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

Fourth Quarter 2017

May, 2018

Index

I. Overview

Intercorp is a holding company for one of Peru's largest business groups. Focused on Peru's growing middle class, it provides a variety of services to satisfy consumers' evolving preferences for modern goods and services. Intercorp's cash flows are primarily generated by dividends from subsidiaries. Intercorp's businesses are mainly focused on three industries: financial services; retail (including shopping malls); and education. Intercorp manages its businesses primarily through two principal holding companies, Intercorp Financial Services ("IFS") and Intercorp Retail.

IFS is a leading provider of financial services in the fast-growing, underpenetrated and profitable Peruvian financial system. With one of the largest distribution networks in Peru (as measured by the number of financial stores, ATMs, correspondent agents and sales force), IFS provides a wide range of products spanning banking, insurance and wealth management services to individual and commercial clients, through its main subsidiaries: Interbank, a universal bank; Interseguro, an insurance company; and Inteligo, a wealth management services provider. IFS' subsidiaries are managed with a coordinated strategy focusing on specific businesses that are believed to offer high growth, high margin opportunities.

Intercorp Retail is the holding company for retail and shopping malls businesses. Intercorp Retail controls InRetail Perú. InRetail Perú owns: a leading supermarket chain, Supermercados Peruanos; the largest pharmacy chain, Inkafarma; and the largest developer and operator of shopping malls operating under the Real Plaza brand. Separately, Intercorp Retail also controls other retail businesses, such as Promart, chain of home improvement stores, Oechsle, department store chain, and Financiera Oh!, a consumer financing company.

Intercorp began investing in education in 2010 and is rapidly expanding its footprint into this sector. Their education businesses, Innova Schools, UTP and Zegel IPAE, are operated through other subsidiaries within Intercorp's corporate structure. Innova Schools is a scalable network of private K-12 schools operating in 49 locations across Peru. UTP consists of a university and a technical school, with more than 72,000 students. Zegel IPAE complements the education portfolio with a technical school focused on specialized business careers.

<u>Additional commentaries</u>

In May 2017, IFS signed a share buyout agreement with Sura Asset Management S.A. (Colombia), Sura Asset Management Perú S.A. (Perú) and Grupo Wiese (Perú) for the direct and indirect acquisition of up to the 100 percent of Seguros Sura and 100 percent of Hipotecaria Sura. The acquisition was approved by the Superintendencia de Banca Seguros y AFPs (hereinafter "SBS") on September 28th 2017.

The price of transaction as a whole was US$ 275, 865,000 (equivalent approximately to S/ 891,911,000). The amount paid by IFS and by Interseguro ascended to S/ 811,238,000 and S/ 80,673,000, respectively.

Seguros Sura was constituted in Peru and its operations were normed by the Bank and Insurance Law. It was autorized to emit life insurance policies and general insurance. Likewise, Hipotecaria Sura was constituted in Peru, is regulated by the SBS and is mainly engaged in mortgage loans. However, since 2015, the company does not make new mortgage loans.

To the date of this information, Interseguro (IFS subsidiary) and Seguro Sura have merged, by virtue of the approvals made by the SBS within the established legal deadlines.

II. Results Analysis

The table below details Intercorp's assets and equity in its main businesses as of December 31, 2017 and December 31 2016.

	As of December 31, 2017				As of December 31, 2016			
	Assets		Equity		Assets		Equity	
	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%
IFS								
Interbank (banking)……………………………………….	45,554.5	61.6%	4,923.5	46.9%	42,402.9	66.6%	4,347.9	49.0%
Interseguro (insurance)…………………………………….	12,413.5	16.8%	392.7	3.7%	5,795.9	9.1%	453.4	5.1%
Inteligo (wealth management)………………………………	3,013.9	4.1%	709.8	6.8%	4,014.6	6.3%	676.5	7.6%
IFS (holding company) and eliminations…………………	-303.3	-0.4%	-189.1	-1.8%	-494.1	-0.8%	-479.6	-5.4%
Total IFS……………………………………………………	60,678.6	82.0%	5,836.9	55.6%	51,719.4	81.2%	4,998.3	56.4%
Intercorp Retail								
Supermercados Peruanos (supermarkets)……………………	3,321.4	4.5%	1,083.2	10.3%	2,963.6	4.7%	998.9	11.3%
Inkafarma (pharmacies)………………………………….	783.8	1.1%	124.4	1.2%	904.9	1.4%	160.8	1.8%
InRetail Shopping Malls (shopping malls)…………………	3,668.9	5.0%	2,114.9	20.2%	3,546.4	5.6%	1,964.6	22.2%
Other (1)…………………………………………………………	3,808.1	5.1%	1,205.3	11.5%	3,516.6	5.5%	1,066.7	12.0%
Total Intercorp Retail……………………………………	11,582.2	15.7%	4,527.8	43.1%	10,931.5	17.2%	4,191.0	47.3%
Other subsidiaries/Intercorp (holding company) and eliminations………………………………………	1,704.3	2.3%	130.2	1.2%	1,058.0	1.7%	-320.7	-3.6%
Total Consolidated………………………………………	73,965.1	1	10,494.9	1	63,708.8	1	8,868.6	1

