative expenses, and 2.5% in salaries and employee benefits. The efficiency ratio was 40.7% for the six months ended June 30, 2018, an improvement compared to the 41.3% achieved for the corresponding period of 2017.

Income before translation result and income tax grew 40.5% during the first six months of 2018 compared to the same period of 2017, which was then negatively affected by a slightly negative translation result and a higher effective tax rate. All in all, profit for the first six months of 2018 increased 32.6% compared to the same period of 2017.

Interbank's annualized ROAE was 22.2% for the six months ended June 30, 2018, above the 18.8% registered for the corresponding period of 2017.

Interseguro

The table below details selected financial information for Interseguro for the six months ended June 30, 2018 and 2017.

	For the six months ended June 30,		Change	
	2018	2017		
	(S/ million)		(S/ million)	%
Net interest and similar income	288.5	142.2	146.3	102.9%
Fee income from financial services, net	-2.4	-1.9	-0.5	27.7%
Other income	12.4	37.3	-24.9	-66.8%
Total premiums earned less claims and benefits	-265.1	-59.9	-205.2	342.3%
Other expenses	-129.7	-108.5	-21.2	19.5%
Income before translation result and income tax	**-96.3**	**9.1**	**-105.4**	**N/M**
Translation result	-2.9	6.3	-9.2	N/M
Income tax	0.0	1.6	-1.6	N/M
Profit for the period	**-99.2**	**17.1**	**-116.3**	**N/M**
Attributable to non-controlling interest (1)	0.0	3.8	-3.8	N/M
Profit attributable to shareholders	**-99.2**	**20.9**	**-120.1**	**N/M**
New mortality tables impact on technical reserves	-144.8	0.0	-144.8	N/M
Profit excluding change in mortality tables	**45.6**	**20.9**	**24.7**	**118.6%**
Efficiency ratio	**15.9%**	**16.3%**		
ROAE	**N/M**	**6.4%**		

(1) During the period 4Q14-3Q17, Interseguro consolidated a real estate investment shared by Interseguro and Intercorp Real Estate Inc., a subsidiary of Intercorp Peru Ltd. Intercorp RE's part was then reported as attributable to non-controlling interest.

Interseguro's result for the six months ended June 30, 2018 was S/ -99.2 million, compared to S/ 20.9 million for the corresponding period of 2017.

The reduction in profit was mainly explained by decreases of S/ 205.2 million in total premiums earned less claims and benefits, and S/ 24.9 million in other income, in addition to a S/ 21.2 million growth in other expenses. These factors were partially offset by a S/ 146.2 million increase in net interest and similar income as a result of a higher volume of assets due to the merger with Seguros Sura.

Total premiums earned less claims and benefits decreased S/ 205.2 million, mainly explained by growths of S/ 186.3 million in net claims and benefits incurred, and S/ 85.0 million in adjustment of technical reserves, partially offset by a S/ 66.1 million increase in net premiums.

Other income reached S/ 12.4 million, a S/ 24.9 million reduction, mainly due to decreases of S/ 30.0 million in net gain on sale of securities and S/ 19.9 million in net trading results, partially offset by a S/ 20.6 million increase in net gain on valuation of real estate investments.

Other expenses increased 19.5%, mainly attributed to growths of S/ 7.6 million in salaries and employee benefits, S/ 4.8 million in depreciation and amortization, and S/ 2.8 million in administrative expenses.

Total premiums earned less claims and benefits

	For the six months ended June 30,		
	2018	2017	Change
	(S/ million)		%
Net premiums	299.4	233.3	28.3%
Adjustment of technical reserves	-206.3	-121.3	70.1%
Net claims and benefits incurred	-358.2	-172.0	108.3%
Total premiums earned less claims and benefits	**-265.1**	**-59.9**	**342.3%**

The 28.3% growth in net premiums was mainly a result of increases of S/ 36.5 million in Individual Life, S/ 25.3 million in Disability and Survivorship, and S/ 9.9 million in annuities, partially offset by a S/ 5.6 million decrease in Retail Insurance.

