

Translation of independent auditor's report and consolidated financial statements originally issued in Spanish - Note 33

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of December 31, 2016 and 2015, together with Independent Auditor's Report

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Independent Auditor's Report

To the Shareholders and Board of Directors of Intercorp Financial Services Inc.

We have audited the accompanying consolidated financial statements of Intercorp Financial Services Inc. and Subsidiaries (a holding company incorporated in the Republic of Panama, and a Subsidiary of Intercorp Perú Ltd.) which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated income statements, other comprehensive income, changes in equity and cash flows for each of the three years ended December 31, 2016, 2015 and 2014, respectively, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Our audits were conducted in accordance with International Standards on Auditing as adopted for use in Peru by the Board of Peruvian Associations of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making this risk assessment, the auditor considers the internal control that is relevant to the entity and its Subsidiaries in the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity and its Subsidiaries' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

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Independent Auditor's Report (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Intercorp Financial Services Inc. and Subsidiaries as of December 31, 2016 and 2015, as well as the consolidated results of their operations and their consolidated cash flows for each of the three years ended December 31, 2016, 2015 and 2014, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Lima, Peru,
March 24, 2017

Countersigned by:

Cristian Emmerich
C.P.C.C. Register No.39801

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)		Note	2016 S/(000)	2015 S/(000)
Assets				Liabilities and equity			
Cash and due from banks-	4			Deposits and obligations -	10		
Non-interest bearing		2,628,115	2,092,189	Non-interest bearing		5,081,940	3,977,782
Interest bearing		5,869,583	6,689,335	Interest bearing		25,015,910	24,509,884
Restricted funds		3,264,105	3,650,261			30,097,850	28,487,666
		11,761,803	12,431,785	Inter-bank funds		332,255	-
Inter-bank funds		5,002	245,028	Due to banks and correspondents	11	5,328,603	6,191,726
Trading securities		80,149	105,189	Bonds, notes and other obligations	12	4,769,390	4,925,413
Available-for-sale investments	5(a)	9,518,398	8,067,164	Due from customers on acceptances		16,392	27,118
Held-to-maturity investments	5(i)	611,293	479,561	Insurance contract liabilities	13	5,010,513	4,477,089
				Accounts payable, provisions and other liabilities	9	1,162,064	1,426,762
				Deferred Income Tax liability, net	14	3,946	4,164
				Total liabilities		46,721,013	45,539,938
Loans, net -							
Loans, net of unearned interest	6	28,192,647	27,035,814	Equity, net	15		
Allowance for loan losses		(1,166,782)	(1,041,579)	Equity attributable to IFS's shareholders:			
		27,025,865	25,994,235	Capital stock		963,446	963,446
Investment property	7	745,185	713,262	Treasury stock		(522,106)	(322,214)
Property, furniture and equipment, net	8	589,820	579,158	Capital surplus		268,077	268,077
Due from customers on acceptances		16,392	27,118	Reserves		2,600,000	2,000,000
Accounts receivable and other assets, net	9	1,331,174	1,316,810	Unrealized results, net		16,358	(361,395)
Deferred Income Tax asset, net	14	34,278	41,559	Retained earnings		1,553,336	1,797,637
						4,879,111	4,345,551
Total assets		51,719,359	50,000,869	Non-controlling interest		119,235	115,380
				Total equity, net		4,998,346	4,460,931
				Total liabilities and equity net		51,719,359	50,000,869

The accompanying notes are an integral part of these consolidated financial statements.

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the years ended December 31, 2016, 2015 and 2014

	Note	2016 S/(000)	2015 S/(000)	2014 S/(000)
Interest and similar income	18	3,704,812	3,342,686	2,828,651
Interest and similar expenses	18	(1,081,859)	(921,695)	(788,862)
Net interest and similar income		2,622,953	2,420,991	2,039,789
Provision for loan losses, net of recoveries	6(c)	(783,645)	(645,824)	(425,512)
Net interest and similar income after provision for loan losses		1,839,308	1,775,167	1,614,277
Other income				
Fee income from financial services, net	19	862,447	818,366	704,140
Net gain on foreign exchange transactions		264,183	521,194	216,836
Net gain on sale of securities		103,338	134,901	128,144
Net trading (loss) income		(47,931)	(111,834)	22,344
Rental income		21,849	18,045	28,665
Gain (loss) on sale of investment property	7(c)	2,655	(1,259)	6,734
Valuation (loss) gain from investment property	7(a)	(1,380)	26,700	63,500
Others	20	98,614	99,788	73,460
Total other income		1,303,775	1,505,901	1,243,823
Insurance premiums and claims				
Net premiums earned	21	70,892	364,454	160,612
Net claims and benefits incurred for life insurance contracts and others	22	(318,200)	(258,911)	(181,110)
Total net premiums earned minus claims and benefits		(247,308)	105,543	(20,498)
Other expenses				
Salaries and employee benefits	23	(697,872)	(682,595)	(639,526)
Administrative expenses	24	(776,318)	(772,912)	(680,788)
Depreciation and amortization	8(a) and 9(d)	(130,118)	(111,060)	(105,397)
Impairment loss on available-for-sale investments	5(c)	(28,323)	(78,285)	(20,155)
Expenses related to rental income		(1,091)	(811)	(7,130)
Others	20	(114,531)	(124,458)	(87,978)
Total other expenses		(1,748,253)	(1,770,121)	(1,540,974)
Income before translation result and Income Tax		1,147,522	1,616,490	1,296,628
Translation result		20,062	(25,100)	(25,016)
Income Tax	14(c)	(333,863)	(352,586)	(309,106)
Net profit for the year		833,721	1,238,804	962,506
Attributable to:				
IFS's shareholders		828,143	1,231,766	949,104
Non-controlling interest		5,578	7,038	13,402
		833,721	1,238,804	962,506
Earnings per share attributable to IFS's shareholders (stated in Soles)	25	7.641	11.295	8.676
Weighted average number of outstanding shares (in thousands)	25	108,384	109,059	109,393

The accompanying notes are an integral part of these consolidated financial statements.

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of other comprehensive income

For the years ended December 31, 2016, 2015 and 2014

	Note	2016 S/(000)	2015 S/(000)	2014 S/(000)
Net profit for the year		833,721	1,238,804	962,506
Other comprehensive income				
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:				
Net gain (loss) on available-for-sale investments	15(e)	393,106	(574,721)	88,386
Income Tax	15(e)	<u>(4,837)</u>	<u>2,373</u>	<u>(7,952)</u>
		388,269	(572,348)	80,434
Net movement on cash flow hedges	15(e)	2,494	4,147	8,581
Income Tax	15(e)	<u>(723)</u>	<u>(1,161)</u>	<u>(1,347)</u>
		1,771	2,986	7,234
Exchange differences on translation of foreign operations	15(e)	<u>(11,340)</u>	<u>65,643</u>	<u>27,011</u>
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods, net of Income Tax		<u>378,700</u>	<u>(503,719)</u>	<u>114,679</u>
Total other comprehensive income for the year, net of Income Tax		<u>1,212,421</u>	<u>735,085</u>	<u>1,077,185</u>
Attributable to:				
IFS's shareholders		1,205,896	728,664	1,063,719
Non-controlling interest		<u>6,525</u>	<u>6,421</u>	<u>13,466</u>
		<u>1,212,421</u>	<u>735,085</u>	<u>1,077,185</u>

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InterCorp Financial Services Inc. and Subsidiaries

Consolidated statements of changes in equity

For the years ended December 31, 2016, 2015 and 2014

	Number of shares		Attributable to IFS's shareholders											
	Issued (in thousands)	In treasury (in thousands)	Capital stock S/(000)	Other paid-in capital S/(000)	Treasury stock S/(000)	Capital surplus S/(000)	Reserves S/(000)	Unrealized results, net			Retained earnings S/(000)	Total S/(000)	Non- controlling interest S/(000)	Total equity S/(000)
								Available- for-sale investments reserve S/(000)	Cash flow hedges reserve S/(000)	Foreign currency translation reserve S/(000)				
Balances as of January 1, 2014	93,615	(3,315)	799,581	246,400	(227,707)	268,077	-	20,139	(10,607)	17,560	2,578,774	3,692,217	20,229	3,712,446
Net profit for the year	-	-	-	-	-	-	-	-	-	-	949,104	949,104	13,402	962,506
Other comprehensive income	-	-	-	-	-	-	-	80,420	7,184	27,011	-	114,615	64	114,679
Total other comprehensive income	-	-	-	-	-	-	-	80,420	7,184	27,011	949,104	1,063,719	13,466	1,077,185
Declared and paid dividends, Note 15(a)	-	-	-	-	-	-	-	-	-	-	(443,551)	(443,551)	-	(443,551)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(2,061)	(2,061)
Net variation of treasury stock held by Subsidiaries	-	(435)	-	-	(58,069)	-	-	-	-	-	-	(58,069)	-	(58,069)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	-	16,775	16,775	-	16,775
Spin-off of Inteligo Real Estate, Note 1(b)	-	-	-	(82,535)	-	-	-	-	-	-	1,941	(80,594)	80,594	-
Transfer of Inteligo Group Corp.'s capital stock, Notes 1(b) and 15(a)	19,495	-	163,865	(163,865)	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	557	557	(1,008)	(451)
Balances as of December 31, 2014	113,110	(3,750)	963,446	-	(285,776)	268,077	-	100,559	(3,423)	44,571	3,103,600	4,191,054	111,220	4,302,274
Net profit for the year	-	-	-	-	-	-	-	-	-	-	1,231,766	1,231,766	7,038	1,238,804
Other comprehensive income	-	-	-	-	-	-	-	(571,710)	2,965	65,643	-	(503,102)	(617)	(503,719)
Total other comprehensive income	-	-	-	-	-	-	-	(571,710)	2,965	65,643	1,231,766	728,664	6,421	735,085
Declared and paid dividends, Note 15(a)	-	-	-	-	-	-	-	-	-	-	(564,178)	(564,178)	-	(564,178)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(2,232)	(2,232)
Transfer of retained earnings to reserves, Note 15(g)	-	-	-	-	-	-	2,000,000	-	-	-	(2,000,000)	-	-	-
Net variation of treasury stock held by Subsidiaries, Note 15(b)	-	(540)	-	-	(36,438)	-	-	-	-	-	-	(36,438)	-	(36,438)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	-	19,234	19,234	-	19,234
Others	-	-	-	-	-	-	-	-	-	-	7,215	7,215	(29)	7,186
Balances as of December 31, 2015	113,110	(4,290)	963,446	-	(322,214)	268,077	2,000,000	(471,151)	(458)	110,214	1,797,637	4,345,551	115,380	4,460,931
Net profit for the year	-	-	-	-	-	-	-	-	-	-	828,143	828,143	5,578	833,721
Other comprehensive income	-	-	-	-	-	-	-	387,334	1,759	(11,340)	-	377,753	947	378,700
Total other comprehensive income	-	-	-	-	-	-	-	387,334	1,759	(11,340)	828,143	1,205,896	6,525	1,212,421
Declared and paid dividends, Note 15(a)	-	-	-	-	-	-	-	-	-	-	(496,862)	(496,862)	-	(496,862)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(2,623)	(2,623)
Transfer of retained earnings to reserves, Note 15(g)	-	-	-	-	-	-	600,000	-	-	-	(600,000)	-	-	-
Net variation of treasury stock, Note 15(b)	-	(1,889)	-	-	(199,892)	-	-	-	-	-	-	(199,892)	-	(199,892)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	-	18,258	18,258	-	18,258
Others	-	-	-	-	-	-	-	-	-	-	6,160	6,160	(47)	6,113
Balances as of December 31, 2016	113,110	(6,179)	963,446	-	(522,106)	268,077	2,600,000	(83,817)	1,301	98,874	1,553,336	4,879,111	119,235	4,998,346

The accompanying notes are an integral part of these consolidated financial statements.

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2016, 2015 and 2014

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Cash flows from operating activities			
Net profit for the year	833,721	1,238,804	962,506
Plus (minus)			
Provision for loan losses, net of recoveries	783,645	645,824	425,512
Depreciation and amortization	130,118	111,060	105,397
Provision for sundry risks	14,685	12,948	3,932
Deferred Income Tax	1,043	(31,143)	(7,815)
Net gain on sale of securities	(103,338)	(134,901)	(128,144)
Impairment loss on available-for-sale investments	28,323	78,285	20,155
Net trading loss (income)	47,931	111,834	(22,344)
Valuation loss (gain) from investment property	1,380	(26,700)	(63,500)
Translation result	(20,062)	25,100	25,016
(Profit) loss from sale of investment property	(2,655)	1,259	(6,734)
Increase in accrued interest receivable	(23,371)	(57,679)	(27,861)
(Decrease) increase in accrued interest payable	(7,648)	45,958	52,260
Net changes in assets and liabilities			
Increase in loans	(1,805,900)	(3,976,455)	(2,547,970)
Increase in accounts receivable and other assets, net	(64,292)	(377,569)	(194,810)
Decrease (increase) in restricted funds	388,523	(2,739,123)	(717,243)
Increase in deposits and obligations	1,608,560	5,111,154	1,300,554
(Decrease) increase in due to banks and correspondents	(842,973)	3,012,961	380,629
Increase in accounts payable, provisions and other liabilities	721,195	2,011,825	1,396,633
Income Tax paid	(338,586)	(369,785)	(317,752)
Sale (purchase) of trading securities, net	46,237	(94,130)	55,554
Net cash provided by operating activities	<u>1,396,536</u>	<u>4,599,527</u>	<u>693,975</u>

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Consolidated statements of cash flows (continued)

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Cash flows from investing activities			
Purchase of available-for-sale and held-to-maturity investments, net	(1,158,874)	(586,823)	(2,690,637)
Purchase of property, furniture and equipment	(79,835)	(68,130)	(73,340)
Purchase of intangible assets	(132,579)	(104,561)	(49,473)
Purchase of investment property	(56,833)	(92,426)	(91,597)
Sale of investment property	26,185	57,486	301,373
Net cash used in investing activities	<u>(1,401,936)</u>	<u>(794,454)</u>	<u>(2,603,674)</u>
Cash flows from financing activities			
Issuance of bonds, notes and other obligations	-	-	1,038,394
Payments of bonds, notes and other obligations	(88,375)	(252,079)	(144,315)
Net increase (decrease) in payable inter-bank funds	332,255	-	(100,022)
Net decrease (increase) in receivable inter-bank funds	240,026	65,002	(107,462)
Purchase of treasury stock, net	(199,892)	(36,438)	(58,069)
Payments of cash dividends	(496,862)	(564,178)	(443,551)
Dividend payments to non-controlling interest	(2,623)	(2,232)	(2,061)
Net cash (used in) provided by financing activities	<u>(215,471)</u>	<u>(789,925)</u>	<u>182,914</u>
Net (decrease) increase in cash and cash equivalents	(220,871)	3,015,148	(1,726,785)
Translation (loss) gain on cash and cash equivalents	(63,243)	318,772	(32,350)
Cash and cash equivalents at the beginning of the year	<u>8,781,161</u>	<u>5,447,241</u>	<u>7,206,376</u>
Cash and cash equivalents at the end of the year	<u>8,497,047</u>	<u>8,781,161</u>	<u>5,447,241</u>
Supplementary cash flow information:			
Cash paid during the year for			
Interest	1,089,507	875,737	736,602
Cash received during the year from			
Interest	3,681,729	3,285,026	2,800,790

The accompanying notes are an integral part of these consolidated financial statements.

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Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of December 31, 2016, 2015 and 2014

1. Business activity and Group reorganization

(a) Business activity

Intercorp Financial Services Inc. and Subsidiaries, henceforth "IFS", "the Company" or "the Group", is a limited liability holding company incorporated in the Republic of Panama on September 19, 2006, and is a subsidiary of Intercorp Perú Ltd., henceforth "Intercorp Perú", a holding Company incorporated in 1997 in the Commonwealth of the Bahamas. As of December 31, 2016 and 2015, Intercorp Perú held 79.78 percent and 78.08 percent, respectively, of IFS's capital stock.

IFS's legal domicile is located at Av. Carlos Villarán 140 Urb. Santa Catalina, La Victoria, Lima, Peru.

As of December 31, 2016 and 2015, IFS held 99.30 percent of the capital stock of Banco Internacional del Perú S.A.A. – Interbank (henceforth "Interbank" or "the Bank") and 100.00 percent of Interseguro Compañía de Seguros S.A. (henceforth "Interseguro") and Inteligo Group Corp. (henceforth "Inteligo"). The operations of Interbank and Interseguro are concentrated in Peru, while the operations of Inteligo and Subsidiaries are concentrated in Peru and Panama.

The main activities of IFS's Subsidiaries and their assets, liabilities, equity, operating income, net income balances and other relevant information are presented in Note 2.

The consolidated financial statements of IFS and Subsidiaries as of December 31, 2015 were approved by the General Shareholders' Meeting held on April 11, 2016. The consolidated financial statements as of December 31, 2016 were approved by Management on March 24, 2017, and will be submitted for approval by the Board of Directors and the General Shareholders' Meeting that will be held within the deadline established by law. In Management's opinion, the accompanying consolidated financial statements will be approved by the Board of Directors and the General Shareholders' Meeting without modifications.

(b) Group reorganization

As of December 31, 2013, Intercorp Perú held 100 percent of Inteligo's capital stock. At that date, Inteligo, a holding company incorporated in the Republic of Panama, held 100 percent of the capital stock of Inteligo Bank Ltd. (henceforth "Inteligo Bank"), Inteligo Sociedad Agente de Bolsa S.A. and Inteligo Real Estate Corp., the latter held 100 percent of the capital stock of Inteligo Real Estate Perú S.A.C. (henceforth "Inteligo Real Estate").

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Notes to the consolidated financial statements (continued)

In July 2014, the reorganization of Inteligo and IFS was approved. The effective date of the reorganization was August 1, 2014 and included: (i) the spin-off of the real estate Subsidiaries of Inteligo: Inteligo Real Estate Corp. and Inteligo Real Estate, to Intercorp Perú, and (ii) the contribution of Intercorp Perú of all the the outstanding shares of Inteligo to IFS in exchange of 19,495,413 new shares issued by IFS.

The share exchange ratio was 23.28 shares of IFS per one share of Inteligo and it was fixed based on the Lima Stock Exchange quotation as of the date of the transaction.

After this reorganization, IFS held 100 percent of Inteligo and Subsidiaries, and Intercorp Perú increased its holding of IFS's capital stock to 76.84 percent of the issued capital stock of IFS.

Since the reorganization did not lead to a change in Intercorp Perú's control over Inteligo and Subsidiaries, now grouped under IFS, in accordance with the International Financial Reporting Standards (henceforth "IFRS") the reorganization is considered a transaction among entities under common control. As a result, the reorganization was accounted for using the pooling-of-interest method, thus giving retroactive effect to the reorganization as if it had occurred in the beginning of the earliest year presented; also, no fair value adjustment or goodwill was recognized and all amounts have been accounted for at their book values. The main effect of giving retroactive treatment to the reorganization under common control is that the "Capital stock" caption in these consolidated financial statements reflects, until the effective date of the reorganization, the balance related to IFS: the total equity amount remains the same, and Inteligo's capital stock is presented as "Other paid-in capital" until August 1, 2014, which is the effective date of the reorganization, when it was transferred to the caption "Capital stock" to reflect the new shares issued by IFS as a result of the reorganization.

The total net assets of Inteligo as of August 1, 2014 amounted to S/509,973,000, of which S/80,594,000 were transferred to Intercorp Perú as a result of the aforementioned spin-off and the remaining S/429,379,000 were contributed to IFS.

As of August 1, 2014, the spin-off also affected the consolidated income statements and non-controlling interest. Inteligo Real Estate had acquired a 39.33 percent participation in an investment property of Interseguro on December 17, 2013; however, since such investment property belonged to Interseguro throughout all periods presented within the consolidated financial statements of IFS up to the date of the reorganization and is still consolidated by IFS after the reorganization (IFS concluded that it controls the investment property with its 60.67 percent ownership), the impact of the corresponding adjustment is limited to a decrease in the consolidated equity attributable to IFS's shareholders and a related increase in the non-controlling interest of S/80,594,000, and a decrease in the profit attributable to IFS's shareholders and a related increase in the profit attributable to non-controlling interest in the consolidated income statements of S/1,941,000. The effect on the consolidated income statements is solely related to the fair value valuation of such investment property.

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Notes to the consolidated financial statements (continued)

Interseguro and Inteligo Real Estate hold a joint ownership on a property (land) controlled by Interseguro, as of December 31, 2016, Inteligo Real Estate and Interseguro hold 27.17 percent and 72.83 percent of such property, respectively (27.68 percent and 72.32 percent, respectively, as of December 31, 2015). The annual variation of the percentage of interest is related to the disbursements made by Interseguro for the construction of a future real estate project. Inteligo Real Estate and Interseguro will participate in the benefits of the project on the basis of the disbursements that each one has made.

2. Subsidiaries

IFS's Subsidiaries are the following:

- (a) Banco Internacional del Perú S.A.A. - Interbank and Subsidiaries
Interbank is incorporated in Peru and is authorized by the Superintendence of Banking, Insurance and Private Pension Funds Administrators (henceforth "SBS", for its Spanish acronym) to operate as a universal bank in accordance with Peruvian legislation. The Bank's operations are governed by the General Act of the Financial and Insurance System and the Organic Act of the SBS - Act 26702 (henceforth the "Banking and Insurance Act"), that establishes the requirements, rights, obligations, restrictions and other operating conditions that Peruvian financial and insurance entities must comply with.

As of December 31, 2016 and 2015, Interbank had 282 and 290 offices, respectively, and a branch established in the Republic of Panama. Additionally, it holds 100 percent of the shares of the following Subsidiaries:

Entity	Activity
Interfondos S.A. Sociedad Administradora de Fondos	Manages mutual funds and investment funds.
Internacional de Títulos Sociedad Titulizadora S.A. - Intertítulos S.T.	Manages securitization funds.
Inversiones Huancavelica S.A.	Real estate activities.
Contacto Servicios Integrales de Créditos y Cobranzas S.A.	Collection services.
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities.
Compañía de Servicios Conexos – Expressnet S.A.C.	Services related to credit card transactions or products related to the brand "American Express".
IBK DPR Securitizadora	A consolidated special purpose entity (SPE), by which Interbank issued negotiable long-term notes which matured in 2016, see Note 12 (a).

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Notes to the consolidated financial statements (continued)

(b) Interseguro Compañía de Seguros S.A. and Subsidiaries

Interseguro is incorporated in Peru and its operations are governed by the Banking and Insurance Act. It is authorized by the SBS to issue life and general risk insurance contracts.

As of December 31, 2016 and 2015, Interseguro controls the following Subsidiaries:

Entity	Activity
Centro Comercial Estación Central S.A.	Administration of "Centro Comercial Estación Central", located in downtown Lima; as of December 31, 2016 and 2015, Interseguro holds 75 percent of its shares.
Empresa Administradora Hipotecaria IS S.A.	Was incorporated in February 2014 in Peru; It does not have operations and it is under the process of liquidation. As of December 31, 2016 and 2015, Interseguro holds 100 percent of its shares and has a paid in capital of S/1 and S/2,550, respectively.

Also, Interseguro holds contributions in Patrimonio Fideicometido D.S.093-2002-EF, Interproperties Perú (henceforth "Patrimonio Fideicometido - Interproperties Perú"), that is a structured entity, incorporated in April 2008, and in which several investors (related parties to the Group) contributed investment properties; each investor or investors have ownership of and specific control over the contributed investment property. The fair values of the properties contributed by Interseguro, which were included in this structured entity, including the land indicated in Note 1(b), as of December 31, 2016 and 2015, amounted to S/486,264,000 and S/536,779,000, respectively; see Note 7 for further detail. For accounting purposes and under IFRS 10 "Consolidated financial statements" the assets included in said structure are considered "silos", because they are ring-fenced parts of the wider structured entity (the Patrimonio Fideicometido - Interproperties Perú). The Group has ownership of and decision making power over these properties, and the Group has the exposure or rights to their returns; therefore, the Group has consolidated the silos containing the investment properties that it controls.

On the other hand, in the Universal Shareholders' Meeting held on December 21, 2016, it was approved a project of "simple reorganization" between Interseguro and Mapfre Perú Vida Compañía de Seguros y Reaseguros S.A. (henceforth "Mapfre", an unrelated party), through which Interseguro is committed to the acquisition of an equity block comprised of assets, liabilities, rights, obligations and legal matters related to an annuity retirement insurance policies portfolio issued by Mapfre. The mentioned assets and liabilities have the same balances amounted to S/197,241,000; in that sense, due to the net equity block's value is zero, Interseguro will not recognize a capital surplus. At the date of this report, the approval of this transaction by the SBS is pending.

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In April 2016, the plenary session of Congress of the Republic of Peru approved an amendment to the Act of the Private Pension System, in which the affiliates of the Private Pension Fund Management Companies (“AFP” - for its acronym in Spanish) that are 65 years old and retire, could choose an additional retirement scheme in addition to the options in force, which are: a) Planned Retirement, managed by an AFP; and b) the acquisition of an annuity retirement insurance plan, managed by a life insurance company, such as the case of Interseguro. This new retirement scheme allows the affiliate to dispose the 95.5 percent of their Individual Capitalization Account (“CIC”, for its acronym in Spanish).

As a result of the amendment to the Act of the Private Pension System, Interseguro’s income related to premiums earned from annuities has decreased in approximately 38 percent compared to 2015; while in the Peruvian insurance market premiums earned from annuities have decreased in approximately 60 percent.

In this sense; during 2016 and 2015, Interseguro’s income related to premiums earned from annuities amount to S/337,755,000 and S/548,343,000; see Note 21.

- (c) Inteligo Group Corp. and Subsidiaries
Inteligo is an entity incorporated in the Republic of Panama. As of December 31, 2016 and 2015, it holds 100 percent of the shares of the following Subsidiaries:

Entity	Activity
Inteligo Bank Ltd.	It is incorporated in The Commonwealth of the Bahamas and has a branch established in the Republic of Panama that operates under an international license issued by the Superintendence of Banks of the Republic of Panama. Its main activity is to provide private and institutional banking services mainly to Peruvian citizens.
Inteligo Sociedad Agente de Bolsa S.A.	Brokerage firm incorporated in Peru.

Until August 1, 2014, Inteligo held 100 percent of the capital stock of Inteligo Real Estate Corp. and Inteligo Real Estate Perú S.A.C. At said date, Inteligo performed a spin-off of these Subsidiaries to Intercorp Perú, as explained in Note 1 (b).

- (d) San Borja Global Opportunities S.A.C.
Its corporate purpose is the acquisition and holding of shares and securities. As of December 31, 2016 and 2015, it did not have operations and had paid in capital of S/1,000.

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Notes to the consolidated financial statements (continued)

The table below presents a summary of the consolidated financial statements of the main Subsidiaries, before adjustments and eliminations for consolidation, as of December 31, 2016 and 2015, in accordance with the IFRS (see Note 27):

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2016 S/(000)	2015 S/(000)	2016 S/(000)	2015 S/(000)	2016 S/(000)	2015 S/(000)
Consolidated statements of financial position						
Cash and due from banks	10,966,505	11,856,387	84,225	77,534	757,929	527,253
Trading securities and available-for-sale investments	3,982,116	3,173,210	4,611,642	4,138,555	1,466,371	1,084,093
Held-to-maturity investments	611,293	479,561	-	-	-	-
Loans, net	25,331,312	24,308,737	-	-	1,695,421	1,685,549
Investment property	-	-	745,185	713,262	-	-
Total assets	42,402,877	41,652,030	5,795,908	5,253,987	4,014,633	3,376,035
Deposits and obligations	26,898,615	25,880,904	-	-	3,246,319	2,706,931
Due to banks and correspondents	5,259,484	6,138,544	1,847	50,988	67,271	68,269
Bonds, notes and other obligations	4,598,310	4,689,925	171,215	174,192	-	-
Insurance contract liabilities	-	-	5,010,513	4,477,089	-	-
Total liabilities	38,054,932	37,907,010	5,342,484	4,916,095	3,338,097	2,796,288
Equity attributable to IFS's shareholders	4,347,945	3,745,020	364,452	248,580	676,536	579,747
Non-controlling interest – equity	-	-	88,972	89,312	-	-
Consolidated income statements						
Net interest and similar income	2,269,576	2,102,886	278,540	247,735	92,729	87,052
Provision for loan losses, net of recoveries	(783,645)	(643,917)	-	-	-	(1,907)
Valuation gain and gain from sale of investment properties	-	-	1,274	25,441	-	-
Fee income from financial services, net	789,619	733,722	(2,994)	(3,225)	116,862	121,946
Total net premiums earned less claims and benefits	-	-	(247,308)	105,543	-	-
Impairment loss on available-for-sale investments	-	(2,362)	(28,323)	(46,514)	-	(29,409)
Net profit (loss) for the year attributable to IFS's shareholders	846,761	868,378	(114,788)	310,967	170,978	105,551
Non-controlling interest	-	-	(315)	994	-	-

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Notes to the consolidated financial statements (continued)

3. Significant accounting policies

3.1 Basis of presentation and use of estimates

The consolidated financial statements have been prepared in accordance with the IFRS as issued by the International Accounting Standards Board (henceforth "IASB").

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for investment property, derivative financial instruments, investments at fair value through profit or loss (trading securities) and available-for-sale investments, which have been measured at fair value. The consolidated financial statements are presented in Soles and all values are rounded to the nearest thousand (S/(000)), except when otherwise indicated.