(1) Includes assets and equity attributed to Intercorp Retail as a holding co

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 twelve months ended December 31, 2017 and 2016.

	For the year ended December 31		Change	
	2017	2016	(S/ in millions)	%
	(S/ millions)			
IFS				
Interbank (banking)………	664.0	646.7	17.3	3%
Interseguro (insurance)………	-83.1	-89.3	6.2	-7%
Seguros Sura (insurance)………	-14.5	0.0	-14.5	-100%
Inteligo (wealth management)………	142.7	134.4	8.3	6%
IFS expenses and eliminations………	-47.3	-39.6	-7.7	19%
Total IFS………	**661.8**	**652.2**	**9.6**	**1%**
Intercorp Retail				
Supermercados Peruanos (supermarkets)………	59.2	49.6	9.6	19%
Inkafarma (pharmacies)………	88.8	97.1	-8.3	-9%
InRetail Shopping Malls (shopping malls)………	98.7	95.4	3.3	3%
Other subsidaries / holding company and eliminations …	-41.7	-56.4	14.7	-26%
Total Intercorp Retail………	**204.9**	**185.7**	**19.2**	**10%**
Other subsidiaries ………	69.7	-72.3	142.0	-196%
Net profit attributable to Intercorp ………	**936.5**	**765.5**	**171.0**	**22%**
Financial expenses, net………	-54.9	-71.5	16.6	-23%
General expenses………	-16.7	-14.9	-1.8	12%
Other income expenses ………	-34.5	-31.7	-2.8	9%
Foreign exchange gain (loss), net ………	32.6	7.2	25.4	353%
Income (expenses) ………	**-73.5**	**-110.9**	**37.4**	**-34%**
Net Profit ………	**863.0**	**654.5**	**208.5**	**32%**

For the twelve months ended December 31, 2017, Intercorp´s net profit was S/ 863 million, an increase of S/ 208.5 million compared to the same period in 2016. The increase was driven by lower expenses in Intercorp (S/ 37.4 million), due mainly to the profit obtained from the sale of an available-for-sale investment; and the revaluation of properties. Additionally, IFS (S/ 9.6 million) and Intercorp Retail (S/ 19.2 million) showed higher results.

ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the year ended December 31, 2017 and 2016.

	For the year ended December 31,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Interest and similar income	3,809.0	3,704.8	104.2	2.8%
Interest and similar expense	-1,119.9	-1,081.9	-38.0	3.5%
Net interest and similar income	**2,689.1**	**2,623.0**	**66.2**	**2.5%**
Provision for loan losses, net of recoveries	-827.9	-783.6	-44.3	5.7%
Net interest and similar income after provision for loan losses	**1,861.2**	**1,839.3**	**21.9**	**1.2%**
Fee income from financial services, net	910.8	862.5	48.3	5.6%
Other income	562.2	441.3	120.9	27.4%
Total premiums earned less claims and benefits	-348.5	-247.3	-101.2	40.9%
Other expenses	-1,837.2	-1,748.3	-88.9	5.1%
Income before translation result and income tax	**1,148.5**	**1,147.5**	**0.9**	**0.1%**
Translation result	15.9	20.1	-4.2	-20.7%
Income tax	-326.5	-333.9	7.3	-2.2%
Profit for the period	**837.8**	**833.7**	**4.1**	**0.5%**
Attributable to equity holders of the group (1)	**831.8**	**828.1**	**3.6**	**0.4%**
EPS	**7.78**	**7.64**		
ROAE	**15.7%**	**17.4%**		

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

Profit attributable to shareholders was S/ 831.8 million for the year ended December 31, 2017, a 0.4% increase compared to the previous year. The increase in profits was mainly driven by growths of S/ 120.9 million in other income, S/ 66.2 million in net interest and similar income and S/ 48.3 million in fee income from financial services, partially offset by a S/ 101.2 million decrease in total premiums earned less claims and benefits, and a S/ 44.3 million increase in provisions. IFS ROAE was 15.7% for the year ended December 31, 2017, below the 17.4% reported in 2016.

