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

Third Quarter 2017

November, 2017

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 41 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 September 30, 2017 and December 31 2016.

	As of September 30, 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)……	41,942.8	65.5%	4,724.4	48.2%	42,402.9	66.6%	4,347.9	49.0%
Interseguro (insurance)……	6,349.0	9.9%	562.7	5.7%	5,795.9	9.1%	453.4	5.1%
Inteligo (wealth management)……	3,516.1	5.5%	700.2	7.2%	4,014.6	6.3%	676.5	7.6%
IFS (holding company) and eliminations……	-617.7	-1.0%	-587.1	-6.0%	-494.1	-0.8%	-479.6	-5.4%
Total IFS……	51,190.2	79.9%	5,400.2	55.1%	51,719.3	81.2%	4,998.2	56.4%
Intercorp Retail								
Supermercados Peruanos (supermarkets)……	3,185.3	5.0%	1,044.1	10.7%	2,963.6	4.7%	998.9	11.3%
Inkafarma (pharmacies)……	811.7	1.3%	127.4	1.3%	904.9	1.4%	160.8	1.8%
InRetail Shopping Malls (shopping malls)……	3,603.4	5.6%	2,071.0	21.1%	3,546.4	5.6%	1,964.6	22.2%
Other [(1)]……	3,677.9	5.7%	1,166.0	11.9%	3,516.6	5.5%	1,066.7	12.0%
Total Intercorp Retail……	11,278.4	17.6%	4,408.5	45.0%	10,931.5	17.2%	4,191.0	47.3%
Other subsidiaries/Intercorp (holding company) and eliminations……	1,573.3	2.5%	-15.8	-0.2%	1,058.0	1.7%	-320.5	-3.6%
Total Consolidated……	64,041.8	100%	9,792.9	100%	63,708.8	100%	8,868.7	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 nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30		Change	
	2017	2016		
	(S/ millions)		(S/ in millions)	%
IFS				
Banking	477.1	465.5	11.6	2.5%
Insurance	-96.6	-187.4	90.9	-48.5%
Wealth Management	115.2	102.7	12.5	12.1%
IFS expenses and eliminations	-25.8	-34.6	8.7	-25.2%
Total IFS	**469.9**	**346.2**	**123.7**	**35.7%**
Intercorp Retail				
Supermarkets	31.8	22.5	9.3	41.4%
Pharmacies	66.1	75.3	-9.3	-12.3%
Shopping malls	69.3	53.1	16.3	30.6%
Other subsidiaries / holding company and eliminations	-46.2	-60.2	13.9	-23.2%
Total Intercorp Retail	**120.9**	**90.7**	**30.3**	**33.4%**
Other subsidiaries	-28.4	-40.0	11.7	-29.1%
Net profit attributable to Intercorp	**562.5**	**396.8**	**165.6**	**41.7%**
Financial expenses, net	-33.6	-66.3	32.7	-49.3%
General expenses	-13.4	-12.3	-1.1	9.0%
Other income (expenses), net	-21.2	-22.7	1.5	-6.4%
Foreign exchange gain (loss), net	24.3	17.0	7.3	43.0%
Income (expenses)	**-43.9**	**-84.3**	**40.3**	**-47.9%**
Net profit	**518.5**	**312.5**	**206.0**	**65.9%**

For the nine months ended September 30, 2017, Intercorp´s net profit was S/ 518.5 million, an increase of S/ 206.0 million compared to the same period in 2016. The increase was driven by higher profits in IFS (S/ 123.7 million) and Intercorp Retail (S/ 30.3 million), and lower expenses in Intercorp (S/ 40.3 million), due to the profit obtained from the sale of an Available-for-sale investment.

