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

Fourth Quarter 2018

May, 2019

Index

I. Overview

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

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

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

Intercorp began investing in education in 2010 and is rapidly expanding its footprint into this sector. Their education businesses, Innova Schools, UTP and Zegel IPAE, are operated through other subsidiaries within Intercorp's corporate structure. Innova Schools is a scalable network of private K-12 schools operating in 49 locations across Peru and 1 in Mexico. UTP consists of a university and a technical school, with more than 72,000 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 December 31, 2018 and December 31, 2017.

	As of December 31, 2018				As of December 31, 2017			
	Assets		Equity		Assets		Equity	
	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%
IFS								
Interbank (banking)……………………………………	47,628.8	58.0%	5,501.9	44.4%	45,478.6	61.6%	4,923.5	46.9%
Interseguro (insurance)………………………………	12,572.4	15.3%	777.1	6.3%	12,512.5	17.0%	679.5	6.5%
Inteligo (wealth management)………………………	3,732.2	4.5%	764.9	6.2%	3,013.9	4.1%	709.8	6.8%
IFS (holding company) and eliminations………………	-112.4	-0.1%	44.7	0.4%	-303.3	-0.4%	-189.1	-1.8%
Total IFS………………………………………………	63,820.9	77.7%	7,088.5	57.2%	60,701.7	82.3%	6,123.7	58.3%
Intercorp Retail								
Supermercados Peruanos (supermarkets)…………	3,697.2	4.5%	1,012.4	8.2%	3,321.4	4.5%	1,083.2	10.3%
InRetail Pharma (pharmacies)………………………	5,080.9	6.2%	600.8	4.8%	783.8	1.1%	124.4	1.2%
InRetail Shopping Malls (shopping malls)……………	4,459.3	5.4%	2,227.9	18.0%	3,668.9	5.0%	2,114.9	20.2%
Other [(1)]………………………………………………	3,550.1	4.3%	1,279.4	10.3%	3,808.1	5.2%	1,205.3	11.5%
Total Intercorp Retail………………………………	16,787.5	20.4%	5,120.5	41.3%	11,582.2	15.7%	4,527.9	43.1%
Other subsidiaries/Intercorp (holding company) and eliminations………………………………….…	1,516.4	1.8%	191.6	1.5%	1,485.9	2.0%	-156.7	-1.5%
Total Consolidated…………………………………	82,124.8	100%	12,400.6	100%	73,769.8	100%	10,494.9	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 twelve months ended December 31, 2018 and 2017.

	For the year ended December 31		Change	
	2018	2017		
	(S/ millions)		(S/ in millions)	%
IFS				
Banking	769.8	664.0	105.8	15.9%
Insurance	-14.5	55.1	-69.6	N/M
Wealth Management	134.3	142.7	-8.4	-5.9%
IFS expenses and eliminations	-71.2	-47.3	-23.9	50.5%
Total IFS	**818.5**	**814.5**	**3.9**	**0.5%**
Intercorp Retail				
Supermarkets	54.3	59.2	-4.9	-8.2%
Pharmacies	98.9	88.8	10.2	11.5%
Shopping malls	87.8	98.7	-10.9	-11.0%
Other subsidiaries / holding company and eliminations	-91.5	-41.8	-49.8	119.1%
Total Intercorp Retail	**149.5**	**204.9**	**-55.3**	**-27.0%**
Other subsidiaries	-25.2	69.7	-94.9	N/M
Net profit attributable to Intercorp	**942.8**	**1,089.2**	**-146.3**	**-13.4%**
Financial expenses, net	-83.1	-54.9	-28.3	51.6%
General expenses	-24.8	-16.7	-8.1	48.6%
Other income (expenses), net	11.0	-34.5	45.4	N/M
Foreign exchange gain (loss), net	-28.7	32.6	-61.2	N/M
Income (expenses)	**-125.7**	**-73.5**	**-52.2**	**71.1%**
Net profit	**817.2**	**1,015.7**	**-198.5**	**-19.5%**

For the twelve months ended December 31, 2018, Intercorp´s net profit was S/ 817.2 million, a decrease of S/ 198.5 million compared to the same period in 2017. The decrease was driven by Intercorp Retail (S/ -55.3 million) , and higher expenses at the holding level (S/ 52.2 million) due to lower foreign exchange results and financial expenses (net).

