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

Third Quarter 2019

November, 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.

Recent Developments

Intercorp Financial Services – IPO

On July 3, 2019, following the approval by the Board, Intercorp Financial Services, Subsidiary de Intercorp, filed with the Securities and Exchange Commission of the United States of America (henceforth "SEC"), a Registration Statement under Form F-1 of the Securities Exchange Act of 1933 of the United States of America, in relation with a proposal of an Initial Public Offering of IFS's common shares (henceforth "the Offering").

On July 18, 2019, IFS announced the placement of the Offering of approximately 9,000,000 common shares at a price of US$46.00 per common share. The sale was performed by (i) IFS, (ii) Interbank, (iii) Intercorp Perú Ltd., and (iv) a non-related shareholder. Also, IFS granted the Offering placers a 30-day call option for up to 1,350,000 additional new common shares, as an additional initial issuance.

As part of the Public Offering, IFS sold 2,418,754 common shares held as treasury stock (including shares sold to Interbank), as well as 1,150,000 new common shares to be issued. Intercorp Perú sold 2,531,246 shares, and the non-related shareholder sold 3,000,000 shares. Also, the Offering placers exercised the call option regarding 1,186,841 new common shares.

In this sense, Intercorp Perú and Subsidiaries jointly sold 7,286,841 shares at US$46.00 per share. The sale value amounted to approximately US$ 335.2 million (before issuance expenses).

The total impact of the Offering over Intercorp Perú's net equity, after discounting the issuance expenses, amounted to S/ 495.5 million, which is mainly explained by:

(1) Issuance of 2,336,841 shares and sale of shares held as treasury stock by IFS (2,418,754 shares) with a total impact of S/ 288 million registered in retained earnings.
(2) Sale of shares held by Intercorp Perú (2,531,246 shares), which generated a net gain of the investment cost (S/ 160.8 million) amounting to S/ 207.5 million which is presented in the caption "Gain from Initial Public Offering of Subsidiary" in the statements of income.

<u>Intercorp Bonds</u>

(i) In July 2019, the Company performed a private offering abroad and on the local market of bonds denominated "3.875 Senior Notes due 2029" and "5.78125 Senior Notes due 2029" for US$ 325 million and S/ 300 million, respectively. The bonds were issued under Rule 114A and Regulation S of the U.S. Securities Act of 1993 of the United States of America. The proceeds from these issuances were used mainly for:

- The repurchase and redemption of corporate bonds "5.875% Secured Notes due 2025" issued by Intercorp Perú and payment of the premium for the repurchase of said bonds.

- Payment of other financial obligations.

- The remaining balance for general corporate purposes.

Issuance expenses amounted to approximately S/ 39 million, which are presented as an issued bonds deduction; as of September 30, 2019, have accrued as part of the interest rate approximately S/ 0.5 million.

(ii) In July 2019, Intercorp Perú performed the repurchase of corporate bonds denominated "5.875% Senior Notes due 2025"; which originated the premium payment for approximately US$11.4 million (equivalent to S/ 37.6 million).

II. Results Analysis

The table below details Intercorp's assets and equity in its main businesses as of September 30, 2019 and December 31, 2018.

	As of September 30, 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)……………………………………….	52,769.2	56.8%	6,038.2	41.8%	47,628.8	58.0%	5,501.9	44.4%
Interseguro (insurance)…………………………………….	14,046.4	15.1%	918.8	6.4%	12,572.4	15.3%	777.1	6.3%
Inteligo (wealth management)………………………………	4,265.4	4.6%	802.9	5.6%	3,732.2	4.5%	764.9	6.2%
IFS (holding company) and eliminations…………………	323.9	0.3%	720.8	5.0%	(112.4)	-0.1%	44.7	0.4%
Total IFS……………………………………………………..	71,404.9	76.9%	8,480.6	58.8%	63,820.9	77.7%	7,088.5	57.2%
Intercorp Retail								
Supermercados Peruanos (supermarkets)……………………	4,888.5	5.3%	1,043.4	7.2%	4,459.3	5.4%	2,227.9	18.0%
Inkafarma (pharmacies)………………………………….	5,508.2	5.9%	710.7	4.9%	3,697.2	4.5%	1,012.4	8.2%
InRetail Shopping Malls (shopping malls)………………….	4,970.2	5.4%	2,367.1	16.4%	5,080.9	6.2%	600.8	4.8%
Other (1)………………………………………………………………	3,596.3	3.9%	1,216.7	8.4%	3,550.1	4.3%	1,279.4	10.3%
Total Intercorp Retail……………………………………….	18,963.2	20.4%	5,337.9	37.0%	16,787.5	20.4%	5,120.5	41.3%
Other subsidiaries/Intercorp (holding company) and eliminations…………………………………..…	2,484.2	2.7%	616.4	4.3%	1,516.4	1.8%	191.6	1.5%
Total Consolidated……………………………………….	92,852.2	100%	14,434.9	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

*Difference in Intercorp Retail Equity is due to minority interest

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 nine months ended September 30, 2019 and 2018.