IFS' Subsidiaries

The following discussion details the results of operations of each of IFS's three subsidiaries: Interbank, Interseguro and Inteligo.

Interbank

The table below details selected financial information for Interbank for the year ended December 31, 2017 and 2016.

	For the year ended December 31, 2017	For the year ended December 31, 2016	Change (S/ million)	Change %
	(S/ million)		(S/ million)	%
Interest and similar income	3,348.0	3,279.4	68.6	2.1%
Interest and similar expense	-1,047.0	-1,009.8	-37.2	3.7%
Net interest and similar income	**2,301.0**	**2,269.6**	**31.4**	**1.4%**
Provision for loan losses, net of recoveries	-830.5	-783.6	-46.8	6.0%
Net interest and similar income after provision for loan losses	**1,470.5**	**1,485.9**	**-15.5**	**-1.0%**
Fee income from financial services, net	836.1	789.6	46.5	5.9%
Other income	394.9	343.8	51.1	14.9%
Other expenses	-1,506.8	-1,469.2	-37.6	2.6%
Income before translation result and income tax	**1,194.8**	**1,150.1**	**44.6**	**3.9%**
Translation result	13.6	0.9	12.8	N/M
Income tax	-303.5	-304.2	0.8	-0.3%
Profit for the period	**904.9**	**846.8**	**58.2**	**6.9%**
ROAE	**20.1%**	**21.4%**		
Efficiency ratio	**41.5%**	**42.0%**		
NIM	**5.7%**	**5.7%**		

Interbank's net profit reached S/ 904.9 million in 2017, a 6.9% increase compared to the previous year. The main factors that contributed to this result were increases of 14.9% in other income, 5.9% in fee income from financial services and 1.4% in net interest and similar income, partially offset by growths of 6.0% in provisions and 2.6% in other expenses.

Net interest and similar income grew 1.4% YoY due to an increase of 2.1% in interest and similar income, partially offset by a 3.7% rise in interest and similar expense.

Growth in interest and similar income was mainly driven by increases of 25.6% in interest on investments available for sale and 0.7% in interest on loans.

The higher interest on investments available for sale was due to a 29.0% growth in the average volume, while the average rate remained relatively stable. The increase in average volume was due to higher investments in sovereign bonds, Central Bank Certificates of Deposits (CDBCR), global bonds and corporate bonds from financial institutions. Regarding the average rate, higher returns on CDBCR were compensated by lower yields on sovereign and global bonds.

The increase in interest on loans was attributed to a 4.3% growth in the average volume, partially offset by a 50 basis point decrease in the nominal average rate, from 12.5% in 2016 to 12.0% in 2017. The higher average volume was due to increases of 4.6% in retail loans and 4.2% in commercial loans. By currency, average balances of soles loans increased 5.6% while dollar loans grew 1.1%.

The lower average rate on the loan portfolio was a result of lower yields on retail and commercial loans. In the retail loan portfolio, the average yield decreased by 140 basis points as a consequence of lower rates on credit cards, payroll loans and mortgages, partially offset by higher returns on other consumer loans. In commercial loans, the average rate decreased by 20 basis points, mainly due to lower yields on trade finance loans and leasing operations.

The nominal average yield on interest earning assets decreased by 7 basis points, from 8.30% in 2016 to 8.23% in 2017, mainly due to lower rates on loans, especially credit cards.

Interest and similar expenses increased 3.7% with respect to the previous year. This was explained by a 17.9% growth in interest on deposits, partially offset by decreases of 12.3% in interest due to banks and correspondents, and 3.5% in interest on bonds, notes and other obligations.

The 17.9% growth in interest on deposits was due to a 5.7% increase in the average volume and a 20 basis points higher average cost. The growth in volume was attributed to increases in institutional, retail and commercial deposits. By currency, average balances of soles deposits increased 16.5%, while dollar deposits decreased 6.5%. The higher average cost was due to homogeneous increases across institutional, retail and commercial deposits.

Interest due to banks decreased as a result of an 11.6% contraction in the average volume, while the average cost remained relatively stable. The lower average volume was due to lower funding provided by correspondent banks and by the Central Bank.

The reduction in interest in bonds, notes and other obligations was mainly due to a 1.7% decrease in the average volume, which in turn was attributed to an appreciation of the exchange rate, as the majority of bonds outstanding are denominated in dollars.

The average cost of funds increased by 5 basis points, from 2.81% in 2016 to 2.86% in 2017, mainly due to the higher average cost of deposits, as a result of a higher proportion of soles deposits over the total deposit base.

