



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

Third Quarter 2018

November, 2018

Index

I. Overview	3
II. Results Analysis	4
i. Intercorp	5
ii. IFS	6
iii. Intercorp Retail	13
III. Other financial information	18
i. Liquidity and Capital Resources	18
ii. Dividends Received by Intercorp	19
iii. Indebtedness	22

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 September 30, 2018 and January 1, 2018.

	As of September 30, 2018				As of January 1, 2018				As of December 31, 2017			
	Assets		Equity		Assets		Equity		Assets		Equity	
	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%	(S/ in millions)	%
IFS												
Interbank (banking).....	45,084.9	57.5%	5,213.4	42.6%	45,598.3	61.8%	4,821.6	45.9%	45,554.5	61.7%	4,923.5	46.9%
Interseguro (insurance).....	12,507.7	16.0%	1,036.7	8.5%	12,258.5	16.6%	392.7	3.7%	12,258.5	16.6%	392.7	3.7%
Inteligo (wealth management).....	3,216.6	4.1%	703.8	5.7%	3,013.9	4.1%	709.8	6.8%	3,013.9	4.1%	709.8	6.8%
IFS (holding company) and eliminations.....	(24.5)	0.0%	46.8	0.4%	(303.3)	-0.4%	(189.1)	-1.8%	(303.3)	-0.4%	(189.1)	-1.8%
Total IFS.....	60,784.7	77.6%	7,000.8	57.2%	60,567.4	82.1%	5,735.0	54.6%	60,523.7	82.0%	5,836.9	55.6%
Intercorp Retail												
Supermercados Peruanos (supermarkets).....	3,488.9	4.5%	974.3	8.0%	3,321.4	4.5%	1,083.2	10.3%	3,321.4	4.5%	1,083.2	10.3%
Inkafarma (pharmacies).....	4,824.6	6.2%	545.0	4.5%	783.8	1.1%	124.4	1.2%	783.8	1.1%	124.4	1.2%
InRetail Shopping Malls (shopping malls).....	4,391.9	5.6%	2,188.9	17.9%	3,668.9	5.0%	2,114.9	20.2%	3,668.9	5.0%	2,114.9	20.2%
Other ⁽¹⁾	3,316.1	4.2%	1,311.2	10.7%	3,794.9	5.1%	1,192.0	11.4%	3,808.1	5.2%	1,205.3	11.5%
Total Intercorp Retail.....	16,021.5	20.4%	5,019.4	41.0%	11,569.0	15.7%	4,514.5	43.0%	11,582.2	15.7%	4,527.8	43.1%
Other subsidiaries/Intercorp (holding company) and eliminations.....	1,559.2	2.0%	225.5	1.8%	1,704.1	2.3%	130.2	1.2%	1,704.1	2.3%	130.2	1.2%
Total Consolidated.....	78,365.3	100%	12,245.7	100%	73,840.5	100%	10,379.7	99%	73,810.0	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 nine months ended September 30, 2018 and 2017.

	For the nine month periods ended September 30		Change	
	2018	2017	(S/ in millions)	%
	(S/ millions)			
IFS				
Banking.....	587.2	477.1	110.1	23.1%
Insurance.....	(37.0)	21.7	(58.7)	N/M
Wealth Management.....	106.5	115.2	(8.7)	-7.5%
IFS expenses and eliminations.....	(48.2)	(25.8)	(22.3)	86.4%
Total IFS.....	608.6	588.2	20.4	3.5%
Intercorp Retail				
Supermarkets.....	26.9	31.8	(4.9)	-15.4%
Pharmacies.....	61.0	66.1	(5.1)	-7.7%
Shopping malls.....	54.4	69.3	(14.9)	-21.5%
Other subsidiaries / holding company and eliminations.....	(90.5)	(45.9)	(44.6)	97.2%
Total Intercorp Retail.....	51.8	121.2	(69.5)	-57.3%
Other subsidiaries.....	(18.4)	(28.4)	9.9	-35.0%
Net profit attributable to Intercorp.....	641.9	681.0	(39.1)	-5.7%
Financial expenses, net.....	(60.4)	(33.6)	(26.8)	79.9%
General expenses.....	(18.6)	(12.2)	(6.4)	52.5%
Other income (expenses), net.....	(10.3)	(25.6)	15.4	-59.9%
Foreign exchange gain (loss), net.....	(10.0)	27.5	(37.5)	N/M
Income (expenses).....	(99.3)	(43.9)	(55.4)	126.1%
Net profit.....	542.6	637.1	(94.5)	-14.8%

