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

# Second Quarter 2016

Aug, 2016

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## I. Overview

Intercorp is a holding company for one of Peru's largest business groups. Focused on Peru's growing middle class, it provides a variety of services to satisfy consumers' evolving preferences for modern goods and services. Intercorp's cash flows are primarily generated by dividends from subsidiaries. Intercorp's businesses are mainly focused on three industries: financial services; retail (including shopping malls); and education. Intercorp manages its businesses primarily through two principal holding companies, 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 Peru. InRetail Peru owns: a leading supermarket chain, Supermercados Peruanos; the largest pharmacy chain, InkaFarma; and the largest developer and operator of shopping malls operating under the Real Plaza brand. Separately, Intercorp Retail also controls other retail businesses, such as Promart, chain of home improvement stores, Oechsle, department store chain, and Financiera Uno, 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 35 locations across Peru. UTP consists of a university and a technical school, with more than 45,000 students. Zegel IPAE complements the education portfolio with a technical school focused on specialized business careers.

## II. Results Analysis

The table below details Intercorp's assets and equity in its main businesses as of June 30, 2016 and June 30, 2015.

| | As of June 30, 2016 | | | | As of December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets | | Equity | | Assets | | Equity | |
| | (S/ in millions) | % | (S/ in millions) | % | (S/ in millions) | % | (S/ in millions) | % |
| **IFS** | | | | | | | | |
| Interbank (banking)…………………………………… | 39,195.3 | 64.5% | 3,888.4 | 45.9% | 41,652.0 | 68.1% | 3,745.0 | 46.7% |
| Interseguro (insurance)……………………………… | 5,685.3 | 9.4% | 512.8 | 6.0% | 5,254.0 | 8.6% | 337.9 | 4.2% |
| Inteligo (wealth management)……………………… | 3,540.2 | 5.8% | 524.9 | 6.2% | 3,376.0 | 5.5% | 579.7 | 7.2% |
| IFS (holding company) and eliminations…………… | -346.8 | -0.6% | -266.0 | -3.1% | -281.2 | -0.5% | -201.7 | -2.5% |
| **Total IFS………………………………………………** | 48,074.0 | 79.1% | 4,660.1 | 55.0% | 50,000.9 | 81.7% | 4,460.9 | 55.7% |
| **Intercorp Retail** | | | | | | | | |
| Supermercados Peruanos (supermarkets)………… | 2,699.1 | 4.4% | 956.7 | 11.3% | 2,701.2 | 4.4% | 929.2 | 11.6% |
| Inkafarma (pharmacies)……………………………… | 802.6 | 1.3% | 151.8 | 1.8% | 794.2 | 1.3% | 138.2 | 1.7% |
| InRetail Shopping Malls (shopping malls)…………… | 3,445.7 | 5.7% | 1,912.9 | 22.6% | 3,324.3 | 5.4% | 1,825.4 | 22.8% |
| Other [1]…………………………………………… | 3,226.8 | 5.3% | 1,028.6 | 12.1% | 3,352.5 | 5.5% | 1,088.3 | 13.6% |
| **Total Intercorp Retail…………………………………** | 10,174.2 | 16.7% | 4,050.0 | 47.8% | 10,172.2 | 16.6% | 3,981.1 | 49.7% |
| Other subsidiaries/Intercorp (holding company) and eliminations…………………………………...… | 1,211.2 | 2.0% | -232.3 | -2.7% | 990.7 | 1.6% | -428.5 | -5.3% |
| **Total Consolidated…………………………………** | 59,459.4 | 98% | 8,477.8 | 100% | 61,163.8 | 100% | 8,013.5 | 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, 2016 and 2015.

| | For the six months ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ millions) | | (S/ in millions) | % |
| **IFS** | | | | |
| Banking | 294.0 | 295.7 | -1.7 | -0.6% |
| Insurance | -149.4 | 115.4 | -264.8 | -229.4% |
| Wealth Management | 65.0 | 66.4 | -1.4 | -2.1% |
| IFS expenses and eliminations | -27.8 | -24.2 | -3.7 | 15.1% |
| **Total IFS** | **181.8** | **453.4** | **-271.6** | **-59.9%** |
| **Intercorp Retail** | | | | |
| Supermarkets | 19.5 | -0.2 | 19.7 | N/M |
| Pharmacies | 48.2 | 38.6 | 9.6 | 24.9% |
| Shopping malls | 46.7 | 14.0 | 32.6 | 233.2% |
| Other subsidiaries / holding company and eliminations | -23.8 | -80.4 | 56.6 | -70.4% |
| **Total Intercorp Retail** | **90.6** | **-28.0** | **118.6** | **N/M** |
| Other subsidiaries | -35.4 | -10.3 | -25.2 | 245.2% |
| **Net profit attributable to Intercorp** | **237.0** | **415.2** | **-178.2** | **-42.9%** |
| Financial expenses, net | -47.0 | -74.3 | 27.3 | -36.7% |
| General expenses | -9.2 | -15.5 | 6.3 | -40.8% |
| Other income (expenses), net | -17.4 | -16.3 | -1.1 | 6.7% |
| Foreign exchange gain (loss), net | 37.2 | -46.4 | 83.6 | -180.3% |
| **Income (expenses)** | **-36.3** | **-152.4** | **116.1** | **-76.2%** |
| **Net profit** | **200.5** | **262.8** | **-62.3** | **-23.6%** |

For the six months ended June 30, 2016, Intercorp´s net profit was S/ 200.5 million, a decrease of S/ 62.3 million compared to the same period in 2015. The decrease in profit was driven by lower profits from IFS (-S/ 271.6 million),partially offset by an increase in profits from Intercorp Retail (+S/ 118.6 million) an a decrease in Intercorp´s own expenses by S/ 116.1 million.