As a result of the above, Interbank's net interest margin slightly decreased by 9 basis points, from 5.75% in 2016 to 5.66% in 2017.

Provision for loan losses, net of recoveries increased 6.0% in 2017 when compared to the previous year. The increase in provision expenses was similar to year-end loan growth and was mainly a result of higher provisioning in commercial and consumer loans. In this context, credit cards PDL ratio deteriorated by 60 basis points in 2017, to 5.6%, partly an effect of the slightly negative growth in such product in an annual comparison.

The S/ 46.5 million or 5.9% increase in fee income from financial services, net was mainly attributable to an increase of S/ 30.9 million in fees from maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services, in addition to growths of S/ 9.3 million in fees from banking services and S/ 5.2 million in income from funds management.

Other income increased by S/ 51.1 million or 14.9%, mainly due to an increase of S/ 47.6 million in net gain on sale of securities.

The efficiency ratio improved, from 42.0% in 2016 to 41.5% in 2017, as the result of a 3.8% growth in total revenues, compared to an increase in other expenses of only 2.6%.

Income before translation result and income tax increased 3.9% in 2017, which was then positively affected by a higher translation result and a lower effective tax rate, from 26.4% in 2016 to 25.1% in 2017. As a result of the above, profit for the period increased 6.9% compared to 2016.

Interbank's ROAE was 20.1% in 2017, below the 21.4% reported in 2016.

Insurance Segment

The table below details selected financial information for the Insurance Segment for the year ended December 31, 2017 and 2016.

	For the year ended December 31,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Net interest and similar income	316.6	278.5	38.1	13.7%
Fee income from financial services, net	-3.7	-3.0	-0.7	23.3%
Other income	122.8	78.0	44.8	57.5%
Total premiums earned less claims and benefits	-348.5	-247.3	-101.2	40.9%
Other expenses	-244.2	-228.8	-15.4	6.8%
Income before translation result and income tax	**-157.0**	**-122.6**	**-34.4**	**28.1%**
Translation result	0.9	8.1	-7.2	-89.3%
Income tax	0.0	-0.7	0.7	N/M
Profit for the period	**-156.1**	**-115.1**	**-41.0**	**35.6%**
Attributable to non-controlling interest (1)	0.1	0.3	-0.2	N/M
Profit attributable to shareholders	**-156.0**	**-114.8**	**-41.2**	**35.9%**
Discount rate impacts on technical reserves	-207.4	-119.6	-87.8	73.3%
Profit excluding discount rate impacts	**51.3**	**4.8**	**46.5**	**N/M**
Efficiency ratio	**21.7%**	**23.5%**		
ROAE	**N/M**	**N/M**		

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

Insurance Segment's result attributable to shareholders for the year ended December 31, 2017 was S/ -156.0 million, compared to S/ -114.8 million in 2016.

The yearly performance was mainly due to a decrease of S/ 101.2 million in total premiums earned less claims and benefits, coupled with an increase in other expenses of S/ 15.4 million. These effects were partially offset by increases of S/ 44.8 million in other income and S/ 38.1 million in net interest and similar income.

Decrease in total premiums earned less claims and benefits was mainly explained by an increase of S/ 94.1 million in net claims and benefits incurred and a S/ 38.6 million higher adjustment of technical reserves, partially offset by a S/ 31.4 million growth in net premiums.

Growth in other expenses was mainly due to increases of S/ 29.7 million in third party commissions and S/ 5.2 million in depreciation and amortization, partially offset by a decrease of S/ 22.8 million in impairment loss on available-for-sale investments.

On the other hand, other income increased due to higher net gain on sale of securities and net trading results.

Net interest and similar income increased in 2017 mainly due to higher interest on fixed income and equity investments as a result of a higher volume of Interseguro's investment portfolio, in addition to the contribution of Seguros Sura.

Total premiums earned less claims and benefits

	For the year ended December 31,		
	2017	2016	Change
	(S/ million)		%
Net premiums..	623.6	592.2	5.3%
Adjustment of technical reserves…………..	-559.9	-521.3	7.4%
Net claims and benefits incurred..	-412.3	-318.2	29.6%
Total premiums earned less claims and benefits……………….	**-348.5**	**-247.3**	**40.9%**

The yearly growth in net premiums was mainly due to increases of S/ 5.5 million in Individual Life, S/ 4.6 million in Annuities and S/ 2.4 million in Retail Insurance at Interseguro, while Seguros Sura contributed with S/ 18.9 million net premiums in the months of November and December.