Adjustment of technical reserves increased 70.1%, mainly due to growths of S/ 76.4 million in annuities, S/ 6.0 million in Individual Life and S/ 2.6 million in Retail Insurance. The adjustment of technical reserves in annuities was affected by the one-time adjustment for the adoption of new mortality tables, as previously noted.

The 108.3% growth in net claims and benefits incurred was explained by increases of S/ 158.4 million in annuities, S/ 21.4 million in Disability and Survivorship, S/ 4.3 million in Retail Insurance and S/ 2.3 million in Individual Life.

The increase in benefits incurred in annuities was due to the merger with Seguros Sura, which doubled Interseguro's annuities portfolio.

Inteligo

The table below details selected financial information for Inteligo for the six months ended June 30, 2018 and 2017.

	For the six months ended June 30,		Change	
	2018	2017		
	(S/ million)		(S/ million)	%
Interest and similar income	72.7	78.9	-6.2	-7.8%
Interest and similar expense	-20.0	-28.1	8.1	-29.1%
Net interest and similar income	**52.8**	**50.8**	**2.0**	**4.0%**
Provision for loan losses, net of recoveries	0.8	2.7	-1.9	-71.3%
Net interest and similar income after provision for loan losses	**53.5**	**53.5**	**0.0**	**0.0%**
Fee income from financial services, net	65.3	57.8	7.5	13.0%
Other income	4.2	31.5	-27.3	-86.6%
Other expenses	-37.2	-39.1	1.9	-4.9%
Income before translation result and income tax	**85.9**	**103.8**	**-17.9**	**-17.2%**
Translation result	-0.4	0.5	-0.9	N/M
Income tax	0.3	0.1	0.2	N/M
Profit for the period	**85.9**	**104.4**	**-18.5**	**-17.7%**
ROAE	**24.7%**	**30.8%**		
Efficiency ratio	**33.4%**	**27.8%**		

Inteligo's profit for the six months ended June 30, 2018 and 2017 was S/ 85.9 million and S/ 104.4 million, respectively. The S/ 18.5 million, or 17.7%, decrease was mainly attributable to a negative performance in other income.

Net interest and similar income grew S/ 2.0 million, or 4.0%, mainly due to growths of 6.4% in interest on investments available for sale as a result of the acquisition of fixed income securities that contributed with incremental coupons during the second quarter of 2018.

Inteligo's net fee income from financial services was S/ 65.3 million, an increase of S/ 7.5 million, or 13.0%, mainly explained by higher fees associated with incremental rebalancing activities of clients' portfolios.

Other income decreased S/ 27.3 million, mostly attributable to a S/ 22.0 million contraction in net gain on sale of securities due to optimal market conditions during the first semester of 2017 that prompted the sale of securities in such period.

Inteligo's other expenses reached S/ 37.2 million for the six months ended June 30, 2018. The S/ 1.9 million, or 4.9%, decrease was mainly explained by adjustments in reserves.

Inteligo's annualized ROAE for the six months ended June 30, 2018 was 24.7%.

iii. Intercorp Retail

The table below details Intercorp Retail's assets and equity in its main businesses as of June 30, 2018 and December 31, 2017.

	As of June 30, 2018		As of December 31, 2017	
	Asset	Equity	Asset	Equity
	(S/ million)		(S/ million)	
Supermercados Peruanos (Food Retail)	3,405.0	967.0	3,331.2	1,084.7
InRetail Pharma (Pharma)	4,696.6	472.1	783.7	124.4
InRetail Shopping Malls (shopping malls)	4,269.9	2,159.1	3,672.0	2,117.0
Other	3,345.0	1,355.3	3,815.1	1,196.9
Total Intercorp Retail	**15,716.5**	**4,953.5**	**11,601.9**	**4,523.0**

Results of Operations for the six months ended June 30, 2018 compared to the six months ended June 30, 2017

Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the six months ended June 30, 2018 and 2017.