	For the nine month periods ended September 30,			
	2019	**2018**	**Change**	
	(S/ millions)		**(S/ in millions)**	**%**
IFS				
Banking	608.3	587.2	21.1	3.6%
Insurance	95.5	(37.0)	132.5	N/M
Wealth Management	99.4	106.5	(7.2)	-6.7%
IFS expenses and eliminations	(40.1)	(48.2)	8.1	-16.7%
Total IFS	**763.1**	**608.6**	**154.5**	**25.4%**
Intercorp Retail				
Supermarkets	30.6	26.9	3.7	13.7%
Pharmacies	122.6	61.0	61.6	101.0%
Shopping malls	84.2	54.4	29.8	54.7%
Other subsidiaries / holding company and eliminations	(24.2)	(90.5)	66.3	-73.2%
Total Intercorp Retail	**213.1**	**51.8**	**161.3**	**311.7%**
Other subsidiaries	(33.1)	(18.4)	(14.7)	79.6%
Net profit attributable to Intercorp	**943.0**	**641.9**	**301.1**	**46.9%**
Financial expenses, net	(97.4)	(60.4)	(36.9)	61.1%
General expenses	(39.5)	(18.6)	(20.9)	112.5%
Other income (expenses), net	159.8	(10.3)	170.1	N/M
Foreign exchange gain (loss), net	(3.2)	(10.0)	6.8	-67.8%
Income (expenses)	**19.8**	**(99.3)**	**119.1**	**N/M**
Net profit	**962.8**	**542.6**	**420.2**	**77.4%**

For the nine months ended September 30, 2019, Intercorp´s net profit was S/962.8 million, an increase of S/ 420.2 million compared to the same period in 2018. This was driven by IFS (S/ 154.5 million) due to higher profits from Interseguro; and by Intercorp Retail (S/ 161.3 million), due to higher net profits from Pharma and the absence of one-time financial expenses incurred in 2018 related to the acquisition of Quicorp, at the end of January, and to the associated liability management of the acquisition financing. At the holding level, the sale of IFS shares held by Intercorp Perú generated a net gain amounting to S/ 207.5 million.

ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the nine months ended September 30, 2019 and 2018.

	For the nine months ended September 30,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	3,597.3	3,192.7	404.6	12.7%
Interest and similar expense	-1,022.8	-858.6	-164.1	19.1%
Net interest and similar income	**2,574.6**	**2,334.1**	**240.5**	**10.3%**
Impairment loss on loans, net of recoveries	-603.0	-451.3	-151.7	33.6%
Recovery (loss) due to impairment of financial investments	1.5	2.3	-0.8	-34.3%
Net interest and similar income after impairment loss	**1,973.1**	**1,885.1**	**88.0**	**4.7%**
Fee income from financial services, net	675.5	641.5	34.0	5.3%
Other income	410.2	308.3	101.8	33.0%
Total premiums earned minus claims and benefits	-216.4	-339.7	123.3	-36.3%
Other expenses	-1,464.4	-1,352.0	-112.3	8.3%
Income before translation result and income tax	**1,378.1**	**1,143.2**	**234.9**	**20.5%**
Translation result	5.2	-18.2	23.5	N/M
Income tax	-346.0	-313.9	-32.1	10.2%
Profit for the period	**1,037.3**	**811.1**	**226.3**	**27.9%**
Attributable to IFS' shareholders	**1,030.9**	**805.7**	**225.2**	**28.0%**
EPS	**9.21**	**7.33**		
ROAE	**18.0%**	**16.8%**		

Profit attributable to shareholders was S/ 1,030.9 million in the nine months ended September 30, 2019, a S/ 225.2 million, or 28.0%, increase compared to the corresponding period of the previous year. The higher profits were mainly driven by growth of S/ 240.5 million in net interest and similar income, S/ 123.3 million in total premiums earned minus claims and benefits, S/ 101.8 million in other income and S/ 34.0 million in fee income from financial services. Moreover, translation result changed from a negative figure in the nine months ended September 30, 2018 to a positive figure in the same period of 2019, which, in addition to a lower effective tax rate, also contributed to IFS' net profit increase in the comparable periods. These effects were partially offset by increases of S/ 151.7 million in impairment loss on loans and S/ 112.3 million in other expenses.