ii. IFS

The table below sets forth the main components of IFS' consolidated income statement for the nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Interest and similar income	2,811.5	2,753.4	58.1	2.1%
Interest and similar expense	-831.8	-806.1	-25.7	3.2%
Net interest and similar income	**1,979.7**	**1,947.3**	**32.4**	**1.7%**
Provision for loan losses, net of recoveries	-639.2	-589.7	-49.5	8.4%
Net interest and similar income after provision for loan losses	**1,340.5**	**1,357.6**	**-17.1**	**-1.3%**
Fee income from financial services, net	679.4	641.1	38.3	6.0%
Other income	391.2	339.0	52.2	15.4%
Total premiums earned less claims and benefits	-249.9	-314.0	64.1	-20.4%
Other expenses	-1,338.2	-1,334.5	-3.7	0.3%
Income before translation result and income tax	**823.0**	**689.2**	**133.8**	**19.4%**
Translation result	13.4	8.5	4.9	57.4%
Income tax	-239.8	-250.4	10.6	-4.2%
Profit for the period	**596.6**	**447.4**	**149.2**	**33.4%**
Attributable to equity holders of the group (1)	**592.3**	**442.0**	**150.3**	**34.0%**
EPS	**5.55**	**4.07**		
ROAE	**15.2%**	**12.6%**		

(1) Since September 2017, Interseguro holds 100% of the real estate investment that shared with Inteligo Real Estate Peru SAC, a subsidiary of Intercorp Peru Ltd.

Profit attributable to shareholders was S/ 592.3 million for the nine months ended September 30, 2017, increasing 34.0% compared to the corresponding period of 2016; mainly driven by an improvement in total premiums earned less claims and benefits and a growth of 15.4% in other income. IFS annualized ROAE was 15.2% in the nine months ended September 30, 2017, above the 12.6% reported in the corresponding period of 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 nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Interest and similar income	2,495.4	2,442.1	53.3	2.2%
Interest and similar expense	-783.7	-753.7	-29.9	4.0%
Net interest and similar income	**1,711.7**	**1,688.4**	**23.4**	**1.4%**
Provision for loan losses, net of recoveries	-641.8	-589.7	-52.2	8.8%
Net interest and similar income after provision for loan losses	**1,069.9**	**1,098.7**	**-28.9**	**-2.6%**
Fee income from financial services, net	623.7	584.4	39.1	6.7%
Other income	274.6	255.7	19.0	7.4%
Other expenses	-1,125.0	-1,085.1	-39.8	3.7%
Income before translation result and income tax	**843.2**	**853.7**	**-10.5**	**-1.2%**
Translation result	11.3	-2.2	13.5	N/M
Income tax	-223.0	-228.5	5.5	-2.4%
Profit for the period	**631.5**	**623.0**	**8.5**	**1.4%**
ROAE	**19.1%**	**21.6%**		
Efficiency ratio	**42.0%**	**41.8%**		
NIM	**5.7%**	**5.8%**		

Interbank's profit for the nine months ended September 30, 2017 reached S/ 631.5 million, an increase of S/ 8.5 million when compared with the corresponding period of 2016. The growth was mainly explained by increases of S/ 39.1 million in net fee income from financial services, S/ 23.4 million in net interest and similar income and S/ 19.0 million in other income; partially offset by growths of S/ 52.2 million in provisions and S/ 39.8 million in other expenses. The bottom-line performance was also supported by a positive translation result.

Net interest and similar income grew 1.4% YoY due to an increase of 2.2% in interest and similar income, partially offset by a 4.0% rise in interest and similar expense.

The growth in interest and similar income was mainly due to increases of 25.5% in interest on investments available for sale and 0.8% in interest on loans.

Interest on investments available for sale increased by S/ 30.7 million YoY, or 25.5%, as a result of a 27.8% growth in the average volume; partially offset by a 10 basis point decrease in the nominal average rate. The growth in volume was a result of higher investments in sovereign bonds, fixed income instruments issued by financial institutions, global bonds and CDBCR; while the lower yield was mainly attributed to lower returns on sovereign and global bonds.