The lower net profit of Intercorp Retail was due to one-time expenses related to premiums of bonds cancellations of InRetail Consumer and InRetail Shopping Malls, in the context of debt restructuration operations.

ii. IFS

IFS adopted IFRS 9 requirements starting January 1st, 2018. As permitted by this regulation, we hereby present prior-period information under IAS 39 standards and information for the year ended December 31, 2018 under IFRS 9.

Furthermore, IFS implemented three accounting changes in 2018 aimed to reflect correctly our Insurance Segment's results under international accounting standards.

The first one was related to the restatement of the discount rate effect on the adjustment of technical reserves, which was a source of volatility in our results. Consequently, since January 1st, 2018, such effect was no longer registered in the Profit & Loss Statement, but in the Statement of Financial Position.

The second accounting change implied the application of a proper discount rate for the calculation of technical reserves on the mismatched portion of annuity obligations. This new rate consists of a risk free rate plus an iliquidity premium, as opposed to the risk-adjusted portfolio rate plus a 3% fixed rate previously used.

Finally, the third change consisted in the adoption of new mortality tables which represented a negative impact of S/ 144.8 million, accounted through a higher adjustment of technical reserves within total premiums earned less claims and benefits.

The table below sets forth the main components of IFS' consolidated income statement for the year ended December 31, 2018 and 2017.

	For the year ended December 31,		Change	
	2018	2017		
	(S/ million)		(S/ million)	%
Interest and similar income	4,321.3	3,809.0	512.3	13.4%
Interest and similar expense	-1,170.6	-1,119.9	-50.7	4.5%
Net interest and similar income	**3,150.7**	**2,689.1**	**461.6**	**17.2%**
Provision for loan losses, net of recoveries	-660.1	-827.9	167.9	-20.3%
Net interest and similar income after provision for loan losses	**2,490.6**	**1,861.2**	**629.4**	**33.8%**
Fee income from financial services, net	893.4	864.4	29.0	3.4%
Other income	405.6	518.0	-112.4	-21.7%
Total premiums earned less claims and benefits	-407.5	-152.9	-254.6	N/M
Other expenses	-1,843.3	-1,746.5	-96.8	5.5%
Income before translation result and income tax	**1,538.8**	**1,344.1**	**194.7**	**14.5%**
Translation result	-31.9	15.9	-47.8	N/M
Income tax	-415.5	-326.5	-89.0	27.3%
Profit for the period	**1,091.4**	**1,033.5**	**57.9**	**5.6%**
Attributable to equity holders of the group (1)	**1,084.3**	**1,027.4**	**56.9**	**5.5%**
EPS	**9.85**	**9.61**		
ROAE	**16.6%**	**19.3%**		

(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/ 1,084.3 million for the year ended December 31, 2018, a 5.5% increase compared to the previous year. The higher profits were mainly driven by growths of S/ 461.6 million in net interest and similar income, and

S/ 29.0 million in fee income from financial services, in addition to a S/ 167.9 million decrease in provisions. These effects were partially offset by reductions of S/ 254.6 million in total premiums earned less claims and benefits, and S/ 112.4 million in other income, as well as by a S/ 96.8 million increase in other expenses. IFS ROAE was 16.6% for the year ended December 31, 2018, below the 19.3% reported in 2017.

It is worth mentioning that, when normalizing from the adoption of new mortality tables, which represented a negative impact of S/ 144.8 million, IFS' profits would have increased 19.6% compared to 2017.

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, 2018 and 2017.

	For the year ended December 31,		Change	
	2018	2017		
	(S/ million)		(S/ million)	%
Interest and similar income	3,561.0	3,348.0	213.0	6.4%
Interest and similar expense	-1,067.4	-1,047.0	-20.4	1.9%
Net interest and similar income	**2,493.6**	**2,301.0**	**192.6**	**8.4%**
Provision for loan losses, net of recoveries	-660.9	-830.5	169.6	-20.4%
Net interest and similar income after provision for loan losses	**1,832.7**	**1,470.5**	**362.2**	**24.6%**
Fee income from financial services, net	817.9	789.7	28.1	3.6%
Other income	302.9	362.6	-59.7	-16.5%
Other expenses	-1,536.0	-1,428.1	-107.9	7.6%
Income before translation result and income tax	**1,417.5**	**1,194.8**	**222.7**	**18.6%**
Translation result	-9.8	13.6	-23.4	N/M
Income tax	-382.6	-303.5	-79.1	26.1%
Profit for the period	**1,025.1**	**904.9**	**120.2**	**13.3%**
ROAE	**20.3%**	**20.1%**		
Efficiency ratio	**41.2%**	**40.3%**		
NIM	**5.7%**	**5.7%**		

Interbank's net profit reached S/ 1,025.1 million in 2018, a 13.3% increase compared to the previous year. The main factors that contributed to this result were growths of 8.4% in net interest and similar income, and 3.6% in fee income from financial services, as well as a 20.4% reduction in provisions. These factors were partially offset by a 16.5% decrease in other income, in addition to a 7.6% increase in other expenses and a higher effective tax rate.