The higher adjustment of technical reserves was mainly driven by different discount rate impacts in Annuities. This rate diminished by 32 basis points in 2017, in contrast to the 28 basis points decrease in 2016 at Interseguro. Furthermore, Seguros Sura's rate contracted by 7 basis points between the months of October and December.

The growth in net claims and benefits incurred was mostly explained by a S/ 43.5 million increase in Annuities, due to a higher number of pensioners. In addition, Seguros Sura contributed with S/ 51.8 million claims in the months of November and December.

Inteligo

The table below details selected financial information for Inteligo for the year ended December 31, 2017 and 2016.

	For the year ended December 31,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Interest and similar income	149.9	152.1	-2.2	-1.4%
Interest and similar expense	-53.9	-59.4	5.5	-9.3%
Net interest and similar income	**96.1**	**92.7**	**3.4**	**3.6%**
Provision for loan losses, net of recoveries	2.5	0.0	2.5	N/M
Net interest and similar income after provision for loan losses	**98.6**	**92.7**	**5.9**	**6.4%**
Fee income from financial services, net	116.9	116.9	0.0	0.0%
Other income	73.4	47.4	26.0	54.7%
Other expenses	-103.3	-85.8	-17.5	20.3%
Income before translation result and income tax	**185.7**	**171.2**	**14.5**	**8.5%**
Translation result	1.5	-0.9	2.4	N/M
Income tax	0.5	0.7	-0.2	-16.9%
Profit for the period	**187.8**	**171.0**	**16.8**	**9.8%**
ROAE	**27.3%**	**28.4%**		
Efficiency ratio	**30.0%**	**33.4%**		

Inteligo's profit for the year ended December 31, 2017 and 2016 was S/ 187.8 million and S/ 171.0 million, respectively. The S/ 16.8 million or 9.8% increase was mainly attributable to positive performances in net interest and similar income and in other income.

Net interest and similar income for the year ended December 31, 2017 reached S/ 96.1 million, a S/ 3.4 million or 3.6% increase when compared to the previous year.

Interest and similar income decreased by S/ 2.2 million or 1.4%, mianly due to lower interest on investments available for sale and lower interest on loans when compared to the year ended December 31, 2016. Interest and similar expense decreased by S/ 5.5 million or 9.3% when compared to the previous year, as a result of a decrease in interest on deposits and obligations.

Inteligo's net fee income from financial services for the year ended December 31, 2017 was S/ 116.9 million, stable when compared to the previous year. This result was attributable to an increase in revenues from funds management, offset by a decrease in brokerage and custody services fees and an increase in expenses related to fee income from financial services.

Other income exhibited a S/ 26.0 million or 54.7% increase in the comparing periods. Such increase was attributable to a more than two-fold growth in net gain on sale of securities, partially offset by a decrease in net trading gain.

Inteligo's other expenses reached S/ 103.3 million for the year ended December 31, 2017. The S/ 17.5 million or 20.3% increase was mostly explained by a S/ 15.3 million impairment loss on available for sale investments. Excluding such charge, total other expenses in 2017 were higher by S/ 2.2 million or 2.6% when compared to the previous year.

Inteligo's ROAE for the year ended December 31, 2017 was 27.3%, below the 28.4% registered in 2016.

iii. Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the twelve months ended December 31, 2017 and 2016.

	For the twelve months ended Decemeber 31,			
	2017	2016	Change	
	(S/ million)		(S/ million)	%
Total revenues	10,062.6	9,304.3	758.3	8.1%
Cost of sales	-6,960.3	-6,436.3	-524.0	8.1%
Gross profit	**3,102.3**	**2,868.0**	**234.2**	**8.2%**
Selling expenses	-1,939.1	-1,813.2	-125.9	6.9%
Administrative expenses	-493.9	-424.1	-69.8	16.4%
Other income (expense)	80.6	44.5	36.1	81.0%
Operating profit	**749.8**	**675.2**	**74.6**	**11.0%**
Financial income (expense), net	-228.6	-244.6	16.0	-6.5%
Income tax expense	-205.4	-158.5	-46.9	29.6%
Net profit (loss)	**315.8**	**272.1**	**43.7**	**16.0%**
Attributable to				
Intercorp Retail's shareholders	191.9	167.9	23.9	
Minority interest	123.9	104.2	19.7	
Adjusted EBITDA	**983.0**	**906.1**	**76.9**	**8.5%**
Adjusted EBITDA margin	9.8%	9.7%		3 bps

Intercorp Retail reported a net profit of S/ 315.8 million in 2017, representing an increase of 16.0% compared to 2016. This is a result of an increase in operating profits due to higher revenues and a reduction in operating expenses as well as lower financial expenses.