Interest on loans grew by S/ 19.3 million YoY, or 0.8%, explained by a 3.9% growth in the average volume; partially offset by a 40 basis point decline in the average yield, from 12.5% in the nine months ended September 30, 2016 to 12.1% in the same period of 2017. The increase in the average volume was due to growths of 3.9% in the retail portfolio and 4.0% in the commercial portfolio. The higher average volume of retail loans was explained by growths of 5.7% in mortgages and also 5.7% in payroll loans, partially offset by a decrease of 0.6% in the average volume of credit cards. In the commercial portfolio, higher volumes resulted from growths of 8.4% in short and medium-term loans, and 6.2% in trade finance loans; partially offset by a 9.5% decline in leasing. The decrease in the average yield was mainly explained by lower rates on credit cards and leasing loans; partially offset by higher yields on cash loans.

The nominal average yield on interest-earning assets increased by 10 basis points YoY, from 8.3% in the nine months ended September 30, 2016 to 8.4% in the corresponding period of 2017; mainly explained by (i) a lower proportion of cash and due from banks within interest-earning assets, as they earn a much lower yield compared to the other components; and (ii) a higher contribution of interest-earning assets denominated in local currency, as they earn a higher yield compared to those in dollars. These effects were partially offset by lower yields on loans and investments.

Interest and similar expense increased 4.0% YoY due to a 19.5% growth in interest on deposits and obligations, partially offset by decreases of 13.0% in interest due to banks and correspondents and 3.6% in interest on bonds, notes and other obligations.

Interest on deposits and obligations increased by S/ 63.3 million, or 19.5%, explained by growths of 3.6% in the average volume and of 30 basis points in the nominal average cost. The higher average volume was a result of higher institutional, retail and commercial deposits; while the increase in the average rate was mainly explained by a higher proportion of soles deposits within total deposits, as they bear a higher cost compared to those in dollars.

The S/ 24.9 million, or 13.0% decrease in interest due to banks and correspondents was explained by reductions of 9.4% in the average volume and of 10 basis points in the average cost. The decrease in average volume was mainly explained by lower funding provided by the Central Bank and correspondent banks; while the lower rate was mainly a result of a decrease in the cost of such sources of funding.

Interest on bonds decreased by S/ 8.4 million, or 3.6% YoY; mainly explained by a decrease of 1.8% in the average volume, which in turn was explained by an appreciation of the exchange rate with respect to the corresponding period of 2016.

The average cost of funds increased by 10 basis points YoY, from 2.8% in the nine months ended September 30, 2016 to 2.9% in the corresponding period of 2017; mainly due to a higher cost of deposits, partially offset by a lower average cost of due to banks and correspondents.

As a result of the above, net interest margin was 5.7% in the nine months ended September 30, 2017, 10 basis points below the 5.8% reported in the corresponding period of 2016.

Provision for loan losses, net of recoveries increased by S/ 52.2 million, or 8.8%, in the nine months ended September 30, 2017. Such growth was mainly a result of higher provisioning in retail loans, especially in credit cards. In this context, credit cards saw a 130 basis point deterioration in its PDL ratio, from 4.4% in the nine months ended September 30, 2016 to 5.7% in the nine months ended September 30, 2017; partly an effect of the negative growth in such product in an annual comparison.

Net fee income from financial services increased by S/ 39.1 million, or 6.7% YoY, mainly attributable to an increase of S/ 26.3 million in fees from maintenance of accounts and commissions from credit and debit card services and a reduction of S/ 3.5 million in insurance expenses, which were partially offset by a decrease of S/ 1.4 million in fees for indirect loans.

Other income increased by S/ 19.0 million, or 7.4%, mainly due to increases of S/ 17.0 million in net gain on sale of securities and S/ 5.0 million in income from the sale of written-off loan portfolio. These effects were partially offset by a contraction of S/ 12.2 million in net gain on foreign exchange transactions and trading.