For the nine months ended September 30, 2018, Intercorp's net profit was S/ 542.6 million, a decrease of S/ 94.5 million compared to the same period in 2017. The decrease was driven by losses at Intercorp Retail (S/ -69.5 million), and higher expenses at the holding level (S/ 55.4 million) due to lower foreign exchange results and financial expenses (net).

The net profit attributable to Intercorp is lower in S/ 39.1 million, explained by a lower net profit of Intercorp Retail 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

The table below sets forth the main components of IFS' consolidated income statement for the nine months ended September 30, 2018 and 2017.

	For the nine months ended September 30,		Change	
	2018	2017	(S/ million)	%
	(S/ million)			
Interest and similar income.....	3,192.7	2,811.5	381.2	13.6%
Interest and similar expense	-858.6	-831.8	-26.8	3.2%
Net interest and similar income	2,334.1	1,979.7	354.3	17.9%
Provision for loan losses, net of recoveries.....	-451.3	-639.2	187.9	-29.4%
Net interest and similar income after provision for loan losses	1,882.8	1,340.5	542.3	40.5%
Fee income from financial services, net	655.2	645.0	10.1	1.6%
Other income	306.1	372.5	-66.3	-17.8%
Total premiums earned less claims and benefits.....	-339.7	-100.2	-239.6	239.1%
Other expenses.....	-1,363.3	-1,285.2	-78.2	6.1%
Income before translation result and income tax	1,141.0	972.7	168.3	17.3%
Translation result	-16.0	13.4	-29.5	N/M
Income tax	-313.9	-239.8	-74.1	30.9%
Profit for the period.....	811.1	746.3	64.7	8.7%
Attributable to equity holders of the group (1)	805.7	742.0	63.7	8.6%
EPS.....	7.33	6.96		
ROAE.....	16.8%	19.1%		

(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/ 805.7 million for the nine months ended September 30, 2018, an 8.6% increase compared to the corresponding period of 2017. This was mainly due to growths in net interest and similar income, and fees from financial services, in addition to a lower provision expense. These factors were partially offset by a one-time S/ 144.8 million adjustment of technical reserves due to the adoption of new mortality tables at the insurance business in the second quarter of 2018, in addition to a decrease in other income, as well as an increase in other expenses and a higher effective tax rate. IFS annualized ROAE was 16.8% for the nine months ended September 30, 2018, below the 19.1% reported for the corresponding period of 2017, in turn affected by a S/ 519 million increase in equity as a result of the change in the discount rate used for the calculation of technical reserves on the mismatched portion of annuity obligations at the insurance business in the second quarter of 2018.

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, 2018 and 2017.

	For the nine months ended September 30,		Change	
	2018	2017	(S/ million)	%
	(S/ million)			
Interest and similar income.....	2,622.7	2,495.4	127.3	5.1%
Interest and similar expense	-782.1	-783.7	1.6	-0.2%
Net interest and similar income	1,840.6	1,711.7	128.8	7.5%
Provision for loan losses, net of recoveries.....	-452.0	-641.8	189.8	-29.6%
Net interest and similar income after provision for loan losses.....	1,388.6	1,069.9	318.7	29.8%
Fee income from financial services, net	593.9	589.3	4.5	0.8%
Other income	226.1	255.9	-29.8	-11.7%
Other expenses.....	-1,127.9	-1,071.9	-56.0	5.2%
Income before translation result and income tax	1,080.6	843.2	237.4	28.2%
Translation result	-5.1	11.3	-16.4	N/M
Income tax	-292.6	-223.0	-69.6	31.2%
Profit for the period.....	783.0	631.5	151.5	24.0%
ROAE.....	21.1%	19.1%		
Efficiency ratio.....	41.2%	40.7%		
NIM.....	5.7%	5.7%		

Interbank's profit for the nine months ended September 30, 2018 reached S/ 783.0 million, a S/ 151.5 million growth when compared to the corresponding period of 2017. The increase in net profit was supported by growths of S/ 128.8 million in net interest and similar income and S/ 4.5 million in fee income from financial services, together with a reduction of S/ 189.8 million in provisions. These effects were partially offset by a S/ 29.8 million decrease in other income, as well as a S/ 56.0 million increase in other expenses and a negative translation result.