Net interest and similar income grew 8.4% YoY due to an increase of 6.4% in interest and similar income, partially offset by a 1.9% rise in interest and similar expense.

The higher interest and similar income was due to growths of 81.2% in interest on due from banks and inter-bank funds, 10.5% in interest on investments available for sale and 5.5% in interest on loans.

Interest on due from banks and inter-bank funds grew by S/ 21.3 million, or 81.2%, explained by an increase of 30 basis points in the nominal average rate, partially offset by a 10.8% reduction in the average volume. The increase in the nominal average rate was due to higher returns on deposits and reserve requirements at the Central Bank, partially offset by a lower return on inter-bank funds. On the other hand, the reduction in the average volume was the result of lower balances on reserve requirements at the Central Bank, partially offset by higher inter-bank funds and deposits at the Central Bank.

The S/ 21.2 million higher interest on investments available for sale was due to a 20.6% growth in the average volume, partially offset by a 30 basis point decrease in the average rate. The increase in volume was a result of higher investments in sovereign, global and corporate bonds from non-financial institutions, partially offset by lower balances on Central Bank Certificates of Deposits (CDBCR). On the other hand, the reduction in the average rate was the result of lower returns on CDBCR, sovereign bonds and corporate bonds from financial institutions.

The increase in interest on loans accounted for most of the growth in interest and similar income, and was attributed to a 12.0% higher average volume, partially offset by a 70 basis point decrease in the nominal average rate, from 12.0% in 2017 to 11.3% in 2018.

The higher average volume of loans was attributed to increases of 12.9% in retail loans and 11.3% in commercial loans. In the retail portfolio, the increase was mainly explained by growths of 14.0% in credit cards, 13.3% in mortgages and 12.1% in payroll loans; while in the commercial portfolio, by increases of 40.7% in trade finance loans and 8.3% in short and medium-term loans, partially offset by a 1.6% reduction in leasing operations.

The decrease in the average rate was mainly explained by yield reductions of 100 basis points in retail loans and 50 basis points in commercial loans. In the retail loan portfolio, the average yield decreased as a consequence of lower rates on consumer loans and mortgages; while in the commercial portfolio, mainly due to lower yields on trade finance loans, short and medium-term loans, and leasing operations.

The nominal average yield on interest earning assets decreased by 10 basis points, from 8.2% in 2017 to 8.1% in 2018, mainly due to lower rates on loans and on investments available for sale.

Interest and similar expense increased 1.9% with respect to the previous year. This was explained by growths of 9.2% in interest on deposits and 8.9% in interest on bonds, notes and other obligations; partially offset by a decrease of 24.6% in interest on due to banks and correspondents.

The growth in interest on deposits was due to an 11.2% increase in the average volume, while the average cost remained stable. The growth in volume was attributed to increases in commercial, retail and institutional deposits. By currency, average balances of soles deposits grew 16.5% while average dollar deposits increased 3.8%. The stable average cost of deposits resulted from higher rates paid to retail deposits that were offset by lower rates on institutional deposits, while the average cost of commercial deposits remained stable throughout the year.

Interest on bonds, notes and other obligations grew mainly explained by the issuance of a senior bond in the international market for US$ 200 million in January 2018; in addition to hedging transactions for a total amount of US$ 400 million, executed throughout the year. It is worth noting that, in addition to the issuance of new debt, an exchange offer was executed for existing senior bonds due October 2020. As a result of this transaction, US$ 285 million were exchanged from 5.750% senior notes due 2020 to 3.375% senior notes due 2023.

Interest on due to banks and correspondents decreased as a result of reductions of 21.0% in the average volume and 20 basis point in the average cost. The reduction in the average volume was mainly due to lower funding provided by the Central Bank and from correspondent banks abroad, as well as from COFIDE. The decrease in the nominal average cost was explained by lower rates on funding provided by the Central Bank and from banks abroad, partially offset by higher rates on inter-bank funds and funding provided by COFIDE.