It is worth mentioning that the increase in total premiums earned minus claims and benefits was mostly explained by the effect of a one-time adjustment of S/ -144.8 million for the full adoption of new mortality tables in the nine months ended September 30, 2018.

IFS annualized ROAE was 18.0% for the nine months ended September 30, 2019, higher than the 16.8% reported for the corresponding period of 2018.

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 nine months ended September 30, 2019 and 2018.

	For the nine months ended September 30,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	3,022.3	2,621.4	400.9	15.3%
Interest and similar expense	-936.8	-782.3	-154.5	19.8%
Net interest and similar income	**2,085.4**	**1,839.1**	**246.4**	**13.4%**
Impairment loss on loans, net of recoveries	-602.9	-452.0	-150.9	33.4%
Recovery (loss) due to impairment of financial investments	0.0	0.0	0.0	N/M
Net interest and similar income after impairment loss	**1,482.6**	**1,387.0**	**95.5**	**6.9%**
Fee income from financial services, net	607.3	550.7	56.6	10.3%
Other income	327.0	231.1	95.9	41.5%
Other expenses	-1,198.4	-1,103.6	-94.7	8.6%
Income before translation result and income tax	**1,218.6**	**1,065.2**	**153.4**	**14.4%**
Translation result	-2.3	-5.2	2.9	-56.2%
Income tax	-325.2	-287.9	-37.3	12.9%
Profit for the period	**891.1**	**772.1**	**119.0**	**15.4%**
ROAE	**21.1%**	**21.1%**		
Efficiency ratio	**38.8%**	**40.9%**		
NIM	**5.7%**	**5.5%**		

Interbank's net profit reached S/ 891.1 million in the nine months ended September 30, 2019, a 15.4% increase compared to the corresponding period of the previous year. The main factors that contributed to this result were growth of 41.5% in other income, 13.4% in net interest and similar income, and 10.3% in fee income from financial services. These factors were partially offset by increases of 33.4% in impairment loss on loans and 8.6% in other expenses.

Net interest and similar income grew 13.4% due to a 15.3% growth in interest and similar income, partially offset by a 19.8% 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 14.8% in interest on loans, partially offset by a 5.7% decrease in interest on financial investments.

Interest on due from banks and inter-bank funds grew S/ 52.1 million, explained by increases of 70 basis points in the nominal average rate and 8.2% in the average volume. The increase in the nominal average rate was due to higher returns on reserve funds at the Central Bank. The higher average volume was due to growth in reserve funds and deposits at the Central Bank, partially offset by lower balances of restricted funds associated with repo transactions also with the Central Bank.

Growth in interest on loans was due to a 14.5% increase in the average volume of loans, while the average yield remained stable, at 10.9%. The higher average volume of loans was attributed to growth of 16.9% in retail loans and 11.9% in commercial loans. In the retail portfolio, average volumes grew 24.3% in credit cards, 13.9% in payroll deduction loans and 12.8% in mortgages. In the commercial portfolio, volumes increased 14.5% in short and medium-term loans, and 13.4% in trade finance loans, partially compensated by a 4.5% contraction in leasing operations. On the other hand, the average rate remained stable as lower yields in retail products were mainly offset by higher returns on trade finance loans.

Interest on financial investments decreased S/ 9.7 million, or 5.7%, as a result of a 13.1% reduction in the average volume, partially offset by a 30 basis point increase in the nominal average rate, from 3.6% for the nine months ended September 30, 2018 to 3.9% for the corresponding period of 2019. The decrease in the average volume was the result of lower balances of global bonds, CDBCR and corporate bonds, while the higher average rate was due to increased returns on corporate bonds from financial institutions, global bonds and CDBCR.

The nominal average yield on interest-earning assets increased 50 basis points, from 7.8% for the nine months ended September 30, 2018 to 8.3% for the corresponding period of 2019, explained by the higher yields on due from banks and financial investments.

Interest and similar expense increased 19.8% as a result of growth of 28.2% in interest on deposits and obligations, and 16.4% in interest on bonds, notes and other obligations, partially offset by a decrease of 1.3% in interest on due to banks and correspondents.

Interest on deposits and obligations increased S/ 116.7 million, or 28.2%, explained by growth of 10.9% in the average volume and 30 basis points in the nominal average cost. The higher average volume was explained by growth in commercial and retail deposits. By currency, average balances of soles-denominated deposits grew 14.4% while average dollar-denominated deposits increased 5.6%. The increase in the average cost, from 1.9% for the nine months ended September 30, 2018 to 2.2% for the corresponding period of 2019, was due to higher rates paid to institutional, commercial and retail deposits.

