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

First Quarter 2019

May, 2019

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 and 1 in Mexico. UTP consists of a university and a technical school, with more than 80,000 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, 2018 and December 31, 2018.

	As of March 31, 2019				As of December 31, 2018			
	Assets		Equity		Assets		Equity	
	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%
IFS								
Interbank (banking)……	49,231.1	57.2%	5,380.3	40.0%	47,628.8	58.0%	5,501.9	44.4%
Interseguro (insurance)……	12,967.5	15.1%	1,434.5	10.7%	12,572.4	15.3%	777.1	6.3%
Inteligo (wealth management)……	3,754.2	4.4%	830.3	6.2%	3,732.2	4.5%	764.9	6.2%
IFS (holding company) and eliminations……	-196.7	-0.2%	487.6	3.6%	-112.4	-0.1%	44.7	0.4%
Total IFS……	65,756.2	76.4%	8,132.7	60.4%	63,820.9	77.7%	7,088.5	57.2%
Intercorp Retail								
Supermercados Peruanos (supermarkets)……	4,683.5	5.4%	1,025.6	7.6%	3,697.2	4.5%	1,012.4	8.2%
InRetail Pharma (pharmacies)……	5,649.7	6.6%	692.8	5.1%	5,080.9	6.2%	600.8	4.8%
InRetail Shopping Malls (shopping malls)……	4,729.3	5.5%	2,309.5	17.1%	4,459.3	5.4%	2,227.9	18.0%
Other [(1)]……	3,443.4	4.0%	1,215.3	9.0%	3,550.1	4.3%	1,279.4	10.3%
Total Intercorp Retail……	18,506.0	21.5%	5,243.2	38.9%	16,787.5	20.4%	5,120.5	41.3%
Other subsidiaries/Intercorp (holding company) and eliminations……	1,799.5	2.1%	90.9	0.7%	1,516.4	1.8%	191.6	1.5%
Total Consolidated……	86,061.7	100%	13,466.8	100%	82,124.8	100%	12,400.6	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 from 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, 2019 and 2018.

	For the three-month periods ended March 31		Change	
	2019	2018		
	(S/ millions)		(S/ in millions)	%
IFS				
Banking	186.4	185.7	0.7	0.4%
Insurance	30.2	18.3	11.9	64.8%
Wealth Management	62.0	30.6	31.4	102.7%
IFS expenses and eliminations	-18.3	-16.1	-2.2	13.5%
Total IFS	**260.2**	**218.5**	**41.8**	**19.1%**
Intercorp Retail				
Supermarkets	7.6	11.1	-3.5	-31.6%
Pharmacies	42.7	12.0	30.6	254.3%
Shopping malls	27.0	17.0	9.9	58.2%
Other subsidiaries / holding company and eliminations	3.0	-64.2	67.2	N/M
Total Intercorp Retail	**80.2**	**-24.0**	**104.2**	**N/M**
Other subsidiaries	-20.7	-2.1	-18.6	896.9%
Net profit attributable to Intercorp	**319.8**	**192.4**	**127.4**	**66.2%**
Financial expenses, net	-22.4	-21.0	-1.4	6.9%
General expenses	-6.4	-5.4	-1.0	18.1%
Other income (expenses), net	-13.1	-6.2	-6.9	110.6%
Foreign exchange gain (loss), net	12.7	3.8	8.8	229.8%
Income (expenses)	**-29.3**	**-28.8**	**-0.5**	**1.7%**
Net profit	**290.5**	**163.6**	**126.9**	**77.5%**

For the three months ended March 31, 2019, Intercorp´s net profit was S/ 290.5 million, an increase of S/ 126.9 million compared to the same period in 2018. This was driven by Intercorp Retail (S/ 104.2 million), and IFS (S/ 41.8 million) due to higher profits at Inteligo (S/ 31.4 million). Higher net profits of Intercorp Retail took place mainly in Inretail Pharma and intermediate holdings (2018 was affected by financial expenses related to Quicorp's acquisition and associated liability management).

ii. IFS

At the beginning of 2019, IFS consolidated its wealth management activities with the sale of Interfondos, Interbank's mutual funds subsidiary, to Inteligo, where asset management is the core business. The sale resulted in a S/ 52.6 million income at Interbank, net of taxes and workers profit sharing for S/ 20.2 million. At a consolidated level, the impact of the sale of Interfondos from Interbank to Inteligo had a S/ 20.2 million tax effect on IFS' profit. In this context, figures for Interbank and Inteligo from previous periods have been restated to reflect the transfer of Interfondos from one subsidiary to the other.