Other expenses increased by S/ 39.8 million, or 3.7% YoY, mainly explained by growths of 5.4% in administrative expenses and 1.5% in salaries and employee benefits. The efficiency ratio was 42.0% in the nine months ended September 30, 2017, above the 41.8% achieved in the corresponding period of 2016.

Income before translation result and income tax decreased 1.2% during the first nine months ended September, 2017 compared to the same period of 2016; which was then positively affected by a higher translation result and a lower effective tax rate, from 26.8% in the first nine months ended September 30, 2016 to 26.1% for the corresponding period of 2017. All in all, profit for the first nine months of 2017 increased 1.4% compared to the same period of 2016.

Interbank's annualized ROAE was 19.1% in the first nine months ended September 30, 2017, below the 21.6% registered in the corresponding period of 2016.

Interseguro

The table below details selected financial information for Interseguro for the nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30,		Change	
	2017	2016		
	(S/ million)		(S/ million)	%
Net interest and similar income	216.7	205.4	11.3	5.5%
Fee income from financial services, net	-2.6	-2.1	-0.5	26.4%
Other income	72.0	77.4	-5.4	-7.0%
Total premiums earned less claims and benefits	-249.9	-314.0	64.1	-20.4%
Other expenses	-163.2	-211.2	48.0	-22.7%
Income before translation result and income tax	**-127.0**	**-244.4**	**117.4**	**-48.0%**
Translation result	0.5	-0.5	1.0	-204.6%
Income tax	0.0	-0.4	0.4	N/M
Profit for the period	**-126.5**	**-245.3**	**118.8**	**-48.4%**
Attributable to non-controlling interest (1)	0.1	-1.1	1.2	N/M
Profit attributable to shareholders	**-126.5**	**-246.4**	**119.9**	**-48.7%**
Discount rate impacts on technical reserves	-152.9	-222.1	69.2	-31.2%
Profit excluding discount rate impacts	**26.5**	**-24.3**	**50.8**	**N/M**
Efficiency ratio	**23.7%**	**37.7%**		
ROAE	**N/M**	**N/M**		

(1) Since September 2017, Interseguro holds 100% of the real estate investment that shared with Inteligo Real Estate Peru SAC, a subsidiary of Intercorp Peru Ltd.

Interseguro's result for the nine months ended September 30, 2017 was S/ -126.5 million, compared to S/ -245.3 million in the same period of 2016.

The improvement in bottom-line results was mainly due to an increase of S/ 64.1 million in total premiums earned less claims and benefits, coupled with a reduction of S/ 48.0 million in other expenses and an increase of S/ 11.3 million in net interest and similar income. These effects were partially offset by a decrease of S/ 5.4 million in other income.

Growth in total premiums earned less claims and benefits was mainly explained by a decrease of S/ 93.8 million in adjustment of technical reserves and an increase of S/ 5.7 million in net premiums, partially offset by an increase of S/ 35.3 million in net claims and benefits incurred.

The reduction in other expenses was mainly due to a S/ 56.4 million decrease in impairment loss on available-for-sale investments, partially offset by an increase of S/ 13.0 million in third party commissions.

The increase in net interest and similar income was the result of a higher volume of assets and improved portfolio rates.

The adjustment of technical reserves for the nine months ended September 31, 2017 was lower by S/ 93.8 million compared to the corresponding period of 2016 and it was mainly driven by a lower reserve constitution caused by a decrease in Annuity premiums and different discount rate impacts in Annuities. This rate diminished by 30 basis points in the first nine months of 2017 and by 46 basis points in the corresponding period of 2016.

Total premiums earned less claims and benefits

	For the nine months ended September 30, 2017	2016	Change
	(S/ million)		%
Net premiums	449.0	443.3	1.3%
Adjustment of technical reserves	-433.3	-527.1	-17.8%
Net claims and benefits incurred	-265.5	-230.2	15.3%
Total premiums earned less claims and benefits	**-249.9**	**-314.0**	**-20.4%**

The growth in net premiums was mainly due to increases of S/ 6.9 million in Retail Insurance and S/ 4.3 million in Individual Life, partially offset by a decrease of S/ 5.6 million in Annuities. The decrease in Annuities was mainly related to a market contraction due to the regulation that entered into force in April 2016, allowing retirees to cash out a significant portion of their pension funds.