The average cost of funds decreased by 20 basis points, from 2.9% in 2017 to 2.7% in 2018, mainly due to a higher proportion of deposits over total funding, since they contribute with a lower average cost than the rest of interest-bearing liabilities, even if their average cost remained stable when compared to 2017. A lower average cost of due to banks and correspondents also supported the improvement in cost of funding in 2018.

As a result of the above, Interbank's net interest margin remained stable when compared to 2017, at 5.7%.

Provision for loan losses, net of recoveries decreased 20.4% in 2018 compared to the previous year. The reduction in provision expenses was mainly a result of lower provision requirements in credit cards and an S/ 83.0 million reversion of provisions in corporate loans, related to the bank's exposure to the construction sector. These factors were partially offset by higher provision requirements in small and medium-enterprise loans.

The S/ 28.1 millon, or 3.6%, increase in fee income from financial services was mainly attributable to higher commissions from credit card services.

Other income decreased S/ 59.7 million, or 16.5%, mainly due a S/ 48.9 million decrease in net gain on sale of securities. It is worth noting that income from sale of securities increased considerably under the prevailing IAS 39 accounting standards in 2017, due to the sale of part of an equity investment. The sale of another portion of such equity investment in 2018 was accounted under IFRS 9 standards, with effect on retained earnings instead.

Other expenses increased S/ 107.9 million, or 7.6%, as a result of growths of 8.7% in depreciation and amortization, 8.6% in administrative expenses, and 4.8% in salaries and employee benefits. Expense items related to IT services and loyalty programs were among those which rose the most, as these were associated with bank's digital transformation efforts and the higher credit cards activity, respectively.

The efficiency ratio was 41.2% in 2018, a slight deterioration compared to the 40.3% registered in 2017, as a result of a 7.6% increase in other expenses, while total revenues increased 4.7%.

Income before translation result and income tax increased 18.6% in 2018, which was then affected by a negative translation result and a higher effective tax rate, from 25.1% in 2017 to 27.2% in 2018. As a result of the above, profit for the period increased 13.3% compared to 2017.

Interbank's ROAE was 20.3% in 2018, slightly higher than the 20.1% reported in 2017.

Interseguro

The table below details selected financial information for Interseguro for the year ended December 31, 2018 and 2017.

	For the year ended December 31,		Change	
	2018	2017		
	(S/ million)		(S/ million)	%
Net interest and similar income	556.6	315.0	241.6	76.7%
Fee income from financial services, net	-4.6	-3.7	-0.9	24.4%
Other income	67.6	112.9	-45.3	-40.1%
Total premiums earned less claims and benefits	-407.5	-152.9	-254.6	N/M
Other expenses	-262.3	-232.3	-30.0	12.9%
Income before translation result and income tax	**-50.1**	**39.0**	**-89.1**	**N/M**
Translation result	-11.4	0.9	-12.3	N/M
Income tax	0.0	0.0	0	N/M
Profit for the period	**-61.5**	**39.9**	**-101.4**	**N/M**
Attributable to non-controlling interest (1)	0.0	0.1	-0.1	N/M
Profit attributable to shareholders	**-61.5**	**40.0**	**-101.5**	**N/M**
New mortality tables impact on technical reserves	-144.8	0.0	-144.8	N/M
Profit excluding change in mortality tables	**83.3**	**40.0**	**43.3**	**108.5%**
Efficiency ratio	**14.4%**	**15.9%**		
ROAE	**N/M**	**7.0%**		

(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.

Interseguro's results attributable to shareholders for the year ended December 31, 2018 were S/ -61.5 million, compared to S/ 40.0 million for the corresponding period of 2017.

Bottom-line results were negatively affected by a one-time adjustment of S/ 144.8 million in technical reserves as a result of the full adoption of new mortality tables published in March 2018 by the Peruvian regulatory entity (Superintendencia de Banca y Seguros). Excluding such adjustment, net profit was S/ 83.3 million, which would have represented a more than two-fold increase in profits.

Despite a S/ 241.6 million increase in net interest and similar income, the yearly performance was affected by decreases of S/ 254.6 million in total premiums earned less claims and benefits (including the one-time adjustment) and S/ 45.3 million in other income, in addition to a S/ 30.0 million increase in other expenses and a negative translation result.