The table below sets forth the main components of IFS' consolidated income statement for the three months ended March 31, 2019 and 2018.

	For the three months ended March 31,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	1,166.7	1,036.3	130.5	12.6%
Interest and similar expense	-335.8	-266.9	-68.9	25.8%
Net interest and similar income	**831.0**	**769.4**	**61.6**	**8.0%**
Impairment loss on loans, net of recoveries	-186.4	-172.9	-13.5	7.8%
Recovery (loss) due to impairment of financial investments	1.9	2.3	-0.4	-16.4%
Net interest and similar income after impairment loss	**646.4**	**598.8**	**47.7**	**8.0%**
Fee income from financial services, net	223.0	216.6	6.4	3.0%
Other income	138.9	96.9	42.0	43.3%
Total premiums earned minus claims and benefits	-74.1	-78.9	4.8	-6.1%
Other expenses	-481.7	-443.9	-37.9	8.5%
Income before translation result and income tax	**452.5**	**389.5**	**63.0**	**16.2%**
Translation result	10.1	6.0	4.1	68.6%
Income tax	-109.9	-105.5	-4.4	4.1%
Profit for the period	**352.7**	**290.0**	**62.7**	**21.6%**
Attributable to IFS' shareholders	**350.6**	**288.2**	**62.4**	**21.6%**
EPS	**3.17**	**2.64**		
ROAE	**18.5%**	**19.1%**		

Profit attributable to shareholders was S/ 350.6 million in the three months ended March 31, 2019, a S/ 62.4 million or 21.6% increase compared to the corresponding period of the previous year. The higher profits were mainly driven by growths of S/ 61.6 million in net interest and similar income, S/ 42.0 million in other income, S/ 6.4 million in fee income from financial services, and S/ 4.8 million in total premiums earned minus claims and benefits. Moreover, a higher positive translation result and a lower effective tax rate also contributed to IFS' net profit increase with respect to the three months ended March 31, 2018. These effects were partially offset by increases of S/ 37.9 million in other expenses and S/ 13.5 million in impairment loss on loans.

IFS annualized ROAE was 18.5% for the three months ended March 31, 2019, below the 19.1% reported for the corresponding period of 2018.

When excluding the tax effect of the sale of Interfondos from Interbank to Inteligo, IFS' profits reached S/ 372.9 million, an increase of 28.6%. Accordingly, annualized ROAE excluding this effect was 19.6% for the three months ended March 31, 2019.

IFS' Segments

The following discussion details the results of operations of each of IFS's three segments: Banking, Insurance and Wealth Management.

Banking

The table below details selected financial information for our Banking segment for the three months ended March 31, 2019 and 2018.

	For the three months ended March 31,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	965.0	843.1	121.9	14.5%
Interest and similar expense	-307.4	-242.5	-65.0	26.8%
Net interest and similar income	**657.6**	**600.7**	**56.9**	**9.5%**
Impairment loss on loans, net of recoveries	-186.3	-173.3	-13.1	7.5%
Recovery (loss) due to impairment of financial investments	0.0	-0.1	0.1	-98.5%
Net interest and similar income after impairment loss	**471.2**	**427.3**	**43.9**	**10.3%**
Fee income from financial services, net	193.4	179.7	13.6	7.6%
Other income	133.1	90.2	42.8	47.5%
Other expenses	-390.8	-362.1	-28.7	7.9%
Income before translation result and income tax	**406.9**	**335.1**	**71.7**	**21.4%**
Translation result	0.2	1.9	-1.7	-87.8%
Income tax	-107.4	-94.5	-12.9	13.7%
Profit for the period	**299.7**	**242.6**	**57.1**	**23.6%**
ROAE	**22.1%**	**20.6%**		
Efficiency ratio	**38.2%**	**40.1%**		
NIM	**5.5%**	**5.4%**		

Interbank's net profit reached S/ 229.7 million in the three months ended March 31, 2019, a 23.6% increase compared to the corresponding period of the previous year. The main factors that contributed to this result were growths of 47.5% in other income, 9.5% in net interest and similar income, and 7.6% in fee income from financial services. These factors were partially offset by increases of 7.9% in other expenses and 7.5% in impairment loss on loans.