Net interest and similar income grew 7.5% due to a 5.1% growth in interest and similar income, while interest and similar expense remained relatively stable.

Growth in interest and similar income was mainly due to increases of 4.1% in interest on loans, 11.9% in interest on investments available for sale and 77.4% in interest on due from banks and inter-bank funds.

The S/ 95.5 million increase in interest on loans was due to a 10.7% increase in the average volume of loans, partially compensated by a 70 basis point contraction in the average yield, from 12.1% for the nine months ended September 30, 2017 to 11.4% in the same period of 2018. The higher average volume of loans was attributed to growths of 11.9% in retail loans and 9.5% in commercial loans. In the retail portfolio, the higher average volume was mainly due to increases of 13.9% in mortgages, 11.3% in

payroll loans and 10.4% in the average balance of credit cards. In the commercial portfolio, volumes increased 38.0% in trade finance loans and 6.1% in short and medium-term loans, partially compensated by a 1.7% contraction in leasing operations. On the other hand, the decrease in the average rate was explained by lower yields in both retail and commercial loans. In retail loans, the reduction was mainly due to lower returns on credit cards and payroll loans, while in commercial loans, to lower rates on trade finance loans and short and medium-term loans.

Interest on investments available for sale increased S/ 18.0 million, or 11.9%, as a result of a 28.0% growth in the average volume, partially offset by a 50 basis point decrease in the nominal average rate, from 4.1% for the nine months ended September 30, 2017 to 3.6% for the corresponding period of 2018. The growth in volume was a result of higher investments in sovereign and global bonds, while the reduction in the average rate was due to lower returns on CDBCR and sovereign bonds, in addition to a lower base of shares owned on IFS, which contributed with income from dividends in the corresponding periods.

Interest on due from banks and inter-bank funds grew by S/ 13.8 million, or 77.4%, explained by a 20 basis point increase in the nominal average rate, partially offset by a 6.4% decrease in the average volume. The increase in the nominal average rate was due to higher returns on reserve funds and deposits at the Central Bank, while the reduction in the average volume was due to lower reserve requirements at the Central Bank.

The nominal average yield on interest-earning assets decreased 30 basis points, from 8.4% for the nine months ended September 30, 2017 to 8.1% for the corresponding period of 2018, mainly explained by the lower yields on loans and on investments available for sale.

Interest and similar expense remained relatively stable as the 24.4% reduction in interest on due to banks and correspondents, was offset by increases of 6.6% in interest on deposits and obligations, and 6.0% in interest on bonds, notes and other obligations.

The S/ 40.8 million, or 24.4%, decrease in interest on due to banks and correspondents was explained by reductions of 23.2% in the average volume and 10 basis points in the average cost, from 4.1% for the nine months ended September 30, 2017 to 4.0% for the corresponding period of 2018. The decrease in average volume was mainly due to lower funding from abroad and from the Central Bank, as well as from COFIDE, while the reduction in the average cost was explained by lower rates on funding provided by the Central Bank, partially offset by higher rates on funding from abroad, COFIDE and inter-bank funds.

Interest on deposits and obligations increased S/ 25.6 million, or 6.6%, explained by a 13.8% growth in the average volume, partially offset by a 10 basis point decrease in the nominal average cost. The higher average volume was explained by higher balances of institutional, commercial and retail deposits. By currency, average soles deposits grew 18.1% while average dollar deposits increased 7.8%. The reduction in the average cost was due to a 50 basis point decrease in rates paid to soles deposits, partially compensated by a 30 basis point increase in the cost of dollar deposits.

Interest on bonds, notes and other obligations increased S/ 13.6 million, or 6.0%, 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\$ 350 million, executed throughout the year. These effects were partially offset by a lower nominal average cost, as a result of a bond exchange program also executed in January 2018.