The preparation of the consolidated financial statements in conformity with the IFRS requires Management to make estimations and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of significant events in the notes to the consolidated financial statements.

Estimates and criteria are continually assessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Existing circumstances and assumptions about future developments, however, may change due to markets' behavior or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Actual results could differ from those estimates. The most significant estimates comprised in the accompanying consolidated financial statements are related to the computation of the allowance for loan losses, the fair value measurement of investments and investment property, the insurance contract liabilities and the fair value measurement of financial derivative instruments; in addition, there are other estimates such as the estimated useful life of intangible assets, property, furniture and equipment and the estimation of deferred Income Tax assets and liabilities. The accounting criteria used for each of these items are described in this note.

The accounting policies adopted are consistent with those of the previous periods, except that the Group has adopted the new IFRS and revised IAS mandatory for periods beginning on or after January 1, 2016, as described below; however, due to the Group's structure and operations, the adoption of the new and revised accounting standards did not have any significant impact on its consolidated financial position and results:

- Amendments to IAS 1 "Presentation of Financial Statements"
The amendments clarify the materiality requirements in IAS 1 indicating that (i) certain items of the income statements and the statements of other comprehensive income and the statements of financial position may be disaggregated, (ii) entities have flexibility to choose the order in which they present the notes to their financial statements, and (iii) the participations of the entity in the other comprehensive income of associates and joint ventures accounted for using the equity method must be presented by grouping on a

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Notes to the consolidated financial statements (continued)

separately basis the items that are reclassified and which are not reclassified in the consolidated statements of comprehensive income.

- Amendments to IAS 16 “Property, Furniture and Equipment” and IAS 38 “Intangible Assets”: Clarification of Acceptable Methods of Depreciation and Amortization. The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, furniture and equipment and may only be used when the intangible asset is expressed as a measure of revenue or it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures”: Investment Entities: Applying the Consolidation Exception.

The amendments clarify which subsidiaries of an investment entity should be consolidated instead of being measured at fair value through profit or loss.

The amendments also clarify that the exemption from presenting consolidated financial statements continues to apply to subsidiaries of an investment entity that are themselves parent entities. This is so even if that subsidiary is measured at fair value through profit or loss by the highest-level investment entity.

Furthermore, the amendments provide an exemption to apply the equity method, through which an investor, which is not an investment entity, may decide to retain the fair value measurement through profit or loss applied by its associates and joint ventures, which are investment entities, to the subsidiaries.

- Amendments to IFRS 11 “Joint Arrangements”: Accounting for Acquisitions of Interest
These amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. IFRS 11 requires that a joint operator’s accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting.

The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

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- Improvements to IFRS (2012-2014 cycle)
The IASB issued the following improvements that will be effective for annual periods beginning on or after January 1, 2016:
 - IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations": clarifies that the change in methods of disposal of the assets or group of assets is not considered as a new plan of disposal.
 - IFRS 7 "Financial Instruments: Disclosures": clarifies that (i) a contract of management service that includes a fee may be continuing involvement in a financial asset; and (ii) the requirements on compensation disclosures do not apply to the condensed interim financial statements.
 - IAS 19 "Employee Benefits": clarifies that high quality corporate bonds used to estimate the discount rate in the calculation of liabilities for post-employment benefits should be denominated in the same currency in which said liability is denominated.
 - IAS 34 "Interim Financial Reporting": clarifies the meaning of disclosure information "elsewhere in the interim financial report" and requires the introduction of cross reference in the interim financial statements to locate this information.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of IFS and its Subsidiaries (see Note 2), including retroactive effect to the reorganization explained in Note 1 (b) for all periods presented as required by the pooling-of-interest method.

For consolidation purposes, control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, it is presumed that a majority of voting rights entitles to control. In order to support this presumption and when the Group has less than the majority of votes or similar rights in the investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and

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Notes to the consolidated financial statements (continued)

- The Group's voting rights and potential voting rights.

The Group assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a Subsidiary begins when the Group obtains control over the Subsidiary and ceases when the Group loses control of the Subsidiary.

For consolidation purposes, profit and loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Group's parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of Subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, income, expenses and cash flows relating to transactions between members of the Group are fully eliminated.

A change in the ownership interest of a Subsidiary, without a loss of control, is accounted for as an equity transaction.

Assets in custody or managed by the Group, such as investment funds and others, are not part of the Group's consolidated financial statements; see Note 3.3(y).

3.3 Summary of significant accounting policies

(a) Foreign currency translation

Functional and presentation currency:

The Group has determined that its functional and presentation currency is the Sol, because it reflects the economic substance of the underlying events and circumstances relevant to most of the Group's entities, insofar as its main operations and/or transactions, such as loans granted, financing obtained, sale of insurance premiums, interest and similar income, interest and similar expenses and an important percentage of purchases are established and settled in Soles; in addition, it corresponds to the functional currency to most of the Subsidiaries; except for Inteligo Bank, whose functional currency is the US Dollar.

Because Inteligo Bank has a functional currency different from the Sol, its financial statements were translated for consolidation purposes using the methodology established in IAS 21 "The Effects of Changes in Foreign Exchange Rates", as follows:

- Assets and liabilities at the closing rate at the date of each consolidated statements of financial position.
- Income and expenses at the average exchange rate for each month of the year.

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Notes to the consolidated financial statements (continued)

As a result of the translation, the Group has recorded the difference in the caption “Exchange differences on translation of foreign operations” in the consolidated statements of other comprehensive income.

Foreign currency balances and transactions:

Foreign currency transactions and balances are those performed in currencies different from the functional currency. Transactions in foreign currencies are initially recorded in the functional currency using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate in effect on the reporting date. The effect of differences between the closing rate at the date of each consolidated statements of financial position presented and the exchange rate initially used to record the transactions in foreign currency are recognized in the consolidated income statements in the period in which they arise, in the caption “Translation result”. Non-monetary assets and liabilities acquired in a foreign currency are recorded at the exchange rate at the date of the initial transaction.

(b) Income and expense recognition from banking activities

Interest income and expense for all interest-bearing financial instruments, including those related to financial instruments classified as held for trading or designated at fair value through profit or loss, are recognized in the captions “Interest and similar income” and “Interest and similar expenses” in the consolidated income statements using the effective interest rate method (“EIR”), which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Interest income is suspended when collection of loans becomes doubtful; namely, when loans are overdue more than 90 days or when the borrower or the securities issuer defaults even if the loan is not overdue for more than 90 days; the corresponding interest income is not recognized in interest income until collected. Uncollected accrued income on such loans is provisioned. When Management determines that the debtor’s financial condition has improved, the recording of interest thereon is reestablished on an accrual basis.

Interest income includes coupons earned on fixed income investment and trading securities and the accrued discount and premium on financial instruments. Dividends are recognized as income when declared.

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Notes to the consolidated financial statements (continued)

Fees and commissions income are recognized on an accrual basis. Contingent credit fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any direct incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

All other revenues and expenses are recognized on an accrual basis.

(c) Insurance contracts

Accounting policies for insurance activities:

For the adoption of IFRS 4 “Insurance Contracts”, the Group decided to continue applying to insurance contracts the existing accounting policies that were applicable prior to the adoption of IFRS (i.e., accounting standards established by the SBS for financial and insurance entities in Peru) with certain modifications as described below:

- Incurred but not reported claims reserve (IBNR): This reserves were calculated and applied retrospectively at each recording period using the Chain Ladder methodology (an actuarial method generally accepted) which considers past experience based on cumulative claims losses to estimate future claims developments.
- Technical reserves for annuities and retirement, disability and survival insurances: The Group considered current mortality and morbidity tables which differ from those established by the SBS and set the interest rate to discount the future cash flows of these liabilities as the current interest rate that reflects the interest rate performance of the debt instruments in the portfolio, adjusted by credit risk (see detail of tables and interest rates used in Note 13(e)).

Product classification:

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder for a specified uncertain future event (the insured event) that adversely affects the policyholder. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

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Notes to the consolidated financial statements (continued)

Life insurance contracts offered by the Group include retirement, disability and survival insurance, annuities and group and individual life. Non-life insurance contracts mainly include SOAT (mandatory individual car accident insurance) and debit and credit card insurance.

Insurance receivables:

Insurance receivables are initially recognized when due and are measured at the fair value of the consideration received or receivable. Subsequent to the initial recognition, insurance receivables are measured at amortized cost. As of December 31, 2016 and 2015, the carrying value of the insurance receivables is similar to its fair value due to its short term maturity. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated income statements.

Reinsurance:

The Group cedes the insurance risk in the normal course of its operations mainly due to pension fund risks (group insurance contract in force since 2015, which is ceded in its entirety) and life insurance risks (individual and group). The reinsurance assets represent balances due and payable by reinsurance companies. Reinsurance is ceded on a proportional basis.

The amounts recoverable from the contracts with reinsurers are estimated consistently with the loss reserve pending settlement or losses settled and with the premiums ceded, associated with policies ceded, in accordance with the clauses established in the related reinsurance contracts.

Reinsurance assets are reviewed for impairment at each date of the consolidated statements of financial position or more frequently when a sign of impairment arises during the year. Impairment arises when there is objective evidence as a result of an event that occurred after the initial recognition of the asset from a reinsurance contract, for which the Group cannot receive all of the outstanding amounts receivable under the contract terms and the event has a reliably measurable impact on the amounts that the Group will obtain from the reinsurer. Impairment loss is registered in the consolidated income statements.

Reinsurance contracts ceded do not release the Group from its obligations to the Insured.

The liabilities from reinsurance contracts represent balances due and payable to reinsurance companies. The amounts payable are estimated consistently with the related reinsurance contract.

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Notes to the consolidated financial statements (continued)

Premiums and losses are presented as gross amounts for the reinsurance ceded. Reinsurance assets or liabilities are written off when the contractual rights are extinguished, expire, or when the contract is transferred to a third party.

Reinsurance commissions:

The commissions from the reinsurance contracts for premiums ceded are amortized on a straight line basis over the term of the related insurance contract.

Insurance contract liabilities:

Life insurance contract liabilities are recognized when contracts are entered into.

The technical reserves for retirement, disability and survival insurance and annuities are determined as the sum of the discounted value of expected future pensions to be paid during a defined or non-defined period, computed on the basis of current mortality and morbidity tables and current discount interest rates described in Note 13(e).

Individual life technical reserves are determined as the sum of the discounted value of expected future benefits, administration expenses, policyholder options and guarantees and investment income, less the discounted value of the expected premiums that would be required to meet the future cash outflows. Furthermore, the technical reserves for group life insurance contracts comprise the provision for unearned premiums and unexpired risks.

Insurance claims reserves include reserves for reported claims and an estimate of the IBNR. As of December 31, 2016 and 2015, IBNR reserves were determined on the basis of the Chain Ladder methodology (a generally accepted actuarial method), as explained in page 12, whereby the weighted average of past claim development is projected into the future. Adjustments to the liabilities at each reporting date are recorded in the consolidated income statements. The liability is derecognized when the obligation expires, is discharged or is cancelled.

At each reporting date, an assessment is made on whether the recognized life insurance liabilities are adequate, by using an existing liability adequacy test as established by IFRS 4. In the case of annuities and retirement, disability and survival insurance, this test was conducted by using current assumptions for mortality and morbidity tables and interest rates. As of December 31, 2016 and 2015, Management determined that liabilities were adequate and therefore, it has not recorded any additional insurance liability.

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Notes to the consolidated financial statements (continued)

The accounts payable to reinsurers and coinsurers arise from the ceded premiums issued based on the evaluation of the risk assumed and the losses coming from the reinsurance contracts accepted as well as from the clauses executed for the coinsurance received, and are registered in the item "Accounts Payable to Reinsurers and Coinsurers" that is part of the caption "Accounts payable, provisions and other liabilities" of the consolidated statements of financial position.

Income recognition:

Life insurance contracts:

Gross premiums on life insurance are recognized as revenue when due from policyholder. For single premium products, revenue is recognized on the date when the policy is effective. The net premiums earned include the annual variation of technical reserves.

Property, casualty and group life insurance contracts:

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk afterwards the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Recognition of benefits, claims and expenses:

(i) Gross benefits and claims

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, including internal and external claims handling costs that are directly related to the processing and settlement of claims.

Death, survival and disability claims are recorded on the basis of notifications received. Annuities payments are recorded monthly, when due.

(ii) Reinsurance premiums

Reinsurance premiums comprise the total premiums payable for the whole coverage provided by contracts entered into in the period and are recognized at the date at which the policy is effective. Unearned ceded premiums are deferred during the period of the related insurance contract.

(iii) Reinsurance claims

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

(iv) Acquisition costs

Acquisition costs related to the sale of new policies are recognized when incurred.

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Notes to the consolidated financial statements (continued)

- (d) Financial instruments: Initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, all financial assets and liabilities, including derivative financial instruments, are recognized in the statements of financial position and measured based on the category into which the instrument is classified.

The Group determined, at the moment of the initial recognition, the classification of its financial instruments in one of the following categories:

- Financial assets and liabilities at fair value through profit or loss;
- Available-for-sale financial assets;
- Held-to-maturity financial assets;
- Loans and receivables; or
- Financial liabilities at amortized cost.

The classification of financial instruments at initial recognition depends on Management’s purpose when the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus any incremental cost related to the transaction directly attributable to the acquisition or issuance of the instrument, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (i.e., regular way trades) are recognized at their trading date, which is the date at which the Group commits to purchase or sell the asset. Derivatives are recognized at their trading date.

- (i) Financial assets and liabilities at fair value through profit or loss
Financial assets and liabilities at fair value through profit or loss include financial assets held for trading.

Derivative financial instruments are also categorized as held for trading unless they are designated as hedging instruments; see Note 3.3(h).

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term and are presented in the caption “Trading securities” of the consolidated statements of financial position. Changes in fair value are recognized in the caption “Net trading (loss) income” of the consolidated income statements. Interest and dividend earned are accrued in

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the consolidated income statements in the caption "Interest and similar income", according to the terms of the contract, or when the right to the payment has been established.

(ii) Available-for-sale financial assets

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading (trading securities) nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments are measured at fair value and unrealized gains or losses are recognized as other comprehensive income in the available-for-sale investments reserve, net of their corresponding deferred Income Tax and non-controlling interest, until the investment is sold, when the cumulative unrealized gain or loss is recognized in the consolidated income statements in the caption "Net gain on sale of securities", or determined to be impaired, which is recognized in the consolidated income statements in the caption "Impairment loss on available-for-sale investments" and removed from the available-for-sale investments reserve.

Interest and dividends earned are recognized in the consolidated income statements in the caption "Interest and similar income". Interest earned is reported as interest income by using the effective interest rate method and dividends earned are recognized when collection rights are established.

Changes in classification category

In the case of changes in classification category from available-for-sale investments into held-to-maturity investments, the fair value of the carrying amount of the financial asset at that date becomes its new amortized cost. Any previous gain or loss on that asset that has been recognized in other comprehensive income should be amortized over the remaining life of the investment using the effective interest rate method. If the asset subsequently becomes impaired, any gain or loss remaining in equity should be reclassified into profit or loss in the consolidated income statements.

During 2016 and 2015, Interbank reclassified a group of available-for-sale investments into held-to-maturity investments for an amount of S/129,548,000 and S/295,041,000, respectively; see Note 5(i).

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Notes to the consolidated financial statements (continued)

(iii) Held-to-maturity financial assets

Held-to-maturity investment are financial assets not derivatives with fixed or variable payments and fixed maturity, for which IFS has the intention and ability to hold them to maturity. After their initial measurement, held-to maturity investments are valued at the amortized cost, using the effective interest rate. The amortized cost is calculated taking into account any discount or premium acquisition and fees that are an integral part of the effective interest. The amortization is included in “Interest and similar income” caption of the consolidated income statements. Losses arising from the impairment of these investments are recognized in consolidated income statements.

As of December 31, 2016 and 2015, the Group has not recognized any impairment loss on held-to-maturity investments; see policy of impairment of financial assets carried at amortized cost in Note 3.3(g)(i).

The Group is prohibited from classifying any financial assets as held-to-maturity if, during the current financial year or during the two preceding financial years, it has sold before maturity or has reclassified more than an insignificant amount of held-to-maturity investments (in relation with the total amount of held-to-maturity investments).

As of December 31, 2016, the Group does not plan to sell, before maturity, or reclassify any of its held-to-maturity investments.

(iv) Loans and receivables

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

After their initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The effective interest rate amortization is recognized in the consolidated income statements in the caption “Interest and similar income”. Losses from impairment are recognized in the consolidated income statements in the caption “Provision for loan losses, net of recoveries”.

Direct loans are recorded when the disbursement of funds to clients is made. Indirect (contingent) loans are recorded when documents supporting such credit facilities are issued. The Group considers as refinanced or restructured loans those that change their payment schedules due to difficulties in the debtor's ability to repay the loan.

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Notes to the consolidated financial statements (continued)

(v) Financial liabilities at amortized cost

After their initial measurement, financial liabilities are measured at amortized cost using the effective interest rate method. Amortized cost includes any issuance discount or premium and directly attributable costs that are an integral part of the effective interest rate.

(vi) Repurchase agreements

Securities sold under agreements to repurchase on a specified future date are not derecognized from the consolidated statements of financial position since the Group retains substantially all of the risks and rewards inherent to its ownership. Cash received is recognized as an asset with the corresponding obligation to return it, including accrued interest, as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase price is recorded as interest expense and is accrued over the life of the agreement using the effective interest rate and is recognized in the caption "Interest and similar expenses" of the consolidated income statements.

As of December 31, 2016 and 2015, the Group does not keep any repurchase agreements.

(e) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when: (i) the rights to receive cash flows from the asset have expired; or (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and (iii) either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability and a new liability is recognized, with the difference between the carrying amount of the original financial liability and the consideration paid recognized in the consolidated income statements.

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Notes to the consolidated financial statements (continued)

- (f) Offsetting of financial instruments
Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset them and Management has the intention to settle them on a net basis, or realize the assets and settle the liability simultaneously.
- (g) Impairment of financial assets
The Group assesses at each date of the consolidated statements of financial position whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that have occurred since the initial recognition of the asset (an incurred “loss event”) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will go bankrupt or initiate any legal financial reorganization process and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The criteria used for each category of financial assets are as follows:

- (i) Financial assets carried at amortized cost
For loans, receivables and held-to-maturity investments that are carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statements.

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Notes to the consolidated financial statements (continued)

If in any subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

A loan, together with the associated allowance, is written off and derecognized when is fully provisioned and there is real and verifiable evidence that the loan is unrecoverable and collection efforts concluded without success, impossibility of foreclosure or all collateral has been realized or has been transferred to the Group. If in the future a written-off loan is later recovered, the recovery is recognized in the consolidated income statements as a credit to the caption "Provision for loan losses, net of recoveries".

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not said foreclosure is probable.

For collective assessment of impairment, financial assets are grouped considering the Group's internal credit rating system, which considers credit risk characteristics; for example: type of asset, economic sector, geographical location, type of collateral, past-due status and other relevant factors.

Future cash flows from a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each date of the consolidated statements of financial position whether there is objective evidence that an investment or a group of investments is impaired.

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Notes to the consolidated financial statements (continued)

In the case of equity securities, objective evidence would include a significant or prolonged decline in their fair value below cost. The “significant” decline is to be evaluated against the original cost of the investment while the “prolonged” decline, against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognized impairment loss) is removed from the available-for-sale investments reserve of the consolidated statements of other comprehensive income and recognized in the consolidated income statements.

Impairment losses on equity securities are not reversed through the consolidated income statements; increases in their fair value after impairment are directly recognized in the consolidated statements of other comprehensive income.

In the case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. The amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statements. If in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statements, the impairment loss is reversed through the consolidated income statements.

Future interest income is based on the reduced carrying amount and is accrued using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded as part of the caption “Interest and similar income” of the consolidated income statements.

(iii) Rescheduled loans

Where possible, the Group seeks to modify the loans rather than to take possession of the collateral. The rescheduled loans are direct loans in which modifications are made in the time and/or amounts of the original contract due to difficulties in the payment capacity of the client. When a loan is rescheduled, it is no longer considered as past due but it maintains its previous classification as impaired or not impaired. If the debtor complies with the new agreement during the following six months, and an analysis of its payment capacity supports a new improved risk classification, it is classified as not impaired. If subsequently to the loan modification, the debtor fails to comply with the new agreement, it is considered as impaired and past due.

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Notes to the consolidated financial statements (continued)

(h) Derivatives

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are recognized as assets when the fair value is positive and they are presented in the item “Accounts receivable for derivative financial instruments” that is part of the caption “Accounts receivable and other assets, net” and as liabilities when it is negative and they are presented in the item “Accounts payable for derivative financial instruments” that is part of the caption “Accounts payable, provisions and other liabilities” of the consolidated statements of financial position.

Derivatives can be designated as hedging instruments under hedge accounting if they qualify as such; depending on the nature of the hedged item, the method for recognizing gains or losses from changes in fair value will be different. These derivatives, which are used to hedge exposures to risk or modify the characteristics of financial assets and liabilities and that meet IAS 39 criteria, are recognized as hedge accounting.

Derivatives not designated as hedging instruments or that do not qualify for hedge accounting are initially recognized at fair value and are subsequently measured at their fair value, which is estimated based on market prices. Gains and losses for changes in their fair value are recorded in the consolidated income statements.

In accordance with IAS 39, to qualify as hedge accounting, all of the following conditions must be met:

- (i) At the inception of the hedge there is a formal designation and documentation of the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge;
- (ii) The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;
- (iii) For a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- (iv) The effectiveness of the hedge can be reliably measured, i.e the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured; and
- (v) The hedge is assessed on an ongoing basis and it is determined that the hedge has in fact been highly effective throughout the periods for which it was designated.

IAS 39 presents three hedge accounting categories: fair value hedge; cash flow hedge; and hedge of net investments in a foreign operation. The Group uses derivatives as hedging instruments under cash flow hedge, as detailed in Note 9(b).

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For derivatives that are designated and qualify as cash flow hedges, the effective portion of derivative gains or losses are recognized in other comprehensive income and reclassified to income in the same period or periods in which the hedge transaction affects income. The portion of gain or loss on derivatives that represents the ineffective portion or the hedge components excluded from the assessment of effectiveness is recognized immediately in income. Amounts originally recorded in other comprehensive income and subsequently reclassified into income are recorded in the corresponding income or expense lines in which the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting and also when the Group redesignates a hedge, any cumulative gain or loss existing in other comprehensive income is maintained and recognized as income or expense when the hedged item is ultimately recognized in the consolidated income statements. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in other comprehensive income is immediately transferred to the consolidated income statements.

(i) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but without having control over those policies. The considerations made for determining significant influence are similar to those needed to determine control over Subsidiaries.

The Group's investments in its associates are recognized initially at cost and then are accounted for using the equity method. The Group's investments in associates are included in the caption "Accounts receivable and other assets, net" of the consolidated statements of financial position. Gains resulting from the use of the equity method of accounting are included in the caption "Other income" of the consolidated income statements.

(j) Leases

The determination of whether an arrangement is, or contains, a lease is based in the substance of the arrangement at its inception date: i.e., whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset even if that right is not explicitly specified in an arrangement.

Operating leases

Leases in which a significant portion of the risks and benefits of the asset are held by the lessor are classified as operating leases. Under this concept, the Group has mainly leased premises used as offices and agencies of the Group's Subsidiaries.

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When an operating lease is terminated before the lease period has expired, any penalty payment to the lessor is recognized as an expense in the period in which the contract termination takes place.

Finance leases

Finance leases are recognized as granted loans at the present value of the future lease collections. The difference between the gross receivable amount and the present value of the loan is recognized as unearned interest. This income is recognized over the term of the lease agreement using the effective interest rate method, which reflects a constant rate of return.

(k) Lease revenues

Lease revenues obtained from investment properties are recorded using the straight-line method for the contract terms, and they are recorded as a revenue in the consolidated income statements due to their operative nature, except for contingent lease revenues, which are recorded when realized.

The lease term is the non-cancelable period, together with any other additional period for which a lessee has the option of continuing with the lease. As of the start date of the lease, Management is reasonably confident that a lessee will exercise such option.

Amounts received from tenants to terminate leases or to compensate impairment of leased facilities are recognized as revenues in the consolidated income statements when the right to receive them arises.

Service charges, administration expenses and other recoverable expenses paid by the lessees and the revenues resulting from expenses charged to the lessees are recognized in the period in which the compensation becomes an account receivable. Service charges and administration expenses and other receipts are included in the Gross Revenue from Rentals of the Related Costs, given that the Management considers that the Group acts as a principal party.

(l) Investment and inventory property

The Group determines whether a property is classified as investment property or inventory property:

- (i) Investment property comprises land and buildings (mainly shopping malls) that are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business. Investment property comprises completed property and property under construction or re-development.

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Notes to the consolidated financial statements (continued)

- (ii) Inventory property comprises property that is held for sale in the ordinary course of business.

The Group has not classified any property as inventory property.

The Group measures its investment property at fair value according to the requirements of IAS 40 “Investment Property”, as it has elected to use the fair value model as its accounting policy.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary to start operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values (e.g. work-in-progress incurred on properties under construction) cannot be readily determined. Accordingly, the work-in-progress incurred on these properties under construction is measured at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier). Investment property under construction includes the value of land, which is determined by appraisals performed by an accredited appraiser using the price per square meter as market comparable method.

Subsequent to initial recognition, investment property is recorded at fair value. Gains or losses arising from changes in fair values are included in the “Valuation (loss) gain from investment property” caption of the consolidated income statements in the year in which they arise, including the corresponding deferred tax effect.

Fair values are assessed periodically by Management, based on the discounted cash flows that are expected to be obtained from these investments. Fair values of investments properties under construction or investment properties held to operate in the future are assessed by an independent external appraiser, through the application of a recognized valuation model. See Note 7 for details of fair value and related assumptions.

Transfers are made to or from investment property only when there is a change in use. No such transfers have occurred for the years ended December 31, 2016 and 2015.

Investment property is derecognized when it has been disposed or permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or

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Notes to the consolidated financial statements (continued)

losses are recognized in the consolidated income statements of the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the assets in the consolidated financial statements.

- (m) **Property, furniture and equipment**
Property, furniture and equipment are stated at historical acquisition cost less residual value, accumulated depreciation and impairment losses, if applicable. The historical acquisition cost includes the expenses that are directly attributable to the acquired property, furniture or equipment. Maintenance and repair costs are charged to the consolidated income statements; significant renewals and improvements are capitalized when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will result from the use of the acquired property, furniture or equipment.

Land is not depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives, which are as follows:

	Years
Buildings and facilities	40 - 75
Leasehold improvements	5
Furniture and equipment	10
Vehicles	5

An item of property, furniture and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statements.

The residual value of each asset, its useful life and the selected depreciation method are periodically reviewed to ensure that they are consistent with current economic benefits and useful life expectations.

- (n) **Assets seized through legal actions**
Assets seized through legal actions are recorded at the lower value between the cost or the estimated market value (minus cost to sell), determined from valuations made by independent appraisers. Reductions in book value are recorded in the consolidated income statements.

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(o) Intangible assets with finite useful lives

The intangible assets with finite useful lives are included in the “Accounts receivable and other assets, net” caption of the consolidated statements of financial position and they are mainly costs incurred in connection with the acquisition of computer software used in operations and other minor intangible assets. The amortization expense is calculated following the straight-line method over the useful life estimated between 4 and 5 years, see Note 9(d).

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net amount of the disposal of the asset and the book value of said asset and they are recognized in the consolidated income statements.

(p) Impairment of non-financial assets

Property, furniture and equipment and intangible assets with a finite life are assessed to determine whether there are any indications of impairment as of the closing of each period. If any indication exists, the Group estimates the asset’s recoverable value. The recoverable amount of the assets is the greatest between the value of an asset or a cash-generating unit (henceforth “CGU”) less the costs of sale and its use value, and it is determined for an individual asset, unless the asset does not generate cash revenues that are largely independent from those of other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value minus costs to sell, an appropriate valuation model is used.

(q) Due from customers on acceptances

Due from customers on acceptances corresponds to accounts receivables from customers for import and export transactions, whose obligations have been accepted by the Group. The obligations that must be assumed by the Group for such transactions are recorded as liabilities.

(r) Financial guarantees

In the ordinary course of business, the Group issues financial guarantees, such as letters of credit, guarantees and acceptances. Financial guarantees are initially recognized at fair value (which is equivalent at that moment to the fee received) in the caption “Accounts payable, provisions and other liabilities” of the consolidated statements of financial position. Subsequent to initial recognition, the Group’s liability for each financial guarantee issued is measured at the higher of the amount initially recognized, less the cumulative amortization recognized in the consolidated income statements and the best

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estimate of expenditure required to settle any financial obligation arising as a result of the financial guarantee.

Any increase in the liability relating to a financial guarantee is included in the consolidated income statements. The fee received is recognized in the caption “Fee income from financial services, net” of the consolidated income statements on a straight line basis over the life of the granted financial guarantee.

- (s) **Defined contribution pension plan**
The Group only operates a defined contribution pension plan. The defined contribution payable in the pension plan is in proportion to the services rendered to the Group by the employees and it is recorded as an expense in the caption “Salaries and employee benefits” of the consolidated income statements. Unpaid contributions are recorded as liabilities.
- (t) **Provisions**
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statements net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the specific risks of the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense.
- (u) **Contingencies**
Contingent liabilities are not recognized in the consolidated financial statements, but are disclosed in the notes to the consolidated financial statements, unless the probability of an outflow of resources is remote. Contingent assets are not recorded in the consolidated financial statements, but they are disclosed if it is probable that an inflow of economic benefits will be accomplished.
- (v) **Fair value measurement**
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
 - In the absence of a principal market, in the most advantageous market for the asset or liability.