Net interest and similar income grew 9.5% due to a 14.5% increase in interest and similar income, partially offset by a 26.8% growth in interest and similar expense.

Growth in interest and similar income was mainly due to increases of more than two-fold in interest on due from banks and inter-bank funds, and 13.7% in interest on loans, while interest on investments remained stable.

Interest on due from banks and inter-bank funds grew S/ 14.9 million, explained by an 80 basis point increase in the nominal average rate, partially offset by a 13.9%

decrease in the average volume. The increase in the nominal average rate was due to higher returns on deposits and reserve funds at the Central Bank, while the reduction in the average volume, to lower balances of such components.

The increase in interest on loans was due to a 16.7% growth in the average volume of loans, partially compensated by a 30 basis point contraction in the average yield, from 11.0% for the three months ended March 31, 2018 to 10.7% for the three months ended March 31, 2019.

The higher average volume of loans was attributed to growths of 16.9% in commercial loans and 16.6% in retail loans. In the commercial portfolio, volumes increased 40.3% in trade finance loans and 16.9% in short and medium-term loans, while leasing operations reduced 1.0%. In the retail portfolio, the higher average volume was mainly due to increases of 24.8% in credit cards, 15.0% in payroll loans and 12.2% in mortgages.

The decrease in the average rate on loans was explained by reductions of 40 basis points in retail loans and 20 basis points in commercial loans.

Interest on investments available for sale remained stable as the 8.8% reduction in the average volume was offset by a 40 basis point increase in the average rate, from 3.3% for the three months ended March 31, 2018 to 3.7% for the three months ended March 31, 2019. The decrease in the average volume was the result of lower balances of CDBCR and global bonds, while the growth in the average rate was due to higher returns on corporate bonds from non-financial institutions and sovereign bonds.

The nominal average yield on interest-earning assets increased 60 basis points, from 7.5% for the three months ended March 31, 2018 to 8.1% for the three months ended March 31, 2019, mainly explained by higher nominal average rates on due from banks and investments, as well as by a higher proportion of loans within interest-earning assets, since they contribute with a higher average yield than the rest of components, even if their nominal average rate reduced between the corresponding periods.

Growth in interest and similar expense was due to increases of 36.8% in interest on deposits and obligations, and 31.6% in interest on bonds, notes and other obligations; partially offset by a 10.8% reduction in interest on due to banks and correspondents.

Interest on deposits and obligations increased S/ 48.2 million, or 36.8%, explained by growths of 40 basis points in the nominal average cost and 6.9% in the average volume. The increase in the average cost, from 1.8% for the three months ended March 31, 2018 to 2.2% for the three months ended March 31, 2019, was due to higher rates paid to institutional, commercial and retail deposits. The higher average volume was explained by growths in retail and commercial deposits, partially offset by a decrease in institutional deposits. By currency, average balances of soles deposits grew 10.0% while average dollar deposits increased 2.1%.

Interest on bonds, notes and other obligations grew S/ 21.5 million, or 31.6%, as a result of the issuances of senior bonds in January 2018 and March 2019. Additionally, a 3.4% depreciation of the exchange rate between the corresponding periods originated an increase in the value of bonds issued in dollars.

The S/ 4.7 million, or 10.8% decrease in interest on due to banks and correspondents was explained by a 12.0% reduction in the average volume, partially offset by a 10 basis points increase in the average cost. The decrease in average volume was mainly due to lower funding provided from the Central Bank, COFIDE and correspondent banks abroad. The increase in the nominal average cost was explained by higher rates on funding from banks abroad, inter-bank funds and COFIDE.

The average cost of funds increased 40 basis points, from 2.6% for the three months ended March 31, 2018 to 3.0% for the three months ended March 31, 2019, mainly due to the higher costs of deposits and due to banks and correspondents.

As a result of the above, net interest margin was 5.5% for the three months ended March 31, 2019, 10 basis points higher than the 5.4% reported for the three months ended March 31, 2018.

Impairment loss on loans, net of recoveries increased 7.5% in the three months ended March 31, 2019, compared to the corresponding period of the previous year. This was mainly a result of a higher volume of loans, especially in credit cards, partially compensated by lower requirements in payroll loans and by a release of provisions in medium-sized companies associated with a reduction in balances in such segment.