The average cost of funds decreased 20 basis points, from 2.9% for the nine months ended September 30, 2017 to 2.7% for the corresponding period of 2018. This was due to the lower average cost of all components of interest bearing liabilities, in addition to a higher proportion of deposits to total funding, since they contribute with a lower average cost than the rest of the sources of funding.

As a result of the above, net interest margin remained stable, at 5.7%.

Provision for loan losses, net of recoveries decreased 29.6% due to a release of provisions in corporate loans, related to the bank's exposure to the construction sector, as well as lower provision requirements in retail loans. As a result, the annualized ratio of provision expense to average loans was 2.0% for the nine months ended September 30, 2018, below the 3.2% registered in the corresponding period of 2017.

Net fee income from financial services increased S/ 4.5 million, or 0.8%, mainly due to growths of S/ 16.8 million in commissions from credit card services, S/ 5.3 million in fees from funds management, S/ 3.2 million in collection services and S/ 3.2 million in fees for indirect loans; partially offset by a S/ 15.4 million decrease in fees from maintenance and mailing of accounts, interchange fees, transfers and debit card services.

Other income decreased S/ 29.8 million, or 11.7%, mainly due to a S/ 23.0 million decrease in net gain on sale of securities.

Other expenses increased S/ 56.0 million, or 5.2%; mainly explained by growths of 7.2% in administrative expenses, 6.7% in depreciation and amortization, and 3.0% in salaries and employee benefits. The efficiency ratio was 41.2% for the nine months ended September 30, 2018, compared to the 40.7% achieved for the corresponding period of 2017.

Income before translation result and income tax grew 28.2% during the first nine months of 2018 compared to the same period of 2017, which was then negatively affected by a negative translation result and a higher effective tax rate. All in all, profit for the first nine months of 2018 increased 24.0% compared to the same period of 2017.

Interbank's annualized ROAE was 21.1% for the nine months ended September 30, 2018, above the 19.1% registered for the corresponding period of 2017.

Interseguro

The table below details selected financial information for Interseguro for the nine months ended September 30, 2018 and 2017.

	For the nine months ended September 30,		Change	
	2018	2017	(S/ million)	%
	(S/ million)			
Net interest and similar income.....	421.6	216.7	204.9	94.6%
Fee income from financial services, net	-3.4	-2.6	-0.8	31.2%
Other income	48.6	72.0	-23.4	-32.5%
Total premiums earned less claims and benefits.....	-339.7	-100.2	-239.5	239.1%
Other expenses.....	-200.2	-163.2	-37.0	22.6%
Income before translation result and income tax	-73.1	22.7	-95.8	N/M
Translation result	-6.1	0.5	-6.6	N/M
Income tax	0.0	0.0	0	N/M
Profit for the period.....	-79.3	23.2	-102.5	N/M
Attributable to non-controlling interest (1)	0.0	0.1	-0.1	N/M
Profit attributable to shareholders.....	-79.3	23.2	-102.5	N/M
New mortality tables impact on technical reserves.....	-144.8	0.0	-144.8	N/M
Profit excluding change in mortality tables.....	65.5	23.2	42.3	181.8%
Efficiency ratio.....	14.4%	15.9%		
ROAE.....	N/M	5.7%		

(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 nine months ended September 30, 2018 were S/ -79.3 million, compared to S/ 23.2 million profits for the corresponding period of 2017.

The reduction in profit was mainly explained by decreases of S/ 239.5 million in total premiums earned less claims and benefits, and S/ 23.4 million in other income, as well as a S/ 37.0 million increase in other expenses. These factors were partially offset by a S/ 204.9 million growth in net interest and similar income as a result of a higher volume of assets due to the merger with Seguros Sura in the first quarter of 2018.

The performance in total premiums earned less claims and benefits was mainly explained by increases of S/ 281.0 million in net claims and benefits incurred and S/ 70.6 million in adjustment of technical reserves, partially offset by a S/ 112.1 million growth in net premiums.

Other income reached S/ 48.6 million, a S/ 23.4 million reduction, mainly due to decreases of S/ 57.8 million in net gain on sale of securities and S/ 15.8 million in net trading results, partially offset by a S/ 39.9 million increase in net gain on valuation of real estate investments.