	For the six months ended June 30,			
	2018	2017	Change	
	S/ millions	S/ millions	S/ millions	%
Total revenues………………….	6,972.8	4,839.3	2,133.6	44.1%
Cost of sales...…………………	-4,962.6	-3,361.8	-1,600.8	47.6%
Gross profit…………….……..	**2,010.2**	**1,477.5**	**532.8**	**36.1%**
Selling expenses………………..	-1,255.5	-947.4	-308.0	32.5%
Administrative expenses………	-373.5	-227.8	-145.8	64.0%
Other income (expense)……….	53.8	19.3	34.5	178.9%
Operating profit...……………	**435.0**	**321.5**	**113.5**	**35.3%**
Financial income (expense), net	-363.1	-80.6	-282.5	350.3%
Income tax expense……………	-82.1	-89.7	7.6	-8.5%
Net profit (loss)………………	**-10.2**	**151.2**	**-161.4**	**-**
Attributable to:				
Intercorp Retail's shareholders..	-2.6	93.7	-96.4	-
Minority interest…………………	-7.6	57.4	-65.0	-
Adjusted EBITDA……………..	**580.9**	**442.4**	**138.5**	**31.3%**
Adjusted EBITDA margin………	8.3%	9.1%	-	-81 bps

Intercorp Retail reported net loss of S/-10.2 million as of June 2018, representing a decrease of S/161.4 million compared to the same period in 2017. This is mainly a result of one-time expenses related to the acquisition of Quicorp at the end of January and to the associated liability management of the acquisition financing.

Intercorp Retail's gross profit increased 36.1% in the first six months of 2018. This growth was mainly due to the acquisition of Quicorp, and a solid growth in the Food Retail and Pharma segments.

The following discussion details the operating results of Intercorp Retail's primary segments: Food Retail, InRetail Pharma and InRetail Shopping Malls. We do not present detailed financial information for our other related businesses because they do not contribute materially to Intercorp's financial results.

Intercorp Retail's Segments

Food Retail

The table below details selected financial information for Supermercados Peruanos (Food Retail) for the six months ended June 30, 2018 and 2017.

	For the six months ended June 30,			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues…………………………..	2,457.1	2,252.6	204.5	9.1%
Cost of sales…………………………….	-1,827.2	-1,668.0	-159.2	9.5%
Gross profit……………………………	**630.0**	**584.6**	**45.3**	**7.8%**
Selling expenses………………………..	-482.5	-461.4	-21.1	4.6%
Administrative expenses……………….	-67.1	-58.5	-8.7	14.9%
Other income (expense)………………..	9.1	9.5	-0.4	-4.1%
Operating profit……………………….	**89.4**	**74.3**	**15.1**	**20.4%**
Financial income (expense)…………….	-34.3	-18.2	-16.1	88.4%
Income tax expense……………………..	-24.0	-24.5	0.5	-2.0%
Net profit………………………………..	**31.1**	**31.5**	**-0.5**	**-1.4%**
EBITDA……………………………………	151.7	134.0	17.6	13.2%
EBITDA margin …………………………..	6.2%	6.0%	-	22 bps

Food Retail reported a net income of S/31.1 million in the first six months of 2018 compared to S/31.5 million in the same period of 2017.This decrease was mainly generated by higher financial expenses (net) of S/34.3 million as of June 2018, compared to S/18.2 million in the same period of 2017.

Food Retails' gross profit increased 7.8% as of June 2018, compared to the same period in 2017. This growth is mainly explained by a strong SSS growth of 6.8%, which was positively impacted by higher sales of electronic products due to Peru's participation in the FIFA World Cup.

Food Retails' selling and administrative expenses grew 5.7% as of June 2018 compared to the same period in 2017. As a percentage of revenues, selling and administrative expenses decreased from 23.1% in the first six months of 2017, to 22.4% in the same period of 2018, mainly explained by the reduction in logistic expenses related to the operation of the new distribution center and in-store operational efficiencies.

InRetail Pharma

The table below details selected financial information for InRetail Pharma for the six months ended June 30, 2018 and 2017.