The S/ 13.6 millon, or 7.6%, increase in fee income from financial services was mainly attributable to higher commissions from credit card services, partially offset by slight reductions in other components.

Other income increased S/ 42.8 million mainly due to a S/ 52.6 million gain from the sale of Interfondos to Inteligo at the beginning of 2019, partially offset by a S/ 12.6 million decrease in net gain on financial assets at fair value.

Other expenses increased S/ 28.7 million, or 7.9%, as a result of increases in workers profit sharing, variable costs related to credit cards and IT services.

The efficiency ratio was 38.2% in the three months ended March 31, 2019, compared to the 40.1% registered in the corresponding period of 2018. However, excluding the gain from the sale of Interfondos to Inteligo for S/ 52.6 million, efficiency ratio was 40.3% in the three months ended March 31, 2019.

Income before translation result and income tax increased 21.4% in the three months ended March 31, 2019, which was then positively affected by a lower effective tax rate, from 28.0% for the three months ended March 31, 2018 to 26.4% in the corresponding period of 2019, partially offset by a lower translation result. As a result of the above, profit for the period increased 23.6% in the three months ended March 31, 2019, compared to the corresponding period of 2018.

Interbank's annualized ROAE was 22.1% for the three months ended March 31, 2019. However, adjusting from the gain on sale of Interfondos, annualized ROAE was 19.8%, lower than the 20.6% reported for the corresponding period of 2018.

Insurance

The table below details selected financial information for our Insurance segment for the three months ended March 31, 2019 and 2018.

	For the three months ended March 31,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Net interest and similar income	143.2	143.9	-0.7	-0.5%
Recovery (loss) due to impairment of financial investments	2.4	0.1	2.3	N/M
Net interest and similar income after impairment loss	**145.5**	**144.0**	**1.5**	**1.1%**
Fee income from financial services, net	-1.0	-1.7	0.7	-40.6%
Other income	24.8	11.8	13.0	110.4%
Total premiums earned minus claims and benefits	-74.1	-78.9	4.8	-6.1%
Other expenses	-70.7	-61.8	-8.9	14.4%
Income before translation result and income tax	**24.6**	**13.5**	**11.1**	**82.5%**
Translation result	4.4	1.0	3.4	N/M
Income tax	0.0	0.0	0	N/M
Profit for the period	**28.9**	**14.5**	**14.4**	**99.7%**
Profit attributable to IFS' shareholders	**28.9**	**14.5**	**14.4**	**99.7%**
Efficiency ratio	**12.9%**	**11.0%**		
ROAE	**10.5%**	**8.6%**		

Interseguro's profit attributable to IFS' shareholders in the three months ended March 31, 2019 was S/ 28.9 million, compared to S/ 14.5 million in the corresponding period of 2018.

The improvement in profits was mainly due to growths of S/ 13.0 million in other income, mainly explained by higher rental income and gain on financial assets at fair value, as well as S/ 4.8 million in total premiums earned minus claims and benefits, and S/ 2.3 million in recovery due to impairment of financial investments, partially offset by a S/ 8.9 million increase in other expenses.

Other income increased as a result of growths of S/ 12.6 million in net gain on financial assets at fair value, S/ 6.4 million in net gain on investment property and S/ 3.9 million in rental income, partially offset by a reduction of S/ 8.3 million in net gain on sale of financial investments.

Total premiums earned minus claims and benefits increased S/ 4.8 million explained by a S/ 32.3 million increase in net premiums, as well as a S/ 3.1 million reduction in net claims and benefits incurred, partially offset by a S/ 30.7 million increase in adjustment of technical reserves.

Other expenses increased S/ 8.9 million mainly attributed to growths of S/ 3.2 million in administrative expenses, S/ 2.8 million in depreciation and amortization, and S/ 0.7 million in salaries and employee benefits.

Total premiums earned less claims and benefits

	For the three months ended March 31,		
	2019	2018	Change
	(S/ million)		%
Net premiums	171.2	138.9	23.3%
Adjustment of technical reserves	-73.3	-42.6	72.0%
Net claims and benefits incurred	-172.0	-175.1	-1.8%
Total premiums earned minus claims and benefits	**-74.1**	**-78.9**	**-6.1%**

The 23.3% growth in net premiums was mainly a result of increases of S/ 32.9 million in annuities, S/ 10.6 million in retail insurance and S/ 1.0 million in individual life, partially offset by a S/ 12.2 million decrease in disability and survivorship.