Net interest and similar income in 2018 was S/ 556.6 million, an increase of S/ 241.6 million compared to 2017. This was mainly explained by a S/ 276.2 million growth in interest and similar income as a result of a higher volume of assets due to the merger with Seguros Sura in 2018, partially offset by a S/ 34.6 million increase in interest and similar expenses.

Total premiums earned less claims and benefits were S/ -407.5 million in 2018, a decrease of S/ 254.6 million compared to the previous year. Despite an increase of S/ 145.9 million in net premiums, growths of S/ 323.7 million in net claims and benefits incurred, and S/ 76.6 million in adjustment of technical reserves, more than offset such result.

Other income was S/ 67.6 million, a S/ 45.3 million decrease YoY, due to reductions of S/ 95.7 million in net gain on sale of securities and S/ 9.6 million in net trading result. These factors were partially offset by increases of S/ 49.7 million in net gain on valuation of real estate investments, S/ 5.6 million in rent income from real estate investments and S/ 4.7 million in net gain on sale of real estate investments.

Other expenses were S/ 262.3 million in 2018, a S/ 30.0 million growth, mainly explained by increases of S/ 13.8 million in salaries and employee benefits, S/ 7.3 million in depreciation and amortization, and S/ 6.9 million in administrative expenses. These factors were partially offset by a S/ 10.7 million reversion of provisions for impairment loss on available-for-sale investments.

Total premiums earned less claims and benefits

	For the year ended December 31,		
	2018	2017	Change
	(S/ million)		%
Net premiums...	645.4	499.5	29.2%
Adjustment of technical reserves………..	-316.8	-240.2	31.9%
Net claims and benefits incurred..	-736.0	-412.3	78.5%
Total premiums earned less claims and benefits……………….	**-407.5**	**-152.9**	**N/M**

The yearly growth in net premiums was mainly due to increases of S/ 65.0 million in individual life, S/ 42.8 million in annuities and S/ 37.8 million in disability and survivorship.

The higher adjustment of technical reserves in 2018 was driven mainly by increases of S/ 68.3 million in annuities, S/ 4.9 million in individual life and S/ 3.4 million in retail insurance. Growth in technical reserves for annuities was mainly explained by the one-time adjustment from the adoption of new mortality tables, as previously mentioned.

Net claims and benefits incurred grew substantially due to the obligations incurred by the merger with Seguros Sura in 2018.

Inteligo

The table below details selected financial information for Inteligo for the year ended December 31, 2018 and 2017.

	For the year ended December 31,		Change	
	2018	2017		
	(S/ million)		(S/ million)	%
Interest and similar income	151.9	149.9	2.0	1.3%
Interest and similar expense	-44.1	-53.9	9.8	-18.1%
Net interest and similar income	**107.8**	**96.1**	**11.7**	**12.2%**
Provision for loan losses, net of recoveries	0.8	2.5	-1.7	-69.0%
Net interest and similar income after provision for loan loss	**108.6**	**98.6**	**10.0**	**10.1%**
Fee income from financial services, net	123.6	116.9	6.7	5.7%
Other income	31.6	73.4	-41.8	-56.9%
Other expenses	-80.8	-103.3	22.4	-21.7%
Income before translation result and income tax	**183.0**	**185.7**	**-2.7**	**-1.4%**
Translation result	-0.7	1.5	-2.2	N/M
Income tax	0.9	0.5	0.4	69.7%
Profit for the period	**183.3**	**187.8**	**-4.5**	**-2.4%**
ROAE	**25.8%**	**27.3%**		
Efficiency ratio	**32.0%**	**30.0%**		

Inteligo's profit for the year ended December 31, 2018 and 2017 was S/ 183.3 million and S/ 187.8 million, respectively. The S/ 4.5 million, or 2.4%, decrease was mainly attributable to a negative performance in other income.

Net interest and similar income grew S/ 11.7 million, or 12.2%. This double digit growth was primarily driven by increased prime rates and incremental coupons from fixed income positions acquired throughout 2018.

Net fee income from financial services was S/ 123.6 million, a S/ 6.7 million, or 5.7%, increase mainly related to the acquisition of incremental accounts and AUM.

Other income was S/ 31.6 million, a S/ 41.8 million, or 56.9%, decrease mainly attributable to a S/ 54.9 million decrease in net gain on sale of securities due to high volatility and unfavorable market conditions in 2018.