The decline in profits from IFS was explained by Interseguro (S/ -264.8 million), mainly due to a decrease in total premiums earned less claims and benefits driven by a negative discount rate impact on technical reserves, and an increase in impairment loss for available-for-sale investments.

Intercorp´s financial expenses were S/ 27.3 million lower this period, due to the premium paid in the process of refinancing Intercorp Peru Notes due 2019[1] in the same

[1] On February 2015 Intercorp issued US$98.5 million of a 15 year PEN equivalent bond, and US$250 million of 10 year US$ Senior Unsecured Notes. With the proceeds of the US$ notes Intercorp refinanced US$ 250 million of US$ 2019 Senior notes.

period in 2015. Foreign exchange results inceased S/ 83.6 million due to the appreciation of the sol against the dollar in the first semester of 2016 compared with a depreciation in the same period in 2015.

### ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the six months ended June 30, 2016 and 2015.

| | For the six months ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | (S/ in millions) | % |
| | (S/ millions) | | | |
| Interest and similar income | 1,817.9 | 1,570.7 | 247.2 | 15.7% |
| Interest and similar expense | -528.1 | -425.7 | -102.4 | 24.1% |
| **Net interest and similar income** | **1,289.8** | **1,144.9** | **144.8** | **12.7%** |
| Provision for loan losses, net of recoveries | -409.8 | -321.1 | -88.7 | 27.6% |
| **Net interest and similar income after provision for loan losses** | **880.0** | **823.9** | **56.1** | **6.8%** |
| Fee income from financial services, net | 422.0 | 388.8 | 33.2 | 8.5% |
| Other income | 205.1 | 350.4 | -145.3 | -41.5% |
| Total premiums earned less claims and benefits | -207.9 | 50.9 | -258.8 | N/M |
| Other expenses | -918.7 | -827.2 | -91.5 | 11.1% |
| **Income before translation result and income tax** | **380.5** | **786.7** | **-406.1** | **-51.6%** |
| Translation result | 25.4 | -18.9 | 44.3 | N/M |
| Income tax | -167.3 | -158.5 | -8.8 | 5.5% |
| **Profit for the period** | **238.7** | **609.3** | **-370.6** | **-60.8%** |
| **Attributable to equity holders of the group** (1) | **236.5** | **606.5** | **-370.0** | **-61.0%** |
| **EPS** | **2.17** | **5.55** | | |
| **ROAE** | **10.3%** | **28.2%** | | |

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

Profit attributable to shareholders was S/ 236.5 million for the six months ended June 30, 2016, decreasing 61.0% compared to the corresponding period of 2015, mainly explained by higher requirements of technical reserves due to a lower discount rate, which resulted in a S/ 258.8 million decrease in total premiums earned less claims and benefits. Profits were also affected by a S/ 88.7 million increase in provisions and a S/ 84.2 million reduction in net gain on foreign exchange transactions at Interbank, in addition to a negative impact on the investment portfolio at Interseguro. Such effects were partially offset by increases of S/ 144.8 million in net interest and similar income and S/ 33.2 million in fee income from financial services.

### *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, 2016 and 2015.

| | For the six months ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | (S/ in millions) | % |
| | (S/ millions) | | | |
| Interest and similar income | 1,611.6 | 1,401.4 | 210.2 | 15.0% |
| Interest and similar expense | -493.5 | -395.3 | -98.2 | 24.8% |
| **Net interest and similar income** | **1,118.1** | **1,006.1** | **112.0** | **11.1%** |
| Provision for loan losses, net of recoveries | -409.8 | -321.1 | -88.7 | 27.6% |
| **Net interest and similar income after provision for loan losses** | **708.3** | **685.0** | **23.2** | **3.4%** |
| Fee income from financial services, net | 381.8 | 344.6 | 37.2 | 10.8% |
| Other income | 170.1 | 236.9 | -66.8 | -28.2% |
| Other expenses | -715.9 | -696.2 | -19.8 | 2.8% |
| **Income before translation result and income tax** | **544.3** | **570.4** | **-26.2** | **-4.6%** |
| Translation result | 9.7 | -22.4 | 32.1 | N/M |
| Income tax | -152.4 | -141.9 | -10.5 | 7.4% |
| **Profit for the period** | **401.6** | **406.1** | **-4.6** | **-1.1%** |
| **ROAE** | **21.4%** | **24.9%** | | |
| **Efficiency ratio** | **41.4%** | **42.0%** | | |
| **NIM** | **5.8%** | **6.1%** | | |

Interbank's profit for the six months ended June 30, 2016 reached S/ 401.6 million, a 1.1% decrease compared to the same period of the previous year. The main factors that contributed to this result were a 27.6% increase in provisions and a 28.2% decrease in other income, partially offset by growths of 11.1% in net interest and similar income and 10.8% in fee income from financial services.