Other expenses increased S/ 37.0 million mainly attributed to growths of S/ 11.5 million in salaries and employee benefits, S/ 8.7 million in depreciation and amortization,

and S/ 5.4 million in administrative expenses, partially offset by a S/ 6.1 million decrease in impairment loss on available-for-sale investments.

Total premiums earned less claims and benefits

	For the nine months ended September 30,		Change %
	2018	2017	
	(S/ million)		
Net premiums.....	473.2	361.2	31.0%
Adjustment of technical reserves.....	-266.4	-195.8	36.0%
Net claims and benefits incurred.....	-546.6	-265.5	105.8%
Total premiums earned less claims and benefits.....	-339.7	-100.2	239.1%

The 31.0% growth in net premiums was mainly a result of increases of S/ 53.8 million in individual life, S/ 39.0 million in disability and survivorship, and S/ 23.0 million in annuities, partially offset by a S/ 3.8 million decrease in retail insurance.

Adjustment of technical reserves increased 36.0%, mainly due to growths of S/ 55.5 million in annuities, S/ 13.4 million in individual life and S/ 1.7 million in retail insurance. The adjustment of technical reserves in annuities was affected by a one-time adjustment for the adoption of new mortality tables in the second quarter of 2018.

The 105.8% growth in net claims and benefits incurred was explained by increases of S/ 235.6 million in annuities, S/ 35.6 million in disability and survivorship, S/ 5.4 million in retail insurance and S/ 4.2 million in individual life.

The increase in benefits incurred in annuities was due to the merger with Seguros Sura, which doubled Interseguro's annuities portfolio.

Inteligo

The table below details selected financial information for Inteligo for the nine months ended September 30, 2018 and 2017.

	For the nine months ended September 30,		Change	
	2018	2017	(S/ million)	%
	(S/ million)			
Interest and similar income.....	110.4	114.9	-4.5	-3.9%
Interest and similar expense	-31.5	-41.4	9.9	-23.9%
Net interest and similar income	78.9	73.5	5.4	7.4%
Provision for loan losses, net of recoveries	0.8	2.7	-1.9	-70.9%
Net interest and similar income after provision for loan losses	79.7	76.2	3.5	4.6%
Fee income from financial services, net	92.2	86.0	6.2	7.3%
Other income	27.3	46.5	-19.2	-41.2%
Other expenses.....	-57.9	-63.3	5.4	-8.4%
Income before translation result and income tax	141.3	145.3	-4.0	-2.8%
Translation result	-0.4	1.1	-1.5	N/M
Income tax	0.7	0.5	0.2	47.4%
Profit for the period.....	141.6	146.9	-5.3	-3.6%
ROAE	27.1%	28.7%		
Efficiency ratio	31.1%	28.9%		

Inteligo's profit for the nine months ended September 30, 2018 and 2017 was S/ 141.6 million and S/ 146.9 million, respectively. The S/ 5.3 million, or 3.6%, decrease was mainly attributable to a negative performance in other income.

Net interest and similar income grew S/ 5.4 million, or 7.4%, explained by a reduction of 33.6% in interest on deposits and obligations.

Inteligo's net fee income from financial services was S/ 92.2 million, an increase of S/ 6.2 million, or 7.3%, mainly explained by higher fees from funds management.

Other income decreased S/ 19.2 million, mostly attributable to a S/ 35.1 million contraction in net gain on sale of securities due to optimal market conditions that prompted the sale of certain securities of Inteligo's proprietary portfolio in 2017.

Inteligo's other expenses reached S/ 57.9 million for the nine months ended September 30, 2018. The S/ 5.4 million, or 8.4%, decrease was due to the recognition of an impairment loss on available for sale investments in 2017.

Inteligo's annualized ROAE for the nine months ended September 30, 2018 was 27.1%.

iii. Intercorp Retail

The table below details Intercorp Retail's assets and equity in its main businesses as of September 30, 2018 and December 31, 2017.