Interest on bonds, notes and other obligations increased S/ 39.6 million, or 16.4%, mainly as a result of the issuances of senior obligations in the local market in March 2019, partially compensated by lower interest attributable to the execution of a call option in July 2019 for a US$ 30 million bond. Additionally, a 2.5% depreciation of the average exchange rate with respect to the nine months ended September 30, 2018, increased the value of bonds issued in dollars.

The S/ 1.7 million, or 1.3%, decrease in interest on due to banks and correspondents was explained by a 5.4% reduction in the average volume, partially offset by a 20 basis point increase in the average cost, from 4.0% for the nine months ended

September 30, 2018, to 4.2% for the corresponding period of 2019. The decrease in average volume was mainly due to lower funding provided by the Central Bank and COFIDE. The increase in the nominal average cost was explained by higher rates on inter-bank funds and funding from banks abroad.

The average cost of funds increased 20 basis points, from 2.7% for the nine months ended September 30, 2018 to 2.9% for the corresponding period of 2019, due to the higher average costs of deposits and due to banks and correspondents.

As a result of the above, net interest margin increased 20 basis points, from 5.5% for the nine months ended September 30, 2018 to 5.7% for the corresponding period of 2019.

Impairment loss on loans, net of recoveries increased 33.4% in the nine months ended September 30, 2019, compared to the corresponding period of the previous year. This was mainly a result of higher volume of loans, especially in credit cards, which require the highest level of provisions among all products even at performing stages, in addition to a base effect associated with the reversion of provisions for construction sector exposures for S/ 62.9 million in the nine months ended September 30, 2018. These effects were partially offset by a reversion of provisions in payroll deduction loans for S/ 38.8 million in the nine months ended September 30, 2019.

The S/ 56.6 millon, or 10.3%, increase in net fee income from financial services was mainly attributable to higher commissions from credit card services and financial advisory, in addition to lower expenses related to the sale of insurance products.

Other income increased S/ 95.9 million mainly due to a S/ 52.6 million gain from the sale of Interfondos to Inteligo at the beginning of 2019.

Other expenses increased S/ 94.7 million, or 8.6%, as a result of increases in depreciation and amortization, as well as variable costs related to credit cards and IT services. Higher salaries and employee benefits, related to higher profit sharing, also contributed to the anual growth.

The efficiency ratio was 38.8% in the nine months ended September 30, 2019, compared to the 40.9% 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 39.5% in the nine months ended September 30, 2019.

Income before translation result and income tax increased 14.4% in the nine months ended September 30, 2019, which was then positively affected by a lower effective tax rate, from 27.2% for the nine months ended September 30, 2018 to 26.7% for the corresponding period of 2019. As a result of the above, profit for the period increased 15.4% in the nine months ended September 30, 2019, compared to the corresponding period of 2018.

Interbank's annualized ROAE was 21.1% for the nine months ended September 30, 2019, in line with that registered in the corresponding period of the previous year.

Insurance

The table below details selected financial information for our Insurance segment for the nine months ended September 30, 2019 and 2018.

	For the nine months ended September 30,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Net interest and similar income	416.5	421.6	-5.1	-1.2%
Recovery (loss) due to impairment of financial investments	2.1	0.3	1.8	N/M
Net interest and similar income after impairment loss	**418.6**	**422.0**	**-3.4**	**-0.8%**
Fee income from financial services, net	-3.1	-3.4	0.3	-8.6%
Other income	118.4	48.6	69.8	N/M
Total premiums earned minus claims and benefits	-216.4	-339.7	123.3	-36.3%
Other expenses	-219.9	-200.5	-19.4	9.7%
Income before translation result and income tax	**97.6**	**-73.1**	**170.7**	**N/M**
Translation result	-1.9	-6.1	4.2	-69.3%
Income tax	0.0	0.0	0	N/M
Profit for the period	**95.7**	**-79.3**	**175.0**	**N/M**
Profit attributable to IFS' shareholders	**95.7**	**-79.3**	**175.0**	**N/M**
Efficiency ratio	**12.8%**	**14.4%**		
ROAE	**14.1%**	**N/M**		

Interseguro's profits attributable to IFS' shareholders in the nine months ended September 30, 2019 were S/ 95.7 million, compared to a loss of S/ - 79.3 million in the corresponding period of 2018.

The improvement in bottom-line results was mainly due to an increase of S/ 123.3 million in total premiums earned minus claims and benefits, as well as S/ 69.8 million higher other income, partially offset by an increase of S/ 19.4 million in other expenses.

Higher total premiums earned minus claims and benefits were a result of a base effect related to a one-time adjustment of S/ -144.8 million in technical reserves in the nine months ended September 30, 2018, due to the full adoption of new mortality tables published by the Peruvian regulatory entity (Superintendencia de Banca y Seguros) in 2017.