The growth in net claims and benefits incurred was mostly explained by a S/ 35.1 million increase in Annuities, due to a higher number of pensioners, and a S/ 1.2 million increase in Retail Insurance; while claims in Individual Life slightly diminished.

Inteligo

The table below details selected financial information for Inteligo for the nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30, 2017	2016	Change	
	(S/ million)		(S/ million)	%
Interest and similar income	114.9	113.6	1.3	1.2%
Interest and similar expense	-41.5	-42.3	0.8	-2.0%
Net interest and similar income	**73.5**	**71.3**	**2.2**	**3.0%**
Provision for loan losses, net of recoveries	2.7	0.0	2.7	N/M
Net interest and similar income after provision for loan losses	**76.2**	**71.3**	**4.9**	**6.8%**
Fee income from financial services, net	86.0	86.4	-0.4	-0.5%
Other income	46.5	36.1	10.4	28.8%
Other expenses	-63.3	-61.0	-2.3	3.7%
Income before translation result and income tax	**145.3**	**132.8**	**12.5**	**9.4%**
Translation result	1.1	-0.7	1.8	N/M
Income tax	0.5	0.4	0.1	10.8%
Profit for the period	**146.9**	**132.5**	**14.4**	**10.9%**
ROAE	**28.7%**	**30.3%**		
Efficiency ratio	**29.0%**	**31.5%**		

Inteligo's profit for the nine months ended September 30, 2017 and 2016 was S/ 146.9 million and S/ 132.5 million, respectively. The S/ 14.4 million or 10.9% increase was mainly attributable to positive performances in net interest and similar income, and other income.

Net interest and similar income for the nine months ended September 30, 2017 reached S/ 73.5 million, a S/ 2.2 million or 3.0% increase when compared to the same period of the previous year.

In the comparing periods, interest and similar income increased by S/ 1.3 million or 1.2%, related to higher interest due from banks and inter-bank funds. Interest and similar expense decreased by S/ 0.8 million or 2.0% due to lower expenses on deposits and obligations when compared to the corresponding period of the previous year.

Inteligo's net fee income from financial services for the nine months ended September 30, 2017 was S/ 86.0 million, decreasing slightly by S/ 0.4 million or 0.5% when compared to the corresponding period of the previous year. This result was mainly attributed to a S/ 0.7 million increase in expenses from brokerage and custody services.

Other income exhibited a S/ 10.4 million or 28.8% increase in the comparing periods due to an 82.6% increase in net gain on sale of securities, partially offset by a net trading loss.

Inteligo's other expenses reached S/ 63.3 million for the nine months ended September 30, 2017. The S/ 2.3 million or 3.7% increase was mostly explained by a S/ 3.5 million impairment loss on available for sale investments, partially compensated by lower administrative expenses.

Inteligo's annualized ROAE for the nine months ended September 30, 2017 was 28.7%, below the 30.3% registered in the same period of the previous year.

iii. Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30			
	2017	2016	Change	
	(S/ in millions)		(S/ in millions)	%
Total Revenues	7,315.1	6,760.4	554.8	8.2%
Cost of Sales	-5,068.4	-4,712.6	-355.7	7.5%
Gross Profit	**2,246.8**	**2,047.7**	**199.0**	**9.7%**
Selling Expenses	-1,426.8	-1,325.2	-101.6	7.7%
Administrative Expenses	-357.2	-316.7	-40.5	12.8%
Other Income (expense)	30.1	26.5	3.6	13.7%
Operating profit	**492.9**	**432.4**	**60.6**	**14.0%**
Financial income (expense), net	-161.2	-193.8	32.6	-16.8%
Income tax expense	-130.7	-102.4	-28.3	27.6%
Net profit (loss)	**201.0**	**136.1**	**64.9**	**47.7%**
Attribuible to:				
Intercorp Retail's shareholders	127.3	91.4	36.0	
Minority Interest	73.7	44.7	29.0	
Adjusted EBITDA	**673.2**	**608.4**	**64.8**	**10.7%**
Adjusted EBITDA Margin	9.2%	9.0%		+20bps