Intercorp Retail's gross profit increased 8.2% in 2017. This growth was primarily the result of new store openings, as well as same store sales growth mainly due to our Every Day Low Prices (EDLP) strategy in the supermarkets and higher rebates due to better negotiation with suppliers.

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

Intercorp Retail's Subsidiaries

Supermercados Peruanos

The table below details selected financial information for Supermercados Peruanos for the twelve months ended December 31, 2017 and 2016.

	For the twelve months ended December 31,			
	2017	2016	Change	
	(S/ million)		(S/ million)	%
Total revenues	4,652.4	4,241.0	411.4	9.7%
Cost of sales	-3,425.4	-3,110.6	-314.7	10.1%
Gross profit	**1,227.0**	**1,130.3**	**96.7**	**8.6%**
Selling expenses	-939.6	-894.9	-44.7	5.0%
Administrative expenses	-115.3	-102.3	-13.0	12.7%
Other income (expense)	21.8	24.6	-2.7	-11.0%
Operating profit	**194.0**	**157.7**	**36.3**	**23.0%**
Financial income (expense)	-48.2	-45.9	-2.3	5.1%
Income tax expense	-59.9	-42.0	-17.9	42.5%
Net profit	**85.8**	**69.7**	**16.1**	**23.0%**
EBITDA	309.7	277.0	32.7	11.8%
EBITDA margin	6.7%	6.5%	-	13 bps

Supermercados Peruanos reported a net income of S/ 85.8 million in 2017 compared to S/ 69.7 million in the previous year. This increase was mainly generated by a higher operating profit of S/ 194.0 million in 2017, compared to S/ 157.7 million in 2016, and was compensated by a higher income tax expense (S/ 59.9 million) compared to the previous year (S/ 42.0 million).

Supermercados Peruanos' gross profit increased 8.6% in 2017, compared to 2016. This growth is mainly explained by a SSS growth of 5.9%, an increase of 5k sqm of additional supermarkets sales area since Q4'16 (+1.6% increase over the last twelve months, 1.2% net of closings). The increase in SSS is mainly explained by the positive effects of the EDLP strategy.

Supermercados Peruanos' selling and administrative expenses grew 5.8% in 2017 compared to 2016. As a percentage of revenues, selling and administrative expenses decreased from 23.5% in 2016 to 22.7% in 2017, mainly explained by fixed cost dilutions and the company's efforts to reduce operational store expenses.

Inkafarma

The table below details selected financial information for Inkafarma for the twelve months ended December 31, 2017 and 2016.

	For the twelve months ended Decemeber 31,			
	2017	2016	Change	
	(S/ million)		(S/ million)	%
Total revenues	2,733.9	2,624.4	109.6	4.2%
Cost of sales	-1,832.6	-1,766.9	-65.7	3.7%
Gross profit	**901.3**	**857.4**	**43.9**	**5.1%**
Selling expenses	-647.8	-592.6	-55.1	9.3%
Administrative expenses	-65.3	-62.0	-3.3	5.3%
Other income (expense)	-4.5	-1.1	-3.4	-
Operating profit	**183.7**	**201.7**	**-18.0**	**-8.9%**
Financial income (expense), net	1.4	-1.1	2.4	-228.8%
Income tax expense	-58.6	-64.2	5.6	-8.7%
Net profit	**126.5**	**136.5**	**-10.0**	**-7.4%**
EBITDA	230.6	241.4	-10.8	-4.5%
EBITDA margin	8.4%	9.2%	-	-76 bps

Inkafarma reported S/ 126.5 million in 2017, which represented a decrease of 7.4% compared to the previous year mainly due to higher operating expenses of new stores in early stages of operation.

Inkafarma's gross profit increased 5.1% in 2017. This increase was driven by 46 additional stores since Q4'16, in spite of negative SSS of 3.6%. Additionally, gross margin improved from 32.7% in 2016 to 33.0% in 2017. The slowdown in revenues continue to be affected by the slower consumption nationwide, but have been gradually recovering from the temporal oversupply due to the significant number of stores opened in 2016.

Inkafarma's selling and administrative expenses grew 8.9% in 2017, compared to 2016. As a percentage of revenues, selling and administrative expenses increased from 24.9% in 2016 to 26.1% in 2017, due to a combination of increased operational expenses from new stores in early stages of operation and an increase in logistic expenses as a result of the floods in the North of Peru in the first quarter of this year.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the twelve months ended December 31, 2017 and 2016.