Adjustment of technical reserves increased 72.0%, due to growths of S/ 19.8 million in annuities, S/ 9.7 million in individual life and S/ 1.1 million in retail insurance.

The reduction in net claims and benefits incurred was explained by decreases of S/ 11.4 million in disability and survivorship claims, S/ 2.1 million in individual life claims and S/ 0.4 million in retail insurance claims, partially offset by a S/ 10.7 million increase in annuity benefits.

It is worth noting that, the performance of net premiums and net claims and benefits incurred for the three months ended March 31, 2019 was affected by Seguros Sura's disability and survivorship contract expiration in December 2018.

Interseguro's annualized ROAE for the three months ended March 31, 2019 was 10.5%, higher than the 8.6% registered for the corresponding period of 2018.

Wealth Management

The table below details selected financial information for our Wealth Management segment for the three months ended March 31, 2019 and 2018.

	For the three months ended March 31,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	45.6	33.7	11.9	35.1%
Interest and similar expense	-14.9	-9.1	-5.8	62.7%
Net interest and similar income	**30.7**	**24.6**	**6.1**	**24.8%**
Impairment loss on loans, net of recoveries	-0.1	0.4	-0.5	N/M
Recovery (loss) due to impairment of financial investments	-0.5	2.3	-2.8	N/M
Net interest and similar income after impairment loss	**30.2**	**27.3**	**2.9**	**10.6%**
Fee income from financial services, net	38.9	43.1	-4.2	-9.7%
Other income	36.8	1.1	35.7	N/M
Other expenses	-26.9	-26.4	-0.5	1.7%
Income before translation result and income tax	**79.0**	**45.0**	**34.0**	**75.6%**
Translation result	0.7	0.5	0.2	29.0%
Income tax	-1.4	-1.6	0.2	-10.1%
Profit for the period	**78.3**	**44.0**	**34.3**	**78.1%**
ROAE	**38.1%**	**22.4%**		
Efficiency ratio	**25.2%**	**38.3%**		

Inteligo's profit in the three months ended March 31, 2019 and 2018 was S/ 78.3 million and S/ 44.0 million, respectively. The S/ 34.3 million, or 78.1%, increase was mainly attributable to a positive performance in other income.

Net interest and similar income grew S/ 6.1 million, or 24.8%, explained by an increase of 55.0% in interest on financial investments, related to fixed income instruments that contributed with incremental coupons.

Inteligo's net fee income from financial services was S/ 38.9 million, a decrease of S/ 4.2 million, or 9.7%, mainly explained by a lower brokerage activity amid higher volatility in global markets and lower structured products issuance.

Other income increased S/ 35.7 million, attributable to better mark-to-market valuations on Inteligo's proprietary portfolio and optimal conditions caused by a market rebound, that prompted the sale of certain investments.

Inteligo's other expenses reached S/ 26.9 million in the three months ended March 31, 2019. The S/ 0.5 million, or 1.7%, increase was mainly due to higher depreciation and amortization charges associated with IT investments.

Inteligo's annualized ROAE for the three months ended March 31, 2019 was 38.1%, significantly higher than the 22.4% registered for the corresponding period of 2018.

iii. Intercorp Retail

Results of Operations for the three months ended March 31, 2019 compared to the three months ended March 31, 2018

Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the three months ended March 31, 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the three months ended March 31,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues…………………………………	3,898.3	3,286.1	612.2	18.6%
Cost of sales…………………………………	-2,731.9	-2,323.9	-408.0	17.6%
Gross profit………………………………	**1,166.4**	**962.2**	**204.2**	**21.2%**
Selling and Administrative expenses…………	-887.2	-791.1	-96.0	12.1%
Other income (expense)………………………	17.2	23.4	-6.2	-26.6%
Operating profit……………………………	**296.4**	**194.5**	**102.0**	**52.4%**
Financial income (expense), net………………	-97.8	-165.7	67.9	-41.0%
Income tax expense……………………………	-66.4	-48.8	-17.6	36.1%
Net profit (loss)……………………………	**129.0**	**-20.0**	**149.0**	**-**
Attributable to:				
Intercorp Retail's shareholders	78.2	-7.0	85.2	
Minority interest	50.8	-13.1	63.9	
Adjusted EBITDA	**385.0**	**266.5**	**118.5**	**44.5%**
Adjusted EBITDA margin	10%	8%		177pbs

Intercorp Retail reported net profit of S/ 129.0 million as of March 2019, representing an increase of S/ 149.0 million compared to the same period in 2018. Last period was affected by financial expenses related to Quicorp's acquisition and associated liability management.