S/ millions	<u>As of September 30, 2018</u>		<u>As of December 31, 2017</u>	
	Asset	Equity	Asset	Equity
Supermercados Peruanos (Food Retail)	3,488.9	974.3	3,331.2	1,084.7
InRetail Pharma (Pharma)	4,855.0	545.0	783.7	124.4
InRetail Shopping Malls (Shopping Malls)	4,391.9	2,188.9	3,672.0	2,117.0
Other	3,335.8	1,311.2	3,815.1	1,196.9
Total Intercorp Retail	16,071.6	5,019.5	11,601.9	4,523.0

Results of Operations for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

Intercorp Retail

The table below sets forth the main components of Intercorp Retail's consolidated income statement for the nine months ended September 30, 2018 and 2017.

	For the nine months ended September, 30			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues.....	10,716.3	7,315.1	3,401.2	46.5%
Cost of sales.....	-7,554.0	-5,068.4	-2,485.6	49.0%
Gross profit.....	3,162.4	2,246.8	915.6	40.8%
Selling expenses.....	-1,953.5	-1,426.8	-526.7	36.9%
Administrative expenses.....	-532.7	-357.2	-175.6	49.2%
	47.9	30.1	17.8	59.2%
Operating profit.....	724.1	492.9	231.1	46.9%
Financial income (expense), net	-462.2	-161.2	-301.0	186.7%
Income tax expense.....	-154.8	-130.7	-24.1	18.5%
Net profit (loss).....	107.0	201.0	-94.0	-46.8%
Attributable to:				
Intercorp Retail's shareholders..	62.8	127.3	-64.5	-
Minority interest.....	44.3	73.7	-29.4	-
Adjusted EBITDA.....	948.6	673.2	275.4	40.9%
Adjusted EBITDA margin.....	8.9%	9.2%	-	-35 bps

Intercorp Retail reported net profit of S/107.0 million as of September 2018, representing a decrease of S/94.0 million compared to the same period in 2017. This is mainly a result of one-time expenses related to the acquisition of Quicorp at the end of January and to the associated liability management of the acquisition financing.

Intercorp Retail's gross profit increased 40.8% in the first nine months of 2018. This growth was mainly due to the acquisition of Quicorp, and a solid growth in the Food Retail and Pharma segments.

The following discussion details the operating results of Intercorp Retail's primary segments: Food Retail, InRetail Pharma and InRetail Shopping Malls (all under InRetail). Detailed financial information for other related businesses is not presented because they do not contribute materially to Intercorp's financial results.

Intercorp Retail's Segments

Food Retail

The table below details selected financial information for Supermercados Peruanos (Food Retail) for the nine months ended September 30, 2018 and 2017.

	For the nine months ended September, 30			
	2018	2017	Change	
	(S/ million)	(S/ million)	(S/ million)	%
Total revenues.....	3,685.5	3,352.4	333.2	9.9%
Cost of sales.....	-2,728.0	-2,477.6	-250.5	10.1%
Gross profit.....	957.5	874.8	82.7	9.5%
Selling expenses.....	-736.7	-689.4	-47.4	6.9%
Administrative expenses....	-101.1	-88.0	-13.1	14.9%
Other income (expense)....	9.6	11.7	-2.1	-17.9%
Operating profit.....	129.3	109.2	20.1	18.4%
Financial income (expense)	-53.1	-31.4	-21.8	69.4%
Income tax expense.....	-37.8	-32.7	-5.1	15.6%
Net profit.....	38.3	45.1	-6.8	-15.0%
EBITDA.....	227.1	199.9	27.2	13.6%
EBITDA margin.....	6.2%	6.0%	-	20 bps

Food Retail reported a net profit of S/38.3 million in the first nine months of 2018 compared to S/45.1 million in the same period of 2017. This decrease was mainly generated by higher financial expenses (net) of S/51.1 million as of September 2018, compared to S/37.4 million in the same period of 2017.

Food Retail's gross profit increased 9.5% as of September 2018, compared to the same period in 2017. This growth is mainly explained by a strong SSS growth of 7.9%, which was positively impacted by Peru's participation in the FIFA World Cup in Q2'18 and higher supplier rebates associated to store openings in Q3'18.

Food Retail's selling and administrative expenses grew 7.8% as of September 2018 compared to the same period in 2017. As a percentage of revenues, selling and administrative expenses decreased from 23.2% in the first nine months of 2017, to 22.7% in the same period of 2018, mainly explained by the 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 nine months ended September 30, 2018 and 2017.