	For the twelve months ended December 31,			
	2017	**2016**	**Change**	
	(S/ million)		**(S/ million)**	**%**
Total revenues	475.9	457.9	18.0	3.9%
Cost of sales	-156.9	-143.1	-13.8	9.7%
Gross profit	**319.0**	**314.8**	**4.2**	**1.3%**
Selling expenses	-8.1	-6.3	-1.8	29.0%
Administrative expenses	-28.3	-26.4	-1.9	7.4%
Other income (expense)	19.2	11.5	7.7	66.7%
Operating profit	**301.8**	**293.7**	**8.1**	**2.8%**
Financial income (expense), net	-98.9	-109.7	10.8	-9.8%
Income tax expense	-65.9	-56.1	-9.7	17.3%
Net profit	**137.1**	**127.9**	**9.1**	**7.1%**
Adjusted EBITDA	294.1	286.2	7.9	2.8%
Adjusted EBITDA / Net Rental Income	80.9%	82.1%	-	-118 bps

InRetail Shopping Malls reported S/ 137.1 million in net profit in 2017, which represented an increase of 7.1% compared to 2016. This increase is mainly explained by lower financial expenses due to the appreciation of the PEN.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 3.9% in 2017 in comparison to 2016, mainly due to mall expansions and inflation-related adjustments. Net rental income is defined as total income minus reimbursable operating costs related to the maintenance and management of our shopping malls. These operating costs are billed directly to tenants and are also reported as income from rendering of services. InRetail Shopping Malls' net rental income increased from S/ 348.8 million in 2016 to S/ 363.7 million in 2017 (a 4.3% growth).

In 2017, InRetail Shopping Malls' selling and administrative expenses increased 11.5% compared to 2016. As a percentage of shopping malls revenues, selling and administrative expenses were 7.6% in 2017, in comparison to 7.1% in 2016.

III. Other financial information

i. Liquidity and Capital Resources

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

	For the twelve months ended December 31	
	2017	**2016**
	(S/ millions)	
Operating activities		
Net profit for the period	863.0	654.5
Adjustments to reconcile net income to net cash		
Participation in income of Subsidiaries	(937.0)	(765.4)
Loss (gain) on derivate financial instruments	3.2	(16.1)
(Increase) decrease of other assets	(33.4)	8.7
Impairment loss on available-for-sale investments	-	0.3
(Decrease) increase of other liabilities	(35.1)	14.8
Net cash provided by (used in) operating activities	**(139.3)**	**(103.2)**
Investing activities		
Dividends received	399.0	373.4
Loans (granted) collected from Subsidiaries,related parties and others, net	(42.3)	16.8
Capital contribution to Subsidiaries, net of capital reductions	(170.1)	(146.1)
Acquisition of available-for-sale investments	(1.2)	(1.7)
Maturity of available-for-sale investments	-	48.3
Payment of account payable for acquisition of investment property, Note 10(d)		(26.2)
Acquisition of non-controlling interest in Subsidiaries		(3.7)
Sale of available-for-sale investments	69.7	
Net cash provided by investing activities	**255.1**	**260.9**
Financing activities		
Issuance (payment) of notes	(40.3)	-
Loans received from third parties, net*	(75.6)	(58.8)
Loans received from Subsidiaries and related parties, net	110.0	
Payment of dividends	(98.2)	(102.1)
Net cash used in financing activities	**(104.1)**	**(160.9)**
Net cash (decrease) increase	**11.7**	**-3.2**
Balance of cash at the beginning of period	**1.8**	**5.0**
Balance of cash at the end of period	**13.5**	**1.8**

(*) Differs from the *Separate financial statements as of March 31, 2017, December 31, 2016 and for the three-month periods ended March 31, 2017 and 2016,* which includes a funding source with a third party for S/ 80 million in Increase (decrease) of interest, provisions and other accounts payable.

Net cash used in operating activities was higher in 2017 than 2016 by S/ 36.1 million while net cash used in investing activities was similar (decreased by S/ 5.7 million). The higher capital contributions to education and retail subsidiaries were offset by the sale available-for-sale- investments.

Net cash from financing activities decreased by S/ 56.7 million for the twelve months ended December 31, 2017 when compared to the corresponding period in 2016. This decrease was explained by lower short terms loans in 2017.

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 December 31, 2017 and 2016.

	For the twelve months ended December 31			For the year ended December 31,	
	2017	2017	2016	2016	2015
	(US$. in millions)(1)	(S/ in millions)		(S/ in millions)	
IFS(2)……………………………………………………………..	109.2	355.0	369.0	369.0	419.1
Intercorp Retail………………………………………………..	11.6	37.7	0.0	0.0	0.0
Other subsidiaries……………………………………………..	2.0	6.4	4.4	4.4	1.2
	122.8	**399.2**	**373.4**	**373.4**	**420.3**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.25 = US$1.00
(2) Inteligo has been included in IFS in 2014. Prior to August 2014 Inteligo w as 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 nine months ended December 31, 2017 and 2016. The dividends declared and paid by IFS are in US dollars.