Growth in net interest and similar income was mainly driven by increases in interest on investments available for sale and in interest on loans, partially offset by growths in interest and fees on due to banks and correspondents and in interest on deposits and obligations.

Interest and similar income increased 15.0% driven by increases of 27.5% in interest on investments available for sale and 13.9% in interest on loans. The increase in interest on investments available for sale was explained by a 9.2% growth in the average volume and a 60 basis points increase in the average yield. Growth in average volume was mainly due to higher balances of sovereign bonds, while the increase in average yield was attributable to higher returns on soles investments.

The increase in interest on loans was explained by growths of 11.3% in the average volume and 30 basis points in the average yield, from 12.1% in 1H15 to 12.4% in 1H16. The higher average volume was due to increases of 12.7% in the retail portfolio and 9.4% in the commercial portfolio. Growth in retail loans was explained by increases of 15.0% in other consumer loans, 12.9% in mortgages and 10.0% in credit cards; while in the commercial portfolio, growth was mainly related to a 22.5% increase in short and medium-term loans. The higher average yield was explained by increases of 30 basis points in the retail portfolio, especially in credit cards, and of 20 basis points in the commercial portfolio, mainly in short and medium-term loans.

The nominal average yield on interest-earning assets[2] was 8.3% for the six months ended June 30, 2016, a 20 basis point decrease with respect to the 8.5% registered for the corresponding period of 2015, basically as a result of the greater proportion of cash and due from banks over total interest-earning assets, as they bear a much lower yield compared to the other components. Such impact was partially offset by higher returns on loans and on the investment portfolio.

Interest and similar expense increased 24.8% in the six months ended June 30, 2016 compared to the same period of the previous year. This was mainly explained by growths of 41.2% in interest and fees on due to banks and correspondents, 30.9% in interest on deposits and obligations, and 8.1% in interest on bonds, notes and other obligations. The increase in interest and fees on due to banks and correspondents was explained by a 40.4% growth in the average volume, while the average cost remained stable. The higher average volume was due to a significant increase in local funding from the Central Bank through repo operations.

Growth in interest on deposits and obligations was mainly attributable to increases of 15.7% in the average volume and 20 basis points in the nominal average cost. The growth in average volume was a result of increases in commercial and retail deposits, partially offset by a decline in institutional deposits. The higher average cost was explained by a higher cost of soles deposits, while the cost of dollar deposits remained stable.

The increase in interest on bonds, notes and other obligations was mainly explained by a 6.6% increase in the average volume. The growth in volume was explained by a 3.5% depreciation of the average exchange rate that resulted in a higher value of bonds issued in dollars, which represent the majority of total bonds.

The average cost of funds[3] increased by 20 basis points for the six months ended June 30, 2016 when compared to the corresponding period of 2015, from 2.6% in 1H15 to 2.8% in 1H16, mainly due to the higher average cost of deposits; as well as the greater proportion of due to banks and correspondents over the total funding base, as they bear a much higher average cost compared to deposits.

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[2] For a more accurate reporting of the nominal average yield on interest-earning assets, since December 2015 total cash and due from banks and inter-bank funds are considered as interest-earning assets on the rate calculation; on reports previous to December 2015 only the strictly interest-earning portion was considered.

[3] For a more accurate reporting of the average cost of funds, since December 2015 total deposits are considered as interest-bearing liabilities on the rate calculation; on reports previous to December 2015 only the strictly interest-bearing portion was considered.

As a result of the above, Interbank's net interest margin decreased by 30 basis points, from 6.1% for the six months ended June 30, 2015 to 5.8% for the six months ended June 30, 2016.

Provision for loan losses, net of recoveries increased 27.6% in the first six months of 2016 when compared to the same period of the previous year. The increase in provisions was a result of higher provisioning in commercial loans, credit cards and cash loans, partially offset by lower requirements in payroll loans.

The 10.8% increase in fee income from financial services, net, was attributable to increases of S/ 32.2 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services; and S/ 12.4 million in commissions from banking services. The increase in maintenance and mailing of accounts, interchange fees, transfers and credit and debit card service fees was a result of higher volumes of credit cards and saving accounts, while the increase in commissions from banking services was explained by higher income from insurance premiums sold for Interseguro as well as by higher fees from financial advisory.

Other income decreased 28.2% mainly explained by a reduction of S/ 84.2 million in net gain on foreign exchange transactions, partially offset by a S/ 7.5 million increase in net gain on sale of securities.

The efficiency ratio improved, from 42.0% for the six months ended June 30, 2015 to 41.4% for the six months ended June 30, 2016, explained by growths of 11.1% in net interest and similar income and 10.8% in fee income from financial services; in addition to a controlled increase in other expenses (+2.8% growth during the first six months of 2016, compared to the same period of 2015).