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The principal or the most advantageous market must be accessible by the Group. Also, the fair value of a liability reflects its non-performance risk.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When available, the Group measures the fair value of a financial instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value, maximizing the use of relevant and observable data and variables, and minimizing the use of unobservable data and variables.

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

In the case of investment property, the Group has considered the specific requirements relating to highest and best use, valuation of premises and principal (or most advantageous) market. The determination of investment property fair value requires the use of estimations such as the future cash flows of the assets (e.g., leases, sales, fixed rents for the different lessees, variable rents based on the sales percentage, operating costs, construction costs (henceforth “CAPEX”), maintenance CAPEX and the use of discount rates). Additionally, real estate development risks (such as construction and abandonment) are also taken into account when determining the fair value of the land related to the investment property under construction.

The fair value of investment property in the consolidated statements of financial position must reflect the volatile nature of real estate markets; therefore, Management and its appraisers use their market knowledge and professional criteria and do not depend solely on historical comparable transactions. In this sense, there is a greater degree of uncertainty than when a more active market exists for the estimation of fair value. Significant methods and assumptions used in the estimation of fair value of investment property are detailed in Note 7.

All assets and liabilities for which the fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described below, based on the lowest level input that is significant to the fair value measurement as a whole:

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- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized at fair value in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of hierarchy of the fair value, as explained above.

Fair values of financial instruments measured at amortized cost are disclosed in Note 30(b).

(w) Income Tax

Income Tax is computed based on the separate financial statements of each Subsidiary.

Deferred Income Tax is accounted for in accordance with IAS 12 "Income Taxes". In this sense, the deferred Income Tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes. Deferred assets and liabilities are measured using the tax rates that are expected to be in force in the years in which such temporary differences are expected to be recovered or settled. Consequently, the deferred Income Tax as of December 31, 2016, has been calculated applying the rates that will be effective since January 1, 2017; see Note 16(c). The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that arise from the manner in which each individual entity of the Group expects, at the consolidated statements of financial position dates, to recover or settle the carrying amount of their assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the temporary differences are likely to reverse. Deferred tax assets are recognized when it is probable that sufficient taxable income will be generated against which the deferred tax assets can be offset. At each consolidated statements of financial position date, unrecognized deferred assets and the carrying amount of deferred tax assets registered are assessed. A previously unrecognized deferred tax asset is recognized to the extent that it has now become probable that future taxable income will allow the deferred tax asset to be recovered. Likewise, the carrying amount of a deferred tax asset is reduced when it is no

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longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be used.

According to IAS 12, the deferred Income Tax is determined applying the Income Tax rate applicable to the retained earnings, recognizing any additional tax on distribution of dividends that may arise on the date when the liability is recognized.

(x) Segment information

IFRS 8 “Operating Segments” requires that the information of operating segments be disclosed consistently with information provided by the chief operating decision maker, who is the person or group of persons that allocates resources to the segments and assesses their performance. Segment information is presented in Note 27.

(y) Fiduciary activities and management of funds

The Group provides trust management, investment management, advisory and custody services to third parties that result in the holding of assets on their behalf. These assets and the income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group; see Note 31.

Commissions generated for these activities are included in the caption “Fee income from financial services, net” of the consolidated income statements.

(z) Earnings per share

Basic and diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. As of December 31, 2016 and 2015, the Group does not have financial instruments with dilutive effect, therefore basic and diluted earnings per share are identical for the years reported.

As a consequence of the reorganization described in Note 1(b), the Group has computed its earnings per share to reflect the structure of the Group for all periods presented as if the new structure had been in place on January 1, 2014, see Note 25.

(aa) Capital surplus

It is the difference between the nominal value of shares issued and their offering price. Capital surplus is presented net of expenses incurred in the issuance of shares.

(ab) Treasury stock

Shares repurchased are recorded in the shareholders’ equity under treasury stock caption at their purchase price. No loss or gain is recorded in the consolidated income statements arising from the purchase, sale, issuance or amortization of these instruments. Shares that are subsequently sold are recorded as a reduction in treasury stock, measured at the average price of treasury stock held at such date.

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(ac) Cash and cash equivalents

Cash presented in the consolidated statements of cash flows includes cash and due from banks balances with original maturities lower than three months, excluding the restricted funds, which are subject to an insignificant risk of changes in value.

Cash collateral committed as part of a repurchase agreement is included in the “Cash and due from banks” caption of the consolidated statements of financial position, see Note 4.

(ad) Consolidated financial statements as of December 31, 2015

When needed, the comparative amounts of the respective prior year have been reclassified in order to make them comparable with the current year presentation. In Management’s opinion, the reclassifications made in the consolidated financial statements as of December 31, 2015, are not significant considering the consolidated financial statements as a whole.

3.4 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, as of the date of issuance of the Group’s consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 “Financial Instruments”

In July 2014, the IASB issued the final version of IFRS 9 “Financial Instruments” which replaces IAS 39 “Financial Instruments: Recognition and Measurement” and all previous versions of IFRS 9. The standard mainly sets out that (i) the classification and measurement of financial assets depends on the business model and the characteristics of the contractual cash flows involved; (ii) the variations in the fair value of financial liabilities measured at fair value through profit or loss will be recognized in income, except for the portion attributed to the variation in the entity’s own credit risk, which will be recognized in other comprehensive income, unless it creates a significant accounting mismatch in profit or loss; (iii) the impairment of financial assets should be estimated and recorded under the new expected credit loss model (instead of the IAS 39 incurred loss model); and (iv) Management should use risk management criteria to assess the effectiveness of hedging activities, eliminating the use of the range of 80 and 125 percent. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory; except for hedging accounting requirements which are generally prospectively applied. Management is conducting an initial diagnosis regarding the impacts of this standard and does not expect that the changes presented by IFRS 9 will have a material impact neither on the criteria of classification and measurement of financial assets and liabilities currently applied, nor on the hedge accounting. The new model of recognition of impairment losses could result in early recognition of losses in the loan portfolio.

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Notes to the consolidated financial statements (continued)

- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”: Sale or contribution of assets between an investor and its associate or joint venture

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. In December 2015, the IASB decided to defer the application date of this amendment indefinitely. The Group considers that these amendments will have no significant impacts on its consolidated financial statements.

- IFRS 15 “Revenue from contracts with customers”
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all existing revenue recognition guidelines, including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”. IFRS 15 is effective retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. As of this date, the Group is assessing the effects that this standard could have on its consolidated financial statements; nevertheless, the Group does not expect significant changes.

- IFRS 16 “Leases”
IFRS 16 was issued in January 2016 and replaces IAS 17 “Leases”. IFRS 16 introduces a new accounting model for lessees requiring that the effects of their leasing operations are recognized as assets and liabilities in the statements of financial position, unless such operations are short-term operations or involve low-value assets. In the case of lessors, the accounting model is maintained, namely, leasing operations continue to be classified as operating or finance leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 is already applied or the adoption of IFRS 16 occurs on the same date of adoption of IFRS 15.

The Group has conducted an initial diagnosis, concluding that this standard will have no significant impacts on its consolidated financial statements.

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Notes to the consolidated financial statements (continued)

- IAS 7 “Statement of Cash Flows” – Amendments to IAS 7
The amendments to IAS 7, “Statement of Cash Flows”, are part of the Disclosure Initiative of the IASB and require that the Group provides disclosures that allow users of consolidated financial statements, assess changes in liabilities arising from financing activities, including those related to cash flows and non-monetary changes. In the initial application of the amendments, entities are not required to provide comparative information for prior periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The application of these amendments result in additional disclosures for the Group.

- IAS 12 “Income Taxes”: Recognition of Deferred Income Tax for unrealized losses – Amendments to IAS 12
The amendments clarify that entities need to consider if tax rules restrict the sources of taxable income with which it could make deductions on the reversal of a deductible temporary difference. Also, the amendments provide a guideline about the way an entity should determine future taxable income and explain the circumstances in which the taxable income might includes the recovery of some assets for a value greater than their book values.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any significant impact on the Group's consolidated financial statements.

- Application of IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”
The amendments address the concerns arising from the implementation of the new standard of financial instruments, IFRS 9, before implementing the new standard of insurance contracts which IASB is developing for replacing IFRS 4. The amendments introduce two options for entities that issue insurance contracts: a temporary exemption from the application of IFRS 9 and an overlay approach.

However, these amendments do not apply for the Group because its activities are predominantly related to financial services (banks).

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Notes to the consolidated financial statements (continued)

- IAS 40 “Investment Property” – Amendments to IAS 40

These amendments clarify when an entity should transfer goods, including properties under construction or development, to or from investment property. Also, the amendments point out that a change in use occurs when the property meets or no longer meets the definition of investment property and there is evidence of change in use. A change in Management’s intentions for using a property provides no evidence of a change in use.

These amendments should apply retrospectively for annual periods in which the Group first applies such amendments. An entity should reassess the classification of the property that is held at this date and, if applicable, reclassify the property to reflect the conditions prevailing at that date. Furthermore, the retrospective application according to IAS 8 is only permitted if it is possible without the use of hindsight. The early application is permitted and should be disclosed.

These amendments are not expected to have any significant impact on the Group’s consolidated financial statements.

- IFRIC 22 “Foreign Currency Transactions and Advance Payments”

The interpretation clarifies that when determining the exchange rate to be used in the initial recognition of the asset, expense or income (or part thereof), corresponding to the derecognition of a non-monetary asset or liability related to an advance payment, the transaction date is the date at which the entity initially recognizes the non-monetary asset or liability arising from the advance payment. If there are several advance payments, the entity should determine a transaction date for each advance payment.

Entities should apply the interpretation retrospectively. Nevertheless, alternatively an entity might apply the interpretation prospectively to all assets, expenses and income within scope that are recognized initially on or after: (i) the beginning of the first annual period in which the entity apply the interpretation for first time or, (ii) at the beginning of the prior annual period presented as comparative information in the consolidated financial statements in which the entity apply the interpretation for first time. Early application of this interpretation is permitted and should be disclosed.

These amendments are not expected to have any significant impact on the Group’s consolidated financial statements.

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Notes to the consolidated financial statements (continued)

- Improvements to IFRS (2014-2016 cycle)
 - IFRS 1 “First-time Adoption of International Financial Reporting Standards”: The exemptions of paragraphs E3 to E7 of IFRS 1 are deleted because they already fulfilled their purpose. This amendment is effective beginning on or after January 1, 2018.
 - IAS 28 “Investments in Associates and Joint Ventures”: Clarifies that the measurement of investments in associates and joint ventures at fair value through profit or loss is an election separately for each associate or joint venture. This amendment should be applied retrospectively for periods beginning on or after January 1, 2018. Early application is permitted and should be disclosed.
 - IFRS 12 “Disclosure of Interests in Other Entities”: Clarifies the scope of the disclosure requirements of IFRS 12. These amendments should be applied retrospectively for annual periods beginning on or after January 1, 2017.

4. Cash and due from banks

This caption is made up as follows:

	2016 S/(000)	2015 S/(000)
Cash and clearing	1,545,638	1,700,838
Deposits in the Central Reserve Bank of Peru – BCRP	5,304,343	6,054,798
Deposits in banks	1,647,066	1,025,525
Restricted funds	<u>3,264,105</u>	<u>3,650,261</u>
	11,761,152	12,431,422
Accrued interest	<u>651</u>	<u>363</u>
Total	<u><u>11,761,803</u></u>	<u><u>12,431,785</u></u>

Cash and cash equivalents presented in the consolidated statements of cash flows exclude the restricted funds and accrued interest, see Note 3.3(ac).

As of December 31, 2016, the “Cash and due from banks” caption of the consolidated statements of financial position includes approximately US\$1,588,248,000 and S/856,453,000 (US\$1,929,852,000 and S/888,767,000 as of December 31, 2015), which represent the legal reserve that Interbank must maintain for its deposits and obligations. These funds are kept in Interbank and BCRP vaults and are within the limits required by Peruvian regulations in force at those dates.

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Notes to the consolidated financial statements (continued)

The legal reserve funds maintained at the BCRP are non-interest bearing, except for the part that exceeds the minimum reserve required. As of December 31, 2016, the excess in foreign currency amounted to approximately US\$345,688,000 equivalent to approximately S/1,160,129,000 and accrued interest at an annual average rate of 0.18 percent (US\$241,115,000, equivalent to approximately S/822,444,000, and an annual average rate of 0.09 percent as of December 31, 2015), whereas the excess amount in Soles amounted to approximately S/2,429,162,000 and accrued interest in Soles at an annual average rate of 1.05 percent (S/3,708,920,000 and an annual average rate of 0.48 percent as of December 31, 2015).

Deposits in banks of the country and abroad are mainly in Soles and US Dollars, they are freely available and accrue interests at market rates. As of December 31, 2016 and 2015, the Group does not have significant deposits in any specific financial institution.

As of December 31, 2016 and 2015, the "Restricted funds" caption is mainly comprised of deposits in the BCRP amounting to approximately US\$915,204,000 (equivalent to S/3,071,424,000) and US\$960,688,000 (equivalent to S/3,276,907,000), respectively, as a guarantee for loans received from this entity, see Note 11(b).

As of December 31, 2016 and 2015, this caption included restricted funds for approximately US\$58,027,000 (equivalent to S/194,737,000) and US\$98,653,000 (equivalent to S/336,504,000), respectively, which mainly correspond to requirements from counterparties of derivative transactions, see Note 9(b) (as of December 31, 2015, this caption also included funds from remittances received which guarantee the payment of the trading notes issued by IBK DPR Securitizadora; see Note 12(f)).

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Notes to the consolidated financial statements (continued)

5. Available-for-sale investments and held-to-maturity investments

(a) The detail of available-for-sale and held-to-maturity investments as of December 31, 2016 and 2015, is as follows:

	2016				2015			
	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)
		Gains S/(000)	Losses S/(000)			Gains S/(000)	Losses S/(000)	
Corporate, leasing and subordinated bonds	4,120,202	38,627	(158,492)	4,000,337	3,409,557	19,136	(404,820)	3,023,873
Negotiable Certificates of Deposit issued by BCRP (d)	1,709,845	2,523	(84)	1,712,284	877,165	-	(2,845)	874,320
Peruvian Sovereign Bonds (e)	1,223,965	4,171	(90,732)	1,137,404	1,117,769	269	(133,672)	984,366
Mutual funds and investment funds participations	1,030,427	61,319	(18,558)	1,073,188	926,127	38,219	(48,402)	915,944
Bonds guaranteed by the Peruvian Government	471,338	7,674	(5,962)	473,050	446,040	4,018	(20,129)	429,929
Global Bonds of the Republic of Peru (e)	163,778	-	(5,636)	158,142	351,245	-	(8,187)	343,058
Global Bonds of the United Mexican States	138,022	-	(1,708)	136,314	6,897	-	(44)	6,853
United States of America Treasury Bonds	66,575	-	(551)	66,024	40,932	-	-	40,932
Global Bonds of the Republic of Colombia	44,957	-	(1,091)	43,866	18,237	-	(1,107)	17,130
Indexed Certificates of Deposit issued by BCRP	39,414	51	-	39,465	668,699	176	(1,527)	667,348
Total	9,008,523	114,365	(282,814)	8,840,074	7,862,668	61,818	(620,733)	7,303,753
Listed shares								
Peruvian and foreign entities	179,956	15,337	(8,387)	186,906	227,868	1,727	(14,359)	215,236
InRetail Perú Corp. (g)	110,217	92,857	-	203,074	110,866	38,241	-	149,107
Energía del Sur	72,024	7,941	-	79,965	72,454	-	(80)	72,374
Graña y Montero (*)	45,152	2,954	-	48,106	17,352	-	-	17,352
Non-listed shares and participations								
Royalty Pharma (h)	62,923	5,341	-	68,264	147,243	81,758	-	229,001
Others	968	694	(129)	1,533	985	-	(430)	555
	<u>471,240</u>	<u>125,124</u>	<u>(8,516)</u>	<u>587,848</u>	<u>576,768</u>	<u>121,726</u>	<u>(14,869)</u>	<u>683,625</u>
	<u>9,479,763</u>	<u>239,489</u>	<u>(291,330)</u>	<u>9,427,922</u>	<u>8,439,436</u>	<u>183,544</u>	<u>(635,602)</u>	<u>7,987,378</u>
Accrued interest				90,476				79,786
Total				<u>9,518,398</u>				<u>8,067,164</u>

(*) Since January 1, 2017 until the date of this report, the Group sold 1,402,455 shares, recording a loss amounting to approximately S/10,332,000. As of the date of this report, the Group maintains shares of this Company with a cost of S/13,600,000 and has recorded an unrealized loss amounting to approximately S/9,400,000. Management is monitoring this situation.

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Notes to the consolidated financial statements (continued)

- (b) The Group has determined that the unrealized losses as of December 31, 2016 and 2015, are of temporary nature. The Group intends and has the capacity to hold each investment for a period of time sufficient to allow for an anticipated recovery in fair value, until the maximum period for anticipated recovery or maturity.

The Group has considered the following criteria in determining whether a loss is temporary or not for equity investments (shares) and, when it is applicable, to mutual and investment funds:

- The length of time and the extent to which fair value has been below cost;
- The severity of the impairment;
- The cause of the impairment and the financial condition and near-term prospects of the issuer; and
- Activity in the market of the issuer, which may indicate adverse credit conditions.

The Group has considered the following criteria in determining whether a loss is temporary or not for debt instruments (fixed maturity):

- Assess whether it is probable that the Group will receive all amounts due, according to the contractual terms of the security (principal and interest). The identification of credit-impaired securities considers a number of factors, including the nature of the security and the underlying collateral, the amount of subordination or credit enhancement supporting the security, published credit rating and other information and other evidentiary analyses of the probable cash flows from the security. If recovery of all amounts due is not probable, a "credit impairment" is deemed to exist and the unrealized loss is recorded directly in the consolidated income statement. This unrealized loss recorded in the consolidated income statements represents the security's decrease in fair value, including the decrease due to forecasted cash flow and the increase in the market interest rate.
- For financial instruments with unrealized losses but not identified as impaired, the Group determines whether it has the intent and capability to hold each investment for a period of time sufficient to allow for an anticipated recovery of its fair value. The Group estimates the forecasted recovery period using current estimates of volatility in market interest rates (including liquidity and risk premiums). The Group's assertion regarding its intent and capability to hold investments considers a number of factors, including a quantitative estimate of the expected recovery period and the length of that period (which may extend up to its maturity), the severity of the impairment and the Group intended strategy with respect to the identified security or portfolio. If the Group does not have the intent and capability to hold the security for a sufficient time period, the unrealized loss is recorded directly in the consolidated income statements.

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Notes to the consolidated financial statements (continued)

- (c) As a result of the impairment assessment of its available-for-sale investments, the Group recorded an impairment amounting to S/28,323,000, S/78,285,000 and S/20,155,000 during 2016, 2015 and 2014, respectively, which is presented in the caption "Impairment loss on available-for-sale investments" of the consolidated income statements. The movement of available-for-sale investments unrealized results, net of deferred Income Tax and non-controlling interest, is presented in Note 15(d). As of December 31, 2016 and 2015, the detail of unrealized losses of debt instruments and mutual fund and investment participations classified as available-for-sale is as follows:

Issuer	2016			2015			Maturity as of December 31, 2016	Risk rating as of December 31, 2016 (***)
	Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)	Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)		
Peruvian Sovereign Bonds	1,223,965	4,171	(90,732)	1,117,769	269	(133,672)	2018 - 2055	A- (*)
Bonds guaranteed by the Peruvian Government	471,338	7,674	(5,962)	446,040	4,018	(20,129)	2024 - 2043	BBB+ (*)
Global Bonds of the Republic of Peru	163,778	-	(5,636)	351,245	-	(8,187)	2019 - 2025	BBB+ (*)
Fibra Uno	105,709	-	(17,868)	66,617	-	(8,154)	2044	BBB (*)
Corporación Financiera de Desarrollo S.A.	182,340	33	(15,368)	168,843	-	(28,727)	2019 - 2046	AAA (**)
H2OImos S.A.	115,247	18	(11,417)	112,224	85	(17,194)	2018 - 2032	AA+ (**)
Vale Overseas Ltd.	94,645	-	(11,183)	96,725	-	(36,574)	2034 - 2039	BBB- (*)
Abengoa Transmisión Sur S.A.	162,526	3	(10,217)	160,319	-	(8,462)	2043	BBB- (*)
Línea Amarilla S.A.C.	91,071	163	(8,670)	90,066	-	(14,506)	2037	AAA (**)
Banco de Crédito del Perú S.A.	184,420	176	(6,962)	110,536	1	(5,217)	2018 - 2069	BB (*)
G y M Ferrovías S.A.	141,176	-	(6,357)	141,361	-	(8,880)	2039	AA+ (**)
Votorantim Cimentos S.A.	97,127	1,095	(6,314)	172,207	-	(47,392)	2041	BB+ (*)
Mexico City Airport Trust S.A	66,251	-	(5,400)	-	-	-	2046	BBB+ (*)
Mexichem S.A.	49,043	-	(4,865)	49,870	-	(7,619)	2042 - 2044	BBB- (*)
Rutas de Lima S.A.C.	183,751	651	(4,841)	162,512	6,114	(6,327)	2036 - 2039	BB (*)
Export Import Bank of Korea	86,014	1,008	(4,825)	86,224	5,443	(256)	2022 - 2041	AA- (*)
Fermaca Enterprises S.R.L.	96,470	-	(4,410)	99,111	-	(9,909)	2038	BBB- (*)
Southern Perú Copper Corporation S.A.A.	164,918	4,237	(4,226)	168,110	-	(30,129)	2035 - 2040	BBB (*)
Edelnor S.A.A.	41,991	557	(4,117)	40,488	-	(9,616)	2017 - 2038	AAA (**)
Continental Sociedad Titulizadora	96,173	-	(4,104)	-	-	-	2036	AAA (**)
Instruments with individual losses / lower than S/4 million	-	-	(49,340)	-	-	(219,783)		
		<u>19,786</u>	<u>(282,814)</u>		<u>15,930</u>	<u>(620,733)</u>		

(*) Instrument rated abroad.

(**) Instrument rated in Peru.

(***) Corresponds to the instrument's rating with the largest unrealized loss.

- (d) As of December 31, 2016, Interbank holds Negotiable Certificates of Deposit issued by BCRP amounting to approximately S/101,054,000 as a guarantee for loans received from this entity, see Note 11(b).

- (e) During 2016, Interbank participated in a securities exchange program carried out by the Peruvian Government, through which the Bank:

- Delivered Global and Sovereign Bonds amounting to US\$52,360,000 (equivalent to approximately S/178,128,000) and S/74,152,000, respectively, which had maturities between March 2019 and July 2025 and accrued interests at effective annual rates between 1.50 and 2.59 percent, and 4.8 percent, respectively; and
- Received Sovereign Bonds amounting to S/249,863,000, with maturity in August 2028 and effective interest rates between 6.35 and 6.38 percent.

This exchange generated a gain of S/3,770,000 recorded in the caption "Net gain on sale of securities" of the consolidated income statements. Likewise, at the exchange's date, Interbank held an unrealized gain corresponding to the bonds delivered amounting to S/1,997,000, which was transferred to the consolidated income statements.

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Notes to the consolidated financial statements (continued)

- (f) As of December 31, 2016 and 2015, the maturities and the annual effective interest rates of the most significant available-for-sale investments in debt instruments are as follows:

	Maturity		Annual effective interest rates							
	2016	2015	2016				2015			
			S/		US\$		S/		US\$	
	Min %	Max %	Min %	Max %	Min %	Max %	Min %	Max %	Min %	Max %
Corporate, leasing and subordinated bonds	Jan 2017 / Feb 2097	Feb 2016 / Feb 2097	3.16	9.41	1.05	23.92	3.14	10.02	2.79	26.47
Negotiable Certificates of Deposit issued by BCRP	Jan 2017 / Mar 2018	Jan 2016 / Jun 2017	4.25	4.51	-	-	4.00	5.09	-	-
Peruvian Sovereign Bonds	Feb 2018 / Feb 2055	Aug 2017 / Feb 2055	1.90	8.09	-	-	2.41	8.09	-	-
Bonds guaranteed by the Peruvian Government	May 2024 / Apr 2043	May 2024 / Apr 2043	4.10	6.01	5.16	6.60	4.10	6.01	5.16	6.60
Global Bonds of the Republic of Peru	Mar 2019 / Jul 2025	Mar 2019 / Jul 2025	-	-	2.10	3.49	-	-	2.64	4.16
Global Bonds of the United Mexican States	Mar 2022 / Jan 2045	Mar 2022	-	-	3.61	5.44	-	-	3.57	3.57
United States of America Treasury Bonds	Jan 2017 / Aug 2026	January 2016	-	-	0.37	2.32	-	-	0.12	0.12
Global Bonds of the Republic of Colombia	Mar 2019 / Jul 2021	Jul 2021	-	-	2.24	3.29	-	-	4.33	4.33
Indexed Certificates of Deposit issued by BCRP	Jan 2017	Jan 2016 / Mar 2016	-	-	0.00	0.00	-	-	0.40	0.75

See Note 29.2(b)(ii) for the analysis by currency of these investments.

- (g) As of December 31, 2016 and 2015, the Group held approximately 3,125,000 shares, which represented 3.04 percent of InRetail Perú Corp.'s capital stock (a related entity).
- (h) Corresponds to participations in RPI International Holding, LP ("RPI Partnership"), Royalty Pharma Cayman Holding and LP ("RPS Partnership"). RPI Partnership and RPS Partnership invest in a series of feeder funds whose objective is to invest in Royalty Pharma Investments and Royalty Pharma Select, respectively, which are investment funds established under the laws of the Republic of Ireland and authorized by the Central Bank of the Republic of Ireland. These investment funds are engaged in the purchase of medical patents and biotechnology. The participations in RPI Partnership and RPS Partnership are not liquid and require authorization for their trading.

As of December 31, 2016, the Group held 152,251 participations of RPI Partnership which fair values amounted to approximately US\$20,341,000 (equivalent to approximately S/68,264,000). As of December 31, 2015, the Group held 300,000 and 283,537 shares of RPS Partnership and RPI Partnership, respectively, their fair values amount to approximately US\$27,423,000 and US\$39,713,000 (equivalent to approximately S/93,541,000 and S/135,460,000, respectively).

During 2016, the Group (through its subsidiaries Interseguro, Interfondos and Inteligo Bank) sold to unrelated parties 300,000 and 131,286 shares of RPS Partnership and RPI Partnership, respectively, at their fair value of approximately US\$39,431,000, generating a realized gain of approximately US\$13,133,000 (equivalent to approximately S/44,469,000), which is included in the "Net gain on sale of securities" caption of the consolidated income statements.

During 2015, Interseguro sold to a related entity 54,978 and 135,000 shares of RPS Partnership and RPI Partnership, respectively, at their fair value of approximately US\$23,496,000, generating a realized gain of approximately US\$18,347,000 (equivalent to approximately S/60,343,000), which is included in the "Net gain on sale of securities" caption of the consolidated income statements. As of December 31, 2015, it held a balance of approximately US\$19,496,000 (equivalent to approximately S/66,502,000) receivable, which is included in the "Accounts receivable and other assets, net" caption of the consolidated statements of financial position; Note 9(a). As of the date of this report this account receivable has been fully collected.

During 2014, Interseguro sold to unrelated parties 250,000 shares of RPI Partnership, at their fair value generating a gain of approximately US\$6,635,000 (equivalent to approximately S/19,812,000).

During 2016, 2015 and 2014, the Group received dividends from these participations for approximately S/22,097,000, S/20,148,000 and S/8,889,000, respectively, which are included in the "Interest and similar income" caption in the consolidated income statements.

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- (i) As of December 31, 2016 and 2015, held-to-maturity investments are entirely comprised of Peruvian Sovereign Bonds amounting to S/611,293,000 and S/479,561,000, respectively, including accrued interests.

During 2016 and 2015, the Bank reclassified Peruvian Sovereign Bonds classified as available-for-sale investments into held-to-maturity investments. At the reclassification date, the carrying values amounted to approximately S/129,548,000 and S/295,041,000, and the unrealized gains and losses accumulated in the shareholders' equity amounted to S/220,000 and S/25,208,000, respectively; the unrealized gains and losses will be transferred to each period's results through the remaining term of the instruments. As a result of these transfers, the Bank has recorded a net loss of approximately S/2,537,000 and S/1,511,000, in the income statements for the period 2016 and 2015, respectively. As of December 31, 2016 and 2015, the carrying amount of these investments is S/432,832,000 and S/300,736,000, respectively.

During 2015, the Bank acquired Sovereign Bonds of the Republic of Peru for S/175,201,000 which were classified as held-to-maturity investments; as of December 31, 2016 and 2015 the carrying amount of these investments is S/178,461,000 and S/178,825,000, respectively, which includes accrued yields of approximately S/13,105,000 and S/9,821,000, respectively.

As of December 31, 2016 and 2015, these investments have maturities between August 2020 and August 2037, have accrued interest at effective annual rates between 5.34 and 6.33 percent; and their estimated fair value amounts to approximately S/605,299,000 and S/440,645,000, respectively.

Management has determined that the difference between the amortized cost and the fair value of held-to-maturity investments is temporary, based upon the investments' risk rating ("A-") and the Bank's intention and capability to hold each of these investments up to maturity.