	For the nine months ended September, 30			
	2018	2017	Change	
	(S/ million)		(S/ million)	%
Total revenues.....	4,933.5	2,028.7	2,904.8	143.2%
Cost of sales.....	-3,502.0	-1,361.5	-2,140.5	157.2%
Gross profit.....	1,431.5	667.2	764.3	114.6%
Selling expenses.....	-919.5	-481.0	-438.5	91.2%
Administrative expenses.....	-206.4	-48.5	-157.9	325.6%
Other income (expense).....	0.6	-2.2	2.9	-
Operating profit.....	306.2	135.5	170.8	126.1%
Financial income (expense), net	-145.6	1.8	-147.4	-
Income tax expense.....	-63.8	-43.4	-20.4	47.0%
Net profit.....	96.8	93.8	3.0	3.2%
EBITDA.....	372.1	169.0	203.2	120.3%
EBITDA margin.....	7.5%	8.3%	-	-79 bps

InRetail Pharma reported S/96.8 million of net profit as of September 2018, partially affected by one-time expenses related to the acquisition and higher financial expenses associated to higher debt. This represented an increase of 3.2% compared to the same period of 2017.

InRetail Pharma's gross profit increased 114.6% in the nine months ended September 2018 compared to the same period of 2017. This increase was mainly driven by the acquisition of Quicorp and a positive SSS of 5.4%. Additionally, gross margin decreased from 32.9% as of September 2017 to 29.0% in the same period of 2018, mainly due to the incorporation of the MDM unit of Quicorp, which operates at lower margins than the Pharmacies unit.

InRetail Pharma's selling and administrative expenses grew 112.6% in the first nine months of 2018, compared to the same period of 2017. As a percentage of revenues, selling and administrative expenses were 22.8% for the nine months ended September 2018, compared to 26.1% in the same period of 2017, due to the progress in the synergies plan and the incorporation of the MDM unit, which operates with a lower selling and administrative to sales ratio.

InRetail Shopping Malls

The table below details selected financial information for InRetail Shopping Malls for the nine months ended September 30, 2018 and 2017.

	For the nine months ended September, 30			
	2018	2017	Change	
	<u>S/ millions</u>	<u>S/ millions</u>	<u>S/ millions</u>	<u>%</u>
Total revenues.....	367.0	347.1	19.9	5.7%
Cost of sales.....	-120.0	-114.9	-5.2	4.5%
Gross profit.....	246.9	232.3	14.7	6.3%
Selling expenses.....	-6.5	-5.9	-0.6	10.4%
Administrative expenses.....	-23.1	-19.4	-3.7	19.1%
Other income (expense).....	17.0	7.4	9.5	128.1%
Operating profit.....	234.3	214.4	19.9	9.3%
Financial income (expense), net.....	-124.0	-74.1	-50.0	67.5%
Income tax expense.....	-33.5	-44.7	11.2	-25.1%
Net profit.....	76.8	95.7	-18.9	-19.7%
Adjusted EBITDA.....	225.7	211.8	13.8	6.5%
Adjusted EBITDA / Net Rental Income.	80.2%	79.9%	-	25 bps

InRetail Shopping Malls reported S/76.8 million of net profit in the first nine months of 2018, which represented a decrease of 19.7% compared to the same period in 2017. This decrease is mainly explained by higher financial expenses related to the prepayment of the 2014 InRetail Shopping Malls USD bonds and the unwinding of the associated Call Spread hedge.

InRetail Shopping Malls' revenues, which are mainly rental income from property investments, grew 5.7% as of September 2018 in comparison to the same period of 2017, mainly explained by the acquisition of Real Plaza Pucallpa and good 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/265.0 million in the first nine months of 2017 to S/281.5 million in the same period of 2018 (a 6.2% growth).

In the first nine months of 2018, InRetail Shopping Malls' selling and administrative expenses increased 17.0% compared to the same period of 2017. As a percentage of shopping malls revenues, selling and administrative expenses were 8.1% in the first nine months of 2018, in comparison to 7.3% in the same period of 2017, mainly explained by higher administrative expenses.