	For the twelve months ended December 31		
	2017	2017	2016
	(US$. in millions) (1)	(S/ in millions)	
IFS			
Dividends declared and paid…………………	**146.5**	**475.8**	**493.5**
Net profit(2)………………………………………	256.7	833.7	1,231.8
Dividend payout ratio…………………………	**57.1%**	**57.1%**	**40.1%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.248= US$100 , 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 twelve months December 31, 2017 and 2016.

	For the twelve months ended December 31		
	2017	2017	2016
	(US$. in millions) (1)	(S/ in millions)	
Interbank			
Dividends declared and paid…………………	**121.1**	**393.7**	**379.5**
Net profit. (2)………………………………..……	269.3	875.1	860.3
Dividend payout ratio……………………..…….	**45%**	**45%**	**45%**
Interseguro			
Dividends declared and paid………………..…	**13.1**	**42.5**	**52.0**
Net profit. (2)…………………………………..….	26.4	85.8	100.3
Dividend payout ratio…………………………	**50%**	**50%**	**52%**
Inteligo			
Dividends declared and paid…………………	**40.5**	**131.6**	**94.6**
Net profit. (2)……………………………..……	51.0	165.7	118.5
Dividend payout ratio………………………....	**80%**	**80%**	**80%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.25 = US$1.00 , the exchange rate reported on December 31, 2017 by the SBS.
(2) Refers to net profit for the previous fiscal year.

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

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

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

Inteligo changed its dividends policy after its acquisition by IFS. Before its acquisition by IFS became effective on August 1, 2014, Inteligo declared and paid dividends on a quarterly basis. After such acquisition, in line with the dividend policies of Interbank and Interseguro, Inteligo's dividends are proposed annually by its board of directors and are subject to approval at its general shareholders' meeting. Dividend distributions depend on several factors, including (1) approval by Inteligo's shareholders of the dividend proposal; (2) net profit; (3) planned capital expenditures; and (4) prevailing market conditions. Dividends distributed to IFS by Inteligo are mainly generated by Inteligo Bank. The dividend policy of Inteligo Bank is to distribute up to 80% of its net profit for the previous year. Inteligo Bank intends to pay future dividends on an annual basis.

Intercorp Retail

The following table sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit for the prior year) for Intercorp Retail for the twelve months ended December 31, 2017. The dividends declared and paid by Intercorp Retail are in US dollars

	For the twelve months ended December 31	
	2017	**2017**
	(US$. in millions) (1)	**(S/ in millions)**
Intercorp Retail		
Dividends declared and paid (2).................	**11.6**	**37.7**
Net profit	51.3	166.6
Dividend payout ratio..............................	**23%**	**23%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.25 = US$1.00 , the exchange rate reported on December 31, 2017 by the SBS.
(2) Refers to net profit for the previous fiscal year.

Intercorp Retail's subsidiary

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 twelve months ended December 31, 2017.

	For the twelve months ended December 31	
	2017	**2017**
	(US$. in millions) (1)	**(S/ in millions)**
InRetail Peru		
Dividends declared and paid(2)	**20.0**	**65.0**
Net profit(3)	18.0	58.6
Dividend payout ratio(4)...........................	**83%**	**83%**

(1) Translated to U.S. dollars for convenience only at the rate of S/.3.249= US$1.00 , the exchange rate reported on the day of the operation
(2) Includes US$ 15 million of 2016 net profit and US$ 5 million of 2017 net profit in advance
(3) Refers to net profit for the previous fiscal year.
(4) Calculated over the US$15 million dividend

At the InRetail's General Shareholders' Meeting held on March 31, 2017 it was agreed to distribute dividends of US$20.0 million equivalent to S/ 65.0 million.

iii. Indebtedness

Unconsolidated

As of December 31, 2017, Intercorp had S/ 1,256 million (US$386 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,097 million of long-term indebtedness comprised of S/ 799.1 million (US$250 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 297.8 million of the Senior Notes due 2030 (net of issuance expenses), and short-term indebtedness of S/ 159 million comprised S/ 49 million of accounts payable to its subsidiaries and S/ 110 million of accounts payable to third parties. As of the same date, Intercorp had guaranteed up to US$ 159 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Homecenters Peruanos, Colegios Peruanos, Financiera Oh! and Urbi, US$131 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.