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Notes to the consolidated financial statements (continued)

- (h) The table below presents the balance of available-for-sale and held-to-maturity investments as of December 31, 2016 and 2015, classified by maturity, excluding accrued interest:

	2016		2015	
	Available-for-sale investments S/(000)	Held-to- maturity investments S/(000)	Available-for- sale investments S/(000)	Held-to- maturity investments S/(000)
Up to 3 months	418,994	-	910,657	-
From 3 months to 1 year	1,469,575	-	639,928	-
From 1 to 3 years	726,887	-	262,861	-
From 3 to 5 years	630,468	102,254	617,521	83,065
From 5 years onwards	4,520,962	495,934	3,956,842	386,675
Shares and participations in mutual funds and investment funds (without maturity)	1,661,036	-	1,599,569	-
Total	9,427,922	598,188	7,987,378	469,740

Translation of consolidated financial statements originally issued in Spanish – Note 33

Notes to the consolidated financial statements (continued)

6. Loans, net

(a) This caption is made up as follows:

	2016 S/(000)	2015 S/(000)
Direct loans		
Loans	20,638,183	19,481,899
Credit cards	3,859,148	3,708,647
Leasing	1,771,512	2,010,253
Discounted notes	407,435	438,044
Factoring	201,894	213,824
Advances and overdrafts	39,483	66,683
Refinanced loans	296,485	249,216
Past due and under legal collection loans	693,320	589,106
	<u>27,907,460</u>	<u>26,757,672</u>
Plus (minus)		
Accrued interest from performing loans (d)	311,695	302,586
Unearned interest and interest collected in advance	(26,508)	(24,444)
Allowance for loan losses (c)	<u>(1,166,782)</u>	<u>(1,041,579)</u>
Total direct loans, net	<u>27,025,865</u>	<u>25,994,235</u>
Indirect loans, Note 17(a)	<u>4,450,470</u>	<u>4,942,747</u>

(b) The classification of the direct loan portfolio is as follows:

	2016 S/(000)	2015 S/(000)
Commercial loans	13,407,913	13,042,800
Consumer loans	8,888,561	8,416,020
Mortgage loans	5,041,107	4,766,516
Small and micro-business loans	569,879	532,336
Total	<u>27,907,460</u>	<u>26,757,672</u>

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Notes to the consolidated financial statements (continued)

(c) The changes in the allowance for loan losses (direct and indirect) were as follows:

	2016				
	Commercial S/(000)	Mortgage S/(000)	Consumer S/(000)	Small and micro- business S/(000)	Total S/(000)
Beginning of year balances	197,167	46,468	771,266	50,291	1,065,192
Provision	46,343	12,154	703,728	21,420	783,645
Recovery of written-off loans	527	1	115,107	3,429	119,064
Written-off portfolio and sales	(14,116)	(978)	(733,417)	(23,519)	(772,030)
Translation result and others	(8,787)	2,852	(4,757)	5,579	(5,113)
End of year balances (*)	<u>221,134</u>	<u>60,497</u>	<u>851,927</u>	<u>57,200</u>	<u>1,190,758</u>
	2015				
	Commercial S/(000)	Mortgage S/(000)	Consumer S/(000)	Small and micro- business S/(000)	Total S/(000)
Beginning of year balances	192,158	31,660	574,758	36,629	835,205
Provision	40,168	7,407	564,515	33,734	645,824
Recovery of written-off loans	5,161	-	100,543	3,021	108,725
Written-off portfolio and sales	(50,878)	(93)	(488,505)	(25,318)	(564,794)
Translation result and others	10,558	7,494	19,955	2,225	40,232
End of year balances (*)	<u>197,167</u>	<u>46,468</u>	<u>771,266</u>	<u>50,291</u>	<u>1,065,192</u>
	2014				
	Commercial S/(000)	Mortgage S/(000)	Consumer S/(000)	Small and micro- business S/(000)	Total S/(000)
Beginning of year balances	139,250	24,844	510,142	33,272	707,508
Provision	48,453	3,926	352,651	20,482	425,512
Recovery of written-off loans	1,347	-	89,883	2,786	94,016
Written-off portfolio and sales	(6,028)	(122)	(379,971)	(20,420)	(406,541)
Translation result and others	9,136	3,012	2,053	509	14,710
End of year balances (*)	<u>192,158</u>	<u>31,660</u>	<u>574,758</u>	<u>36,629</u>	<u>835,205</u>

(*) The allowance for loan losses includes the allowance for direct and indirect loans amounting to S/1,166,782,000 and S/23,976,000, respectively, as of December 31, 2016 (S/1,041,579,000 and S/23,613,000, respectively, as of December 31, 2015 and S/819,678,000 and S/15,527,000, respectively, as of December 31, 2014). The allowance for loan losses for indirect loans is presented in the "Accounts payable, provisions and other liabilities" caption of the consolidated statements of financial position; see Note 9(a).

In Management's opinion, the allowance for loan losses recorded as of December 31, 2016, 2015 and 2014, has been established in accordance with IAS 39 and it is sufficient to cover incurred losses on the loan portfolio.

Translation of consolidated financial statements originally issued in Spanish – Note 33

Notes to the consolidated financial statements (continued)

- (d) Interest rates on loans are freely determined based on the rates prevailing in the market.
- (e) Interest on past due loans for more than 90 days and loans under legal collection are recorded as income only when collected. Amounts not recognized as income are considered suspended interest income and are recorded in the off-balance sheet accounts. As of December 31, 2016, 2015 and 2014, it amounted to S/351,166,000, S/307,725,000 and S/226,656,000, respectively.
- (f) The table below presents the direct loan portfolio without including accrued interest and interest to be accrued and collected in advance as of December 31, 2016 and 2015, classified by maturity dates:

	2016 S/(000)	2015 S/(000)
Outstanding		
Up to 1 month	2,792,761	2,575,200
From 1 to 3 months	3,191,799	3,194,272
From 3 months to 1 year	6,233,778	6,207,789
From 1 to 5 years	10,230,000	9,670,376
Over 5 years	<u>4,765,802</u>	<u>4,520,929</u>
	27,214,140	26,168,566
Past due loans		
Up to 4 months	155,766	155,341
Over 4 months	242,498	207,986
Under legal collection	<u>295,056</u>	<u>225,779</u>
	<u>27,907,460</u>	<u>26,757,672</u>

See credit risk analysis in Note 29.1.

- (g) Part of the loan portfolio is collateralized with guarantees received from clients, which mainly consist of mortgages, trust assignments, financial instruments and industrial and mercantile pledges.

Translation of consolidated financial statements originally issued in Spanish – Note 33

Notes to the consolidated financial statements (continued)

7. Investment property

(a) This caption is made up as follows:

	2016 S/(000)	2015 S/(000)	Acquisition or construction year	Hierarchy level (i)	Valuation methodology (d)	
					2016	2015
Land						
San Isidro – Lima	255,431	253,366	2008	Level 3	Appraisal	Appraisal
San Martín de Porres – Lima	60,008	58,106	2015	Level 3	Appraisal	Appraisal
Piura	39,889	36,752	2009	Level 3	Appraisal	Appraisal
Sullana	25,008	23,896	2014	Level 3	Appraisal	Appraisal
Chimbote	8,710	8,247	2015	Level 3	Appraisal	Appraisal
Lurin (c)	-	23,530	2012	Level 3	-	Appraisal
Others	15,512	15,303	-	Level 3	Appraisal	Appraisal
	<u>404,558</u>	<u>419,200</u>				
Completed investment property						
“Real Plaza” Shopping Malls						
Pucallpa	218,799	219,549	2014	Level 3	DCF	DCF
Talara (ii)(b)	40,060	23,000	2015 - 2016	Level 3	DCF	DCF
	<u>258,859</u>	<u>242,549</u>				
Buildings						
Ate Vitarte – Lima	45,865	46,612	2006	Level 3	DCF	DCF
Panorama – Lima (b)	20,724	-	2016	Level 3	DCF	-
Trujillo (b)	10,166	-	2016	Level 3	DCF	-
Pardo y Aliaga - Lima	3,596	3,233	2010	Level 3	DCF	DCF
	<u>80,351</u>	<u>49,845</u>				
Built on leased land						
Others	1,417	1,668	-	Level 3	DCF	DCF
	<u>745,185</u>	<u>713,262</u>				

DCF: Discounted cash flow

(i) During 2016 and 2015, there were no transfers between levels of hierarchy.

(ii) During 2016, Interseguro acquired from Supermercados Peruanos S.A., a related party, the remaining ownership of this Shopping Mall for an amount of S/20,275,000; as a result, Interseguro has become the sole owner of this Shopping Mall.

(iii) As of December 31, 2016 and 2015, there are no liens on investment properties; except for the land lot “San Martín de Porres - Lima”, which as of December 31, 2015, maintained various liens granted by the previous owners that were released during the first half of 2016.

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Notes to the consolidated financial statements (continued)

The movement of investment property for the years ended December 31, 2016, 2015 and 2014, is as follows:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Beginning of year balance	713,262	652,881	792,423
Additions (b)	56,833	92,426	91,597
Sales (c)	(23,530)	(58,745)	(294,639)
Valuation (loss) gain	<u>(1,380)</u>	<u>26,700</u>	<u>63,500</u>
End of year balance	<u>745,185</u>	<u>713,262</u>	<u>652,881</u>

- (b) During 2016, main additions correspond to the acquisition of a land lot in Talara, a building in Trujillo and the “Panamorama” building located in Lima.

During 2015, main additions correspond to disbursements made for land acquisition.

During 2014, main additions correspond to disbursements made for the construction of the Real Plaza Pucallpa Shopping Mall, Real Plaza Sullana Shopping Mall and the San Isidro project (presented as part of the land given that the disbursements are minor compared to the future cost of the project) amounting to approximately S/75,845,000, S/3,684,000 and S/11,758,000, respectively. The construction of the shopping malls was completed during 2015.

- (c) In May 2016, Interseguro sold, in cash and at fair value, the land lot located in Lurín, to a related entity, recognizing a gain amounting to approximately S/2,655,000.

In May 2015, Interseguro sold, in cash and at fair value, the Real Plaza Sullana Shopping Mall, to a related entity, recognizing a loss amounting to approximately S/1,259,000.

In June and August 2014, Interseguro sold, in cash and at fair values, the Puruchuco land lot, the Real Plaza Centro Cívico Shopping Mall and other land lot located in Lima to unrelated entities, recognizing a gain amounting to approximately S/6,734,000.

The results of the sale of investment properties are presented as “Gain (loss) on sale of investment property” in the consolidated income statements.

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Notes to the consolidated financial statements (continued)

- (d) Fair value measurement – Investment property and investment property under construction
Valuation techniques

The discounted cash flow (DCF) method is used for completed shopping malls, buildings and investment property built on land leases and own lands.

This method involves the projection of a series of periodic cash flows at present value through a discount rate. The periodic calculation of the cash flows is normally determined as rental income net of operating expenses. The series of periodic net operating income, together with an estimation of the terminal value (which uses the traditional valuation method) at the end of the projection period, is discounted at present value. The sum of the net current values is equal to the investment property's fair value.

The fair value of land is determined based on the value assigned by an external appraiser. The external appraiser uses the market comparable method; under this method a property's fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter. As of December 31, 2016, the range of San Isidro land price per square meter is between US\$5,000 and US\$7,000 and the average is US\$5,746; the range of Lima - San Martín de Porres land price per square meter is between US\$650 and US\$850 and the average is US\$658, for the other land lots the average price per square meter is US\$216.

Main assumptions

A brief description of the assumptions considered in the determination of cash flows as of December 31, 2016 and 2015, is presented below:

- ERV
Corresponds to the Estimated Rental Value, which is the rent at which the space could be leased under the market conditions prevailing on the date of valuation.
- Long-term inflation
It is the increase of the general level of prices expected in Peru for the long term.
- Long-term occupancy rate
It is the expected occupancy level of lessees in the leased properties.
- Average growth rate of rental income
It is the rate that expresses the rental income growth and includes growth factors of the industry, inflation rates, stable exchange rate, per capita income and increasing expenses.
- Average Net Operating Income (NOI) margin
It is projected from the rental income from leasable areas, by property and marketing income, minus costs related to administration fees, other administrative expenses, insurance, taxes and other expenses.
- Discount rate
It reflects the current market risk and the uncertainty associated to obtaining cash flows.

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Notes to the consolidated financial statements (continued)

The main assumptions used in the valuation and estimation of the market value of investment property are detailed below:

	US\$ / Percentage	
	2016	2015
Average ERV	US\$48.8	US\$45.4
Long-term inflation	2.5	2.5
Long-term occupancy rate	95.0	95.0
Average growth rate of rental income	3.8	2.9
Average NOI margin	94.0	94.0
Discount rate	9.0	9.2

Sensitivity analysis

The sensitivity analysis on the valuation of investment property, against changes in factors deemed relevant by Management, is presented below:

		2016	2015
		S/(000)	S/(000)
Average growth rate of rental income (basis)			
Increase	+0.25%	5,210	8,935
Decrease	-0.25%	(4,838)	(8,264)
Long-term inflation (basis)			
Increase	+0.25%	4,939	8,583
Decrease	-0.25%	(4,574)	(7,937)
Discount rate (basis)			
Increase	+0.5%	(22,665)	(18,234)
Decrease	-0.5%	26,252	21,110

A significant increase (decrease) in the price per square meter of the land lots could result in a significantly higher (lower) fair value measurement.

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Notes to the consolidated financial statements (continued)

- (e) The amounts of future minimum fixed rental income of the Group's investment property are as follows:

Year	2016 S/(000)	2015 S/(000)
Within 1 year	24,391	21,754
After 1 year but not more than 5 years	130,410	100,926
More than 5 years	<u>624,804</u>	<u>475,479</u>
Total	<u>779,605</u>	<u>598,159</u>

As of December 31, 2016 and 2015, the minimum rental income is computed considering a period of 20 years.

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Notes to the consolidated financial statements (continued)

8. Property, furniture and equipment, net

(a) The movement of property, furniture and equipment and accumulated depreciation for the years ended December 31, 2016, 2015 and 2014 was as follows:

Description	Land S/(000)	Buildings, facilities and leasehold improvements S/(000)	Furniture and equipment S/(000)	Vehicles S/(000)	In-transit equipment and work-in-progress S/(000)	Total 2016 S/(000)	Total 2015 S/(000)	Total 2014 S/(000)
Cost								
Balance as of January 1	178,588	451,302	525,315	1,040	45,935	1,202,180	1,146,665	1,096,527
Additions	-	26,350	28,137	-	25,348	79,835	68,130	73,340
Transfers	-	6,250	16,831	-	(23,081)	-	-	-
Disposals, write-offs and others (d)	-	(324)	(26,631)	(5)	(3,032)	(29,992)	(12,615)	(23,202)
Balance as of December 31	<u>178,588</u>	<u>483,578</u>	<u>543,652</u>	<u>1,035</u>	<u>45,170</u>	<u>1,252,023</u>	<u>1,202,180</u>	<u>1,146,665</u>
Accumulated depreciation								
Balance as of January 1	-	243,862	378,378	782	-	623,022	569,463	522,341
Depreciation of the year	-	18,528	47,228	84	-	65,840	63,130	66,318
Disposals, write-offs and others (d)	-	(470)	(26,187)	(2)	-	(26,659)	(9,571)	(19,196)
Balance as of December 31	<u>-</u>	<u>261,920</u>	<u>399,419</u>	<u>864</u>	<u>-</u>	<u>662,203</u>	<u>623,022</u>	<u>569,463</u>
Net cost as of December 31	<u>178,588</u>	<u>221,658</u>	<u>144,233</u>	<u>171</u>	<u>45,170</u>	<u>589,820</u>	<u>579,158</u>	<u>577,202</u>

(b) Financial entities in Peru are prohibited from pledging their fixed assets.

(c) Management periodically reviews the residual values, useful life and the depreciation method to ensure they are consistent with the economic benefits and life expectation of property, furniture and equipment. In Management's opinion, there is no evidence of impairment in its property, furniture and equipment as of December 31, 2016, 2015 and 2014.

(d) During 2016, 2015 and 2014, corresponded mainly to write-offs performed on fully depreciated assets.

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Notes to the consolidated financial statements (continued)

9. Accounts receivable and other assets, net; accounts payable, provisions and other liabilities
 (a) These captions are comprised of the following:

	2016 S/(000)	2015 S/(000)
Accounts receivable and other assets		
Financial instruments		
Other accounts receivable, net	210,446	181,723
Accounts receivable related to derivative financial instruments (b)	203,089	324,268
Accounts receivable from sale of investments	147,655	86,544
Assets for technical reserves for claims and premiums by reinsurers	128,168	91,100
Operations in process (c)	37,429	28,411
Accounts receivable from reinsurers and coinsurers	28,936	21,347
Insurance operations receivables, net	19,407	42,912
Credit card commissions receivable	14,845	17,864
	<u>789,975</u>	<u>794,169</u>
Non-financial instruments		
Intangible assets, net (d)	267,401	199,361
Value Added tax credit (e)	86,213	165,223
Prepaid Income Tax	55,178	30,249
Deferred charges	53,884	48,356
Investments in associates	51,777	49,513
Prepaid rights to related entity, Note 26(f)	14,532	16,819
Others	12,214	13,120
	<u>541,199</u>	<u>522,641</u>
Total	<u>1,331,174</u>	<u>1,316,810</u>
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	377,828	427,152
Accounts payable related to derivative financial instruments (b)	236,137	384,734
Operations in process (c)	116,273	82,064
Workers' profit sharing and salaries payable	110,549	115,182
Accounts payable to reinsurers and coinsurers	51,468	47,479
Accounts payable for acquisitions of investments	50,528	165,074
Allowance for indirect loan losses, Note 6(c)	23,976	23,613
	<u>966,759</u>	<u>1,245,298</u>
Non-financial instruments		
Deferred income	57,254	58,055
Taxes payable	52,144	57,910
Provision for other contingencies	32,383	23,160
Others	53,524	42,339
	<u>195,305</u>	<u>181,464</u>
Total	<u>1,162,064</u>	<u>1,426,762</u>

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Notes to the consolidated financial statements (continued)

- (b) The following table presents, as of December 31, 2016 and 2015, the fair value of derivative financial instruments recorded as assets or liabilities, including their notional amounts. The notional amount is the nominal amount of the derivative's underlying asset and it is the base over which changes in the fair value of derivatives are measured; see Note 17(a):

	Note	2016				2015				2016 and 2015
		Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)	Maturity	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)	Maturity	Hedged instruments
Derivatives held for trading										
Forward exchange contracts		45,115	20,741	3,961,083	Between January 2017 and March 2018	20,868	53,881	5,131,814	Between January 2016 and February 2017	-
Interest rate swaps		25,958	18,263	2,761,079	Between December 2017 and December 2029	32,898	26,186	2,933,951	Between February 2016 and December 2029	-
Currency swaps		129,737	121,655	1,464,297	Between January 2017 and January 2025	268,262	207,464	3,581,877	Between January 2016 and January 2025	-
Options		432	924	192,573	Between January 2017 and July 2017	2,240	3,545	459,088	Between January 2016 and June 2017	-
Cross currency swaps		-	74,554	197,528	January 2023	-	92,920	200,765	January 2023	-
		<u>201,242</u>	<u>236,137</u>	<u>8,576,560</u>		<u>324,268</u>	<u>383,996</u>	<u>12,307,495</u>		
Derivatives held as hedges										
Cash flow hedges:										
Interest rate swaps (IRS)	11(e)	499	-	167,800	January 2018	-	-	-	-	Due to banks
Interest rate swaps (IRS)	11(f)	967	-	167,800	October 2018	-	-	-	-	Due to banks
Interest rate swaps (IRS)	11(g)	381	-	134,240	August 2018	-	-	-	-	Due to banks
Interest rate swaps (IRS)	12(f)	-	-	-		-	738	66,075	June 2016	Negotiable notes (DPR)
		<u>1,847</u>	<u>-</u>	<u>469,840</u>		<u>-</u>	<u>738</u>	<u>66,075</u>		
		<u>203,089</u>	<u>236,137</u>	<u>9,046,400</u>		<u>324,268</u>	<u>384,734</u>	<u>12,373,570</u>		

As of December 31, 2016 and 2015, certain derivative financial instruments required the establishment of collateral deposits; see Note 4.

- (i) Derivatives held for trading are traded mainly to satisfy clients' needs. The Group may also take positions with the expectation of profiting from favorable movements in prices or rates. Also, this caption includes any derivatives which do not comply with IAS 39 hedging accounting requirements.
- (ii) The future effect of current cash flow hedges on the consolidated income statements, net of the deferred Income Tax, which will be included in the caption "Net trading (loss) income" when realized, is presented below:

	As of December 31, 2016			As of December 31, 2015		
	Up to 1 year S/(000)	From 1 to 3 years S/(000)	Expected effect S/(000)	Up to 1 year S/(000)	From 1 to 3 years S/(000)	Expected effect S/(000)
Consolidated income statements – Income (expense)	<u>173</u>	<u>1,128</u>	<u>1,301</u>	<u>(458)</u>	<u>-</u>	<u>(458)</u>

The transfer of net unrealized losses on cash flow hedges to the consolidated income statements is presented in Note 15(d).

- (c) Operations in process include transactions performed in the last days of the month and other similar types of transactions which are reclassified to their final balance sheets accounts in the following month. These transactions do not affect the consolidated results.

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Notes to the consolidated financial statements (continued)

(d) The movement in intangible assets and accumulated amortization for the years ended December 31, 2016, 2015 and 2014, is as follows:

Description	2016			2015	2014	
	Software S/(000)	In-transit- software S/(000)	Other intangible assets S/(000)	Total S/(000)	Total S/(000)	
Cost						
Balance as of January 1	382,910	37,318	5,009	425,237	323,782	275,184
Additions and transfers	45,795	86,331	453	132,579	104,561	49,473
Disposals and write-offs	(487)	-	-	(487)	(3,106)	(875)
Transfers	34,903	(34,903)	-	-	-	-
Balance as of December 31	<u>463,121</u>	<u>88,746</u>	<u>5,462</u>	<u>557,329</u>	<u>425,237</u>	<u>323,782</u>
Accumulated amortization						
Balance as of January 1	220,251	1,661	3,964	225,876	177,946	139,514
Amortization of the year	64,001	-	277	64,278	47,930	39,079
Disposals and write-offs	(226)	-	-	(226)	-	(647)
Transfers	1,661	(1,661)	-	-	-	-
Balance as of December 31	<u>285,687</u>	<u>-</u>	<u>4,241</u>	<u>289,928</u>	<u>225,876</u>	<u>177,946</u>
Net book value	<u>177,434</u>	<u>88,746</u>	<u>1,221</u>	<u>267,401</u>	<u>199,361</u>	<u>145,836</u>

Management assesses periodically the amortization method used with the purpose of ensuring that it is consistent with the economic benefit of the intangible assets. In Management's opinion, there is no evidence of impairment in the Group's intangible assets as of December 31, 2016, 2015 and 2014.

(e) Corresponds to the Value-Added Tax resulting from the purchase of goods devoted mostly to grant financial leasing loans, which is recovered through the collection of the loans.

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Notes to the consolidated financial statements (continued)

10. Deposits and obligations

(a) This caption is made up as follows:

	2016 S/(000)	2015 S/(000)
Time deposits (d)	10,099,575	9,819,261
Demand deposits	9,586,985	9,053,339
Saving deposits	8,915,374	8,198,498
Compensation for service time	1,490,213	1,388,849
Other obligations	<u>5,703</u>	<u>27,719</u>
Total	<u>30,097,850</u>	<u>28,487,666</u>

(b) Interest rates applied to deposits and obligations are determined by the Bank based on interest rates prevailing on the Peruvian market. Demand deposits accounts and savings deposits are paid on the average balance.

(c) As of December 31, 2016 and 2015, approximately S/8,269,694,000 and S/7,556,786,000, respectively, of deposits and obligations are covered by the Peruvian Deposit Insurance Fund.

(d) The table below presents the balance of time deposits classified by maturity as of December 31, 2016 and 2015:

	2016 S/(000)	2015 S/(000)
Up to 1 month	3,106,740	3,943,692
From 1 to 3 months	2,541,349	1,944,483
From 3 months to 1 year	3,900,874	3,121,308
From 1 to 5 years	528,039	808,250
Over 5 years	<u>22,573</u>	<u>1,528</u>
Total	<u>10,099,575</u>	<u>9,819,261</u>

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Notes to the consolidated financial statements (continued)

11. Due to banks and correspondents

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
By type		
Central Reserve Bank of Peru (b)	3,048,412	3,005,900
Promotional credit lines (c)	1,610,588	1,628,189
Loans received from foreign entities (d)	620,106	1,445,638
Loans received from Peruvian entities	<u>1,847</u>	<u>50,852</u>
	5,280,953	6,130,579
Interest and commissions payable	<u>47,650</u>	<u>61,147</u>
	<u>5,328,603</u>	<u>6,191,726</u>
By term		
Short term	1,808,495	2,128,167
Long term	<u>3,520,108</u>	<u>4,063,559</u>
Total	<u>5,328,603</u>	<u>6,191,726</u>

(b) Corresponds to currency repurchase operations according to which Interbank receives Soles for approximately S/2,948,500,000 and delivers US dollars to the BCRP (for an amount equivalent to the one received). The US dollars delivered are recorded as restricted funds, see Note 4. As of December 31, 2016, these obligations have maturities between January 2017 and March 2019 and bear an effective interest rate of 3.00 and 6.38 percent; these operations accrued interest payable for approximately S/41,531,000; furthermore it includes a security repurchase operation according to which Interbank receives Soles for approximately S/99,912,000 and delivers Negotiable Certificates of Deposit issued by the BCRP, these guarantees are recorded as available-for-sale investments, see Note 5(d); this operation was settled in January 2017 and bears an effective interest rate of 4.58 percent for approximately S/13,000. As of December 31, 2015, this caption includes currency repurchase operations for approximately S/3,005,900,000 with maturities between February 2016 and March 2019, and bearing effective interest rates between 3.00 and 6.16 percent; these operations generated interest payable for approximately S/44,770,000.

(c) The promotional credit lines represent loans in Soles and US dollars received from Corporación Financiera de Desarrollo (COFIDE) with the purpose of promoting development in Peru. These liabilities are guaranteed with the loan portfolio up to the used amount and include specific terms on how the funds should be used, the financial conditions that must be maintained and other administrative matter. In Management's opinion, the Group is complying with all these requirements. These loans accrued an effective annual interest rate that fluctuated between 7.55 and 10.0 percent in Soles and between 4.13 and 8.06 percent in foreign currency and have

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maturities between January 2019 and November 2031, as of December 31, 2016 (7.12 and 9.85 percent in Soles and 4.02 and 8.01 percent in foreign currency and maturities between April 2016 and December 2019, as of December 31, 2015).

(d) As of December 31, 2016 and 2015, includes the following:

Entity	Country	Final maturity	2016 S/(000)	2015 S/(000)
HSBC Bank PLC (e)	United Kingdom	2018	167,800	170,550
Wells Fargo Bank & Co. (f)	United States of America	2018	167,800	170,550
JP Morgan Chase & Co. (g)	United States of America	2018	134,240	68,220
Bank J. Safra Sarasin	Switzerland	2017	67,120	68,269
Bladex	Supranational	2018	49,586	83,996
Sumitomo Bank	United States of America	2017	33,560	-
Co-bank Syndicated loan (h)	-	2016	-	679,393
Bank of America N.A.	United States of America	2016	-	102,330
Development Bank of Latin America (CAF)	Supranational	2016	-	85,275
China Development Bank	China	2016	-	17,055
			620,106	1,445,638

Transactions with foreign entities bore an effective annual average interest rate of 2.48 percent during 2016 (2.40 percent during 2015).

(e) Corresponds to a loan received by Interbank in December 2015 for US\$50,000,000, which bears interest at a 3 month Libor rate plus 0.90 percent. In July 2016, Interbank signed an interest rate swap contract, which was designated as cash flow hedge; see Note 9(b). Through this transaction the loan was economically converted into a fixed rate obligation.

(f) Corresponds to two loans received in September 2016 for US\$40,000,000 and US\$10,000,000 which bear interest at a 3-month Libor rate plus 1.20 percent and at a 3-month Libor rate plus 1.10 percent, respectively. In October 2016, Interbank signed two interest rate swaps contracts, which were designated as cash flow hedges; see Note 9(b). Through these operations, the loans were economically converted into fixed rate obligations.

As of December 31, 2015, includes two loans received in December 2013 and 2015 for US\$30,000,000 and US\$20,000,000, respectively. These loans matured in January 2016 and March 2016 and accrued interest at a 6-month Libor rate plus 1.50 percent and 1-month Libor rate plus 0.35 percent, respectively.