Income before translation result and income tax decreased 4.6% during the first six months of 2016 compared to the same period of 2015, which was then positively affected by a gain in translation result but negatively impacted by a higher effective tax rate, from 25.9% for the six months ended June 30, 2015 to 27.5% for the six months ended June 30, 2016. All in all, profit for the first six months of 2016 decreased 1.1% compared to the same period of 2015.

*Interseguro*

The table below details selected financial information for Interseguro for the six months ended June 30, 2016 and 2015.

| | For the six months ended June 30, 2016 | For the six months ended June 30, 2015 | Change (S/. in millions) | Change % |
|---|---|---|---|---|
| | (S/. millions) | | | |
| Net interest and similar income | 138.0 | 118.2 | 19.8 | 16.8% |
| Fee income from financial services, net | -1.4 | -1.8 | 0.4 | -22.2% |
| Other income | 46.7 | 85.4 | -38.7 | -45.3% |
| Total premiums earned less claims and benefits | -207.9 | 50.9 | -258.8 | N/M |
| Other expenses | -172.6 | -100.8 | -71.8 | 71.2% |
| **Income before translation result and income tax** | **-197.1** | **152.0** | **-349.1** | **N/M** |
| Translation result | 4.1 | -1.2 | 5.3 | N/M |
| Income tax | 0.4 | 0.3 | 0.1 | 33.3% |
| **Profit for the period** | **-192.7** | **151.1** | **-343.8** | **N/M** |
| Attributable to non-controlling interest (1) | 0.6 | 0.0 | 0.6 | N/M |
| **Profit attributable to shareholders** | **-192.1** | **151.1** | **-343.2** | **N/M** |
| Discount rate impacts on technical reserves | -143.3 | 120.6 | -263.9 | N/M |
| **Profit excluding discount rate impacts** | **-48.7** | **30.5** | **-79.2** | **N/M** |
| **Efficiency ratio** | **37.7%** | **12.9%** | | |
| **ROAE** | **N/M** | **54.1%** | | |

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

Interseguro's result for the six months ended June 30, 2016 was S/ -192.7 million, a decrease of S/ 343.8 million compared to the corresponding period of 2015.

The decline in profits was mainly due to a S/ 258.8 million decrease in total premiums earned less claims and benefits driven by a negative discount rate impact on technical reserves, a S/ 61.8 million increase in impairment loss for available-for-sale investments (other expenses), as well as a S/ 22.9 million decrease in net gain on valuation of real estate investments (other income). These factors were partially offset by a S/ 19.8 million increase in net interest and similar income determined by the growth of Interseguro's investment portfolio.

The adjustment of technical reserves for the six months ended June 30, 2016 was higher by S/ 150.6 million compared to the corresponding period of 2015, driven by changes in the weighted average discount rates. As of June 30, 2016 these changes led to a higher adjustment of technical reserves compared to the same period in 2015.

Growth in interest and similar income was mainly due to an increase in interest on investments available-for-sale as a result of a 12.4% increase in the average volume of Interseguro's investment portfolio and a 36 basis point increase in the nominal average rate.

### Total premiums earned less claims and benefits

| | For the six months ended June 30, | | |
|---|---|---|---|
| | 2016 | 2015 | Change |
| | (S/. millions) | | % |
| Net premiums | 307.2 | 384.0 | -20.0% |
| Adjustment of technical reserves | -363.5 | -212.9 | 70.7% |
| Net claims and benefits incurred | -151.6 | -120.2 | 26.1% |
| **Total premiums earned less claims and benefits** | **-207.9** | **50.9** | **N/M** |

The decrease in net premiums was mainly attributable to a market contraction in Annuities due to a law enacted in April, 2016 which will allow retirees from the private pension fund system to withdraw up to 95.5% of their retirement funds upon retirement.

The increase in net claims and benefits incurred was due to a S/ 28.1 million increase in Annuities attributed to a larger number of pensioners and higher exchange rates.

*Inteligo*

The table below details selected financial information for Inteligo for the six months ended June 30, 2016 and 2015.

| | For the six months ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ million) | | (S/ million) | % |
| Interest and similar income | 78.9 | 63.6 | 15.3 | 24.2% |
| Interest and similar expense | -27.4 | -26.2 | -1.2 | 4.8% |
| **Net interest and similar income** | **51.5** | **37.4** | **14.1** | **37.8%** |
| Fee income from financial services, net | 55.5 | 61.4 | -5.9 | -9.6% |
| Other income | 18.3 | 27.3 | -9.0 | -33.0% |
| Other expenses | -40.8 | -40.1 | -0.7 | 1.9% |
| **Income before translation result and income tax** | **84.5** | **86.0** | **-1.5** | **-1.8%** |
| Translation result | -0.5 | 0.2 | -0.7 | N/M |
| Income tax | 0.1 | 0.0 | 0.1 | N/M |
| **Profit for the period** | **84.1** | **86.2** | **-2.1** | **-2.4%** |
| **ROAE** | **29.5%** | **33.9%** | | |
| **Efficiency ratio** | **32.6%** | **31.7%** | | |

Inteligo's profit for the six months ended June 30, 2016 and 2015 was S/ 84.1 million and S/ 86.2 million, respectively. The S/ 2.1 million or 2.4% decrease was mainly attributed to lower fee income and other income, partially offset by an increase in net interest and similar income.