Intercorp Retail reported a net profit of S/ 201.0 million as of September 2017, representing an increase of 47.7% compared to the same period in 2016. This is a result of an increase in gross profit due to a lower increase in cost of sales compared to the increase in revenues as well as a lower financial expenses.

Intercorp Retail's gross profit increased 9.7% for the nine months ended September 30, 2017. This growth was primarily the result of new store openings, as well as same store sales growth 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

The following discussion details the results of operations of Intercorp Retail's primary subsidiaries: Supermercados Peruanos, Inkafarma and InRetail Shopping Malls.

Supermercados Peruanos

The table below details selected financial information for Supermercados Peruanos for the nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30		Change	
	2017	2016		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	3,352.4	3,061.6	290.7	9.5%
Cost of Sales	-2,477.6	-2,257.4	-220.1	9.8%
Gross Profit	**874.8**	**804.2**	**70.6**	**8.8%**
Selling Expenses	-689.4	-650.4	-39.0	6.0%
Administrative Expenses	-88.0	-82.3	-5.6	6.9%
Other Income (expense)	11.7	18.5	-6.8	-36.8%
Operating profit	**109.2**	**90.0**	**19.2**	**21.3%**
Financial income (expense), net	-31.4	-36.1	4.7	-13.2%
Income tax expense	-32.7	-22.3	-10.4	46.4%
Net profit (loss)	**45.1**	**31.6**	**13.5**	**42.9%**
EBITDA	**199.9**	**179.1**	**20.8**	**11.6%**
EBITDA Margin	**6.0%**	**5.8%**	**-**	**+11 bps**

Supermercados Peruanos reported a net income of S/ 45.1 million for the nine months ended September 30, 2017 compared to S/ 31.6 million in the same period of the previous year. This increase was mainly generated by a higher operating profit of S/ 109.2 million for the nine months ended September 30, 2017, compared to S/ 90.0 million in the same period of 2016, and was partially compensated by a higher income tax expense (S/ 32.7 million) compared to the previous year (S/ 22.3 million).

Supermercados Peruanos' gross profit increased 8.8% for the nine months ended September 30, 2017, compared to the same period in 2016. This growth is mainly explained by a SSS growth of 5.8%, an increase of 12k sqm of additional supermarkets sales area since Q3'16 (+4.3% over the last twelve months) and higher rental revenues. The increase in SSS is mainly explained by the combined positive effects of the Every Day Low Prices (EDLP) strategy and the Back to School campaign (first four months of 2017).

Supermercados Peruanos' selling and administrative expenses grew 6.1% in the first nine months of 2017 compared to the same period in 2016. As a percentage of revenues, selling and administrative expenses decreased from 23.9% in the first nine months of 2016 to 23.2% in the same period in 2017, mainly explained by fixed cost dilutions, which offset the increase in personnel expenses due to a 13% increase in minimum wage in May 2016.

Inkafarma

The table below details selected financial information for Inkafarma for the nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30		Change	
	2017	2016		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	2028.7	1948.0	80.7	4.1%
Cost of Sales	-1361.5	-1317.6	-43.9	3.3%
Gross Profit	**667.2**	**630.4**	**36.8**	**5.8%**
Selling Expenses	-481.0	-434.5	-46.4	10.7%
Administrative Expenses	-48.5	-44.8	-3.7	8.2%
Other Income (expense)	-2.2	-0.2	-2.1	-
Operating profit	**135.5**	**150.9**	**-15.4**	**-10.2%**
Financial income (expense), net	1.8	0.2	1.6	1006.3%
Income tax expense	-43.4	-45.2	1.8	-3.9%
Net profit (loss)	**93.8**	**105.9**	**-12.1**	**-11.4%**
EBITDA	**169.0**	**180.1**	**-11.2**	**-6.2%**
EBITDA Margin	**8.3%**	**9.2%**	**-**	**-92 bps**