Intercorp Retail's gross profit increased 21.2% in the first quarter of 2019. This growth was mainly due to a successful execution of synergies in the Pharma segment, a solid performance in all business units, with only two months of Quicorp incorporated in the first quarter of 2018.

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 for the three months ended March 31, 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the three months ended March 31,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues	1,439.6	1,234.5	205.2	16.6%
Cost of sales	-1,076.8	-922.4	154.4	16.7%
Gross profit	**362.8**	**312.0**	**50.8**	**16.3%**
Selling and Administrative expenses	-322.5	-270.0	52.6	19.5%
Other income (expense)	9.5	3.2	6.3	196.9%
Operating profit	**49.8**	**45.3**	**4.5**	**10.0%**
Financial income (expense)	-17.4	-15.0	2.4	16.2%
Income tax expense	-15.3	-14.4	0.8	5.7%
Net profit	**17.1**	**15.8**	**1.3**	**8.0%**
Adjusted EBIDTA	**87.6**	**76.0**	**11.6**	**15.2%**
Adjusted EBITDA margin	6.1%	6.2%	-	-7pbs

Food Retail reported a net income of S/ 17.1 million as of March 2019 compared to S/ 15.8 million in the same period of 2018.This increase was mainly generated by a solid performance of the segment and double digit revenues growth.

Food Retails' gross profit increased 16.3% in the first quarter of 2019, compared to the same period in 2018. This growth is mainly explained by a SSS growth of 9.5% and the opening of 41 net Mass stores. Additionally, at the end of the quarter, one Economax store was opened in the city of Arequipa.

Food Retails' selling and administrative expenses grew 19.5% in the first quarter of 2019 compared to the same period in 2018. As a percentage of revenues, selling and administrative expenses increased from 21.9% in the first quarter of 2018, to 22.4% in the same period of 2019, due to an increase in pre-opening expenses related to the new Cash and Carry and Mass stores, which are in process of maturation.

InRetail Pharma

The table below details selected financial information for InRetail Pharma for the three months ended March 31, 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the three months ended March 31,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues……	1,704.5	1,379.3	325.2	23.6%
Cost of sales……	-1,186.7	-975.0	211.8	21.7%
Gross profit……	**517.8**	**404.4**	**113.4**	**28.1%**
Selling and Administrative expenses……	-389.1	-354.8	34.3	9.7%
Other income (expense)……	0.2	8.6	-8.4	-97.9%
Operating profit……	**128.8**	**58.2**	**70.7**	**121.5%**
Financial income (expense), net……	-34.0	-26.1	7.9	30.4%
Income tax expense……	-25.9	-16.7	9.2	55.2%
Net profit……	**68.9**	**15.4**	**53.5**	**347.6%**
Adjusted EBITDA……	**158.9**	**78.1**	**80.8**	**103.5%**
Adjusted EBITDA margin……	9.3%	5.7%	-	366pbs

InRetail Pharma reported S/ 68.9 million of net profit as of March 2019, which represented an increase of 347.6% compared to the same period of 2018, which includes only two months of Quicorp operations.

InRetail Pharma's gross profit increased 28.1% in the first quarter of 2019 compared to the same period of 2018. This increase was mainly driven by one extra month of Quicorp operations and a positive SSS of 6.3% in the pharmacies unit. Additionally, gross margin increased from 29.3% in the first quarter of 2018 to 30.4% in the same period of 2019, due to a strong gross margin growth in the pharmacies unit due to synergies.