Net interest and similar income for the six months ended June 30, 2016 reached S/ 51.5 million, a S/ 14.1 million or 37.8% increase when compared to the same period in the previous year.

Interest and similar income for the six months ended June 30, 2016 increased by S/ 15.3 million or 24.2% when compared to the six months ended June 30, 2015. The result was due to higher income on available for sale investments and also higher interest on loans as a result of an increase in the average volume of Inteligo's loan portfolio.

Inteligo's net fee income from financial services for the six months ended June 30, 2016 was S/ 55.5 million, decreasing by S/ 5.9 million or 9.6% when compared to the same period in the previous year. Such decrease was attributable to lower income from funds management services which decreased by S/ 12.0 million or 20.0% when compared to the six months ended June 30, 2015.

Other income decreased by S/ 9.0 million or 33.0% in the comparing periods as a result of lower net trading gain and also lower net gain on sale of securities.

Inteligo's other expenses reached S/ 40.8 million for the six months ended June 30, 2016. The S/ 0.7 million or 1.9% increase was mainly attributable to higher depreciation and amortization expenses.

### iii. Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the six months ended June 30, 2016 and 2015.

| | For the six months ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 4,456.9 | 4,029.5 | 427.4 | 10.6% |
| Cost of Sales | -3,112.2 | -2,831.4 | -280.8 | 9.9% |
| **Gross Profit** | **1,344.7** | **1,198.1** | **146.6** | **12.2%** |
| Selling Expenses | -875.4 | -798.5 | -76.9 | 9.6% |
| Administrative Expenses | -203.9 | -176.8 | -27.1 | 15.3% |
| Other Income (expense) | 10.8 | 15.7 | -4.9 | -31.3% |
| **Operating profit** | **276.2** | **238.5** | **37.6** | **15.8%** |
| Financial income (expense), net | -77.5 | -236.1 | 158.6 | -67.2% |
| Income tax expense | -67.9 | -36.5 | -31.3 | 85.7% |
| **Net profit (loss)** | **130.8** | **-34.1** | **164.9** | **-** |
| **Attribuible to:** | | | | |
| Intercorp Retail's shareholders | 85.0 | -16.9 | 102.0 | -601.9% |
| Minority Interest | -45.7 | 17.1 | -62.9 | -367.2% |
| **Adjusted EBITDA** | **395.6** | **334.9** | **60.6** | **18.1%** |
| Adjusted EBITDA Margin | 8.9% | 8.3% | 0.6% | |

Intercorp Retail reported net profit of S/130.8 million for the six months ended June 30, 2016, representing an increase when compared to the net loss of S/34.1 million in the corresponding period in 2015, as a result of an increase in operating profit and a net exchange gain.

Intercorp Retail's gross profit increased 12.2% for the six months ended June 30, 2016 when compared to the corresponding period 2015.This growth was primarily the result of new store openings, same store sales growth and increases in GLA by its main operating subsidiaries.

The following discussion details the results of operations of Intercorp Retail's primary subsidiaries: Supermercados Peruanos, InkaFarma and InRetail Shopping Malls. Intercorp Retail's earnings from Supermercados, InkaFarma and InRetail Shopping Malls were partially offset by losses from our other retail business held through Intercorp Retail. Detailed financial information from other retail, education and other related businesses are not shown because they do not contribute materially to Intercorp's financial results.

### *Intercorp Retail's Subsidiaries*

The following discussion details the results of operations of Intercorp Retail's primary subsidiaries: Supermercados Peruanos, Inkafarma and InRetail Shopping Malls. Intercorp Retail's earnings from Supermercados Peruanos, Inkafarma and InRetail Shopping Malls were partially offset by losses from other retail business held through Intercorp Retail.

*Supermercados Peruanos*

The table below details selected financial information for Supermercados Peruanos for the six months ended June 30, 2016 and 2015.

| | For the six months ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2014 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 2,043.6 | 1,944.3 | 99.3 | 5.1% |
| Cost of Sales | -1,508.9 | -1,444.0 | -64.9 | 4.5% |
| **Gross Profit** | **534.7** | **500.4** | **34.4** | **6.9%** |
| Selling Expenses | -430.8 | -398.5 | -32.4 | 8.1% |
| Administrative Expenses | -53.1 | -47.5 | -5.5 | 11.6% |
| Other Income (expense) | 9.8 | 1.7 | 8.2 | - |
| **Operating profit** | **60.7** | **56.0** | **4.6** | **8.3%** |
| Financial income (expense), net | -17.7 | -52.4 | 34.7 | -66.2% |
| Income tax expense | -15.4 | -3.9 | -11.6 | 297.4% |
| **Net profit (loss)** | **27.5** | **-0.3** | **27.7** | **-** |
| **EBITDA** | **119.6** | **108.9** | **10.7** | **9.9%** |
| **EBITDA Margin** | **5.9%** | **5.6%** | **-** | **-** |

Supermercados Peruanos reported a net income of S/27.5 million for the six months ended June 30, 2016 compared to a net loss of S/0.3 million in the corresponding period in 2015. This increase was mainly generated by a higher operating profit in the six months ended 2016 (S/60.7 million) in comparison to the same period in 2015 (S/56.0 million). In addition, the supermarkets had lower financial expenses (S/17.7 million) as of June 2016 compared to the same period in 2015 (S/52.4 million). Excluding exchange rate results, financial expenses (net) increased from S/22.4 million in the six months ended 2015 to S/25.8 million in the same period in 2016.