Inkafarma reported S/ 93.8 million in net profit for the nine months ended September 30, 2017, which represented a decrease of 11.4% compared to the same period of the previous year mainly due to higher operating expenses of new stores in early stages of operation.

Inkafarma's gross profit increased 5.8% for the nine months ended September 30, 2017. This increase was driven by 175 additional stores since Q3'16, in spite of negative SSS of 4.5%. Additionally, gross margin improved from 32.4% in the first nine months of 2016 to 32.9% in the same period in 2017. The slowdown in revenues is mainly explained by the cannibalization effect of the significant number of stores opened in the last twelve months and slower consumption nationwide.

Inkafarma's selling and administrative expenses grew 10.5% for the nine months ended September 30, 2017, compared to the same period in 2016. As a percentage of revenues, selling and administrative expenses increased from 24.6% in the first nine months of 2016 to 26.1% in the same period of 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 nine months ended September 30, 2017 and 2016.

	For the nine months ended September 30		Change	
	2017	2016		
	(S/ in millions)		(S/ in millions)	%
Total Revenues	347.1	333.1	14.0	4.2%
Cost of Sales	-114.9	-101.9	-12.9	12.7%
Gross Profit	**232.3**	**231.2**	**1.0**	**0.4%**
Selling Expenses	-5.9	-4.8	-1.1	22.6%
Administrative Expenses	-19.4	-18.5	-0.9	4.8%
Other Income (expense)	7.4	8.9	-1.5	-16.7%
Operating profit	**214.4**	**216.8**	**-2.4**	**-1.1%**
Financial income (expense), net	-74.1	-85.0	10.9	-12.8%
Income tax expense	-44.7	-39.8	-4.9	12.2%
Net profit (loss)	**95.7**	**92.1**	**3.6**	**3.9%**
Net rental Income	**265.0**	**254.8**	**10.2**	**4.0%**
Adjusted EBITDA	**211.8**	**210.9**	**0.9**	**0.4%**
Adjusted EBITDA / Net Rental Income	**79.9%**	**82.8%**	**-**	**-285 bps**

InRetail Shopping Malls reported S/ 95.7 million in net profit for the nine months ended September 30, 2017, which represented an increase of 3.9% compared to the same period in 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 4.2% for the nine months ended September 30, 2017 in comparison to the same period in 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/ 254.8 million for the nine months ended September 30, 2017 to S/ 265.0 million in the same period of 2017 (a 4.0% growth).

In 2016, InRetail Shopping Malls' selling and administrative expenses increased 8.5% in the first nine months of 2017 compared to the same period in 2016. As a percentage of shopping malls revenues, selling and administrative expenses were 7.3% in the first nine months of 2017, in comparison to 7.0% in the same period 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 nine months ended September 30	
	2017	2016
	(S/ millions)	
Operating activities		
Net profit for the period	518.5	312.5
Adjustments to reconcile net income to net cash		
Participation in income of Subsidiaries	(562.4)	(396.8)
Gain on derivate financial instruments	3.2	(16.1)
(Increase) decrease of other accounts receivable	(10.0)	24.4
Impairment loss on available-for-sale investments	-	0.3
Increase (decrease) of interest, provisions and other accounts payable*	(27.7)	(8.1)
Net cash provided by (used in) operating activities	**(78.5)**	**(83.7)**
Investing activities		
Dividends received	399.0	372.5
Loans collected from shareholder and related parties	-	16.8
Capital contribution to Subsidiaries, net of capital reductions	(189.5)	(110.1)
Acquisition of investment property	-	(24.4)
Sale of available-for-sale investments	38.4	46.6
Net cash provided by investing activities	**247.8**	**301.4**
Financing activities		
Issuance (payment) of notes	(40.3)	-
Loans received from third parties, net*	80.0	-
Loans received from Subsidiaries and related parties, net	(121.6)	(133.1)
Payment of dividends	(73.5)	(76.5)
Net cash used in financing activities	**(155.4)**	**(209.5)**
Net cash (decrease) increase	**13.9**	**8.1**
Balance of cash at the beginning of period	**1.8**	**5.0**
Balance of cash at the end of period	**15.7**	**13.1**