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Notes to the consolidated financial statements (continued)

- (g) Corresponds to a loan received by Interbank in July 2016 for US\$40,000,000 which bears interest at a 6-month Libor rate plus 1.15 percent. In July 2016, the Bank signed an interest rate swap contract, which was designated as cash flow hedge; see Note 9(b). Through this operation the loan was economically converted into a fixed rate obligation.
- (h) Corresponded to a syndicated loan received in July 2013 for approximately US\$200,000,000. Fifteen foreign financial entities participated, including Bank of America N.A. (USA) and Citibank N.A. (USA) which participated with US\$40,000,000 each. This loan matured in October 2016 and accrued an annual interest of 6-month Libor rate plus a 1.85 percent spread.
- (i) Some of the loan agreements include standard covenants related to financial ratios, use of funds criteria and other administrative matters. In Management's opinion, the Group has complied with these covenants as of date of the consolidated financial statements.
- (j) As of December 31, 2016 and 2015, maturities of due to bank and other financial obligations are the following:

Year	2016 S/(000)	2015 S/(000)
2016	-	2,128,168
2017	1,808,495	1,580,304
2018	2,133,937	1,130,543
2019	130,319	193,928
2020 onwards	<u>1,255,852</u>	<u>1,158,783</u>
Total	<u>5,328,603</u>	<u>6,191,726</u>

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Notes to the consolidated financial statements (continued)

12. Bonds, notes and other obligations

(a) This caption is comprised of the following:

Issuance	Annual interest rate	Interest payment	Maturity	Amount issued (000)	2016 S/(000)	2015 S/(000)
Local issuances						
Subordinated bonds – first program (b)						
Second (B series) - Interbank	9.50%	Semiannually	2023	US\$30,000	100,680	102,330
Third (A series) - Interbank	3.5% + VAC	Semiannually	2023	S/110,000	110,000	110,000
Fifth (A series) – Interbank	8.50%	Semiannually	2019	S/3,300	3,300	3,300
Sixth (A series) - Interbank	8.16%	Semiannually	2019	US\$15,110	50,709	51,540
Eighth (A series) - Interbank	6.91%	Semiannually	2022	S/137,900	137,184	137,900
First - Interseguro	9.00%	Quarterly	2016	US\$5,000	-	171
Second, first tranche – Interseguro	6.97%	Semiannually	2024	US\$35,000	117,460	119,385
Second, second tranche - Interseguro	6.00%	Semiannually	2024	US\$15,000	50,340	51,164
					<u>569,673</u>	<u>575,790</u>
Subordinated bonds – second program (b)						
Second (A series) –Interbank	5.81%	Semiannually	2023	S/150,000	149,684	149,641
Third (A series) – Interbank	7.50%	Semiannually	2023	US\$50,000	167,360	169,305
					<u>317,044</u>	<u>318,946</u>
Total local issuances						
					<u>886,717</u>	<u>894,736</u>
International issuances						
Subordinated bonds (c) – Interbank	6.625%	Semiannually	2029	US\$300,000	1,000,573	1,016,314
Junior subordinated notes (d) – Interbank	8.50%	Semiannually	2070	US\$200,000	664,153	668,566
Senior bonds (e) – Interbank	5.75%	Semiannually	2020	US\$400,000	1,335,970	1,356,245
Senior bonds (e) – Interbank	5.75%	Semiannually	2020	US\$250,000	780,328	825,199
					<u>3,781,024</u>	<u>3,866,324</u>
Negotiable notes (DPR)						
DPR Securitizadora (f)	Libor 3M+4.25%	Quarterly	2016	US\$121,000	-	66,075
Total international issuances						
					<u>3,781,024</u>	<u>3,932,399</u>
Total local and international issuances						
					<u>4,667,741</u>	<u>4,827,135</u>
Interest payable						
					<u>101,649</u>	<u>98,278</u>
Total						
					<u>4,769,390</u>	<u>4,925,413</u>

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- (b) Subordinated bonds do not have specific guarantees and in accordance to SBS rules they qualify as second level equity (Tier 2), see Note 15(f).
- (c) Starting in March 2024, the applicable interest rate will be a floating rate of 3-month Libor for US dollars deposits plus 576 basis points payable quarterly. Starting on that date and on any interest payment date, Interbank can redeem all the notes without penalties.

In accordance with SBS regulation, this issuance qualifies as second tier equity (Tier 2) in the determination of the effective equity; see Note 15(f).

As of December 31, 2016, Management does not intend to redeem these bonds before their maturity date.

- (d) Starting in April 2020, the applicable interest rate will be a floating rate of 3-month Libor plus 674 basis points payable on a semi-annual basis, provided that the floating rate for any interest period will not be less than 10.5 percent per annum. Starting on that date, Interbank can redeem all the notes, without penalties. Interest payments are non-cumulative if they cease to be made, due to Interbank's right to cancel interest payments for mandatory prohibitions established by the SBS, or if it is determined that Interbank is in non-compliance with applicable minimum regulatory capital requirements. In such cases, Interbank may not declare, pay or distribute any dividend for the period in which interest payments are not made. The payment of principal will take place on the maturity date of the notes or when the Interbank redeems the notes.

This issuance qualifies as Tier 1 equity, nevertheless, the SBS establishes a 17.65 percent limit, which is computed over the capital, reserves and retained earnings with capitalization agreement; any excess qualifies as Tier 2 equity; see Note 15(f).

As of December 31, 2016, Management does not intend to redeem these bonds before their maturity date.

- (e) Starting in April 2016, Interbank can redeem these bonds, at the coupon payment date, paying a penalty equal to the United States Treasury rate plus 50 basis points.

The principal payment of both issuances will take place on the maturity date of the bonds or when Interbank redeems them.

As of December 31, 2016, Management does not intend to redeem these bonds before their maturity date.

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- (f) These notes are guaranteed by remittances received by Interbank through SWIFT transfers. In order to hedge the interest rate variable component, Interbank signed an interest rate swap agreement, for which it receives the 3-month Libor rate plus 425 basis points and pays an annual fixed rate of 7.9 percent, see Note 9(b).
- (g) International issuances are listed at the Luxembourg Stock Exchange. On the other hand, local and international issuances have financial and operating covenants, which, in Management's opinion, do not limit its operations. The Group has complied with financial and operating covenants as of the dates of the consolidated statements of financial position.
- (h) As of December 31, 2016 and 2015, the repayment schedule of these obligations is as follows:

Year	2016 S/(000)	2015 S/(000)
2016	-	137,956
2017	70,508	-
2018	-	-
2019	54,009	54,840
2020 onwards	<u>4,644,873</u>	<u>4,732,617</u>
Total	<u>4,769,390</u>	<u>4,925,413</u>

13. Insurance contract liabilities

- (a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Technical reserves (b)	4,838,260	4,347,734
Claims reserves (c)	<u>172,253</u>	<u>129,355</u>
	<u>5,010,513</u>	<u>4,477,089</u>
By term		
Short term	452,055	332,651
Long term	<u>4,558,458</u>	<u>4,144,438</u>
Total	<u>5,010,513</u>	<u>4,477,089</u>

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(b) The movement of technical reserves disclosed by type of insurance for the years ended December 31, 2016, 2015 and 2014, is as follows:

	2016					2015					2014				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year balances	4,061,692	122,527	131,186	32,329	4,347,734	3,437,762	129,349	98,363	32,546	3,698,020	2,823,489	144,193	80,569	22,082	3,070,333
Insurance subscriptions	425,895	-	3,953	27,631	457,479	642,672	-	4,968	24,823	672,463	585,034	-	1,666	34,806	621,506
Time passage adjustments (*)	68,318	(935)	30,996	(22,523)	75,856	(242,916)	(6,822)	20,826	(25,538)	(254,450)	(77,297)	(14,844)	15,752	(24,775)	(101,164)
Maturities and recoveries	-	-	(10,879)	-	(10,879)	-	-	(7,363)	-	(7,363)	-	-	(5,489)	-	(5,489)
Exchange differences	(29,734)	-	(2,299)	103	(31,930)	224,174	-	14,392	498	239,064	106,536	-	5,865	433	112,834
End of year balances	<u>4,526,171</u>	<u>121,592</u>	<u>152,957</u>	<u>37,540</u>	<u>4,838,260</u>	<u>4,061,692</u>	<u>122,527</u>	<u>131,186</u>	<u>32,329</u>	<u>4,347,734</u>	<u>3,437,762</u>	<u>129,349</u>	<u>98,363</u>	<u>32,546</u>	<u>3,698,020</u>

(*) The table below presents the composition of the adjustments due to time passage as of December 31, 2016, 2015 and 2014:

	2016				2015				2014			
	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Interest rate effect	116,468	-	-	116,468	(218,096)	-	-	(218,096)	(57,638)	-	-	(57,638)
Aging insured population effect	(78,202)	30,996	(22,523)	(69,729)	(65,240)	20,826	(25,538)	(69,952)	(61,689)	15,752	(24,775)	(70,712)
Inflation and other effects	29,117	-	-	29,117	33,598	-	-	33,598	27,186	-	-	27,186
Time passage adjustments	<u>67,383</u>	<u>30,996</u>	<u>(22,523)</u>	<u>75,856</u>	<u>(249,738)</u>	<u>20,826</u>	<u>(25,538)</u>	<u>(254,450)</u>	<u>(92,141)</u>	<u>15,752</u>	<u>(24,775)</u>	<u>(101,164)</u>

(**) It includes retirement, disability and survival annuities.

(c) Below is the balance of technical reserves for outstanding claims (according to the type of insurance) as of December 31, 2016 and 2015:

	2016					2015				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Reported claims	991	87,813	25,679	8,603	123,086	655	68,318	14,837	8,541	92,351
IBNR	-	36,249	12,443	475	49,167	-	25,043	11,499	462	37,004
	<u>991</u>	<u>124,062</u>	<u>38,122</u>	<u>9,078</u>	<u>172,253</u>	<u>655</u>	<u>93,361</u>	<u>26,336</u>	<u>9,003</u>	<u>129,355</u>

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The movement of claims' technical reserves for the years ended December 31, 2016, 2015 and 2014 is as follows:

	2016				
	Annuities S/ (000)	Retirement, disability and survival annuities S/ (000)	Life insurance S/ (000)	General insurance S/ (000)	Total S/ (000)
Beginning of year balances	655	93,361	26,336	9,003	129,355
Claims	251,911	75,342	35,441	12,710	375,404
Adjustments to prior years claims	-	60,606	12,991	5,685	79,282
Payments	(251,568)	(105,246)	(36,602)	(18,287)	(411,703)
Exchange difference	(7)	(1)	(44)	(33)	(85)
End of year balances	<u>991</u>	<u>124,062</u>	<u>38,122</u>	<u>9,078</u>	<u>172,253</u>
	2015				
	Annuities S/ (000)	Retirement, disability and survival annuities S/ (000)	Life insurance S/ (000)	General insurance S/ (000)	Total S/ (000)
Beginning of year balances	1,785	11,996	22,299	8,907	44,987
Claims	202,667	128,484	28,004	18,914	378,069
Adjustments to prior years claims	-	1,282	12,881	(5,104)	9,059
Payments	(203,919)	(48,401)	(37,720)	(13,939)	(303,979)
Exchange difference	122	-	872	225	1,219
End of year balances	<u>655</u>	<u>93,361</u>	<u>26,336</u>	<u>9,003</u>	<u>129,355</u>
	2014				
	Annuities S/ (000)	Retirement, disability and survival annuities S/ (000)	Life insurance S/ (000)	General insurance S/ (000)	Total S/ (000)
Beginning of year balances	1,440	36,926	20,424	8,060	66,850
Claims	157,920	7,685	20,740	20,325	206,670
Adjustments to prior years claims	-	(24,270)	10,052	(7,193)	(21,411)
Payments	(157,640)	(8,345)	(29,290)	(12,446)	(207,721)
Exchange difference	65	-	373	161	599
End of year balances	<u>1,785</u>	<u>11,996</u>	<u>22,299</u>	<u>8,907</u>	<u>44,987</u>

(d) In Management's opinion, these balances reflect the exposure of life and general insurance contracts as of December 31, 2016, 2015 and 2014, in accordance with IFRS 4.

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- (e) As of December 31, 2016 and 2015, no additional reserves were needed as a result of the liability adequacy test. The main assumptions used in the estimation of retirement, disability and survival annuities and individual life reserves as of those dates, were the following:

Type	2016		2015	
	Mortality table	Technical rates	Mortality table	Technical rates
Annuities	RV - 2009, B - 2006 and	6.25% (*) (**) in US\$	RV - 2009, B - 2006 and	7.113% (*) (**) in US\$
	MI - 2006 with improvement	4.85% (*) (**) in S/ VAC	MI - 2006 with improvement	5.115% (*) (**) in S/ VAC
	factor for mortality	7.29% (*) (**) in adjusted S/	factor for mortality	7.954% (*) (**) in adjusted S/
Retirement, disability and survival	B - 2006 and		B - 2006 and	
	MI - 2006 with improvement		MI - 2006 with improvement	
	factor for mortality	4.85%	factor for mortality	5.115%
Individual life insurance contracts (included linked insurance contracts)	CSO 80 adjusted	4.00 - 5.00%	CSO 80 adjusted	4.00 - 5.00%

(*) Adjusted by credit risk.

(**) In the tranches where the term of the investment differs from that of the obligations, the discount rate considered is the minimum between the market price published monthly by the SBS and 3 percent, which is the technical rate established by the SBS.

The sensitivity of the estimates used by the Group to measure its insurance risks is represented primarily by life insurance risks; the main variables as of December 31, 2016 and 2015 are the interest rates and the mortality tables. The Group has assessed the changes of the reserves related to its most significant life insurance contracts included in the reserves of annuities, retirement, disability and survival of +/- 100 basis points (bps) in the interest rates and of +/- 500 basis points (bps) of the mortality factors, being the results as follows:

Variables	2016			2015		
	Reserve S/(000)	Variation of the reserve		Reserve S/(000)	Variation of the reserve	
		Amount S/(000)	Percentage %		Amount S/(000)	Percentage %
Annuities						
Portfolio in S/ and US Dollars - Basis amount						
Changes in interest rate: + 100 bps	4,318,040	(203,145)	(4.49)	3,884,529	(177,163)	(4.36)
Changes in interest rate: - 100 bps	4,749,109	227,923	5.04	4,259,205	197,513	4.86
Changes in mortality table at 105%	4,466,765	(54,421)	(1.20)	4,012,105	(49,587)	(1.22)
Changes in mortality table at 95%	4,578,833	57,647	1.28	4,114,258	52,566	1.29
Retirements, disability and survival						
Portfolio in S/ - Basis amount						
Changes in interest rate: + 100 bps	115,960	(5,631)	(4.63)	116,972	(5,555)	(4.53)
Changes in interest rate: - 100 bps	127,970	6,378	5.25	128,841	6,315	5.15
Changes in mortality table at 105%	120,141	(1,451)	(1.19)	121,091	(1,436)	(1.17)
Changes in mortality table at 95%	123,110	1,519	1.25	124,032	1,505	1.23

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14. Deferred Income Tax asset and liability

- (a) The following table presents a summary of the items comprising the Group's deferred Income Tax:

	2016 S/(000)	2015 S/(000)
Deferred assets		
Provision for loan portfolio and other provisions	129,623	110,385
Unrealized losses from derivatives	3,992	13,787
Others	15,565	15,641
Deferred liabilities		
Deemed cost of fixed assets	(52,066)	(44,259)
Amortization of intangible assets, net	(40,545)	(38,935)
Net unrealized gain from fluctuation in available-for-sale investments	(13,050)	(9,690)
Others	(9,241)	(5,370)
Total deferred Income Tax asset, net	<u>34,278</u>	<u>41,559</u>
Deferred assets		
Others	-	4,164
Deferred liabilities		
Net unrealized gain from fluctuation in available-for-sale investments	25	-
Others	3,921	-
Total deferred Income Tax liability, net	<u>3,946</u>	<u>4,164</u>

As of December 31, 2016, the effect of the change in the Income Tax rate generated an expense amounting to S/1,147,000, recorded in the 2016 consolidated income statements, see (d) and Note 16(c).

As of December 31, 2014, the effect of the change in the Income Tax rate generated an income amounting to S/2,487,000 recorded in the 2014 consolidated income statements (in accordance with Act No. 30296, published on December 31, 2014, and in force since January 1, 2015, where the change of the Income Tax rate from 30 percent to 28 percent is indicated).

- (b) In Management's opinion, the deferred Income Tax assets will be recovered from the taxable income that will be generated by the Group over the coming years, including the portion that is recorded in the consolidated shareholders' equity.

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- (c) The table below presents the amounts reported in the consolidated income statements for the years ended December 31, 2016, 2015 and 2014:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Current - Expense	332,820	383,729	316,921
Deferred - Expense (Income)	<u>1,043</u>	<u>(31,143)</u>	<u>(7,815)</u>
	<u>333,863</u>	<u>352,586</u>	<u>309,106</u>

- (d) The table below presents the reconciliation of the effective Income Tax rate to the statutory tax rate for the Group:

	2016		2015		2014	
	S/(000)	%	S/(000)	%	S/(000)	%
Income before Income Tax	<u>1,167,584</u>	<u>100.0</u>	<u>1,591,390</u>	<u>100.0</u>	<u>1,271,612</u>	<u>100.0</u>
Peruvian theoretical tax (see Note 16(c))	326,923	28.0	445,589	28.0	381,484	30.0
Decrease from the income of Subsidiaries not domiciled in Peru	(55,984)	(4.8)	(22,275)	(1.4)	(34,209)	(2.7)
Non-taxable income, net	(820)	(0.1)	(95,079)	(6.0)	(57,042)	(4.5)
Permanent non-deductible expenses	42,535	3.6	49,451	3.1	46,376	3.6
Translation results permanently not considered for tax purposes	20,062	1.7	(25,100)	(1.6)	(25,016)	(2.0)
Change in the Income Tax rate, see Note 16(c)	<u>1,147</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>(2,487)</u>	<u>(0.2)</u>
Income Tax	<u>333,863</u>	<u>28.5</u>	<u>352,586</u>	<u>22.1</u>	<u>309,106</u>	<u>24.2</u>

15. Equity

- (a) Capital stock and other paid-in capital

As of December 31, 2016 and 2015, IFS's capital stock is represented by 113,110,864 common shares subscribed and paid-in. IFS's shares quote in the Lima Stock Exchange; have no nominal value and the issuance value was US\$9.72 per share.

The General Shareholders' Meeting of IFS, held on April 11, 2016, agreed to distribute dividends from the results of the year 2015 for approximately US\$147,044,000 (equivalent to approximately S/496,862,000).

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Notes to the consolidated financial statements (continued)

The General Shareholders' Meeting of IFS, held on April 14, 2015, agreed to distribute dividends from the results of the year 2014 for approximately US\$180,977,000 (equivalent to approximately S/564,178,000).

The General Shareholders' Meeting of IFS, held on April 7, 2014, agreed to distribute dividends from the results for the year 2013 for approximately US\$150,000,000 (equivalent to approximately S/424,056,000).

Due to the reorganization explained in Note 1(b), until August 1, 2014, the effective date of the reorganization, the equity caption "Other paid-in capital" represented Inteligo's capital stock, which was transferred to the equity caption "Capital stock" to reflect the new shares issued by IFS as a result of the reorganization.

As explained in Note 1(b), 19,495,413 shares of IFS were issued to acquire Inteligo, with a price per share of US\$32.7 and a total amount of S/1,782,450,000.

Since the share exchange ratio corresponds to the market value and the pooling-of-interest method was used to account for the acquisition, which requires all amounts to be accounted for at their book values, IFS recorded a capital stock increase for the fair value of the new shares issued for S/1,782,450,000 and at the same time a capital stock decrease of S/1,536,050,000, which is the amount required to reduce the market value of IFS's new shares issued up to Inteligo's capital stock in Soles, before the reorganization, S/246,400,000.

During 2014 and before the reorganization was completed (see Note 1(b)), Inteligo declared and paid dividends for an amount of US\$7,000,000 (equivalent to approximately S/19,495,000).

(b) Treasury stock held by Subsidiaries

As of December 31, 2016 and 2015, the Group holds shares issued by IFS, as detailed below:

Entity	2016		2015	
	Number of shares (000)	Cost S/(000)	Number of shares (000)	Cost S/(000)
Interbank	5,496	450,756	4,287	321,843
IFS	432	43,883	-	-
Inteligo Bank	250	27,373	-	-
Interfondos	1	94	3	371
Total	<u>6,179</u>	<u>522,106</u>	<u>4,290</u>	<u>322,214</u>

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Notes to the consolidated financial statements (continued)

In the Shareholders' Meeting of IFS, held on May 25, 2016, the acquisition of own issuance shares was approved. Such acquisition, as agreed, may be carried out on one or more occasions, as appropriate to the IFS's interests, according to the market conditions and other legal limits and factors in force at the time of the acquisition. These acquisitions shall be subject to the current legal limit (ten percent limit of the capital stock) established in Article 84 of the Securities Market Act. Likewise, the Shareholders' Meeting set a limit for the acquisitions made under this program, which may not exceed 3,500,000 shares (equivalent to 3.09 percent of the Company's capital stock). In this sense, during 2016, IFS and its Subsidiaries bought treasury shares for 1,889,000 shares for an amount of approximately S/199,892,000.

(c) Capital surplus

Corresponds to the difference between the nominal value of the shares issued and their public offering price. Capital surplus is presented net of the expenses incurred and related to the issuance of such shares.

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Notes to the consolidated financial statements (continued)

(d) Unrealized results on financial instruments

This item is made-up as follows:

	Unrealized gain (loss)			Total S/(000)
	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Foreign currency translation reserve S/(000)	
Balances as of January 1, 2014	20,139	(10,607)	17,560	27,092
Unrealized gain from available-for-sale investments, net of unrealized loss	210,464	-	-	210,464
Transfer to realized gain from available-for-sale investment, net of realized loss	(150,199)	-	-	(150,199)
Transfer of impairment loss of available-for-sale investments to consolidated income statements	20,155	-	-	20,155
Variation for net unrealized loss on cash flow hedges	-	(1,987)	-	(1,987)
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	9,171	-	9,171
Foreign currency translation	-	-	27,011	27,011
Balances as of December 31, 2014	<u>100,559</u>	<u>(3,423)</u>	<u>44,571</u>	<u>141,707</u>
Unrealized loss from available-for-sale investments, net of unrealized gain	(548,956)	-	-	(548,956)
Transfer to realized gain from available-for-sale investment, net of realized loss	(102,550)	-	-	(102,550)
Transfer of impairment loss of available-for-sale investments to consolidated income statements	78,285	-	-	78,285
Accrual of unrealized loss from held-to-maturity investment to consolidated income statements, Note 5(i)	1,511	-	-	1,511
Variation for net unrealized gain on cash flow hedges	-	3,190	-	3,190
Transfer of realized gain on cash flow hedges to consolidated income statements, net of realized loss	-	(225)	-	(225)
Foreign currency translation	-	-	65,643	65,643
Balances as of December 31, 2015	<u>(471,151)</u>	<u>(458)</u>	<u>110,214</u>	<u>(361,395)</u>
Unrealized gain from available-for-sale investments, net of unrealized loss	405,349	-	-	405,349
Transfer to realized gain from available-for-sale investment, net of realized loss	(48,875)	-	-	(48,875)
Transfer of impairment loss of available-for-sale investments to consolidated income statements	28,323	-	-	28,323
Accrual of unrealized loss from held-to-maturity investment to consolidated income statements, Note 5(i)	2,537	-	-	2,537
Variation for net unrealized gain on cash flow hedges	-	1,111	-	1,111
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	648	-	648
Foreign currency translation	-	-	(11,340)	(11,340)
Balances as of December 31, 2016	<u>(83,817)</u>	<u>1,301</u>	<u>98,874</u>	<u>16,358</u>

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Notes to the consolidated financial statements (continued)

(e) Components of other comprehensive income

The consolidated statements of other comprehensive income include other comprehensive income from available-for-sale investments and derivative financial instruments used as cash flow hedges and foreign currency translation reserve, as follows:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Available-for-sale investments:			
Unrealized gain (loss) from available-for-sale investments	405,349	(548,956)	210,464
Transfer to realized gain from available-for-sale investments, net of realized loss	(48,875)	(102,550)	(150,199)
Transfer of impairment loss from available-for-sale investments to consolidated income statements, Note 5(c)	28,323	78,285	20,155
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements, Note 5(i)	2,537	1,511	-
Subtotal	<u>387,334</u>	<u>(571,710)</u>	<u>80,420</u>
Non-controlling interest	935	(638)	14
Income Tax	<u>4,837</u>	<u>(2,373)</u>	<u>7,952</u>
Total	<u>393,106</u>	<u>(574,721)</u>	<u>88,386</u>
Cash flow hedges:			
Net unrealized gain (loss) from cash flow hedges	1,111	3,190	(1,987)
Transfer of net realized loss (gain) from cash flow hedge to consolidated income statements	<u>648</u>	<u>(225)</u>	<u>9,171</u>
Subtotal	1,759	2,965	7,184
Non-controlling interest	12	21	50
Income Tax	<u>723</u>	<u>1,161</u>	<u>1,347</u>
Total	<u>2,494</u>	<u>4,147</u>	<u>8,581</u>
Foreign currency translation reserve	<u>(11,340)</u>	<u>65,643</u>	<u>27,011</u>

(f) Shareholders' equity for legal purposes (regulatory capital)

IFS and Inteligo are not required to establish a regulatory capital for statutory purposes. As of December 31, 2016 and 2015, the regulatory capital required for Interbank and Interseguro is calculated based on the separate financial statements of each subsidiary prepared following the accounting principles and practices stated by the SBS. Also, as of those dates, the regulatory capital required for Inteligo Bank is calculated in accordance with the requirements of the Central Bank of the Bahamas. The regulatory capital required for Interbank, Interseguro and Inteligo Bank is detailed below:

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Notes to the consolidated financial statements (continued)

Interbank's regulatory capital

According to the provisions of Legislative Decree No. 1028, Interbank's regulatory capital must be equal to or greater than 10 percent of the assets and contingent credits weighted by total risk represented by the sum of: the regulatory capital requirement for market risk multiplied by 10, the regulatory capital requirement for operational risk multiplied by 10 and the assets and contingent credits weighted by credit risk.

In application of Legislative Decree No. 1028, as amended, as of December 31, 2016 and 2015, Interbank maintains the following amounts related to its assets and contingent credits weighted by risk and regulatory capital (basic and supplementary):

	2016 S/(000)	2015 S/(000)
Total risk weighted assets and credits	35,475,270	34,951,504
Total regulatory capital	5,638,867	5,427,924
Basic regulatory capital (Level 1)	3,789,347	3,454,244
Supplementary regulatory capital (Level 2)	1,849,520	1,973,680
Global capital to regulatory capital ratio	15.90%	15.53%

As of December 31, 2016 and 2015, Interbank has complied with SBS Resolutions No.2115-2009, No.6328-2009, No.14354-2009 and No.4128-2014, "Regulations for the Regulatory Capital Requirement for Operational Risk", "Market Risk" and "Credit Risk", respectively, as amended. These resolutions establish, mainly, the methodologies to be applied by financial entities to calculate the assets and credits weighted per type of risk.

In July 2011, the SBS issued Resolution No. 8425-2011, which states that financial entities must determine an additional regulatory capital level and develop a process to assess the adequacy of their regulatory capital in relation with their risk profile, which must follow the methodology described in said resolution. The additional regulatory capital requirement shall be equivalent to the amount of regulatory capital requirements calculated for each of the following components: economic cycle, concentration risk, market concentration risk and interest rate risk in the bank book, among others.

Also, said resolution establishes a gradual adequacy period of five years, starting in July 2012. As of December 31, 2016, the percentage of adequacy required by the SBS is 100 percent, therefore the additional regulatory capital estimated by Interbank amounts to approximately S/657,852,000 (S/569,358,000 with a 85 percent adequacy required as of December 31, 2015).

In Management's opinion, Interbank has complied with the requirements set forth in the aforementioned Resolution.

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Interseguro's regulatory capital

In accordance with SBS Resolution No. 1124-2006, amended by SBS Resolutions No. 8243-2008, No. 2574-2008, No. 12687-2008, No. 2742-2011, No. 2842-2012, No. 6271-2013, No. 2904-2014 and No. 1601-2015, Interseguro is forced to hold a level of regulatory capital in order to maintain a minimum equity to support technical risks and other risks that could affect it. The regulatory capital must be greater than the amount resulting from the sum of the solvency net equity, the guarantee fund and the regulatory capital intended to cover credit risks.

The solvency net equity is represented by the greater amount between the solvency margin and the minimal capital. As of December 31, 2016 and 2015, the solvency net equity is represented by the solvency margin. The solvency margin is the complementary support that insurance entities must maintain to deal with possible situations of excess claims not foreseen in the establishment of technical reserves. The total solvency margin corresponds to the sum of the solvency margins of each branche in which Interseguro operates.

Also, the guarantee fund represents the additional equity support that insurance companies must maintain to deal with the other risks that can affect them and that are not covered by the solvency net equity, such as investment risks and other risks. The monthly amount of said fund must be equivalent to 35 percent of the solvency net equity, calculated in accordance with SBS Resolution No. 1124-2006, as amended.

As of December 31, 2016 and 2015, Interseguro's regulatory capital for statutory purposes is as follows:

	2016 S/(000)	2015 S/(000)
Regulatory capital	584,755	462,151
Less:		
Solvency equity (solvency margin)	297,661	279,564
Guarantee fund	104,181	97,848
Surplus	<u>182,913</u>	<u>84,739</u>

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Inteligo Bank's regulatory capital

The Central Bank of the Bahamas requires Inteligo Bank to maintain a regulatory capital of not less than 8 percent of its risk weighted assets. Inteligo Bank's capital ratio as of December 31, 2016 and 2015 is the following:

	2016 US\$(000)	2015 US\$(000)
Total eligible capital	<u>187,497</u>	<u>145,663</u>
Total risk weighted assets	<u>764,520</u>	<u>547,526</u>
Capital adequacy ratio (in percentage)	<u>24.52</u>	<u>26.60</u>

(g) Reserves

The General Shareholders' Meeting of IFS held on April 11, 2016 agreed to constitute a reserve of up to S/600,000,000 charged to retained earnings as of December 31, 2015.