The increase in gross profit was primarily the result of revenue growth driven by same store sales growth of 2.0% and an increase in sales area of 16k sqm, 5.8% increase since June 30, 2015. Additionally, this increase is also explained by higher rebates, higher rental and logistic revenues and lower shrinkage.

Supermercados Peruanos' selling and administrative expenses increased 8.5% in the six months ended June 30, 2016 compared to the corresponding period in 2015. Since the first quarter of 2015, there is a JV with Financiera Uno, to further align commercial efforts in increasing sales in our supermarkets by using Tarjeta Oh!. Through this JV, Supermercados continues to contribute with marketing and commercial campaigns to increase the use of Tarjeta Oh!, as it has benn the case for the past several years, but in exchange Supermercados now receives a share of the

JV´s net income, instead of billing Financiera Uno for all the expenses incurred. As a result, income from the JV (S/8.8 million) is registered as other operating income in the consolidated financial statements. To be able to properly compare both semesters, the JV´s income is added to this quarter´s SG&A. Doing so, selling and administrative expenses grew 6.5%, mainly explained by an increase in personnel expenses due to a 13% increase in the minimum wage (from S/750 to S/850) since May 2016. As a percentage of supermarket revenues, selling and administrative, expenses including the JV represent 23.3% as of June 2016 versus 22.9% in the same period in 2015.

*InkaFarma*

The table below details selected financial information for InkaFarma for the six months ended June 30, 2016 and 2015.

| | For the six months ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 1273.4 | 1129.6 | 143.8 | 12.7% |
| Cost of Sales | -863.0 | -770.3 | -92.8 | 12.0% |
| **Gross Profit** | **410.4** | **359.4** | **51.0** | **14.2%** |
| Selling Expenses | -283.5 | -249.4 | -34.1 | 13.7% |
| Administrative Expenses | -29.5 | -29.0 | -0.6 | 1.9% |
| Other Income (expense) | -0.2 | 0.3 | -0.5 | - |
| **Operating profit** | **97.2** | **81.4** | **15.8** | **19.4%** |
| Financial income (expense), net | -0.8 | -1.5 | 0.7 | -47.1% |
| Income tax expense | -28.7 | -24.9 | -3.8 | 15.2% |
| **Net profit (loss)** | **67.8** | **55.1** | **12.7** | **23.1%** |
| **EBITDA** | **116.4** | **98.0** | **18.3** | **18.7%** |
| **EBITDA Margin** | **9.1%** | **8.7%** | **-** | **-** |

InkaFarma reported S/67.8 million in net profit for the six months ended June 30, 2016, which represented an increase of 23.1% compared to the same period in 2015. This increase was mainly due to an increase in operating profit.

InkaFarma's gross profit increased 14.2% in the six months ended June 30, 2016 compared to the corresponding period in 2015. This increase was driven by same store sales growth of 7.0% and 84 additional stores in operation since June 30, 2015. Additionally, gross margin improved from 31.8% as of June 2015 to 32.2% in the same period in 2016, mainly due a change in the mix of products sold, increased penetration of high margin products and higher rebates and rental revenues.

InkaFarma's selling and administrative expenses grew S/34.7 million, or 12.5%, in the six months ended June 30, 2016, compared to the same period in 2015, mainly due to higher operational expenses from new stores in early stages of operation and dollar-denominated rental expenses. Thus, as a percentage of pharmacies revenues, selling and administrative expenses were 24.6% as of June 2016, in line with the same period in 2015.

*InRetail Shopping Malls*

The table below details selected financial information for InRetail Shopping Malls for the six months ended June, 2016 and 2015.

| | For the six months ended June 30, | | Change | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| | (S/ in millions) | | (S/ in millions) | % |
| Total Revenues | 218.7 | 209.2 | 9.5 | 4.6% |
| Cost of Sales | -67.9 | -65.4 | -2.5 | 3.8% |
| **Gross Profit** | **150.8** | **143.7** | **7.1** | **4.9%** |
| Selling Expenses | -3.4 | -3.9 | 0.4 | -11.4% |
| Administrative Expenses | -12.3 | -11.7 | -0.6 | 5.1% |
| Other Income (expense) | 3.6 | 13.4 | -9.8 | -73.3% |
| **Operating profit** | **138.7** | **141.6** | **-2.9** | **-2.1%** |
| Financial income (expense), net | -46.3 | -99.1 | 52.8 | -53.3% |
| Income tax expense | -28.0 | -17.3 | -10.7 | 61.6% |
| **Net profit (loss)** | **64.4** | **25.2** | **39.2** | **155.5%** |
| **Net rental Income** | **166.0** | **155.5** | **10.6** | **6.8%** |
| **Adjusted EBITDA** | **137.1** | **129.2** | **8.0** | **6.2%** |
| **Adjusted EBITDA / Net Rental Income** | **82.6%** | **83.1%** | **-** | **-** |

InRetail Shopping Malls reported S/64.4 million in net profit for the six months ended June 30, 2016, which represented an increase of 155.5% compared to the same period in 2015. This increase was mainly explained by a net exchange gain (non-cash) of S/9.8 million in the first quarter of 2016, compared to a net exchange loss of S/51.8 million in the same period in 2015.