Other income increased as a result of growth of S/ 35.4 million in net gain on sale of financial investments, S/ 17.0 million in net gain on financial assets at fair value, S/ 13.6 million in valuation gain from investment property and S/ 12.3 million in rental income, partially offset by a S/ 7.5 million reduction in gain on sale of investment property.

Other expenses grew S/ 19.4 million mainly attributed to increases of S/ 8.1 million in administrative expenses, S/ 6.8 million in third-party commissions and S/ 4.7 million in depreciation and amortization.

Total premiums earned less claims and benefits

	For the nine months ended September 30,		
	2019	2018	Change
	(S/ million)		%
Net premiums	493.1	473.2	4.2%
Adjustment of technical reserves	-174.3	-266.4	-34.6%
Net claims and benefits incurred	-535.1	-546.6	-2.1%
Total premiums earned minus claims and benefits	**-216.4**	**-339.7**	**-36.3%**

The 4.2% growth in net premiums was a result of increases of S/ 28.4 million in annuities, S/ 25.4 million in retail insurance and S/ 4.6 million in individual life, partially offset by a S/ 38.5 million decrease in disability and survivorship premiums.

Adjustment of technical reserves decreased 34.6%, mainly due to a reduction of S/ 116.9 million in annuities, associated with the adoption of new mortality tables, partially offset by an increase of S/ 22.6 million in individual life.

The reduction in net claims and benefits incurred was mainly explained by a decrease of S/ 37.4 million in disability and survivorship claims, partially offset by an increase of S/ 23.8 million in annuity benefits.

It is worth noting that, results in net premiums and net claims and benefits incurred for the nine months ended September 30, 2019 were affected by Seguros Sura's disability and survivorship contract expiration in December 2018.

Interseguro's annualized ROAE was 14.1% for the nine months ended September 30, 2019, higher than the 9.9% reported for the corresponding period of 2018, after adjusting the effect of the adoption of new mortality tables, as previously mentioned.

Wealth Management

The table below details selected financial information for our Wealth Management segment for the nine months ended September 30, 2019 and 2018.

	For the nine months ended September 30,		Change	
	2019	2018		
	(S/ million)		(S/ million)	%
Interest and similar income	127.0	112.0	15.0	13.4%
Interest and similar expense	-45.2	-31.5	-13.7	43.3%
Net interest and similar income	**81.8**	**80.5**	**1.3**	**1.7%**
Impairment loss on loans, net of recoveries	0.0	0.8	-0.8	N/M
Recovery (loss) due to impairment of financial investments	-0.6	2.0	-2.6	N/M
Net interest and similar income after impairment loss	**81.1**	**83.2**	**-2.1**	**-2.6%**
Fee income from financial services, net	117.3	122.6	-5.3	-4.3%
Other income	28.4	28.7	-0.3	-1.0%
Other expenses	-90.2	-77.8	-12.4	15.9%
Income before translation result and income tax	**136.7**	**156.7**	**-20.0**	**-12.8%**
Translation result	-0.9	-0.3	-0.6	N/M
Income tax	-5.2	-3.9	-1.3	30.9%
Profit for the period	**130.6**	**152.5**	**-21.9**	**-14.3%**
ROAE	**21.7%**	**26.9%**		
Efficiency ratio	**39.5%**	**34.4%**		

Inteligo's profit in the nine months ended September 30, 2019 and 2018 was S/ 130.6 million and S/ 152.5 million, respectively. The S/ 21.9 million, or 14.3%, decrease was mainly attributable to higher other expenses.

Net interest and similar income grew S/ 1.3 million, or 1.7%, mainly explained by a 21.0% increase in loans to clients. Total loans disbursed as of September 30, 2019 were S/ 1,569.5 million, compared to S/ 1,299.8 million as of September 30, 2018.

Inteligo's net fee income from financial services was S/ 117.3 million, a decrease of S/ 5.3 million, or 4.3%, mainly explained by lower brokerage and custody service fees amid higher volatility in global markets, as well as lower product structuring activity in the comparing periods.

Other income decreased S/ 0.3 million, attributable to negative mark-to-market valuations on Inteligo's proprietary portfolio throughout the year.

Inteligo's other expenses reached S/ 90.2 million in the nine months ended September 30, 2019. The S/ 12.4 million, or 15.9%, increase was mainly related to the amortization of assets acquired as part of the Interfondos transaction earlier in the year.

Inteligo's annualized ROAE for the nine months ended September 30, 2019 was 21.7%, lower than the 26.9% registered for the corresponding period of 2018.

iii. Intercorp Retail

The table below details Intercorp Retail's assets and equity in its main businesses as of September 30, 2019 and December 31, 2018.