The General Shareholders' Meeting of IFS held on April 14, 2015 agreed to constitute a reserve of up to S/2,000,000,000 charged to retained earnings as of December 31, 2014.

(h) Subsidiaries' legal and special reserves

The Subsidiaries domiciled in Peru are required to establish a reserve equivalent to a certain percentage of their paid-in capital (20 or 35 percent, depending on their economic activity) through annual transfers of 10 percent of their net income. As of December 31, 2016 and 2015, these reserves amounted to approximately S/708,986,000 and S/611,760,000, respectively.

16. Tax situation

- (a) IFS and its Subsidiaries incorporated and domiciled in the Republic of Panama and the Commonwealth of the Bahamas (see Note 2), are not subject to any Income Tax, or any other taxes on capital gains, equity or property; nevertheless, IFS is subject to an additional tax on dividends received from its Subsidiaries incorporated and domiciled in Peru; see paragraph (b). The Subsidiaries incorporated and domiciled in Peru (see Note 2) are subject to the Peruvian Tax legislation, see paragraph (c).

On the other hand, there are considered as Peruvian-source income those arisen from the indirect sale of shares of stock or ownership interests of legal entities domiciled in the country. For that purpose, an indirect sale shall be considered to have occurred when shares of stock or ownership interests of a legal entity are sold and this legal entity is not domiciled in the country and, in turn, is the holder – whether directly or through other legal entity or entities – of shares of stock or ownership interests of one or more legal entities domiciled in the country, provided that certain conditions established by law occur. The law also defines the cases in which the issuer is jointly and severally liable thereof.

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In this sense, the Income Tax Act establishes that a case of indirect transfer of shares occurs when, in any of the twelve (12) months prior to the sale, the market value of the shares or ownership interests of the domiciled legal entity is equivalent to 50 percent or more of the market value of the shares of stock or ownership interests of the non-domiciled legal entity. Also, as a concurrent condition, is established that, in any 12-month period, shares or ownership interests are sold that represent 10 percent or more of the capital stock of a non-domiciled legal entity.

- (b) Legal entities or individuals not domiciled in Peru are subject to an additional tax on dividends received from entities domiciled in Peru. The corresponding tax is withheld by the entity that distributes the dividends. In this regard, since IFS controls the entities that distribute the dividends, it recognizes the amount of the additional Income Tax as expense of the financial year of the dividends. In this sense, as of December 31, 2016 and 2015, the Group has recorded expenses for S/29,375,000 and S/31,859,000, respectively, in the caption "Income Tax" of the consolidated income statements.

As of December 31, 2016 and 2015, dividends distributed by Peruvian Subsidiaries to IFS are subject to a withholding of 6.8 percent (4.1 percent as of December 31, 2014). Since January 1, 2017, dividends will be subject to a withholding of 5.0 percent of the profits generated from this year onwards.

- (c) The Group's Subsidiaries incorporated in Peru are subject to the payment of Peruvian taxes; hence, they must calculate their tax expense on the basis of their separate financial statements.

As of December 31, 2016 and 2015, the applicable Income Tax rate was 28 percent on the taxable income (30 percent as of December 31, 2014).

On the other hand, through Legislative Decree No.1261, published on December 10, 2016, the rate applicable to the third category Income Tax of domiciled taxpayers was modified, establishing a rate of 29.5 percent which shall be effective starting on January 1, 2017.

- (d) The Tax Authority (henceforth "SUNAT" by its Spanish acronym) is legally entitled to perform tax audits procedures for up to four years subsequent to the date on which the tax return regarding a taxable period must be filed. SUNAT is also entitled to challenge the Income Tax assessment performed by taxpayers in their tax returns.

The Value-Added-Tax and Income Tax returns of Interbank and Interseguro for the years 2012 to 2016 are pending to be audited by SUNAT.

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On the other hand, on April 2004, June 2006, February 2007, June 2007, November 2007, October 2008 and December 2010, Interbank was notified with Tax Assessments and Fine Imposing Resolutions regarding mainly the assessments of the Income Tax years 2000 to 2006, for which it filed Tax Claims and Tax Appeals. In March 2009, August 2010 and December 2011, the Tax Authority issued Intendancy Resolutions regarding tax years 2000 to 2006 for which Interbank filed the corresponding appeals. In December 2014, the Tax Authority issued Resolution of Intendancy No. 0150140011647 declaring partly accepted the appeal filed by the Bank corresponding to the 2001 Income Tax. On the part not accepted by SUNAT, Interbank filed a new appeal. In February 2016, Interbank obtained the Tax Court Resolution No.00783-3-2016, which declares as partially founded the case concerning to the 2001 Income Tax. In February 2017, the Lima´s Superior Court of Justice declared invalid the judgment in first instance ordering the judge to re-issue a new decision about the case concerning to the 2002 Income Tax. In the opinion of Management and its legal advisors, any possible additional tax assessment would not have any material consequences on the Bank's financial statements as of December 31, 2016 and 2015.

In February 2017, SUNAT concluded the inspection process corresponding to the 2010 Income Tax; and, as a result, no additional payments of such tax were determined.

During the years 2013 and 2014, SUNAT closed the audit processes corresponding to the assessment of the Income Tax of tax years 2007, 2008 and 2009, respectively, thus issuing a series of Assessment Resolutions without any additional settlement of said tax.

In January 2016, SUNAT closed the partial audit/inspection proceeding corresponding to the fiscal year 2013 for withholding of Income Tax from non-domiciled beneficiaries, issuing a series of Final Assessment Resolutions without any additional payment of the tax in question.

Since tax regulations are subject to interpretation by SUNAT, it is not possible to determine to date whether such tax audits procedures would result in additional liabilities for the Group's Subsidiaries or not. Therefore, any unpaid tax, penalties or interest that might result from said audit procedures will be recorded as expenses in the year in which they are assessed. Nevertheless, Management and its legal advisors consider that any additional tax assessment would not have a significant impact on the consolidated financial statements as of December 31, 2016 and 2015.

- (e) Peruvian life insurance companies are exempt from Income Tax regarding the income derived from assets linked to technical reserves for pension insurance (retirement, disability and survival pensions) and annuities from the Private Pension Fund Administration System.

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Notes to the consolidated financial statements (continued)

17. Off-balance sheet accounts

(a) The table below presents the components of this caption:

	2016 S/(000)	2015 S/(000)
Contingent credits - indirect loans (b), Note 6(a)		
Guarantees and stand by letters	4,193,742	4,637,465
Import and export letters of credit	256,728	305,282
	<u>4,450,470</u>	<u>4,942,747</u>
Derivatives		
Held for trading: Note 9(b)		
Forward foreign currency agreements, see Note 29.2(b)(ii):		
Forward currency agreements - purchase	1,742,794	1,773,487
Forward currency agreements - sale	2,013,659	2,901,384
Forward foreign currency agreements in other currencies	204,630	456,943
Interest rate swaps	2,761,079	2,933,951
Foreign currency options	192,573	459,088
Currency swap agreements, see Note 29.2(b)(ii):		
Foreign currency delivery / receipt in Soles	736,940	948,394
Soles delivery / receipt in foreign currency	727,357	2,633,483
Cross currency swaps	197,528	200,765
Held as hedges: Note 9(b)		
Cash flows:		
Interest rate swaps	469,840	66,075
	<u>9,046,400</u>	<u>12,373,570</u>
Responsibilities for credit lines granted (c)	8,423,434	6,378,045
Responsibilities for credit lines - commercial and others (d)	577,449	1,708,225
Total	<u>22,497,753</u>	<u>25,402,587</u>

(b) In the normal course of its operations, the Group performs contingent operations (indirect loans). These transactions expose the Group to additional credit risks to the amounts recognized in the consolidated statements of financial position.

The Group applies the same credit policies for granting and evaluating the provisions required for direct loans when performing contingent operations (see Note 6(a)), including obtaining guarantees when deemed necessary. Guarantees vary and include deposits in financial institutions or other assets.

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Taking into account that most of the contingent operations are expected to expire without the Group having to disburse cash, the total committed amounts do not necessarily represent future cash requirements.

- (c) Responsibilities under credit lines agreements include consumer credit lines and other consumer loans that are payable when the client receives the notice for that purpose.
- (d) Corresponds to commitments of disbursement of future loans that Interbank has committed to carry out; provided that the borrower comply with the obligations under the corresponding loan agreements.

18. Interest and similar income and expenses

This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Interest and similar income			
Interest and fees on loan portfolio	3,184,336	2,906,798	2,501,960
Interest on available-for sale investments	463,369	389,924	285,831
Interest on due from banks and inter-bank funds	20,537	11,007	11,640
Other interest and similar income	36,570	34,957	29,220
Total	<u>3,704,812</u>	<u>3,342,686</u>	<u>2,828,651</u>
Interest and similar expenses			
Interest and fees on deposits and obligations	461,959	361,693	350,682
Interest on bonds, notes and other obligations	320,986	311,944	267,685
Interest and fees on obligations with financial institutions	255,268	212,106	137,218
Deposit insurance fund fees	35,165	31,096	27,075
Other interest and similar expenses	8,481	4,856	6,202
Total	<u>1,081,859</u>	<u>921,695</u>	<u>788,862</u>

During the years 2016, 2015 and 2014, the interest and similar income accrued on impaired available-for-sale investments recognized in the consolidated income statement amounted to S/599,000, S/4,737,000 and S/1,495,000, respectively.

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19. Fee income from financial services, net

This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Income			
Maintenance and mailing of accounts, transfer fees and commissions on credit and debit card services	561,843	508,477	437,074
Commissions for banking services	137,364	144,989	137,797
Funds management fees	131,975	149,304	117,152
Fees for indirect loans	60,249	58,639	54,140
Collection services fees	30,205	26,664	21,983
Brokerage and custody services fees	13,204	7,550	11,537
Others	<u>29,240</u>	<u>31,539</u>	<u>26,158</u>
Total	<u>964,080</u>	<u>927,162</u>	<u>805,841</u>
Expenses			
Debtor's life insurance premiums	54,689	57,861	52,239
Fees paid to foreign banks	9,967	9,361	10,087
Brokerage and custody services	2,777	2,027	1,891
Others	<u>34,200</u>	<u>39,547</u>	<u>37,484</u>
Total	<u>101,633</u>	<u>108,796</u>	<u>101,701</u>
Net	<u>862,447</u>	<u>818,366</u>	<u>704,140</u>

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20. Other income and expenses

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Other income			
ATM rental income	23,632	21,109	19,596
Equity in income of investments in associates	14,856	10,606	11,417
Incentives for credit card operations	11,676	4,502	142
Other technical income for insurance operations	10,308	9,763	9,889
Gain from sale of written-off-loans (b)	8,207	20,746	12,947
Services rendered to third parties	7,015	7,236	6,936
Other income	<u>22,920</u>	<u>25,826</u>	<u>12,533</u>
Total other income	<u>98,614</u>	<u>99,788</u>	<u>73,460</u>
Other expenses			
Provision for sundry risk	14,685	12,948	3,932
Commissions from insurance activities	31,671	22,040	19,347
Sundry technical insurance expenses	14,999	14,476	9,167
Termination of employees	13,486	9,874	7,873
Donations	5,932	4,519	7,008
Administrative and tax penalties	3,152	2,913	2,547
Other expenses	<u>30,606</u>	<u>57,688</u>	<u>38,104</u>
Total other expenses	<u>114,531</u>	<u>124,458</u>	<u>87,978</u>

(b) During the years 2016, 2015 and 2014, Interbank sold in cash to non-related third parties written-off loan portfolios whose gross value amounted to S/302,248,000, S/497,334,000 and S/404,910,000, respectively.

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21. Net premiums earned

This caption is comprised of the following:

	Premiums assumed			Adjustment of technical reserves			Gross premiums earned (*)			Premiums ceded to reinsurers			Net premiums earned		
	2016 S/(000)	2015 S/(000)	2014 S/(000)	2016 S/(000)	2015 S/(000)	2014 S/(000)	2016 S/(000)	2015 S/(000)	2014 S/(000)	2016 S/(000)	2015 S/(000)	2014 S/(000)	2016 S/(000)	2015 S/(000)	2014 S/(000)
Life insurance															
Annuities (**)	337,755	548,343	478,295	(494,213)	(399,757)	(507,737)	(156,458)	148,586	(29,442)	-	-	-	(156,458)	148,586	(29,442)
Group life	119,534	107,397	90,689	(630)	1,485	143	118,904	108,882	90,832	(3,538)	(3,171)	(3,259)	115,366	105,711	87,573
Individual life	48,986	42,229	33,624	(20,230)	(15,818)	(12,048)	28,756	26,411	21,576	(2,177)	(1,917)	(1,477)	26,579	24,494	20,099
Retirement, disability and survival (***)	139,633	133,170	617	935	6,822	14,844	140,568	139,992	15,461	(130,536)	(124,425)	-	10,032	15,567	15,461
Others	539	2,218	3,906	(3,250)	(4,078)	(232)	(2,711)	(1,860)	3,674	(131)	(338)	(72)	(2,842)	(2,198)	3,602
Total life insurance	646,447	833,357	607,131	(517,388)	(411,346)	(505,030)	129,059	422,011	102,101	(136,382)	(129,851)	(4,808)	(7,323)	292,160	97,293
Total general insurance	84,109	71,617	73,401	(3,952)	715	(10,031)	80,157	72,332	63,370	(1,942)	(38)	(51)	78,215	72,294	63,319
Total general	730,556	904,974	680,532	(521,340)	(410,631)	(515,061)	209,216	494,343	165,471	(138,324)	(129,889)	(4,859)	70,892	364,454	160,612

(*) It includes the annual variation of technical reserves and unearned premiums.

(**) The variation of the adjustment of technical reserves is due to variation in the rates with which technical reserves are determined, see rate in Note 13(e).

(***) In December 2014, the SBS called a public tender for the management of retirement, disability, survival, and other burial expenses risks under a group insurance policy to the affiliates of the Private Pension Fund Management System. Interseguro won the contract for the period 2015 and 2016. Interseguro reinsured said risks at 100 percent with three prestigious, internationally recognized reinsurers. In November 2016, the SBS called a new public tender for the period January 1, 2017 and December 31, 2018; Interseguro did not win said contract.

22. Net claims and benefits incurred for life insurance contracts and others

This caption is comprised of the following:

	Gross claims and benefits			Ceded claims and benefits			Net insurance claims and benefits		
	2016 S/(000)	2015 S/(000)	2014 S/(000)	2016 S/(000)	2015 S/(000)	2014 S/(000)	2016 S/(000)	2015 S/(000)	2014 S/(000)
Life insurance									
Annuities	(251,911)	(202,667)	(157,920)	-	-	-	(251,911)	(202,667)	(157,920)
Group life	(40,164)	(38,826)	(29,121)	3,649	2,287	3,705	(36,515)	(36,539)	(25,416)
Individual life	(3,404)	(1,659)	(887)	830	302	(56)	(2,574)	(1,357)	(943)
Retirement, disability and survival	(135,948)	(128,484)	16,585	128,718	122,989	-	(7,230)	(5,495)	16,585
Others	(4,864)	(1,682)	(784)	3,215	2,656	496	(1,649)	974	(288)
General insurance	(18,395)	(13,810)	(13,132)	74	(17)	4	(18,321)	(13,827)	(13,128)
	(454,686)	(387,128)	(185,259)	136,486	128,217	4,149	(318,200)	(258,911)	(181,110)

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Notes to the consolidated financial statements (continued)

23. Salaries and employee benefits

This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Salaries	507,691	489,900	469,447
Workers' profit sharing	70,441	79,187	64,011
Social security	45,868	43,330	39,983
Severance indemnities	36,942	36,076	35,068
Vacations, health insurance and others	<u>36,930</u>	<u>34,102</u>	<u>31,017</u>
Total	<u>697,872</u>	<u>682,595</u>	<u>639,526</u>

The average number of employees for the years 2016, 2015 and 2014 was 7,955, 7,894 and 7,811, respectively.

24. Administrative expenses

This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Services received from third parties	735,740	733,364	643,885
Taxes and contributions	<u>40,578</u>	<u>39,548</u>	<u>36,903</u>
Total	<u>776,318</u>	<u>772,912</u>	<u>680,788</u>

Services received from third parties correspond mainly to securities transportation services, repair and maintenance services, rental of premises (agencies), telecommunications, advertising, among others.

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Notes to the consolidated financial statements (continued)

25. Earnings per share

The following table presents the calculation of the weighted average number of shares and the basic and diluted earnings per share, determined and calculated based on the earnings attributable to the Group (described in Notes 1(b) and 3.3(z)):

	Outstanding shares (in thousands)	Shares considered in computation (in thousands)	Effective days in the year	Weighted average number of shares (in thousands)
2014				
Balance as of January 1, 2014	90,300	90,300	365	90,300
Contribution from Inteligo	19,495	19,495	365	19,495
Sale of treasury stock	244	244	199	133
Purchase of treasury stock	(679)	(679)	288	(535)
Balance as of December 31, 2014	<u>109,360</u>	<u>109,360</u>		<u>109,393</u>
Net earnings attributable to IFS S/(000)				<u>949,104</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>8.676</u>
2015				
Balance as of January 1, 2015	109,360	109,360	365	109,360
Sale of treasury stock	23	23	187	12
Purchase of treasury stock	(563)	(563)	203	(313)
Balance as of December 31, 2015	<u>108,820</u>	<u>108,820</u>		<u>109,059</u>
Net earnings attributable to IFS S/(000)				<u>1,231,766</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>11.295</u>
2016				
Balance as of January 1, 2016	108,820	108,820	365	108,820
Sale of treasury stock	8	8	275	6
Purchase of treasury stock	(1,897)	(1,897)	85	(442)
Balance as of December 31, 2016	<u>106,931</u>	<u>106,931</u>		<u>108,384</u>
Net earnings attributable to IFS S/(000)				<u>828,143</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>7.641</u>

There have been no other transactions involving shares or potential shares between the reporting date and the date of presentation of these consolidated financial statements.

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Notes to the consolidated financial statements (continued)

26. Transactions with shareholders, related parties and affiliated entities

(a) The table below presents the main transactions with shareholders, related parties and affiliated companies as of December 31, 2016 and 2015:

	2016 S/(000)	2015 S/(000)	
Assets			
Trading securities	19,757	20,721	
Available-for-sale investments			
Royalty Pharma, Note 5(h)	68,264	229,001	
InRetail Perú Corp. Note 5(g)	203,074	149,107	
Corporate bonds – InRetail Shopping Mall S.A.	54,209	-	
Corporate bonds – Colegios Peruanos S.A.C.	45,177	33,844	
Corporate bonds – San Miguel Industrias PET S.A.C.	24,070	-	
Corporate bonds – Intercorp Retail Inc.	19,077	-	
Corporate bonds – Cineplex S.A.	16,907	13,850	
Corporate bonds – Financiera Oh! S.A.	13,683	20,320	
Corporate bonds – Intercorp Perú Ltd.	7,513	7,965	
	<u>451,974</u>	<u>454,087</u>	
Loan portfolio, net (b)	784,750	896,581	
Accounts receivable from Homecenters Peruanos S.A. (g)	20,861	-	
Accounts receivable related to derivative financial instruments	11,854	14,229	
Accounts receivable from Second Royalty Ventures, Note 5(h)	-	66,502	
Other assets (f)	17,931	19,102	
Liabilities			
Deposits and obligations	283,564	301,757	
Other liabilities	4,444	4,819	
Off-balance sheet accounts			
Indirect loans (b)	127,733	112,437	
	2016 S/(000)	2015 S/(000)	2014 S/(000)
Income (expenses)			
Interest and similar income	63,506	75,944	55,681
Interest and similar expenses	(3,383)	(4,779)	(5,726)
Net gain on sale of securities, Note 5(h)	-	60,343	-
Rental income	2,190	1,788	9,762
Gain (loss) on sale of investment properties, Note 7(c)	2,655	(1,259)	5,959
Administrative expenses	(9,583)	(12,963)	(17,042)
Others, net	31,041	17,692	17,776

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(b) As of December 31, 2016 and 2015, the detail of loans is the following:

	2016			2015		
	Direct loans S/(000)	Indirect loans S/(000)	Total S/(000)	Direct loans S/(000)	Indirect loans S/(000)	Total S/(000)
InterCorp Perú Ltd.	121,656	-	121,656	177,531	-	177,531
Supermercados Peruanos S.A.	116,153	-	116,153	147,783	-	147,783
Homecenters Peruanos S.A.	75,216	10,689	85,905	68,286	3,838	72,124
Nessus Hoteles Perú S.A.	80,415	625	81,040	83,979	1,705	85,684
Financiera OH! S.A.	73,811	338	74,149	48,954	342	49,296
Colegios Peruanos S.A.C.	50,033	839	50,872	12	853	865
Tiendas Peruanas S.A.	26,618	11,019	37,637	15,290	14,269	29,559
Procesos de Medios de Pago S.A.	13,638	20,472	34,110	-	20,807	20,807
San Miguel Industrias Ecuador	32,500	-	32,500	32,500	-	32,500
Eckerd Perú S.A.	26,725	5,034	31,759	30,437	-	30,437
Bembos S.A.C.	29,796	1,065	30,861	29,905	1,012	30,917
PF Interproperties Perú	-	21,423	21,423	-	21,844	21,844
San Miguel Industrias PET S.A.	9,750	11,342	21,092	9,750	-	9,750
Cineplex S.A.	3,093	16,193	19,286	22,015	21,002	43,017
Domus Hogares del Norte S.A.	19,267	-	19,267	19,267	-	19,267
EP de Restaurantes S.A.C.	13,761	264	14,025	12,971	264	13,235
EP de Franquicias S.A.C.	13,667	311	13,978	13,191	186	13,377
Corporación Peruana de Restaurantes S.A.	11,970	682	12,652	12,902	601	13,503
Urbi Propiedades S.A.	10,624	1,467	12,091	33	3,676	3,709
Servicio de Transferencia Electrónica de Beneficios y Pagos S.A.	806	11,014	11,820	-	-	-
Homecenters Peruanos Oriente S.A.	11,723	-	11,723	13,882	-	13,882
Alert Perú S.A.	9,981	948	10,929	8,887	940	9,827
Agrícola Don Ricardo S.A.C.	9,924	15	9,939	26,533	15	26,548
Alameda Colonial S.A.	-	9,718	9,718	-	9,929	9,929
Nessus Hoteles Perú Selva S.A.	9,614	-	9,614	9,984	-	9,984
Victoria Global Opportunities S.A.C	-	-	-	81,544	-	81,544
Club de Socios S.A.	-	-	-	11,773	-	11,773
Others	14,009	4,275	18,284	19,172	11,154	30,326
	<u>784,750</u>	<u>127,733</u>	<u>912,483</u>	<u>896,581</u>	<u>112,437</u>	<u>1,009,018</u>

(c) As of December 31, 2016 and 2015, the directors, executives and employees of the Group have been involved, directly and indirectly, in credit transactions with certain subsidiaries of the Group, as permitted by the Peruvian law, which regulates and limits on certain transactions with employees, directors and officers of financial entities. As of December 31, 2016 and 2015, direct loans to employees, directors and officers amounted to S/153,424,000 and S/146,439,000, respectively; said loans are repaid monthly and bear interest at market rates.

There are no loans to the Group's directors and key personnel guaranteed with shares of any Subsidiary.

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- (d) The Group's key personnel compensations, including the Income Tax assumed for the years ended December 31, 2016, 2015 and 2014, are presented below:

	2016 S/(000)	2015 S/(000)	2014 S/(000)
Salaries	16,583	16,710	16,885
Board of Directors' compensations	<u>1,706</u>	<u>1,741</u>	<u>1,599</u>
Total	<u>18,289</u>	<u>18,451</u>	<u>18,484</u>

- (e) As of December 31, 2016 and 2015, the Group holds participations in different mutual funds managed by Interfondos. As of December 31, 2016, they amount to S/161,000 and are classified as investment at fair value through profit or loss (S/8,000,000 classified as available-for-sale investments as of December 31, 2015).
- (f) It corresponds mainly to prepaid expenses for spaces ceded to Interbank in the stores of Supermercados Peruanos S.A. for the operation of financial agencies until year 2030, and for an amount of approximately S/14,532,000 and S/16,819,000 as of December 31, 2016 and 2015, respectively, see Note 9(a). Interbank may renew the term of the agreement for an additional term of 15 years.
- (g) It corresponds to a loan with maturity in 2046 and bears interest at market value.
- (h) In Management's opinion, transactions with related companies have been performed under standard market conditions and within the limits permitted by SBS. Taxes generated by these transactions and the taxable base used for computing them are those customarily used in the industry and they are determined according to the tax rules in force.

27. Business segments

Segment information is presented for the consolidated entities and considering that IFS has determined that Intelligo is a segment (wealth management) since the reorganization under common control.

The Chief Operating Decision Maker ("CODM") of IFS is the Chief Executive Officer ("CEO"). The Group presents three operating segments based on products and services, as follows:

Banking

Mainly loans, credit facilities, deposits and current accounts.

Insurance

It provides annuities and conventional life insurance products, as well as other retail insurance products.

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Wealth management

It provides brokerage and investment management services. Inteligo serves mainly Peruvian citizens.

The consolidated entities monitor the operating results of their business units separately for the purpose of making decisions on the distribution of resources and performance assessment. Segment performance is evaluated based on operating profit or loss and it is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty exceeded 10 percent of the Group's total revenues in the years 2016 and 2015.

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Notes to the consolidated financial statements (continued)

The following table presents the Group's financial information by business segments for the years ended December 31, 2016, 2015 and 2014:

	2016				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Total income (*)					
Third party	4,412,828	438,841	316,424	(88,614)	5,079,479
Inter-segment	(60,916)	(44)	2,090	58,870	-
Total income	<u>4,351,912</u>	<u>438,797</u>	<u>318,514</u>	<u>(29,744)</u>	<u>5,079,479</u>
Extracts of results					
Interest and similar income	3,279,405	292,960	152,125	(19,678)	3,704,812
Interest and similar expenses	(1,009,829)	(14,420)	(59,396)	1,786	(1,081,859)
Net interest and similar income	<u>2,269,576</u>	<u>278,540</u>	<u>92,729</u>	<u>(17,892)</u>	<u>2,622,953</u>
Provision for loan losses, net of recoveries	(783,645)	-	-	-	(783,645)
Net interests and similar income after provision for loan losses	<u>1,485,931</u>	<u>278,540</u>	<u>92,729</u>	<u>(17,892)</u>	<u>1,839,308</u>
Fee income from financial services, net	789,619	(2,994)	116,862	(41,040)	862,447
Net gain on sale of securities	16,273	46,406	37,652	3,007	103,338
Other income	327,530	31,577	9,785	(30,902)	337,990
Total net premiums earned minus claims and benefits	-	(247,308)	-	-	(247,308)
Depreciation and amortization	(118,401)	(4,457)	(7,260)	-	(130,118)
Impairment loss of available-for-sale investments	-	(28,323)	-	-	(28,323)
Other expenses	(1,350,804)	(196,019)	(78,540)	35,551	(1,589,812)
Income before translation result and Income Tax	1,150,148	(122,578)	171,228	(51,276)	1,147,522
Translation result	859	8,137	(908)	11,974	20,062
Income Tax	(304,246)	(662)	658	(29,613)	(333,863)
Net profit for the year	<u>846,761</u>	<u>(115,103)</u>	<u>170,978</u>	<u>(68,915)</u>	<u>833,721</u>
Attributable to:					
IFS's shareholders	846,761	(114,788)	170,978	(74,808)	828,143
Non-controlling interest	-	(315)	-	5,893	5,578
	<u>846,761</u>	<u>(115,103)</u>	<u>170,978</u>	<u>(68,915)</u>	<u>833,721</u>

(*) Corresponds to interest and similar income, other income and net premiums earned.

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	2015				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Total income (*)					
Third party	4,201,971	791,228	271,627	(51,785)	5,213,041
Inter-segment	(54,809)	(147)	(3,934)	58,890	-
Total income	<u>4,147,162</u>	<u>791,081</u>	<u>267,693</u>	<u>7,105</u>	<u>5,213,041</u>
Extracts of results					
Interest and similar income	2,961,419	259,589	139,749	(18,071)	3,342,686
Interest and similar expenses	(858,533)	(11,854)	(52,697)	1,389	(921,695)
Net interest and similar income	<u>2,102,886</u>	<u>247,735</u>	<u>87,052</u>	<u>(16,682)</u>	<u>2,420,991</u>
Provision for loan losses, net of recoveries	(643,917)	-	(1,907)	-	(645,824)
Net interests and similar income after provision for loan losses	<u>1,458,969</u>	<u>247,735</u>	<u>85,145</u>	<u>(16,682)</u>	<u>1,775,167</u>
Fee income from financial services, net	733,722	(3,225)	121,946	(34,077)	818,366
Net gain on sale of securities	12,072	113,816	7,320	1,693	134,901
Other income	494,758	56,595	2,612	(1,331)	552,634
Total net premiums earned minus claims and benefits	-	105,543	-	-	105,543
Depreciation and amortization	(100,553)	(4,449)	(6,058)	-	(111,060)
Impairment loss of available-for-sale investments	(2,362)	(46,514)	(29,409)	-	(78,285)
Other expenses	(1,358,030)	(172,283)	(76,149)	25,686	(1,580,776)
Income before translation result and					
Income Tax	1,238,576	297,218	105,407	(24,711)	1,616,490
Translation result	(49,494)	14,835	74	9,485	(25,100)
Income Tax	(320,704)	(92)	70	(31,860)	(352,586)
Net profit for the year	<u>868,378</u>	<u>311,961</u>	<u>105,551</u>	<u>(47,086)</u>	<u>1,238,804</u>
Attributable to:					
IFS's shareholders	868,378	310,967	105,551	(53,130)	1,231,766
Non-controlling interest	-	994	-	6,044	7,038
	<u>868,378</u>	<u>311,961</u>	<u>105,551</u>	<u>(47,086)</u>	<u>1,238,804</u>

(*) Corresponds to interest and similar income, other income and net premiums earned.