Net cash used in operating activities decreased by S/ 5.3 million for the nine months ended September 30, 2017 when compared to the corresponding period in 2016.

Net cash used in investing activities increased by S/ 53.6 million for the nine months ended September 30, 2017 when compared to the corresponding period in 2016. This decrease was primarily driven by capital contributions to education and retail subsidiaries.

Net cash from financing activities decreased by S/ 54.1 million for the nine months ended September 30, 2017 when compared to the corresponding period in

2016. This increase was explained by higher 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 September 30, 2017 and 2016.

	For the nine months ended September 30			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	356.7	369.0	369.0	419.1
Intercorp Retail	11.6	37.9	0.0	0.0	0.0
Other subsidiaries	2.0	6.5	4.4	4.4	1.2
	122.8	**401.0**	**373.4**	**373.4**	**420.3**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.265 = US$1.00
(2) Inteligo has been included in IFS in 2014. Prior to August 2014 Inteligo was not part of IFS and paid dividends directly to Intercorp.

Dividends Paid by Intercorp's Subsidiaries

IFS has been the main source of recurring dividends for Intercorp. Below we discuss the dividend policies of IFS and its subsidiaries Interbank, Interseguro and Inteligo.

IFS

The following table sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit for the prior year) for IFS for the nine months ended September 30, 2017 and 2016. The dividends declared and paid by IFS are in US dollars.

	For the nine months ended September 30		
	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$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 September 30, 2017 and 2016.

	For the nine months ended September 30		
	2017	2017	2016
	(US$. in millions) [1]	(S/ in millions)	
Interbank			
Dividends declared and paid	**120.6**	**393.7**	**379.5**
Net profit [2]	268.0	875.1	860.3
Dividend payout ratio	**45%**	**45%**	**45%**
Interseguro			
Dividends declared and paid	**13.0**	**42.5**	**52.0**
Net profit [2]	26.3	85.8	100.3
Dividend payout ratio	**50%**	**50%**	**52%**
Inteligo			
Dividends declared and paid	**40.5**	**132.2**	**94.6**
Net profit [2]	51.0	166.5	118.5
Dividend payout ratio	**80%**	**80%**	**80%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.265 = US$1.00 , the exchange rate reported on September 30, 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 nine months ended September 30, 2017. The dividends declared and paid by Intercorp Retail are in US dollars

	For the nine months ended September 30	
	2017	**2017**
	(US$. in millions) (1)	**(S/ in millions)**
Intercorp Retail		
Dividends declared and paid (2)	**11.6**	**37.9**
Net profit	51.0	166.6
Dividend payout ratio	**23%**	**23%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.265 = US$1.00 , the exchange rate reported on September 30, 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 nine months September 30, 2017.

	For the nine months ended September 30	
	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 September 30, 2017, Intercorp had S/ 1,227 million (US$376 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,099 million of long-term indebtedness comprised of S/ 804 million (US$246 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 298 million of the Senior Notes due 2030 (net of issuance expenses), and short-term indebtedness of S/ 125 million comprised S/ 45 million of accounts payable to its subsidiaries and S/ 80 million of accounts payable to third parties. As of the same date, Intercorp had guaranteed up to US$164 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Homecenters Peruanos, Colegios Peruanos, Financiera Oh! and Urbi, US$147 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.