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. 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 month periods ended September 30	
	2018	2017
	(S/ millions)	
Operating activities		
Net profit for the period.....	542.5	636.8
Adjustments to reconcile net income to net cash		
Participation in income of Subsidiaries.....	(641.8)	(680.7)
Gain on derivate financial instruments.....	(13.2)	3.2
(Increase) decrease of other accounts receivable.....	53.1	(10.0)
Increase (decrease) of interest, provisions and other accounts payable.....	(51.2)	(27.7)
Net cash provided by (used in) operating activities.....	(110.5)	(78.5)
Investing activities		
Dividends received.....	389.9	399.0
Loans collected from shareholder and related parties.....	0.0	0.0
Capital contribution to Subsidiaries, net of capital reductions.....	(192.1)	(189.5)
Maturity of available-for-sale investments.....	0.0	0.0
Payment of account payable for acquisition of investment property.....	0.0	0.0
Acquisition of non-controlling interest.....	0.0	0.0
Sale of available-for-sale investments.....	0.0	38.4
Acquisition of available-for-sale investments.....	0.0	0.0
Net cash provided by investing activities.....	197.8	247.8
Financing activities		
Issuance (payment) of notes.....	0.0	(40.3)
Loans received from third parties, net*.....	23.0	80.0
Loans received from Subsidiaries and related parties, net.....	(46.0)	(121.6)
Payment of dividends.....	(73.9)	(73.5)
Net cash used in financing activities.....	(96.9)	(155.4)
Net cash (decrease) increase.....	(9.6)	13.9
Balance of cash at the beginning of period.....	13.5	1.8
Balance of cash at the end of period.....	3.9	15.7

Net cash used in operating activities decreased in S/ 32 million for the nine months ended September 30, 2018 when compared to the corresponding period in 2017 and Net cash provided by investing activities decreased by S/ 50 million during the same period of time due to a sale of investments in 2017. Net cash from financing activities increased by S/ 58.5 million for the nine months ended September 30, 2018 when compared to the corresponding period 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, 2018 and 2017.

	For the nine month periods ended September 30			For the year ended December 31,	
	2018	2018	2017	2017	2016
	(US\$. in millions) ⁽¹⁾	(S/ in millions)		(S/ in millions)	
IFS ⁽²⁾	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/ 3.241 = 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, 2018 and 2017. The dividends declared and paid by IFS are in US dollars.



	For the nine month periods ended September 30		
	2018	2018	2017
	(US\$. in millions) ⁽¹⁾	(S/ in millions)	
IFS			
Dividends declared and paid.....	157.7	511.3	475.8
Net profit... ⁽²⁾	256.6	831.8	833.7
Dividend payout ratio.....	61.5%	61.5%	57.1%

(1) Translated to U.S. dollars for convenience only at the rate of S/3.241= 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, 2018 and 2017.

	For the nine month periods ended September 30		
	2018	2018	2017
	(US\$. in millions) ⁽¹⁾	(S/ in millions)	
Interbank			
Dividends declared and paid.....	125.2	405.9	393.7
Net profit.. ⁽²⁾	278.3	902.0	875.1
Dividend payout ratio.....	45.0%	45.0%	45.0%
Interseguro			
Dividends declared and paid.....	30.9	100.0	42.5
Net profit.. ⁽²⁾	32.0	103.7	85.8
Dividend payout ratio.....	96.4%	96.4%	49.5%
Inteligo			
Dividends declared and paid.....	46.9	152.1	131.6
Net profit.. ⁽²⁾	58.7	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/ 3.241 = 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: (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.

iii. Indebtedness

Unconsolidated

As of September 30, 2018, Intercorp had S/ 1,267.3 million (US\$384 million) of unconsolidated outstanding obligations (excluding interest, provisions and other accounts payable) consisting of: S/ 1,127 million of long-term indebtedness comprised of S/ 825.5 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/ 140.3 million comprised of S/ 133 million of accounts payable to third parties. As of the same date, Intercorp had guaranteed up to US\$ 138.7 million of indebtedness in favor of un-affiliated third parties of its subsidiaries Tiendas Peruanas, Financiera Oh!, Homecenters Peruanos and Colegios Peruanos, US\$ 122.3 million of which was outstanding and the remainder of which consisted of debt commitments that are not yet outstanding indebtedness.