	As of September 30, 2019		As of December 31, 2018	
S/ million	**Asset**	**Equity**	**Asset**	**Equity**
Supermercados Peruanos (Food Retail)….........	4,888.5	1,043.4	3,697.6	1,014.9
InRetail Pharma (Pharmacies and MDM)….........	5,508.2	710.7	5,079.5	599.1
InRetail Shopping Malls (Shopping Malls)….........	4,970.2	2,367.1	4,460.5	2,227.9
Other…..	3,596.3	-895.4	3,549.2	-812.0
Total Intercorp Retail	**18,963.2**	**3,225.8**	**16,786.8**	**3,029.8**

Results of Operations for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018

Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the nine months ended September 30, 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the nine months ended September 30,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues…..	11,625.6	10,716.3	909.2	8.5%
Cost of sales…...	-8,109.3	-7,554.0	555.3	7.4%
Gross profit…..	**3,516.3**	**3,162.4**	**353.9**	**11.2%**
Selling and Administrative expenses….....	-2,702.0	-2,486.2	215.7	8.7%
Other income (expense)….........................	54.9	47.9	7.0	14.5%
Operating profit…...................................	**869.2**	**724.1**	**145.1**	**20.0%**
Financial income (expense), net….............	-286.6	-462.2	-175.6	-38.0%
Income tax expense…..................................	-200.0	-154.8	45.2	29.2%
Net profit (loss)….....................................	**382.6**	**107.0**	**275.6**	**257.5%**
Attributable to:				
Intercorp Retail's shareholders	225.1	67.2	157.9	
Minority interest	157.6	47.4	110.2	
Adjusted EBITDA	**1,129.8**	**948.6**	**181.2**	**19.1%**
Adjusted EBITDA margin	9.7%	8.9%		87pbs

Intercorp Retail reported a net profit of S/ 382.6 million as of September 2019, representing an increase of S/ 275.6 million compared to the same period in 2018. This is mainly a result of good operational performance of the business segments and the absence of one-time financial expenses incurred in 2018 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 11.2% in the first nine months of 2019. This growth was mainly due to a solid growth in Food Retail and Shopping Malls, partially offset by a reduction in MDM revenues and a low single-digit growth in Pharmacies.

The following discussion details the operating results of Intercorp Retail's primary segments: Food Retail, InRetail Pharma and InRetail Shopping Malls. Detailed financial information for the other related businesses is not presented 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 nine months ended September 30, 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the nine months ended September 30,			
	2019	**2018**	**Change**	
	(S/ million)		**(S/ million)**	**%**
Total revenues…...	4,189.5	3,685.5	504.0	13.7%
Cost of sales…...	-3,097.7	-2,728.0	369.7	13.6%
Gross profit…..	**1,091.8**	**957.5**	**134.3**	**14.0%**
Selling and Administrative expenses…........	-971.4	-837.8	133.6	15.9%
Other income (expense)…............................	36.9	9.6	27.3	283.5%
Operating profit….......................................	**157.3**	**129.3**	**28.0**	**21.7%**
Financial income (expense)…......................	-60.1	-53.1	7.0	13.2%
Income tax expense….................................	-35.8	-37.8	-2.0	-5.4%
Net profit…..	**61.4**	**38.3**	**23.1**	**60.2%**
Adjusted EBIDTA…...................................	**265.9**	**227.1**	**38.8**	**17.1%**
Adjusted EBITDA margin….........................	6.3%	6.2%	-	18pbs

Food Retail reported a net income of S/ 61.4 million as of September 2019 compared to S/ 38.3 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 14.0% in the first nine months of 2019, compared to the same period in 2018. This growth is mainly explained by: (i) the opening of 2 Plaza Vea, 4 Economax (3 reconversions and 1 new store) and 129 net Mass stores since Q3'18, and (ii) a positive same store sales growth of 5.2%.

Food Retails' selling and administrative expenses grew 15.9% in the first nine months of 2019 compared to the same period in 2018. As a percentage of revenues, these expenses increased from 22.7% to 23.2%, in the first nine months of 2019, mainly due to higher logistics, rental and personnel expenses from our new formats, which are in the process of development.