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	2014				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Total income (*)					
Third party	3,483,677	539,987	264,317	(54,895)	4,233,086
Inter-segment	<u>(50,421)</u>	<u>(4,046)</u>	<u>(800)</u>	<u>55,267</u>	<u>-</u>
Total income	<u>3,433,256</u>	<u>535,941</u>	<u>263,517</u>	<u>372</u>	<u>4,233,086</u>
Extracts of results					
Interest and similar income	2,534,853	202,248	104,890	(13,340)	2,828,651
Interest and similar expenses	<u>(732,531)</u>	<u>(7,808)</u>	<u>(48,975)</u>	<u>452</u>	<u>(788,862)</u>
Net interest and similar income	<u>1,802,322</u>	<u>194,440</u>	<u>55,915</u>	<u>(12,888)</u>	<u>2,039,789</u>
Provision for loan losses, net of recoveries	<u>(425,512)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(425,512)</u>
Net interests and similar income after provision for loan losses	<u>1,376,810</u>	<u>194,440</u>	<u>55,915</u>	<u>(12,888)</u>	<u>1,614,277</u>
Fee income from financial services, net	645,085	(2,317)	95,894	(34,522)	704,140
Net gain on sale of securities	10,286	63,774	54,084	-	128,144
Other income	293,453	115,670	9,449	(7,033)	411,539
Total net premiums earned minus claims and benefits	-	(20,498)	-	-	(20,498)
Depreciation and amortization	(99,149)	(3,059)	(3,189)	-	(105,397)
Impairment loss of available-for-sale investments	-	(7,016)	(13,139)	-	(20,155)
Other expenses	<u>(1,187,746)</u>	<u>(174,300)</u>	<u>(62,284)</u>	<u>8,908</u>	<u>(1,415,422)</u>
Income before translation result and					
Income Tax	1,038,739	166,694	136,730	(45,535)	1,296,628
Translation result	(23,643)	(8,837)	1,238	6,226	(25,016)
Income Tax	<u>(284,043)</u>	<u>(3,319)</u>	<u>(1,511)</u>	<u>(20,233)</u>	<u>(309,106)</u>
Net profit for the year	<u>731,053</u>	<u>154,538</u>	<u>136,457</u>	<u>(59,542)</u>	<u>962,506</u>
Attributable to:					
IFS's shareholders	731,053	146,239	136,457	(64,645)	949,104
Non-controlling interest	<u>-</u>	<u>8,299</u>	<u>-</u>	<u>5,103</u>	<u>13,402</u>
	<u>731,053</u>	<u>154,538</u>	<u>136,457</u>	<u>(59,542)</u>	<u>962,506</u>

(*) Corresponds to interest and similar income, other income and net premiums earned.

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	2016				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Capital expenditures (*)	183,873	58,360	27,014	-	269,247
Total assets	42,402,877	5,795,908	4,014,633	(494,059)	51,719,359
Total liabilities	38,054,932	5,342,484	3,338,097	(14,500)	46,721,013

	2015				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Capital expenditures (*)	161,438	95,830	7,862	-	265,130
Total assets	41,652,030	5,253,987	3,376,035	(281,183)	50,000,869
Total liabilities	37,907,010	4,916,095	2,796,288	(79,455)	45,539,938

(*) It includes the purchase of property, furniture and equipment, intangible assets and investment property.

(i) The distribution of the Group's total income based on the location of the customer and its assets, for the year ended December 31, 2016, is S/4,760,973,000 in Peru and S/318,506,000 in Panama (for the year ended December 31, 2015, it is S/4,961,421,000 in Peru and S/251,620,000 in Panama and for the year ended December 31, 2014, it is S/3,969,569,000 in Peru and S/263,517,000 in Panama). The distribution of the Group's total assets based on the location of the customer and its assets, as of December 31, 2016, is S/47,704,726,000 in Peru and S/4,014,633,000 in Panama (for the year ended December 31, 2015, it is S/46,656,976,000, in Peru and S/3,343,893,000, in Panama). It should be noted that both income and assets located in Panama correspond mainly to Peruvian citizens.

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28. Financial instruments classification

Following are presented the carrying amounts of financial assets and liabilities in the consolidated statements of financial position, classified by category in accordance with IAS 39 "Financial Instruments":

	As of December 31, 2016						As of December 31, 2015					
	Financial assets and liabilities designated at fair value				Financial liabilities		Financial assets and liabilities designated at fair value				Financial liabilities	
	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	at amortized cost S/(000)	Total S/(000)	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	at amortized cost S/(000)	Total S/(000)
Financial assets												
Cash and due from banks	-	11,761,803	-	-	-	11,761,803	-	12,431,785	-	-	-	12,431,785
Inter-bank funds	-	5,002	-	-	-	5,002	-	245,028	-	-	-	245,028
Trading securities	80,149	-	-	-	-	80,149	105,189	-	-	-	-	105,189
Available-for-sale investments	-	-	9,518,398	-	-	9,518,398	-	-	8,067,164	-	-	8,067,164
Held-to-maturity investments	-	-	-	611,293	-	611,293	-	-	-	479,561	-	479,561
Loan portfolio, net	-	27,025,865	-	-	-	27,025,865	-	25,994,235	-	-	-	25,994,235
Due from customers on acceptances	-	16,392	-	-	-	16,392	-	27,118	-	-	-	27,118
Accounts receivable and other assets, net	203,089	586,886	-	-	-	789,975	324,268	469,901	-	-	-	794,169
	<u>283,238</u>	<u>39,395,948</u>	<u>9,518,398</u>	<u>611,293</u>	<u>-</u>	<u>49,808,877</u>	<u>429,457</u>	<u>39,168,067</u>	<u>8,067,164</u>	<u>479,561</u>	<u>-</u>	<u>48,144,249</u>
Financial liabilities												
Deposits and obligations	-	-	-	-	30,097,850	30,097,850	-	-	-	-	28,487,666	28,487,666
Inter-bank funds	-	-	-	-	332,255	332,255	-	-	-	-	-	-
Due to banks and correspondents	-	-	-	-	5,328,603	5,328,603	-	-	-	-	6,191,726	6,191,726
Bonds, notes and other obligations	-	-	-	-	4,769,390	4,769,390	-	-	-	-	4,925,413	4,925,413
Due from customers on acceptances	-	-	-	-	16,392	16,392	-	-	-	-	27,118	27,118
Insurance contract liabilities	-	-	-	-	5,010,513	5,010,513	-	-	-	-	4,477,089	4,477,089
Accounts payable, provisions and other liabilities	236,137	-	-	-	730,622	966,759	384,734	-	-	-	860,564	1,245,298
	<u>236,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,285,625</u>	<u>46,521,762</u>	<u>384,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,969,576</u>	<u>45,354,310</u>

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29. Financial risk management

It comprises the management of the main risks, that due to the nature of their operations, IFS and its Subsidiaries are exposed to; and correspond to: credit risk, market risk, liquidity risk, and insurance and real estate risk.

- Credit risk: possibility of loss due to inability or lack of willingness to pay of debtors, counterparts or third parties bound to comply with their contractual obligations.
- Market risk: probability of losses in positions on and off the consolidated statements of financial position derived from variations in market conditions. It generally includes the following types of risk: exchange rate, fair value by type of interest; price, among others.
- Liquidity risk: possibility of loss due to noncompliance with the requirements of financing and fund application that arise from mismatches of cash flows.
- Insurance risk: possibility that the actual cost of claims and payments will differ from the estimates.

In order to manage the described risks, every Subsidiary of the Group has a specialized structure and organization in their management, measurement systems, mitigation and coverage processes that considers the specific needs and regulatory requirements to develop its business. The Group and its Subsidiaries, mainly Interbank, Interseguro and Inteligo Bank, operate independently but in coordination with the general provisions issued by the Board of Directors and the Management of IFS. However, the Board of Directors and Management of IFS are ultimately responsible for identifying and controlling risks. In addition, IFS has an Audit Committee which main objective is to verify the adequacy of the accounting processes and financial information of each Subsidiary, as well as evaluate the activities carried out by internal and external auditors. The Audit Committee of IFS is comprised of three independent directors and directly reports to the Board of Directors of the Group.

(a) Structure and organization of risk management

The Group's risk management structure and organization for each of its Subsidiaries is as follows:

(i) Interbank

Board of Directors

Interbank's Board of Directors is responsible for establishing an appropriate and integral risk management and promoting an internal environment that facilitates its development. The Board is continuously informed about the exposure degree of the various risks managed by Interbank.

The Board has created several specialized committees to which it has delegated specific tasks in order to strengthen risk management and internal control.

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Audit Committee

The Audit Committee's main purpose is to monitor that the accounting financial reporting processes are appropriate, as well as to evaluate the activities performed by the auditors, both internal and external. The Committee is comprised of three members of the Board and the Chief Executive Officer, the Internal Auditor, the Manager of Legal Affairs and other executives may also participate therein, when required. The Committee meets at least six times a year in ordinary sessions and submits to the Board a copy of its Committee Minutes, thus informing about the most relevant issues discussed.

Comprehensive Risk Management Committee

The Comprehensive Risk Management Committee ("GIR", by its Spanish acronym) is responsible for approving the policies and organization for comprehensive risk management, as well as the amendments to said policies. This Committee defines the level of tolerance and the exposure degree to risk that Interbank is willing to assume in its business and also decides on the necessary actions aimed at implementing the required corrective measures in case of deviations from the levels of tolerance to risk. The Committee is comprised of two Directors, the Chief Executive Officer, the Vice-Presidents and the Manager of Legal Affairs. The Committee reports monthly to the Board of Directors the main issues it has discussed and the resolutions taken in the previous meeting.

Assets and Liabilities Committee

The main purpose of the Assets and Liabilities Committee ("ALCO") is to manage the financial structure of the statements of financial position of Interbank, based on profitability and risk targets. The ALCO is also responsible for the proposal of new products or operations that contain components of market risk. Likewise, it is the communication channel with the units that generate market risk. The ALCO meets monthly and it is comprised of the Chief Executive Officer, the Vice-Presidents of Risks, Commercial, Finance, Capital Market, the Manager of Market Risks and the Manager of Position Desk.

Internal Audit Division

Risk management processes of Interbank are monitored by the Internal Audit Division, which examines both the adequacy of the procedures and the compliance with them. The Internal Audit Division discusses the results of all assessments with the Management and reports its findings and recommendations to the Audit Committee and Board of Directors.

(ii) Interseguro

Board of Directors

The Board of Directors is responsible for the overall approach to risk management and it is responsible for the approval of the policies and strategies currently used. The Board of Directors provides the principles for overall risk management, as well as the policies

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prepared for specific areas, such as foreign exchange risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments.

Risk Committee

Corporate entity created by Board of Directors resolution, responsible for defining risk limits for Interseguro's business, approving risk policies and approving required corrective measures necessary to maintain adequate levels of risk tolerance. The Risk Committee is comprised of three members of the Board of Directors and the Chief Executive Officer.

Investment Committee

This unit is responsible for implementing the strategy aimed at mitigating investment and financial risks; as well as to establish the general principles, policies and limits for different types of financial and real estate risks and the monitoring thereof.

Internal Audit Division

Risk management processes throughout Interseguro are monitored by the Internal Audit Division, which examines both the adequacy of the procedures and the compliance of them. Internal Audit Division discusses the results of all assessments with Management and reports its findings and recommendations to the Audit Committee and Board of Directors.

(iii) Inteligo Bank

Inteligo Bank's Board of Directors is responsible for the establishment and monitoring of the risk administration policies. In order to manage and monitor the various risks Inteligo Bank is exposed to, the Board of Directors has created the Credit and Investment Committee, the Assets and Liabilities Committee, the Credit Risk Committee and the Audit Committee. These committees are engaged in managing these risks and in making periodic reviews.

(b) Risk measurement and reporting systems

The Group uses different models and rating tools. These tools measure and value the risk with a prospective vision, thus allowing the making of better risk decisions in the different stages or life cycle of client or product.

Said models and tools are permanently monitored and periodically validated in order to assure that the levels of prediction and performance are being maintained and to make the corrective actions or adjustments, when needed.

(c) Risk mitigation and risk coverage

In order to mitigate its exposure to the various financial risks and provide adequate coverage, the Group has established a series of measures, among which the following stand out:

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- Policies, procedures, methodologies, models and parameters aimed to allow for the identification, measurement, control and reporting of financial risks;
- Review and assessment of credit risk, through specialized units of risk screening;
- Timely monitoring and tracking of financial risks and their maintenance within a defined tolerance level; and
- Compliance with regulatory limits and establishment of internal limits for exposure concentrations.

Likewise, as part of its comprehensive risk management, in certain circumstances the Group uses derivative financial instruments to mitigate its risk exposure, which arises from the variations in interest rates and foreign exchange rates.

(d) Risk concentration

Through its policies and procedures, the Group has established the guidelines and mechanisms needed to prevent excessive risk concentration. In case any concentration risk is identified, the Group works with specialized that enable it to control and manage said risks.

29.1 Credit risk

- (a) The Group opts for a credit risk policy that ensures sustained and profitable growth in all its products. In doing so, it applies assessment procedures for the adequate decision-making, tools and methodologies that allow the identification, measurement, mitigation and control of the different risks in the most efficient manner. Likewise, the Group incorporates, develops and reviews regularly management models that allow an adequate measurement, quantification and monitoring of the loans granted by each business unit and also encouraging the continuous improvement of its policies, tools, methodologies and processes.
- (b) The Group is exposed to credit risk, which is the risk that a counterparty causes a financial loss by failing to comply with an obligation. Credit risk is the most important risk for the Group's business; therefore, Management carefully manages its exposure to credit risk. Credit exposures arise mainly in lending activities that lead to loans and investment activities that contribute with securities and other financial instruments to the Group's asset portfolio. There is also credit risk in the financial instruments off the consolidated statements of financial position, such as contingent credits (indirect loans), which expose the Group to risks similar to those of direct loans; they are mitigated with the same control processes and policies. Likewise, credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statements of financial position.

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Impairment provisions are established for losses that have been incurred as of the date of the consolidated statements of financial position. Significant changes in the economy or in the particular situation of a productive sector that represents a concentration in the Group's portfolio could result in losses that are different from those provided for as of the date of the consolidated statements of financial position.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers and to geographical location and industry segments. Such risks are monitored on a revolving basis and subject to frequent reviews.

The Group's exposure to credit risk is managed through the regular assessment of debtors and their potential capability to pay the principal and interest of their obligations, and through the change in exposure limits when appropriate.

The exposure to credit risk is also mitigated, in part, through the obtaining of personal and corporate collateral. Nevertheless, there is a significant part of the financial instruments where said collateral cannot be obtained. Following is a description of the procedures and policies related to collateral management and valuation:

Policies and procedures for management and valuation

Collateral required for financial assets other than the loan portfolio are determined according to the nature of the instrument. However, debt instruments, treasury papers and other financial assets are in general not guaranteed, except for securities guaranteed with similar assets and instruments.

The Group has policies and guidelines established for the management of collaterals received for loans granted. The assets that guarantee loan operations bear a certain value prior to the loan approval and the procedures for their updating are described in the internal rules.

In order to manage guarantees, the Group operates specialized divisions for the establishment, management and release of guarantees.

Collateral that backs loan operations include different goods, property and financial instruments (including cash and securities). Their preferential status depends on the following conditions:

- Easy convertibility into cash.
- Proper legal documentation, duly registered with the corresponding public registry.
- Do not present previous obligations that could reduce their value.
- Their fair value must be updated.

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Management monitors the fair value of collateral and requests additional collateral when it may deem convenient. The proceeds from the settlement of the collateral obtained are used to reduce or repay the outstanding claim. In general, the Group does not use repossessed properties for its own business.

In the case of derivative financial instruments, the Group maintains strict control limits on net open derivative positions (the difference between purchase and sale contracts), both in amount and term. The amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (for example, an asset when its fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional amount used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Settlement risk arises in any situation where a payment in cash, securities or equity is made in the expectation of a corresponding receipt in cash. Daily settlement limits are established for each counterparty in order to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

(c) Maximum exposure to credit risk

As of December 31, 2016 and 2015, Management estimates that the maximum credit risk to which the Group is exposed is represented by the book value of the financial assets which show a potential credit risk and consist mostly of deposits in banks, inter-bank funds, investments, loans (direct and indirect), without considering the fair value of the collateral or guarantees, derivative financial instruments transactions, receivables from insurance transactions and other monetary assets. In this sense, as of December 31, 2016 and 2015:

- 84.4 percent and 88.7 percent, respectively, of the cash and due from banks represent amounts deposited in the Group's vaults or in the BCRP;
- 95.0 percent and 95.4 percent, respectively, of the loan portfolio are classified into the two lower credit risk categories defined by the Group;
- 92.3 percent and 92.7 percent, respectively, of the loan portfolio is deemed non-past-due and non-impaired; and
- 75.1 percent and 76.5 percent, respectively, of available-for-sale-investments are and held-to-maturity investments have at least an investment grade (BBB- or higher) or are debt instruments issued by the BCRP or the Peruvian Government; and
- 98.7 percent and 98.1 percent of the accounts receivable from insurance premiums and leases of the investment properties is considered as non-past due and non-impaired.

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- In addition, as of December 31, 2016, the Group holds loans (direct and indirect) and investments in fixed income instruments issued by entities related to the infrastructure sector that, in recent months, have been exposed to local and international events, for an amount of approximately S/1,042,474,000 (S/144,098,000 in direct loans and S/898,376,000 in indirect loans) and S/629,213,000, respectively. The performance of these instruments will depend on the future development of the aforementioned events, which are out of the Group control. However, it is important to mention that none of the instruments had a significant negative change in the credit category at the date of this report and have guarantees and coverage that significantly reduce the credit risk.

(d) Credit risk management for loans

The Group classifies each client that is part of its loan portfolio into one of five risk categories, depending on the degree of risk of non-payment of each debtor. The categories used are: (i) normal - A, (ii) with potential problems - B, (iii) substandard - C, (iv) doubtful - D and (v) loss - E, which have the following characteristics:

Normal (category A): Debtors of commercial loans that fall into this category have complied on a timely basis with their obligations and at the time of evaluation do not present any reason for doubt with respect to repayment of interest and principal on the agreed dates and there is no reason to believe that this situation will change before the next evaluation. To classify a loan in category A, a clear understanding of the use to be made of the funds and the origin of the cash flows to be used by the debtor to repay the loan is required. Consumer and small and micro-business loans are classified in category A if payments are made when due or up to 8 days past-due. Mortgage loans are classified as category A when payments are made when due or up to 30 days past-due.

With potential problems (category B): Debtors of commercial loans included in this category are those that at the time of the evaluation show certain deficiencies, which, if not corrected on a timely manner, imply risks with respect to the recovery of the loan. Certain common characteristics of loans in this category include: delays in loan payments which are promptly covered, a general lack of information required to analyze the credit, out-of-date financial information, temporary economic or financial imbalances on the part of the debtor which could affect its ability to repay the loan and market conditions that could affect the economic sector in which the debtor participates. Consumer and small and micro-business loans are classified as category B if payments are between 9 and 30 days past-due. Mortgage loans are classified as category B if payments are between 31 and 60 days past-due.

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Substandard (category C): Debtors of commercial loans included in this category show serious financial weaknesses, often with operating results or available income insufficient to cover their financial obligations on agreed upon terms, with no reasonable short-term prospects for strengthening of their financial capacity. Debtors showing the same deficiencies that determine classification as category B, obtain a classification as category C if those deficiencies are such that if they are not corrected in the short term, they could impede the recovery of principal and interest on the loan on the originally agreed terms. In addition, commercial loans are classified in this category when payments are between 61 and 120 days past-due. Consumer and small and micro-business loans are classified as category C if payments are between 31 and 60 days past-due. Mortgage loans are classified as category C when payments are between 61 and 120 days past-due.

Doubtful (category D): Debtors of commercial loans included in this category present characteristics that make doubtful the recovery of the loan. Although the loan recovery is doubtful, if there is a reasonable possibility that in the near future the creditworthiness of the debtor might improve, it is advisable to include it in this category. These credits are distinguished from category E credits by the requirement that the debtor remain in operation, generate cash flows and make payments on the loan, although at a rate lower than the one specified in its contractual obligations. In addition, commercial loans are classified in this category when payments are between 121 and 365 days past-due. Consumer and small and micro-business loans are classified as category D if payments are between 61 and 120 days past-due. Residential mortgage loans are classified as category D when payments are between 121 and 365 days past-due.

Loss (category E): Commercial loans which are considered unrecoverable or which for any other reason cannot be included in the Group's assets based on the originally contracted terms fall into this category. In addition, commercial loans are classified in this category when payments are more than 365 days past-due. Consumer and small and micro-business loans are classified as category E if payments are more than 120 days past-due. Residential mortgage loans are classified as category E when payments are more than 365 days past-due.

The Group assesses and reviews the debtor's credit risk ratings of its loan portfolio on a continuing basis in order to maintain an appropriate identification of risk by designating the corresponding credit risk rating in accordance with the respective rules.

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All loans considered impaired (those classified as substandard, doubtful or loss) are analyzed by the Group's Management, which addresses impairment of its portfolio at two levels: individual allowance and collective allowance, as follows:

- Individually assessed allowance

The Group determines the appropriate allowance for each significant loan individually. The criteria considered to determine the measure of an allowance comprise the sustainability of the debtor's business plan, its ability to improve its performance once a financial difficulty has arisen, projected cash flows and the expected payout should bankruptcy happens, the availability of other financial support, including the realizable value of collateral and the timing of the expected cash flows.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group in order to reduce any differences between loss estimates and actual loss experience.

- Collectively assessed allowance

The allowances required are assessed collectively in the case of loans and obligations that are not individually significant (including consumer, small and micro-business loans and residential mortgage loans) and for individually significant loans, where there is not yet objective evidence of individual impairment (included in categories A and B).

The collective allowance takes into account the impairment that is likely to be present in the portfolio even though there is not yet objective evidence of impairment individually. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance and expected receipts and recoveries once impaired. Management is responsible for deciding on the length of this period which can extend for as long as one year. The impairment allowance is reviewed by Management to ensure consistency with the Group's overall policy.

The methodology includes three estimation scenarios: base, upper threshold and lower threshold. These scenarios are generated by modifying some assumptions, such as collateral recovery values and adverse effects due to changes in the political and economic environments. The process to select the best estimate within said range is based on Management's best judgment, complemented by historical loss experience and the Group's strategy (e.g. penetration in new segments).

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Impairment losses are evaluated on each reporting date as to whether there is any objective evidence that a financial asset or group of assets is impaired.

Financial guarantees and letters of credit (indirect loans) are assessed and a provision is estimated for them following a procedure similar to that of loans.

When a loan is uncollectible, it is written off against the related allowance for impaired loans. Such loans are written off after all the necessary legal procedures have been completed. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the consolidated income statements.

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The table below presents the summary of direct loans (without including accrued interest and interest to be accrued) classified in three groups: (i) Neither past-due and non-impaired loans, which comprise direct loans that currently do not present delinquency characteristics and are related to clients classified as “Normal” and “with Potential problems”; (ii) Past-due but non impaired loans, which comprise past-due loans of clients classified as “Normal” or “with Potential problems”; and (iii) impaired loans, those past-due loans classified as “Substandard”, “Doubtful” or “Loss”. Also, the allowance for loan losses for each type of loan is presented.

Loan portfolio classification	As of December 31, 2016					%
	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro-business loans S/(000)	Total S/(000)	
Neither past due nor impaired						
Normal	12,826,825	7,661,369	4,457,937	472,228	25,418,359	95
With potential problems	231,309	82,691	30,182	4,153	348,335	1
	<u>13,058,134</u>	<u>7,744,060</u>	<u>4,488,119</u>	<u>476,381</u>	<u>25,766,694</u>	
Past due but not impaired						
Normal	126,428	1,359	190,099	32,474	350,360	1
With potential problems	39,359	281,047	56,682	8,279	385,367	2
	<u>165,787</u>	<u>282,406</u>	<u>246,781</u>	<u>40,753</u>	<u>735,727</u>	
Impaired						
Substandard	35,951	237,686	75,138	6,629	355,404	1
Doubtful	52,257	370,107	75,807	8,876	507,047	2
Loss	95,784	254,302	155,262	37,240	542,588	2
	<u>183,992</u>	<u>862,095</u>	<u>306,207</u>	<u>52,745</u>	<u>1,405,039</u>	
Total loan portfolio, gross	<u>13,407,913</u>	<u>8,888,561</u>	<u>5,041,107</u>	<u>569,879</u>	<u>27,907,460</u>	104
Minus: Allowance for loan losses	<u>197,293</u>	<u>851,927</u>	<u>60,497</u>	<u>57,065</u>	<u>1,166,782</u>	4
Total, net	<u>13,210,620</u>	<u>8,036,634</u>	<u>4,980,610</u>	<u>512,814</u>	<u>26,740,678</u>	100

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	As of December 31, 2015					
Loan portfolio classification	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro-business loans S/(000)	Total S/(000)	%
Neither past due nor impaired						
Normal	12,623,718	7,324,808	4,150,110	462,287	24,560,923	96
With potential problems	114,559	85,114	27,994	2,544	230,211	1
	<u>12,738,277</u>	<u>7,409,922</u>	<u>4,178,104</u>	<u>464,831</u>	<u>24,791,134</u>	
Past due but not impaired						
Normal	107,157	4,331	271,233	11,532	394,253	2
With potential problems	43,978	237,451	55,347	9,081	345,857	1
	<u>151,135</u>	<u>241,782</u>	<u>326,580</u>	<u>20,613</u>	<u>740,110</u>	
Impaired						
Substandard	43,534	200,483	74,580	8,675	327,272	1
Doubtful	36,089	321,094	62,686	10,388	430,257	2
Loss	73,765	242,739	124,566	27,829	468,899	2
	<u>153,388</u>	<u>764,316</u>	<u>261,832</u>	<u>46,892</u>	<u>1,226,428</u>	
Total loan portfolio, gross	<u>13,042,800</u>	<u>8,416,020</u>	<u>4,766,516</u>	<u>532,336</u>	<u>26,757,672</u>	104
Minus: Allowance for loan losses	<u>173,750</u>	<u>771,266</u>	<u>46,468</u>	<u>50,095</u>	<u>1,041,579</u>	4
Total, net	<u>12,869,050</u>	<u>7,644,754</u>	<u>4,720,048</u>	<u>482,241</u>	<u>25,716,093</u>	100

In accordance with IFRS 7, the total loan balance is considered past due when debtors have failed to make a payment when contractually due.

As of December 31, 2016 and 2015, loans amounting to approximately S/678,035,000 and S/687,807,000, respectively, were not impaired and were past due for less than 30 days.

As of December 31, 2016 and 2015, refinanced loans amount to S/296,485,000 and S/249,216,000, respectively. Past due refinanced loans as of those dates amount to S/63,735,000, and S/32,321,000, respectively, out of which S/309,000 and S/1,666,000, respectively, are classified as past-due and not-impaired; and S/63,426,000 and S/30,655,000, as impaired, respectively.

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Following is the detail of the gross amount of impaired loans by type of loan, along with the fair value of the related collateral and the amounts of the allowance for loan losses:

	As of December 31, 2016				
	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro-business loans S/(000)	Total S/(000)
Impaired loans	<u>183,992</u>	<u>862,095</u>	<u>306,207</u>	<u>52,745</u>	<u>1,405,039</u>
Fair value of collateral	<u>104,136</u>	<u>41,206</u>	<u>290,896</u>	<u>46,439</u>	<u>482,677</u>
Allowance for loan losses	<u>123,746</u>	<u>445,870</u>	<u>53,279</u>	<u>41,459</u>	<u>664,354</u>

	As of December 31, 2015				
	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro-business loans S/(000)	Total S/(000)
Impaired loans	<u>153,388</u>	<u>764,316</u>	<u>261,832</u>	<u>46,892</u>	<u>1,226,428</u>
Fair value of collateral	<u>77,619</u>	<u>35,113</u>	<u>248,740</u>	<u>46,400</u>	<u>407,872</u>
Allowance for loan losses	<u>94,373</u>	<u>388,628</u>	<u>43,813</u>	<u>39,407</u>	<u>566,221</u>

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Notes to the consolidated financial statements (continued)

(e) Credit risk management for investments

The Group controls the credit risk of its available-for-sale investments and held-to-maturity investments based on the risk assessment of issuers. In the case of investments abroad, the assessment takes into account the risk ratings issued by international risk rating agencies, as well as the country risk of the issuer, which is assessed considering its main macroeconomic variables.