Other expenses decreased S/ 22.4 million, or 21.7%, mainly explained by a base effect related to a S/ 15.3 million impairment loss on available-for-sale investments reported in 2017. Excluding such effect, total other expenses decreased S/ 7.2 million, or 8.2%, in 2018.

Inteligo's annualized ROAE for the year ended December 31, 2018 was 25.8%, below the 27.3% registered in 2017.

III.

iii. Intercorp Retail

The table below details Intercorp Retail's assets and equity in its main businesses as of December 31, 2018 and December 31, 2017.

	As of December 31, 2018		As of December 31, 2017	
S/ million	**Asset**	**Equity**	**Asset**	**Equity**
Supermercados Peruanos (Supermarkets)................	3,698	1,015	3,331	1,085
InRetail Pharma (Pharmacies and MDM).....................	5,079	599	784	124
InRetail Shopping Malls (Shopping Malls)....................	4,460	2,228	3,694	2,117
Other..	3,581	1,278	3,800	1,198
Total Intercorp Retail...	**16,819**	**5,120**	**11,609**	**4,524**

Results of Operations for the twelve months ended December 31, 2018 compared to the twelve months ended December 31, 2017

Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the twelve months ended December 31, 2018 and 2017.

	For the twelve months ended December 31,			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues…	14,691.8	10,062.6	4,629.2	46.0%
Cost of sales…	-10,364.7	-6,960.3	3,404.4	48.9%
Gross profit…	**4,327.1**	**3,102.3**	**1,224.9**	**39.5%**
Selling expenses…	-2,659.4	-1,935.5	723.9	37.4%
Administrative expenses…	-671.8	-492.0	179.8	36.5%
Other income (expense)…	54.2	67.7	-13.5	-20.0%
Operating profit…	**1,050.1**	**742.5**	**307.6**	**41.4%**
Financial income (expense), net…	-571.8	-222.4	349.4	157.1%
Income tax expense…	-231.4	-203.5	27.9	13.7%
Net profit (loss)…	**246.8**	**316.5**	**-69.7**	**-22.0%**
Attributable to				
Intercorp Retail's shareholders	142.1	192.1	-50.0	
Minority interest	104.7	124.4	-19.7	
Adjusted EBITDA	**1,384.3**	**974.5**	**409.8**	**42.1%**
Adjusted EBITDA margin	9.4%	9.7%		-26 bps

Intercorp Retail reported net profit of S/ 246.8 million in 2018, representing a decrease of 22.0% compared to 2017. This result is mainly explained by the additional financial expenses related to the acquisition of Quicorp and liability management.

Intercorp Retail's gross profit increased 39.5% in 2018. This growth was primarily the result of Quicorp's acquisition, new store openings, and strong volume and same store sale growth.

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, 2018 and 2017.

	For the twelve months ended December 31,			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues……………………………………	5,144.6	4,652.4	492.3	10.6%
Cost of sales………………………………………	-3,784.2	-3,425.4	358.8	10.5%
Gross profit……………………………………	**1,360.5**	**1,227.0**	**133.5**	**10.9%**
Selling expenses………………………………	-1,026.7	-939.6	87.1	9.3%
Administrative expenses…………………	-136.0	-115.3	20.7	18.0%
Other income (expense)……………………	14.3	21.8	-7.6	-34.6%
Operating profit……………………………	**212.0**	**194.0**	**18.1**	**9.3%**
Financial income (expense), net…………	-78.3	-48.2	30.1	62.4%
Income tax expense…………………………	-54.7	-59.9	-5.2	-8.7%
Net profit……………………………………………	**79.0**	**85.8**	**-6.8**	**-8.0%**
EBITDA………………………………………………	344.3	309.7	34.6	11.2%
EBITDA margin……………………………………	6.7%	6.7%	-	4 bps

Supermercados Peruanos reported a net income of S/ 79.0 million in 2018 compared to S/ 85.8 million in the previous year. This decrease was mainly generated by higher financial expenses, net of S/ 78.3 million in 2018, compared to S/ 48.2 million in 2017.

Supermercados Peruanos' gross profit increased 10.9% in 2018, compared to 2017. This growth is mainly explained by a SSS growth of 7.9%, an increase of 14.3k sqm of additional supermarkets sales area in 2108 and higher rebates associated to store openings.

Supermercados Peruanos' selling and administrative expenses grew 10.2% in 2018 compared to 2017. As a percentage of revenues, selling and administrative expenses slightly decreased from 22.7% in 2017 to 22.6% in 2018, mainly explained by reduction in logistic expenses related to the operation of the new distribution center and in-store operational efficiencies.