InRetail Pharma

The table below details selected financial information for InRetail Pharma for the nine months ended September 30, 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the nine months ended September 30,			
	2019	2018	Change	
	(S/ million)		(S/ million)	%
Total revenues…...	5,111.2	4,933.5	177.7	3.6%
Cost of sales…...	-3,542.5	-3,502.0	40.4	1.2%
Gross profit…...	**1,568.8**	**1,431.5**	**137.3**	**9.6%**
Selling and Administrative expenses….......	-1,152.0	-1,125.9	26.2	2.3%
Other income (expense)…............................	1.3	0.6	0.7	109.9%
Operating profit…..	**418.1**	**306.2**	**111.8**	**36.5%**
Financial income (expense), net…................	-98.0	-145.6	-47.6	-32.7%
Income tax expense…...................................	-97.3	-63.8	33.5	52.4%
Net profit…...	**222.8**	**96.8**	**125.9**	**130.0%**
Adjusted EBITDA…......................................	**504.5**	**372.1**	**132.4**	**35.6%**
Adjusted EBITDA margin…...........................	9.9%	7.5%	-	233pbs

InRetail Pharma reported S/ 222.8 million of net profit as of September 2019, which represented an increase of 130.0% compared to the same period of 2018, which included one-time financial expenses related to the Quicorp acquisition.

InRetail Pharma's gross profit increased 9.6% in the first nine months of 2019 compared to the same period of 2018. Additionally, gross margin increased from 29.0% in the first nine months of 2018 to 30.7% 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 were S/1,152.0 million for the nine months ended September 2019, which represented an increase of 2.3% over the same period in 2018. As a percentage of revenues, these expenses decreased from 22.8% to 22.5%.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the nine months ended September 30, 2019 and 2018. Figures for 2019 exclude IFRS 16 effect, when applicable.

	For the nine months ended September 30,			
	2019	**2018**	**Change**	
	(S/ million)		**(S/ million)**	**%**
Total revenues………………………………………	389.0	369.2	19.7	5.3%
Cost of sales………………………………………	-130.3	-120.0	10.3	8.6%
Gross profit………………………………………	**258.6**	**249.2**	**9.4**	**3.8%**
Selling and Administrative expenses…………………	-29.3	-29.6	-0.4	-1.2%
Other income (expense)………………………………	19.2	14.7	4.5	30.7%
Operating profit……………………………………	**248.6**	**234.3**	**14.3**	**6.1%**
Financial income (expense), net………………………	-78.0	-124.0	-46.0	-37.1%
Income tax expense…………………………………	-50.3	-33.5	16.8	50.2%
Net profit……………………………………………	**120.4**	**76.8**	**43.6**	**56.7%**
Adjusted EBITDA……………………………………	**232.4**	**225.7**	**6.8**	**3.0%**
Adjusted EBITDA / Net Rental Income……………	78.0%	79.5%	-	-148pbs

InRetail Shopping Malls reported S/ 120.4 million of net profit as of September 2019, which represented an increase of 56.7% compared to the same period in 2018, which included one-time financial expenses of the liability management related to the Quicorp acquisition.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 5.3% in the first nine months of 2019 in comparison to same period of 2018. This growth was mainly explained by higher rental income from (i) 5k sqm of additional GLA since Q3'18, and (ii) an improved tenant mix across our malls. Tenant SSS in the quarter grew 4.0%. 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. For the nine months ended September, net rental income increased from S/283.8 million in 2018, to S/297.8 million in 2019 (a 5.0% growth).

As of September 2019, InRetail Shopping Malls' selling and administrative were S/29.3 million, a decrease of 1.2% over the same period in 2018. As a percentage of revenues, these expenses decreased from 8.0% to 7.5%.

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 nine month periods ended September 30,	
	2019	**2018**
	(S/ millions)	
Operating activities		
Net profit for the period	963.1	542.5
Adjustments to reconcile net income to net cash		
Gain from participation in income of Subsidiaries, net	(943.3)	(641.8)
Gain on initial public offering of Subsidiary shares	(207.5)	0.0
Loss on valuation of trading derivative financial instruments	1.7	2.1
Loss (gain) on valuation of financial investments	17.3	(15.3)
Changes in fair value of investment property	(0.7)	0.3
Exchange difference	22.4	15.2
Net changes in asset and liability accounts		
(Increase) decrease of other accounts receivable	(18.8)	52.9
Increase (decrease) of interest, provisions and other accounts payable	(66.9)	(66.4)
Net cash provided by (used in) operating activities	**(232.7)**	**(110.5)**
Investing activities		
Dividends received	559.8	389.9
Sale of Subsidiary shares, net of commissions paid	368.3	0.0
Subscription and purchase of investment, net of retreat of capital	(69.5)	0.0
Capital contribution to Subsidiaries, net of capital reductions	(472.2)	(192.1)
Net cash provided by investing activities	**386.4**	**197.8**
Financing activities		
Emission of corporate bonds	1,371.5	0.0
Repurchase and redemption of corporate bonds	(833.0)	0.0
Loans received fromthird parties, net	(65.3)	(46.0)
Loans received from Subsidiaries and related parties, net	(153.0)	23.0
Payment of dividends	(74.7)	(73.9)
Net cash used in financing activities	**245.6**	**(96.9)**
Net cash (decrease) increase	**399.2**	**(9.6)**
Gain on derivate financial instruments		
Balance of cash at the beginning of period	**7.5**	**13.5**
Balance of cash at the end of period	**406.7**	**3.9**