InRetail Shopping Malls revenues, which are mainly rental income from property investments, grew S/9.5 million, or 4.6% in the six months ended June 30, 2016, compared to the same period in 2015, due to the revenue contribution from one additional mall in operation, Real Plaza Sullana (acquired at the end of May 2015 for S/48 million, 14k sqm), shopping mall expansions since June 30, 2015 (+16k sqm of additional GLA, or a 2.9% increase over the past 12 months) and inflation adjusted rents. 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/155.5 million in the six months ended June 30, 2015 to S/166.0 million in the same period in 2016.

As of June, 2016, InRetail Shopping Malls' selling and administrative expenses had a slight increase of 0.9% compared to the same period in 2015

## III. Other financial information

### i. Liquidity and Capital Resources

Intercorp's main source of cash flows is dividends received from its subsidiaries. Substantially all of Intercorp's dividends have been contributed by IFS and its subsidiaries. Intercorp also receives distributions and other proceeds from investments in the ordinary course of business. Its main uses of funds have been investments in subsidiaries, the payment of interest on its financial obligations and the payment of dividends to its shareholders. Intercorp typically pays dividends to its shareholders in four quarterly installments after such dividends are declared at its annual general shareholders meeting. The table below provides information regarding the cash flows of Intercorp

| | For the six months ended June 30, | |
|---|---|---|
| | **2016** | **2015** |
| | (S/ millions) | |
| **Operating activities** | | |
| Net income | 200.5 | 262.8 |
| **Adjustments to reconcile net income to net cash** | | |
| Share of profit in Subsidiaries | -236.8 | -415.0 |
| Income from valuation of derivate financial instruments | -16.1 | 1.5 |
| Accounts receivable | 39.7 | -25.7 |
| Impairment loss on investments available for sale | 0.3 | 0.0 |
| Increase (decrease) of interest, provisions and other accounts payable | -10.7 | 12.2 |
| **Net cash used in operating activities** | **-23.1** | **-164.2** |
| **Investing activities** | | |
| Dividends received | 372.5 | 421.5 |
| Capital contribution to subsidiaries, net of capital reduction | -71.7 | -100.9 |
| Maturity available-for-sale investments | 48.3 | 0.0 |
| Acquisition of investment property | -20.6 | -11.1 |
| Acquisition of available-for-sale investments | -1.7 | -63.5 |
| **Net cash provided by investing activities** | **326.8** | **246.0** |
| **Financing activities** | | |
| Issuance (payment) of notes | 0.0 | -89.3 |
| Issuance (payment) of corporate bonds and interests | -25.6 | 302.50 |
| Loans received from (paid to) subsidiaries, net | -177.1 | -271.9 |
| Payment of dividends | -52.9 | -40.9 |
| **Net cash used in financing activities** | **-255.5** | **-99.5** |
| **Net cash (decrease) increase** | **48.2** | **-17.6** |
| **Balance of cash at the beginning of period** | **5.0** | **63.9** |
| **Balance of cash at the end of period** | **53.2** | **26.1** |

Net cash used in operating activities increased by S/ 141.1 million during the six months ended June 30, 2016 when compared to the corresponding period in 2015. This was mainly driven by the expenses regarding a non-recurring transaction (the refinance of the 2019 bonds) in the first semester of 2015. All interests due and a premium were paid for the early repayment of the corporate bonds, and there were cash outflows related to the issuance of the new bonds due 2025 (mainly fees).

Net cash provided by investing activities increased by S/ 80.8 million during the six months ended June 30, 2016 when compared to the corresponding period in 2015. This increase was primarily driven by purchase of available-for-sale investments of Peruvian Government Bonds during the first semester of 2015 and the maturity of Peruvian Government Bonds during the first semester of 2016, partially offset by lower dividends received in 2016.

Net cash from financing activities decreased by S/ 156.0 million during the six months ended June 30, 2016 when compared to the corresponding period in 2015. This decrease was explained by higher net funds borrowed in 2015 (Issuance of soles bonds partially offset by payments 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 six months ended June 30, 2016 and 2015.

| | For the six months ended June 30 | | | For the year ended December 31, | |
|---|---|---|---|---|---|
| | **2016** | **2016** | **2015** | **2015** | **2014** |
| | **(US$. in millions)(1)** | **(S/ in millions)** | | **(S/ in millions)** | |
| IFS..(2) | 109.2 | 369.0 | 419.1 | 419.1 | 311.8 |
| Other subsidiaries | 1.0 | 3.5 | 1.2 | 1.2 | 0.0 |
| | **110.2** | **372.5** | **420.3** | **420.3** | **311.8** |

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.379= US$1.00 , the exchange rate reported on the day of the operation
(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, 2016 and 2015. The dividends declared and paid by IFS are in US dollars.