InRetail Pharma

The table below details selected financial information for InRetail Pharma for the twelve months ended December 31, 2018 and 2017.

	For the twelve months ended Decemeber 31,			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues....................................	6,703.9	2,733.9	3,969.9	145.2%
Cost of sales......................................	-4,769.1	-1,832.6	2,936.5	160.2%
Gross profit....................................	**1,934.8**	**901.3**	**1,033.5**	**114.7%**
Selling expenses................................	-1,256.1	-647.8	608.3	93.9%
Administrative expenses....................	-247.6	-65.3	182.3	279.3%
Other income (expense).....................	-4.6	-4.5	0.1	1.9%
Operating profit..............................	**426.5**	**183.7**	**242.7**	**132.1%**
Financial income (expense), net.........	-181.8	1.4	183.2	13,517.4%
Income tax expense...........................	-90.1	-58.6	31.5	53.7%
Net profit..	**154.6**	**126.5**	**28.1**	**22.2%**
EBITDA...	539.7	230.6	309.1	134.1%
EBITDA margin..................................	8.1%	8.4%	-	-38 bps

InRetail Pharma reported net profit of S/ 154.6 million in 2018, which represented an increase of 22.2% compared to the previous year mainly due to the acquisition of Quicorp and partially impacted by one-time financial expenses related to the acquisition.

InRetail Pharma's gross profit increased 114.7% in 2018. This increase was driven by the incorporation of Quicorp's operations, positively influenced by an increase of the penetration of high margin products, and negatively impacted by the incorporation of the MDM unit, which operates at lower margins.

InRetail Pharma's selling and administrative expenses grew 110.9% in 2018, compared to 2017. As a percentage of revenues, selling and administrative expenses decreased from 26.1% in 2017 to 22.4% in 2018, due to the progress in the synergies plan and the incorporation of the MDM unit, which operates at a lower selling and administrative expenses to revenue ratio.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the twelve months ended December 31, 2018 and 2017.

	For the twelve months ended December 31,			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues……………………………	503.9	475.9	28.0	5.9%
Cost of sales……………………………	-165.2	-156.9	8.3	5.3%
Gross profit……………………………	**338.7**	**319.0**	**19.7**	**6.2%**
Selling expenses……………………………	-9.4	-8.1	1.3	16.2%
Administrative expenses…………………	-31.3	-28.3	3.0	10.5%
Other income (expense)…………………	27.1	19.2	7.9	41.4%
Operating profit……………………………	**325.1**	**301.8**	**23.3**	**7.7%**
Financial income (expense), net……….	-150.0	-98.9	51.1	51.7%
Income tax expense………………………	-51.8	-65.9	-14.1	-21.3%
Net profit……………………………………	**123.3**	**137.1**	**-13.7**	**-10.0%**
Adjusted EBITDA…………………………	310.7	294.1	16.6	5.6%
Adjusted EBITDA / Net Rental Income..	80.4%	80.9%	-	-44 bps

InRetail Shopping Malls reported S/ 123.3 million in net profit in 2018, which represented a decrease of 10.0% compared to 2017. This decrease is mainly explained by higher financial expenses due to tender offer premiums of the 2014 InRetail Shopping Malls bond.

InRetail Shopping Malls' revenues, which are mainly rental income from investment properties, grew 5.9% in 2018 in comparison to 2017, mainly due to the acquisition of Real Plaza Pucallpa and Estación Central and strong tenant performance. 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/ 363.7 million in 2017 to S/ 386.3 million in 2018 (a 6.2% growth).

In 2018, InRetail Shopping Malls' selling and administrative expenses increased 11.8% compared to 2017. As a percentage of shopping malls revenues, selling and administrative expenses were 8.1% in 2018, in comparison to 7.6% in 2017.