Net cash used in operating activities increased in S/ 112.2 million for the nine months ended September 30, 2019 when compared to the corresponding period in 2018 and Net cash provided by investing activities increased in S/ 188.6 million during the same period of time due to higher dividends received and the sale of IFS shares, partially offset by higher investments in subsidiaries. Finally, net cash from financing activities increased in S/ 342.4 million for the nine months ended September 30, 2019 due to the issuance of corporate bonds (net of repurchase of prior bonds and payment of short term loans)

ii. Dividends Received by Intercorp

The following table sets forth details regarding the dividends received by Intercorp from its subsidiaries for the nine months ended September 30, 2019 and 2018.

	For the nine months ended September 30			For the year ended December 31,		
	2019	2019	2018	2018	2018	2017
	(US$ in millions)(1)	(S/ in millions)		(US$ in millions)(1)	(S/ in millions)	
IFS	147.1	488.3	381.0	117.7	381.0	354.8
Intercorp Retail	18.0	60.1	0.0	0.0	0.0	37.7
Other subsidiaries	3.5	11.5	8.9	2.7	8.9	6.4
	168.6	**559.8**	**389.9**	**120.4**	**389.9**	**399.0**

(1) Translated to U.S. dollars for convenience only at the rate e reported on the day of the operation.

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 nine months ended September 30, 2019 and 2018. The dividends declared and paid by IFS are in US dollars.

	For the nine months ended September 30		
	2019	2019	2018
	(US$. in millions) (1)	(S/ in millions)	
IFS			
Dividends declared and paid	**165.9**	**559.6**	**511.3**
Net profit (2)	321.5	1,084.3	1,027.4
Dividend payout ratio	**51.6%**	**51.6%**	**49.8%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.373= 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 nine months ended September 30, 2019 and 2018.

	For the nine months ended September 30		
	2019	2019	2018
	(US$ in millions) (1)	(S/ in millions)	
Interbank			
Dividends declared and paid…………..	**138.5**	**467.0**	**405.9**
Net profit. (2)…………………………...	307.7	1,037.9	902.0
Dividend payout ratio…………………..	**45%**	**45%**	**45%**
Interseguro			
Dividends declared and paid………….	**40.9**	**138.0**	**100.0**
Net profit. (2)………………………………	107.1	361.1	103.7
Dividend payout ratio……………………	**38%**	**38%**	**96%**
Inteligo			
Dividends declared and paid………….	**30.0**	**101.2**	**152.1**
Net profit (2)……………………………....	57.0	192.2	190.1
Dividend payout ratio……………………	**53%**	**53%**	**80%**

(1) Translated to U.S. dollars for convenience only at the rate of S/3.373= US$1.00 , the exchange rate reported on the day of the operation.

(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 2019-2021, 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 (2019) 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 70% 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 nine months ended September 30, 2019. The dividends declared and paid by Intercorp Retail are in US dollars

	For the nine months ended September 30		
	2019	**2019**	**2018**
	(US$ in millions) (1)	**(S/ in millions)**	
Intercorp Retail			
Dividends declared and paid (2)……….	**18.0**	**60.7**	**0.0**
Net profit ………………………………..	42.1	142.0	0.0
Dividend payout ratio…………………..	**43%**	**43%**	**n/a**

(1) Translated to U.S. dollars for convenience only at the rate of S/3.373= US$1.00 , the exchange rate reported on the day of the operation.

(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 nine months September 30, 2019.

	For the nine months ended September 30		
	2019	**2019**	**2018**
	(US$. in millions) (1)	**(S/ in millions)**	
InRetail Peru			
Dividends declared and paid ………….	**35.0**	**118.1**	**0.0**
Net profit(2) ………………………………	54.0	182.1	0.0
Dividend payout ratio(3)…………………	**65%**	**65%**	**n/a**

(1) Translated to U.S. dollars for convenience only at the rate of S/3.373= US$1.00 , the exchange rate reported on the day of the operation.

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

(3) Calculated over the US$15 million dividend

iii. Indebtedness

Unconsolidated

As of September 30, 2019, Intercorp had S/ 1,646.4 million (US$ 486.7 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of long-term indebtedness comprised of S/ 1,052.2 million (US$ 311 million) of Senior Notes due 2029 (net of issuance expenses), S/ 298.2 million of Senior Notes due 2030 (net of issuance expenses) and S/ 296 million of Senior Notes due 2029 (net of issuance expenses). As of the same date, Intercorp had guaranteed up to US$ 121 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas and Colegios Peruanos, US$ 101 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.