| | For the six months ended June 30 | | |
|---|---|---|---|
| | **2016** | **2016** | **2015** |
| | **(US$. in millions) (1)** | **(S/ in millions)** | |
| **IFS** | | | |
| Dividends declared and paid | **152.9** | **516.7** | **564.2** |
| Net profit....(2) | 364.5 | 1,231.8 | 949.1 |
| Dividend payout ratio | **41.9%** | **41.9%** | **59.4%** |

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.379 = US$1.00 , the exchange rate reported on the day of the operation
(2) Refers to net profit for the previous fiscal year.
(3) Excluding Inteligo

*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, 2016 and 2015.

| | For the six months ended June 30 | | |
|---|---|---|---|
| | **2016** | **2016** | **2015** |
| | **(US$. in millions)** (1) | **(S/ in millions)** | |
| **Interbank** | | | |
| Dividends declared and paid…………..………………… | **115.4** | **379.5** | **318.9** |
| Net profit.. (2)…………………………..………………… | 256.4 | 843.4 | 708.7 |
| Dividend payout ratio…………………..………………… | **45.0%** | **45.0%** | **45.0%** |
| **Interseguro** | | | |
| Dividends declared and paid……………….…………… | **15.9** | **52.3** | **207.0** |
| Net profit.. (2)……………………………….……………… | 30.5 | 100.3 | 207.0 |
| Dividend payout ratio……………………………………. | **52.2%** | **52.2%** | **100.0%** |

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.289 = US$1.00 , the exchange rate reported on June 30, 2016 by the SBS.
(2) Refers to net profit for the previous fiscal year.

Interbank's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. Dividend distributions depend on several factors, including: (i) net profit; (2) planned capital expenditures; (3) capital and legal reserve requirements; and (4) prevailing market conditions. Up to 2015, the stated policy of Interbank was to distribute up to 50% of distributable income (which is net profit minus required legal reserves, which are equivalent to 10% of net profit). For 2013, 2014 and 2015 Interbank declared and distributed as dividends approximately 50% of its distributable income. For the years 2016-2018, the stated policy is to distribute a minimum of 20% of net profits of each year.

Interseguro's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. The stated policy of Interseguro was to distribute a minimum of 50% of distributable income. For 2016, the policy is to distribute at least 30% of distributable income.

Dividend distributions depend on several factors, including: (i) net profit; (ii) planned capital expenditures; (iii) capital and legal reserve requirements; and (iv) prevailing market conditions.

Inteligo changed its dividends policy after its acquisition by IFS. Before its acquisition by IFS became effective on August 1, 2014, Inteligo declared and paid dividends on a quarterly basis. After such acquisition, in line with the dividend policies of Interbank and Interseguro, Inteligo's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. Dividend distributions depend on several factors, including (1) approval by Inteligo's shareholders of the dividend proposal; (2) net profit; (3) planned capital expenditures; and (4) prevailing market conditions. Dividends distributed to IFS by

Inteligo are mainly generated by Inteligo Bank. The dividend policy of Inteligo Bank is to distribute up to 80% of its net profit for the previous year. Inteligo Bank intends to pay future dividends on an annual basis.

| | For the six months ended June 30 | | |
|---|---|---|---|
| | 2016 | 2016 | 2015[3] |
| **Inteligo** | (US$. in millions) (1) | (S/ in millions) | |
| Dividends declared and paid……………………………… | 28.2 | 92.7 | 124.0 |
| Net profit.[2]……………………………..…………………… | 35.3 | 116.0 | 155.6 |
| Dividend payout ratio……………………….……………… | 80% | 80% | 80% |

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.289 = US$1.00 , the exchange rate reported on June 30, 2016 by the SBS.

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

(3) Information is presented for Inteligo Bank instead of Inteligo, which is a holding company and a direct subsidiary of IFS effective as of August 1, 2014, because dividends from Inteligo are primarily generated by Inteligo Bank.

(+) Inteligo bank used to declare and pay dividends on a quarterly basis up to August 2014. After its acquisition by IFS, and In line with Interbank and Interseguro, Inteligo´s dividends are proposed annually.

(+) Dividends declared before August 2014 by Inteligo were paid directly by Inteligo to Intercorp. For the year 2014, dividends paid by Inteligo Bank to Inteligo were US$ 21.5 million, of which US$ 6.9 million were distributed directly to Intercorp in cash and the remainder was invested in a real estate project wholly owned by Intercorp. Dividends declared after August 1, 2014 amounted to US$ 16.2 million and

### iii. Indebtedness

***Unconsolidated***

As of June 30, 2016, Intercorp had S/ 1,155.1 million (US$351.2 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,109.6 million of long-term indebtedness comprised of S/ 812.1 million (US$246 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 297.5 million of the Senior Notes due 2030 (net of issuance expenses), and short-term indebtedness of S/ 45.5 million comprised of S/ 39.7 million of outstanding junior notes that were issued in 2014 and S/ 5.8 million of accounts payable to its subsidiaries. As of the same date, Intercorp had guaranteed up to US$156.6 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Homecenters Peruanos, Colegios Peruanos, Financiera Uno and Club de Socios, US$148.8 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.