	For the six months ended June 30,			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues………………….	3,156.8	1,323.5	1,833.2	138.5%
Cost of sales……………………	-2,262.3	-888.5	-1,373.8	154.6%
Gross profit…………………..	**894.5**	**435.1**	**459.4**	**105.6%**
Selling expenses……………….	-606.4	-316.7	-289.7	91.5%
Administrative expenses………	-148.1	-31.9	-116.1	363.8%
Other income (expense)……….	21.3	-2.6	23.9	-
Operating profit………………	**161.3**	**83.8**	**77.5**	**92.4%**
Financial income (expense), net	-117.1	-0.6	-116.5	-
Income tax expense……………	-24.1	-26.7	2.6	-9.7%
Net profit……………………….	**20.1**	**56.5**	**-36.4**	**-64.5%**
EBITDA…………………………..	203.9	106.0	97.9	92.4%
EBITDA margin………………….	6.5%	8.0%	-	-155 bps

InRetail Pharma reported S/20.1 million of net profit as of June 2018, which represented a decrease of 64.5% compared to the same period of 2017, mainly due to one-time expenses related to the acquisition and higher financial expenses of associated to the acquisition financing.

InRetail Pharma's gross profit increased 105.6% in the six months ended June 2018 compared to the same period of 2017. This increase was mainly driven by the acquisition of Quicorp and a positive SSS of 5.9%. Additionally, gross margin decreased from 32.9% as of June 2017 to 28.3% in the same period of 2018, mainly due to the incorporation of the MDM unit of Quicorp, which operates at lower margins than the Pharmacies unit.

InRetail Pharma's selling and administrative expenses grew 116.4% in the first six months of 2018, compared to the same period of 2017. As a percentage of revenues, selling and administrative expenses were 23.9% for the six months ended June 2018, compared to 26.3% in the same period of 2017, due to the progress in the synergies plan and the incorporation of the MDM unit, which operates with a lower selling and administrative to sales ratio.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the six months ended June 30, 2018 and 2017.

	For the six months ended June 30,			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues………………………………….	244.2	229.9	14.3	6.2%
Cost of sales…………………………………….	-80.0	-79.0	-1.0	1.3%
Gross profit…………………………………..	**164.2**	**150.9**	**13.3**	**8.8%**
Selling expenses……………………………….	-4.3	-3.8	-0.5	12.8%
Administrative expenses………………………	-15.5	-12.0	-3.5	29.6%
Other income (expense)………………………	12.5	6.0	6.5	108.5%
Operating profit……………………………..	**156.9**	**141.1**	**15.7**	**11.1%**
Financial income (expense), net…………….	-93.0	-46.8	-46.2	98.6%
Income tax expense…………………………..	-19.4	-29.6	10.3	-34.6%
Net profit……………………………………..	**44.5**	**64.7**	**-20.2**	**-31.2%**
Adjusted EBITDA………………………………	150.3	138.3	11.9	8.6%
Adjusted EBITDA / Net Rental Income……….	80.6%	80.2%	-	44 bps

InRetail Shopping Malls reported S/44.5 million of net profit in the first six months of 2018, which represented a decrease of 31.2% compared to the same period in 2017. This decrease is mainly explained by higher financial expenses related to the prepayment of the 2014 InRetail Shopping Malls USD bonds and the unwinding of the associated Call Spread hedge.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 6.2% as of June 2018 in comparison to the same period of 2017, mainly due to 45k sqm of additional GLA since Q2'17 related to the acquisition of Real Plaza Pucallpa and a strong tenant SSS growth of 6.0%. 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/172.6 million in the first six months of 2017 to S/186.4 million in the same period of 2018 (an 8.0% growth).

In the first six months of 2018, InRetail Shopping Malls' selling and administrative expenses increased 25.6% compared to the same period of 2017. As a percentage of shopping malls revenues, selling and administrative expenses were 8.1% in the first six months of 2018, in comparison to 6.8% in the same period of 2017, mainly explained by higher administrative expenses.