InRetail Pharma's selling and administrative expenses grew 9.7% in the first quarter of 2019, compared to the same period of 2018. As a percentage of revenues, selling and administrative expenses were 22.8% in the first quarter of 2019, compared to 25.7% in the same period of 2018.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the three months ended March 31, 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the three months ended March 31,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues……	127.3	122.1	5.2	4.3%
Cost of sales……	-43.5	-39.3	4.2	10.8%
Gross profit……	**83.8**	**82.8**	**1.0**	**1.2%**
Selling and Administrative expenses……	-9.1	-9.7	-0.6	-6.2%
Other income (expense)……	3.4	5.0	-1.6	-32.2%
Operating profit……	**78.1**	**78.1**	**-0.1**	**-0.1%**
Financial income (expense), net……	-25.5	-34.0	-8.5	-25.0%
Income tax expense……	-15.9	-11.4	4.5	39.1%
Net profit……	**36.7**	**32.7**	**4.0**	**12.2%**
Adjusted EBITDA……	**75.8**	**75.9**	**-0.1**	**-0.1%**
Adjusted EBITDA / Net Rental Income……	78.5%	80.7%	-	-222pbs

InRetail Shopping Malls reported S/ 36.7 million of net profit as of March 2019, which represented an increase of 12.2% compared to the same period in 2018. This decrease is mainly explained by higher financial expenses related to the unwind of the US$ 200mm Call Spread hedging the 2014 InRetail Shopping Malls USD bond in the first quarter of 2018.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 4.3% in the first quarter of 2019 in comparison to same period of 2018, mainly explained by a good performance of tenants and recent GLA expansion in the fourth quarter of 2018. 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/ 94 million in the first quarter of 2018 to S/ 97 million in the same period of 2019 (a 2.7% growth).

In the first quarter 2019, InRetail Shopping Malls' selling and administrative expenses slightly decrease compared to the same period of 2018. As a percentage of shopping malls revenues, selling and administrative expenses were 7.2% in the first period of 2019, in comparison to 8.0% in the same period of 2018.

III. Other financial information

i. Liquidity and Capital Resources

Intercorp's main source of cash flows are the dividends received from its subsidiaries. Almost all of Intercorp's dividends have been contributed by IFS. Its main uses of funds have been investments in subsidiaries, interest payments 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-month periods ended March 31	
	2019	2018
	(S/ millions)	
Operating activities		
Net profit for the period	290.5	163.6
Adjustments to reconcile net income to net cash		
Participation in income of Subsidiaries	-319.8	-192.2
Gain on derivate financial instruments	0.6	-2.5
Changes at the fair value of investment property	2.4	0.3
Exchange difference for corporate bonds and others	-11.9	-3.8
(Increase) decrease of other accounts receivable	-11.7	-21.6
Increase (decrease) of interest, provisions and other accounts payable*	-7.9	-9.2
Net cash provided by (used in) operating activities	**-57.8**	**-65.5**
Investing activities		
Dividends received	11.7	1.6
Loans collected from shareholder and related parties	-	-
Capital contribution to Subsidiaries, net of capital reductions	-37.6	-104.5
Maturity of available-for-sale investments	-	-
Payment of account payable for acquisition of investment property	-	-
Acquisition of non-controlling interest	-	-
Net cash provided by investing activities	**-25.9**	**-102.9**
Financing activities		
Issuance (payment) of notes	-	-
Loans received fromthird parties, net*	-	-
Loans received from Subsidiaries and related parties, net	104.0	182.0
Payment of dividends	-24.7	-24.3
Net cash used in financing activities	**79.3**	**157.7**
Net cash (decrease) increase	**-4.4**	**-10.7**
Balance of cash at the beginning of period	**7.5**	**13.5**
Balance of cash at the end of period	**3.0**	**2.8**

(*) 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 in S/ 7.7 million for the three months ended March 31, 2019 when compared to the corresponding period in 2018 and Net cash provided by investing activities increased by S/ 77 million during the same period of time due to investments related to the acquisition of Quicorp. Finally, net cash from financing activities decreased by S/ 78 million for the three months ended March 31, 2019 because there were lower investement requirements compared to the corresponding period in 2018.

ii. Indebtedness

Unconsolidated

As of March 31, 2018, Intercorp had S/ 1,439.5 million (US$ 434 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,117.3 million of long-term indebtedness comprised of S/ 819.4 million (US$ 247 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 297.9 million of the Senior Notes due 2030 (net of issuance expenses), and short-term indebtedness of S/ 322.2 million. As of the same date, Intercorp had guaranteed up to US$ 141.4 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Financiera Oh!, Homecenters Peruanos and Colegios Peruanos, US$ 118 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.