iv. Other financial information

a. 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. 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 year ended December 31	
	2018	2017
	(S/ millions)	
Operating activities		
Net profit for the period	817.2	1,015.7
Adjustments to reconcile net income to net cash		
Participation in income of Subsidiaries	-942.8	-1,089.7
Gain on derivate financial instruments	2.1	3.2
Changes in fair value of through profit or loss	-41.5	0.0
Changes at the fair value of investment property	-4.6	-1.5
Exchange difference for corporate bonds and others	32.3	-26.8
Gain on sale of available-for-sale investments	-	-30.7
(Increase) decrease of other accounts receivable	-2.9	-1.4
Increase (decrease) of interest, provisions and other accounts payable*	-1.6	-8.3
Net cash provided by (used in) operating activities	**-141.7**	**-139.6**
Investing activities		
Dividends received	389.9	399.0
Loans collected from shareholder and related parties	-	-42.0
Capital contribution to Subsidiaries, net of capital reductions	-233.4	-170.1
Acquisition of available-for-sale investments	-	-1.2
Sale of investment at fair value through other comprehensive income (available-for-sale in 2017)	16.3	69.7
Net cash provided by investing activities	**172.8**	**255.4**
Financing activities		
Issuance (payment) of notes	-	-40.3
Loans received fromthird parties, net*	43.0	110.0
Loans received from Subsidiaries and related parties, net	19.0	-75.6
Payment of dividends	-99.1	-98.2
Net cash used in financing activities	**-37.1**	**-104.1**
Net cash (decrease) increase	**-6.0**	**11.7**
Balance of cash at the beginning of period	**13.5**	**1.8**
Balance of cash at the end of period	**7.5**	**13.5**

(*) 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 decreased in S/ 2.1 million for the twelve months ended December 31, 2018 when compared to the corresponding period in 2017 and Net cash provided by investing activities decreased by S/ 82.6 million during the same period of time due to a sale of investments in 2017. Therefore, net cash from financing activities increased by S/ 67 million for the twelve months ended December 31, 2018 when compared to the corresponding period in 2017.

b. Dividends Received by Intercorp

The following table sets forth details regarding the dividends received by Intercorp from its subsidiaries for the twelve months ended December 31, 2018 and 2017.

	For the twelve months ended December 31			For the year ended December 31,	
	2018	2018	2017	2017	2016
	(US$. in millions)(1)	(S/ in millions)		(S/ in millions)	
IFS	117.7	381.0	354.8	354.8	369.0
Intercorp Retail	0.0	0.0	37.7	37.7	0.0
Other subsidiaries	2.7	8.9	6.4	6.4	4.4
	120.4	**389.9**	**399.0**	**399.0**	**373.4**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.373 = US$1.00

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 twelve months ended December 31, 2018 and 2017. The dividends declared and paid by IFS are in US dollars.

	For the twelve months ended December 31		
	2018	2018	2017
	(US$. in millions) (1)	(S/ in millions)	
IFS			
Dividends declared and paid	**157.7**	**532.1**	**475.8**
Net profit (2)	246.6	831.8	833.7
Dividend payout ratio	**64.0%**	**64.0%**	**57.1%**

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

IFS's subsidiaries

The following tables sets forth dividends declared and paid, net profits and dividend payout ratios (dividends paid divided by net profit) for IFS's subsidiaries for the twelve months December 31, 2018 and 2017.

	For the twelve months ended December 31		
	2018	2018	2017
	(US$. in millions) (1)	(S/ in millions)	
Interbank			
Dividends declared and paid……….	**120.3**	**405.9**	**393.7**
Net profit. (2)……………………………	267.4	902.0	875.1
Dividend payout ratio…………………	**45.0%**	**45.0%**	**45.0%**
Interseguro			
Dividends declared and paid……….	**29.6**	**100.0**	**42.5**
Net profit. (2)……………………………	30.7	103.7	85.8
Dividend payout ratio…………………	**96.4%**	**96.4%**	**49.5%**
Inteligo			
Dividends declared and paid……….	**45.1**	**152.1**	**131.6**
Net profit. (2)……………………………	56.4	190.1	165.7
Dividend payout ratio…………………	**80.0%**	**80.0%**	**79.4%**

(1) Translated to U.S. dollars for convenience only at the rate of S/ 3.373 = US$1.00 , the exchange rate reported on December 31, 2018 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: (1) 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 (2018) is to distribute a minimum of 30% of distributable income. This policy is revised annually.

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

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

c. Indebtedness

Unconsolidated

As of December 31, 2018, Intercorp had S/ 1,375.3 million (US$408 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,144 million of long-term indebtedness comprised of S/ 842.5 million (US$250 million) of Senior Notes due 2025 (net of issuance expenses) and S/ 301.5 million of the Senior Notes due 2030 (net of issuance expenses), and short-term indebtedness of S/ 231.3 million. As of the same date, Intercorp had guaranteed up to US$ 177 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Financiera Oh!, Homecenters Peruanos and Colegios Peruanos, US$ 147 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.