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. 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	
	2018	**2017**
	(S/ million)	
Operating activities		
Net profit for the period	287.7	415.7
Adjustments to reconcile net income to net cash		
Participation in income of Subsidiaries	-355.7	-455.7
Gain on derivate financial instruments	-6.0	3.2
(Increase) decrease of other accounts receivable	-12.9	-6.5
Increase (decrease) of interest, provisions and other accounts payable*	-3.5	-43.8
Net cash provided by (used in) operating activities	**-90.4**	**-87.1**
Investing activities		
Dividends received	389.9	399.0
Loans collected from shareholder and related parties	-	-
Capital contribution to Subsidiaries, net of capital reductions	-118.7	-168.5
Maturity of available-for-sale investments	-	-
Payment of account payable for acquisition of investment property	-	-
Acquisition of non-controlling interest	-	-
Sale of available-for-sale investments	-	-
Acquisition of available-for-sale investments	-	-
Net cash provided by investing activities	**271.2**	**230.5**
Financing activities		
Issuance (payment) of notes	-	-40.3
Loans received fromthird parties, net*	-80.0	80.0
Loans received from Subsidiaries and related parties, net	-46.0	-121.6
Payment of dividends	-48.9	-49.3
Net cash used in financing activities	**-174.9**	**-131.2**
Net cash (decrease) increase	**5.9**	**12.2**
Balance of cash at the beginning of period	**13.5**	**1.8**
Balance of cash at the end of period	**19.4**	**14.0**

(*) 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 was similar to last year. Net cash provided by investing activities increased by S/ 40.7 million for the six months ended June 30, 2018 when compared to the corresponding period in 2017, due to a lower level of investments. Net cash from financing activities decreased by S/ 43.7 million for the six months ended June 30, 2018 when compared to the corresponding period in 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, 2018 and 2017.

	For the six months ended June 30,			For the year ended December 31,	
	2018	2018	2017	2017	2016
	(US$. in millions)(1)	(S/ in millions)		(S/ in millions)	
IFS(2)……	117.7	381.0	354.8	354.8	369.0
Intercorp Retail……	0.0	0.0	37.7	37.7	0.0
Other subsidiaries……	2.7	8.9	6.4	6.4	4.4
	120.4	**389.9**	**399.0**	**399.0**	**373.4**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.25 = 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, 2018 and 2017. The dividends declared and paid by IFS are in US dollars.

	For the six months ended June 30,		
	2018	2018	2017
	(US$. in millions) (1)	(S/ in millions)	
IFS			
Dividends declared and paid………	**117.7**	**384.7**	**475.8**
Net profit…(2)………	254.4	831.8	833.7
Dividend payout ratio………	**46.3%**	**46.3%**	**57.1%**

(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, 2018 and 2017.

	For the six months ended June 30,		
	2018	2018	2017
	(US$. in millions) [1]	(S/ in millions)	
Interbank			
Dividends declared and paid..........	**124.2**	**405.9**	**393.7**
Net profit. [2]...............................	275.9	902.0	875.1
Dividend payout ratio....................	**45%**	**45%**	**45%**
Interseguro			
Dividends declared and paid..........	**30.6**	**100.0**	**42.5**
Net profit. [2]...............................	31.7	103.7	85.8
Dividend payout ratio....................	**96%**	**96%**	**50%**
Inteligo			
Dividends declared and paid..........	**46.5**	**152.1**	**131.6**
Net profit. [2]...............................	58.2	190.1	165.7
Dividend payout ratio....................	**80%**	**80%**	**79%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.25 = US$1.00 , the exchange rate reported on December 31, 2017 by the

(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 (2018) is to distribute a minimum of 30% of distributable income. This policy is revised annually.

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.

iii. Indebtedness

Unconsolidated

As of June 30, 2018, Intercorp had S/ 1,161.3 million (US$355 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,120 million of long-term indebtedness comprised of S/ 818.5 million (US$250 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 301.5 million of the Senior Notes due 2030 (net of issuance expenses), and short-term indebtedness of S/ 32.5 million comprised of S/ 30 million of accounts payable to third parties. As of the same date, Intercorp had guaranteed up to US$ 155.3 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Financiera Oh!, Homecenters Peruanos and Colegios Peruanos, US$ 127.3 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.