The table below presents the credit risk ratings issued by local and international renowned risk rating agencies of available-for-sale investments and held-to-maturity investments:

	As of December 31, 2016		As of December 31, 2015	
	S/(000)	%	S/(000)	%
Instruments issued and rated in Peru:				
AAA	836,864	8.3	681,802	8.0
AA- / AA+	795,096	7.8	610,841	7.1
A- / A+	22,313	0.2	33,105	0.4
BBB- / BBB+	1,233	-	1,282	-
Lower than B-	-	-	200	-
	<u>1,655,506</u>	<u>16.3</u>	<u>1,327,230</u>	<u>15.5</u>
Instruments issued in Peru and rated abroad:				
A- / A+	1,788,996	17.7	1,394,259	16.3
BBB- / BBB+	1,282,168	12.7	1,534,847	18.0
BB- / BB+	368,840	3.6	209,375	2.4
B- / B+	46,922	0.5	4,153	0.1
	<u>3,486,926</u>	<u>34.5</u>	<u>3,142,634</u>	<u>36.8</u>
Instruments issued and rated abroad:				
AAA	66,086	0.7	40,932	0.5
AA- / AA+	186,137	1.8	97,458	1.1
A- / A+	21,393	0.2	76,507	0.9
BBB- / BBB+	860,075	8.5	528,827	6.2
BB- / BB+	99,296	1.0	21,452	0.3
B- / B+	31,866	0.3	12,621	0.2
	<u>1,264,853</u>	<u>12.5</u>	<u>777,797</u>	<u>9.2</u>
Unrated				
Certificates of Deposit issued by the BCRP	1,751,749	17.3	1,541,668	18.1
Mutual funds and investment funds participations (*)	1,073,188	10.6	915,944	10.7
Others	206,040	2.0	68,220	0.8
Listed shares				
Peruvian and foreign entities	314,977	3.1	304,962	3.6
InRetail Perú Corp.	203,074	2.0	149,107	1.7
Non-listed shares and participations				
Royalty Pharma	68,264	0.7	229,001	2.7
Others	1,533	-	555	-
Total	<u>10,026,110</u>	<u>99.0</u>	<u>8,457,118</u>	<u>99.0</u>
Accrued interest	103,581	1.0	89,607	1.0
Total	<u>10,129,691</u>	<u>100</u>	<u>8,546,725</u>	<u>100.0</u>

(*) It includes mutual and investment funds which do not have any risk rating.

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Notes to the consolidated financial statements (continued)

(f) Concentration of financial instruments exposed to credit risk

Financial instruments exposed to credit risk were distributed according to the following economic sectors:

	As of December 31, 2016					As of December 31, 2015				
	Financial assets and liabilities designated at fair value					Financial assets and liabilities designated at fair value				
	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)
Central Reserve Bank of Peru	-	8,375,767	1,751,749	-	10,127,516	-	9,331,705	1,541,668	-	10,873,373
Consumer loans	-	9,508,265	-	-	9,508,265	-	9,095,851	-	-	9,095,851
Financial services	82,288	4,206,974 (*)	2,419,580	-	6,708,842	88,862	4,122,406 (*)	1,836,284	-	6,047,552
Mortgage loans	-	5,046,014	110,632	-	5,156,646	-	4,768,947	62,897	-	4,831,844
Manufacturing	33,831	3,141,710	382,964	-	3,558,505	50,826	2,757,151	298,663	-	3,106,640
Commerce	8,005	2,151,566	331,860	-	2,491,431	32,427	2,120,088	203,003	-	2,355,518
Construction	23,656	789,950	1,449,124	-	2,262,730	25,686	798,105	1,128,397	-	1,952,188
Government of Peru	10,643	-	1,295,546	598,188	1,904,377	38,214	-	1,327,424	469,740	1,835,378
Electricity, gas, water and oil	12,708	1,203,553	613,877	-	1,830,138	9,920	979,752	526,268	-	1,515,940
Agriculture	49,616	1,015,388	3,166	-	1,068,170	87,455	1,122,577	3,693	-	1,213,725
Leaseholds and real estate activities	14,283	974,348	16,585	-	1,005,216	23,106	1,107,832	15,348	-	1,146,286
Communications, storage and transportation	4,773	747,157	70,631	-	822,561	4,802	753,083	113,769	-	871,654
Mining	1,159	388,083	366,468	-	755,710	3,577	457,358	342,882	-	803,817
Community services	10,512	309,441	22,052	-	342,005	16,856	426,298	13,663	-	456,817
Insurance	211	285,219	-	-	285,430	1,528	173,956	326	-	175,810
Fishing	10,793	248,699	7,353	-	266,845	15,878	120,745	6,171	-	142,794
Foreign governments	-	-	246,204	-	246,204	8,292	-	67,960	-	76,252
Education, health and other services	3,275	121,179	102,724	-	227,178	5,119	126,098	101,828	-	233,045
Medical and biotechnology	-	-	183,972	-	183,972	-	71	297,831	-	297,902
Public administration and defense	7,551	10,681	25,791	-	44,023	-	2,703	-	-	2,703
Others	9,934	1,753,549	27,644	-	1,791,127	16,909	1,666,778	99,303	-	1,782,990
Total	283,238	40,277,543	9,427,922	598,188	50,586,891	429,457	39,931,504	7,987,378	469,740	48,818,079
Allowance for loan losses					(1,166,782)					(1,041,579)
Accrued interest					388,768					367,749
Total					49,808,877					48,144,249

(*) It includes mainly the available funds deposited in the vaults of Interbank and in foreign banks, see Note 4.

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Notes to the consolidated financial statements (continued)

The financial instruments exposed to credit risk were distributed according to their geographic area:

	As of December 31, 2016					As of December 31, 2015				
	Financial assets and liabilities designated at fair value	Loans and accounts Receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)	Financial assets and liabilities designated at fair value	Loans and accounts Receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)
Peru	214,821	37,966,894	6,723,049	598,188	45,502,952	385,093	38,242,259	5,839,261	469,740	44,936,353
United States of America	45,908	1,366,357	913,669	-	2,325,934	20,328	868,644	775,994	-	1,664,966
Panama	-	345,962 (*)	-	-	345,962	-	503,915 (*)	-	-	503,915
Brazil	-	2,576	211,148	-	213,724	-	10,865	274,377	-	285,242
Mexico	9,189	444	493,274	-	502,907	10,560	109	208,778	-	219,447
Chile	25	25,176	278,218	-	303,419	-	20,386	197,270	-	217,656
Colombia	675	283	179,643	-	180,601	8,847	273	17,130	-	26,250
Belgium	-	179,612	8	-	179,620	-	-	-	-	-
Supranational	-	-	120,425	-	120,425	-	-	74,604	-	74,604
Ireland	-	-	68,264	-	68,264	-	-	229,001	-	229,001
Ecuador	858	32,825	-	-	33,683	2,182	32,831	-	-	35,013
Others	11,762	357,414	440,224	-	809,400	2,447	252,222	370,963	-	625,632
Total	283,238	40,277,543	9,427,922	598,188	50,586,891	429,457	39,931,504	7,987,378	469,740	48,818,079
Allowance for loan losses					(1,166,782)					(1,041,579)
Accrued interest					388,768					367,749
Total					49,808,877					48,144,249

(*) It corresponds mainly to the loan portfolio maintained by Inteligo (located in Panama) with Peruvian citizens.

(g) Offsetting of financial assets and liabilities

The information contained in the tables below includes financial assets and liabilities that:

- Are offset in the statements of financial position of the Group; or
- Are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, regardless of whether they are offset in the consolidated statements of financial position or not.

Similar arrangements of the Group include derivatives clearing agreements. Financial instruments such as loans and deposits are not disclosed in the following tables since they are offset in the consolidated statements of financial position.

The offsetting framework agreement issued by the International Swaps and Derivatives Association Inc. ("ISDA") and similar master netting arrangements do not meet the criteria for offsetting in the statements of financial position because of such agreements were created in order for both parties to have an enforceable offsetting right in cases of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle such instruments on a net basis or to realize the assets and settle the liabilities simultaneously.

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Notes to the consolidated financial statements (continued)

The Group receives and grants collateral in cash with respect to derivatives transactions; see Note 4.

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreements as of December 31, 2016 and 2015:

2016 Description	Gross amounts of recognized financial assets S/(000)	Gross amounts of recognized financial liabilities and offset in the consolidated statements of financial position S/(000)	Net amounts of financial assets presented in the consolidated statements of financial position S/(000)	Related amounts not offset in the consolidated statements of financial position		Net amount S/(000)
				Financial instruments (including non- cash collateral) S/(000)	Cash collateral received S/(000)	
Derivatives, Note 9(b)	203,089	-	203,089	(21,585)	-	181,504
Total	203,089	-	203,089	(17,896)	-	185,193
2015						
Description						
Derivatives, Note 9(b)	324,268	-	324,268	(2,305)	-	321,963
Total	324,268	-	324,268	(2,305)	-	321,963

Financial liabilities subject to offsetting, enforceable master netting arrangement and similar agreements as of December 31, 2016 and 2015:

2016 Description	Gross amounts of recognized financial liabilities S/(000)	Gross amounts of recognized financial assets and offset in the consolidated statements of financial position S/(000)	Net amounts of financial liabilities presented in the consolidated statements of financial position S/(000)	Related amounts not offset in the consolidated statements of financial position		Net amount S/(000)
				Financial instruments (including non-cash collateral) S/(000)	Cash collateral pledged S/(000)	
Derivatives, Note 9(b)	236,137	-	236,137	(21,585)	(192,137)	22,415
Total	236,137	-	236,137	(17,896)	(192,137)	26,104
2015						
Description						
Derivatives, Note 9(b)	384,734	-	384,734	(2,305)	(336,504)	45,925
Total	384,734	-	384,734	(2,305)	(336,504)	45,925

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Notes to the consolidated financial statements (continued)

29.2 Market risk management

Market risk is the possibility of loss due to variations in the financial market conditions. The main variations to which the Group is exposed to are exchange rates, interest rates and prices. Said variations can affect the value of the Group's financial assets and liabilities.

The Group separates its exposure to market risk into two blocks: (i) the one that arises from the fluctuation of the value of the trading investment portfolios, due to movements of market rates or prices ("Trading Book") and; (ii) the one that arises from the changes in the structural positions of the portfolios that are not for trading ("Banking Book") due to movements in interest rates, prices and exchange rates.

(a) Trading Book

In order to control and monitor the risks arising from the volatility of risk factors involved within each instrument, maximum exposure limits by currency, by type of investment and Value-at-Risk (VaR), which are controlled on a daily basis, have been established.

The main measurement technique used to measure and control market risk is Value at Risk ("VaR"), which is a statistical measurement that quantifies the maximum loss expected for a period of time and a determined significance level under normal market conditions. The Group uses the Montecarlo VaR model for a period of one day, with exponential volatility and a 99 percent confidence level. The VaR is calculated by risk factor: interest rate, price or exchange rate and by type of investment: derivatives, fixed income and variable income.

VaR models are designed to measure the market risk within a normal market environment. Those models assume that all modifications in risk factors affecting the normal market environment will follow a normal distribution. Said distribution is calculated through the use of historical data weighted in an exponential manner. Since the VaR is based mainly on historical data to provide information and does not clearly predict future changes and modifications in risk factors, the probability of big market movements may be underestimated if said changes in risk factors cannot be aligned with the considered normal distribution. VaR can also be under or overestimated due to the hypotheses made on the risk factors and the relation among these factors with the specific instruments. In order to determine the reliability of VaR models, the actual results are regularly monitored to prove the validity of the assumptions and parameters used in the calculation of VaR.

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Notes to the consolidated financial statements (continued)

The Group includes within the VaR calculation the potential loss that may arise from the exposure to exchange rate risk. This risk is included in the calculation because the exchange position is the result of the spot position plus the position in derivative products. Likewise, the total VaR includes the diversification effect that arises as a result of the interaction of the various market risk factors to which the Group is exposed.

The validity of the VaR calculation is proven through back-testing, which uses historical data to ensure that the model adequately estimates the potential losses. Additionally, the sensitivity of risk factors is calculated, which shows the potential portfolio losses in the event of certain fluctuations in factors. Said fluctuations include: interest rate shocks, exchange rate shocks and price shocks.

The VaR results of the Group's portfolio by type of asset are presented below:

	2016 S/(000)	2015 S/(000)
Equity investments	40,699	27,929
Debt investments	5,975	3,183
Derivatives	2,299	5,463
Diversification effect	<u>(4,522)</u>	<u>(3,343)</u>
Consolidated VaR by type of asset (*)	<u>44,451</u>	<u>33,232</u>

The Group's VaR results by type of risk are the following:

	2016 S/(000)	2015 S/(000)
Exchange rate risk	2,901	5,354
Interest rate risk	6,363	3,585
Price risk	40,064	27,636
Diversification effect	<u>(4,877)</u>	<u>(3,343)</u>
Consolidated VaR by type of risk (*)	<u>44,451</u>	<u>33,232</u>

(*) The total VaR is lower than the sum of its components due to the benefits of risk diversification.

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(b) Banking Book

The portfolios which are not for trading are exposed to different financial risks, since they are sensitive to movements of the market rates, which can result in a negative effect on the value of the assets compared to its liabilities and, therefore, in its net value.

(i) Interest rate risk

Interest rates fluctuate permanently in the market. These fluctuations affect the Group in two ways: first, through the change in the valuation of assets and liabilities; and secondly, affecting the cash flows at repricing. The variation in the valuation of assets and liabilities is increasingly sensitive as the term at which the asset or liability is repriced is extended. This process consists in the assessment of repricing periods. On the other hand, cash flows are affected when the instruments reach maturity, when they are invested or placed at the new interest rates effective in the market.

Repricing gap

An analysis of the repricing gaps is performed in order to determine the impact of the interest rates movements. Said analysis consists of assigning the balances of the operations that will change the interest rate into different time gaps. Based on this analysis, the impact of the variation in the valuation of assets and liabilities on each gap is calculated.

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Notes to the consolidated financial statements (continued)

The following table summarizes the Group's exposure to interest rate risk. The Group's financial instruments are presented at book value, classified by the repricing period of the contract's interest rate or maturity date, whichever occurs first:

	As of December 31, 2016						
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	More than 5 years S/(000)	Non-interest bearing S/(000)	Total S/(000)
Financial Assets							
Cash and due from banks	8,319,493	539,322	174,438	100,435	-	2,628,115	11,761,803
Inter-bank funds	5,002	-	-	-	-	-	5,002
Trading securities	669	-	25,113	-	4,622	49,745	80,149
Available-for-sale investments	588,257	167,075	1,739,950	2,229,441	3,132,639	1,661,036	9,518,398
Held-to-maturity investments	-	13,105	-	102,254	495,934	-	611,293
Loan portfolio, net	3,284,222	3,158,110	6,213,978	10,074,237	4,759,696	(464,378)	27,025,865
Other assets	45,676	253,713	63,508	111,844	43,571	2,198,537	2,716,849
Total assets	12,243,319	4,131,325	8,216,987	12,618,211	8,436,462	6,073,055	51,719,359
Financial liabilities							
Deposits and obligations	17,956,666	2,541,541	3,967,758	528,079	21,866	5,081,940	30,097,850
Inter-bank funds	332,255	-	-	-	-	-	332,255
Due to banks and correspondents	205,241	282,203	1,336,899	2,515,699	988,561	-	5,328,603
Bonds, notes and other obligations	147,225	23,637	40,074	2,834,459	1,723,995	-	4,769,390
Insurance contract liabilities	38,540	75,658	337,857	1,404,829	3,153,629	-	5,010,513
Other liabilities	61,303	75,528	69,358	122,339	97,408	756,466	1,182,402
Equity	-	-	-	-	-	4,998,346	4,998,346
Total liabilities and equity	18,741,230	2,998,567	5,751,946	7,405,405	5,985,459	10,836,752	51,719,359
Off- balance sheet accounts							
Derivatives held as hedge assets	134,240	335,600	-	-	-	-	469,840
Derivatives held as hedge liabilities	-	-	-	469,840	-	-	469,840
	134,240	335,600	-	(469,840)	-	-	-
Marginal gap	(6,363,671)	1,468,358	2,465,041	4,742,966	2,451,003	(4,763,697)	-
Accumulated gap	(6,363,671)	(4,895,313)	(2,430,272)	2,312,694	4,763,697	-	-

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	As of December 31, 2015						
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	More than 5 years S/(000)	Non-interest bearing S/(000)	Total S/(000)
Financial Assets							
Cash and due from banks	7,014,321	56,298	773,141	2,495,836	-	2,092,189	12,431,785
Inter-bank funds	245,028	-	-	-	-	-	245,028
Trading securities	-	-	3,009	60,859	10,093	31,228	105,189
Available-for-sale investments	616,793	545,777	885,343	1,922,258	2,497,424	1,599,569	8,067,164
Held-to-maturity investments	-	9,821	-	83,065	386,675	-	479,561
Loan portfolio, net	3,016,267	3,081,440	6,201,077	9,634,075	4,517,101	(455,725)	25,994,235
Other assets	592,725	217,052	58,589	142,620	104,798	1,562,123	2,677,907
Total assets	11,485,134	3,910,388	7,921,159	14,338,713	7,516,091	4,829,384	50,000,869
Financial liabilities							
Deposits and obligations	18,895,426	1,955,564	3,189,384	467,982	1,528	3,977,782	28,487,666
Due to banks and correspondents	1,072,307	457,878	831,772	2,812,176	1,017,593	-	6,191,726
Bonds, notes and other obligations	142,607	23,939	107,058	2,904,354	1,747,455	-	4,925,413
Insurance contract liabilities	28,333	55,162	249,156	1,067,345	3,077,093	-	4,477,089
Other liabilities	102,057	96,540	147,739	124,413	152,861	834,434	1,458,044
Equity	-	-	-	-	-	4,460,931	4,460,931
Total liabilities and equity	20,240,730	2,589,083	4,525,109	7,376,270	5,996,530	9,273,147	50,000,869
Off- balance sheet accounts							
Derivatives held as hedge assets	-	66,075	-	-	-	-	66,075
Derivatives held as hedge liabilities	-	33,073	33,002	-	-	-	66,075
	-	33,002	(33,002)	-	-	-	-
Marginal gap	(8,755,596)	1,354,307	3,363,048	6,962,443	1,519,561	(4,443,763)	-
Accumulated gap	(8,755,596)	(7,401,289)	(4,038,241)	2,924,202	4,443,763	-	-

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Sensitivity to changes in interest rates

The table below presents the sensitivity to a reasonable possible change in interest rates, with all other variables maintained constant, in the consolidated income statements and in the consolidated statements of changes in equity, before Income Tax and non-controlling interest.

In the case of the consolidated income statements, the calculation reflects the expected variation of the financial margin for a period equivalent to one year. In doing so, it takes into account the current position of revenues and expenses and annualizes the effect of the interest rates variations. The figures express the expected change in the value of assets less liabilities for various time gaps. Likewise, it includes the effect of the derivative financial instruments that are subject to interest rates.

The fluctuations in interest rates are applied equally all through the yield curve, which means that it considers a parallel movement of the curve. The effects are considered independently for each of the two currencies presented. The calculations are based on the interest rate risk regulatory model approved by the SBS, in force on the date of the consolidated statements of financial position. The sensitivity is calculated prior to the Income Tax effect.

The interest rate exposure of Interbank is supervised by the ALCO Committee, as well as the GIR Committee, the latter being in charge of approving the permitted maximum limits. For Interseguro and Inteligo Bank, their Boards set limits, which are monitored by their respective Investment Risk Unit. The effects of the estimated changes in interest rates are the following:

Currency	As of December 31, 2016			
	Changes in basis points		Sensitivity of net income S/(000)	Sensitivity of other net comprehensive income S/(000)
US Dollars	+/-25	+/-	5,946	+/- 24,312
US Dollars	+/-50	+/-	11,893	+/- 49,885
US Dollars	+75	+	17,839	+ 77,980
US Dollars	+100	+	23,785	+ 122,513
Soles	+/-50	-/+	13,247	-/+ 93,510
Soles	+/-75	-/+	19,869	-/+ 147,078
Soles	+/-100	-/+	26,492	-/+ 205,237
Soles	+/-150	-/+	39,739	-/+ 335,586

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As of December 31, 2015					
Currency	Changes in basis points		Sensitivity of net income S/(000)		Sensitivity of other net comprehensive income S/(000)
US Dollars	+/-25	+ / -	3,677	+ / -	20,838
US Dollars	+/-50	+ / -	7,349	+ / -	44,125
US Dollars	+75	+	11,024	+	69,736
US Dollars	+100	+	14,699	+	97,734
Soles	+/-50	- / +	1,356	- / +	80,730
Soles	+/-75	- / +	2,034	- / +	126,266
Soles	+/-100	- / +	2,713	- / +	175,288
Soles	+/-150	- / +	4,064	- / +	283,985

The interest rate sensitivities set out in the tables above are illustrative only and are based on simplified scenarios. The figures represent the effect of the pro-forma movements in the net interest income based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by Management to mitigate the impact of this interest rate risk. In addition, the Group seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues. The projections above also assume that interest rate of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The projections make other simplifying assumptions too, including that all positions run to maturity.

Sensitivity to price variation

Available-for-sale investments in shares and in mutual and investment funds are not considered as part of the investments for interest rate sensitivity calculation purposes; however, a calculation of sensitivity in market prices and the effect on expected unrealized gain or loss in the consolidated statements of other comprehensive income, before Income Tax and non-controlling interest, as of December 31, 2016 and 2015, is presented below:

	Changes in market price %	2016 S/(000)	2015 S/(000)
Shares	+/-10	58,785	68,363
Shares	+/-25	146,962	170,906
Shares	+/-30	176,354	205,088
Mutual funds and investment funds participations	+/-10	107,319	91,594
Mutual funds and investment funds participations	+/-25	268,297	228,986
Mutual funds and investment funds participations	+/-30	321,956	274,783

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(ii) Foreign exchange risk

The Group is exposed to fluctuations in the exchange rates of foreign currency prevailing in its financial position and cash flows. Management sets limits on the levels of exposure by currency and in total and "Overnight" positions, which are monitored daily. Most of the assets and liabilities in foreign currency are stated in US dollars. Transactions in foreign currency are made at the exchange rates of free market.

As of December 31, 2016, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.352 per US\$1 for buying and S/3.360 US\$1 for selling (S/3.408 and S/3.413 as of December 31, 2015, respectively). As of December 31, 2016, the exchange rate for the accounting of asset and liability accounts in foreign currency set by the SBS was S/3.356 per US\$1 (S/3.411 as of December 31, 2015).

The table below presents the detail of the Group's position:

	As of December 31, 2016				As of December 31, 2015			
	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Assets								
Cash and due from banks	10,497,324	991,219	273,260	11,761,803	10,994,640	1,191,209	245,936	12,431,785
Inter-bank funds	-	5,002	-	5,002	-	245,028	-	245,028
Trading securities	43,502	36,647	-	80,149	55,257	49,932	-	105,189
Available-for-sale investments	4,763,512	4,746,382	8,504	9,518,398	4,990,861	3,050,691	25,612	8,067,164
Held-to-maturity investments	-	611,293	-	611,293	-	479,561	-	479,561
Loan portfolio, net	8,655,259	18,370,606	-	27,025,865	8,830,039	17,164,196	-	25,994,235
Due from customers on acceptances	16,392	-	-	16,392	27,118	-	-	27,118
Accounts receivable and other assets	151,058	635,086	3,831	789,975	199,424	585,690	9,055	794,169
	<u>24,127,047</u>	<u>25,396,235</u>	<u>285,595</u>	<u>49,808,877</u>	<u>25,097,339</u>	<u>22,766,307</u>	<u>280,603</u>	<u>48,144,249</u>
Liabilities								
Deposits and obligations	15,414,006	14,575,525	108,319	30,097,850	15,778,230	12,494,433	215,003	28,487,666
Inter-bank funds	332,255	-	-	332,255	-	-	-	-
Due to banks and correspondents	1,054,747	4,273,856	-	5,328,603	1,897,237	4,294,489	-	6,191,726
Bonds, notes and other obligations	4,332,219	437,171	-	4,769,390	4,493,006	432,407	-	4,925,413
Due from customers on acceptances	16,392	-	-	16,392	27,118	-	-	27,118
Insurance contract liabilities	1,957,701	3,052,812	-	5,010,513	1,929,909	2,547,180	-	4,477,089
Accounts payable, provision and other liabilities	167,582	781,773	17,404	966,759	291,974	919,902	33,422	1,245,298
	<u>23,274,902</u>	<u>23,121,137</u>	<u>125,723</u>	<u>46,521,762</u>	<u>24,417,474</u>	<u>20,688,411</u>	<u>248,425</u>	<u>45,354,310</u>
Forwards position, net	(231,204)	270,864	(39,660)	-	(1,071,817)	1,127,898	(56,081)	-
Currency swaps position, net	(9,583)	9,583	-	-	1,685,088	(1,685,088)	-	-
Cross currency swaps position, net	(197,528)	197,528	-	-	(200,765)	200,765	-	-
Options position, net	(6,102)	6,102	-	-	(18,113)	18,113	-	-
	<u>407,728</u>	<u>2,759,175</u>	<u>120,212</u>	<u>3,287,115</u>	<u>1,074,258</u>	<u>1,739,584</u>	<u>(23,903)</u>	<u>2,789,939</u>

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As of December 31, 2016, the Group granted indirect loans (contingent operations) in foreign currency for approximately US\$683,290,000, equivalent to S/2,293,120,000 (US\$799,920,000, equivalent to S/2,728,527,000 as of December 31, 2015); see Note 17.

The Group manages the exchange rate risk through the matching of its asset and liability operations, overseeing the global exchange position on a daily basis. The Group's global exchange position is equivalent to the result of long positions minus short positions in currencies different to the Sol. The global position includes spot positions and also derivative positions.

The table below shows the analysis of variations of the US Dollar, the main currency to which the Group has exposure as of December 31, 2016 and 2015. The analysis determines the effect of a reasonably possible variation of the exchange rate of US Dollar against the Sol, considering all the other variables held constant in the consolidated statements of other comprehensive income before Income Tax. A negative amount shows a potential net reduction in the consolidated income statements, whereas a positive amount reflects a net potential increase:

Sensitivity analysis	Changes in currency		
	rates %	2016 S/(000)	2015 S/(000)
Devaluation (*)			
US Dollar	5	(20,386)	(53,713)
US Dollar	10	(40,773)	(107,425)
US Dollar	15	(61,159)	(161,138)
Revaluation			
US Dollar	5	20,386	53,713
US Dollar	10	40,773	107,425
US Dollar	15	61,159	161,138

(*) The Group's Management does not estimate a devaluation of the US Dollar to the Sol in the next few years.

29.3 Liquidity risk

Liquidity risk consists in the Group's inability to comply with the maturity of its obligations, thus incurring in losses that significantly affect its equity position. This risk may arise as a result of various events such as: the unexpected decrease of funding sources, the inability to rapidly settle assets, among others.

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The Group has a set of indicators that are controlled and reported daily, which establish the minimum liquidity levels allowed for the short-term and reflect several risk aspects such as: concentration, stability, position by currency, main depositors, etc.

Likewise, the Group assesses medium-term and long-term liquidity through a structural analysis of its funds inflows and outflows in different maturity terms. This process allows to know, for each currency, the various funding sources, how liquidity needs increase and which terms are mismatched. Both for assets and liabilities, assumptions are considered for the operations that do not have determined maturity dates, such as revolving loans, savings and similar ones, as well as contingent liabilities, such as non-used letters of credit or lines of credit. Based on this information, the necessary decisions to maintain target liquidity levels are made.

In the case of Interbank, liquidity is managed by the Vice-Presidency of Capital Markets, which chairs the ALCO, where positions, movements, indicators and limits on liquidity management are presented. Liquidity risk is supervised by the GIR Committee, defining the risk level that Interbank is willing to take and the corresponding indicators, limits and controls are reviewed. The Market Risk Division is in charge of tracking said indicators. Interbank takes short-term deposits and transforms them into longer-term loans. Therefore, its exposure to liquidity risk increases. Interbank maintains a set of deposits that are historically renewed or maintained, and which represent a stable funding source.

In the case of Interseguro, it is exposed to requirements other than its cash resources, mainly claims resulting from its short-term insurance contracts. The Board of Directors establishes limits on the minimum proportion of the maturity funds available to meet these requirements and in a minimum level of lines of credit that must be available to cover claims at unexpected claim levels.

With regards of long-term insurance contracts, considering the types of products offered and the long-term contractual relationship with clients (the liquidity risk is not material), the emphasis is on sufficient availability of flow of assets, and the term matching of the latter with liability obligations (mathematical technical reserves), for which there are sufficiency and adequacy indicators.

In the case of Inteligo Bank, the Board of Directors has established liquidity levels as to the minimum amount of available funds required to meet such requirements and the minimum level of inter-banking facilities and other loan mechanisms that should exist to cover unexpected withdrawals. Inteligo Bank holds a short-term asset portfolio, comprised of loans and liquid investments to ensure sufficient liquidity.

Inteligo Bank's financial assets include unlisted equity investments, which generally are not liquid. In addition, Inteligo Bank holds investments in closed (unlisted) and open-ended investment funds, which may be subject to redemption restrictions such as "side pockets" and

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redemption limits. As a result, Inteligo Bank may not be able to settle some of its investments in these instruments in due time in order to meet its liquidity requirements.

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The following table presents the Group's cash flows payable undiscounted according to contractual terms agreed (including the payment of future interest):

	As of December 31, 2016					
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	Over 5 years S/(000)	Total S/(000)
Financial liabilities by type						
Deposits and obligations	21,688,943	2,680,149	4,035,667	1,863,977	39,898	30,308,634
Inter-bank funds	332,255	-	-	-	-	332,255
Due to banks and correspondents	238,816	372,288	1,464,575	3,068,971	1,232,550	6,377,200
Bonds, notes and other obligations	6,568	35,798	267,111	4,022,193	2,153,046	6,484,716
Due from customers on acceptances	11,314	2,779	2,299	-	-	16,392
Insurance contract liabilities	38,540	75,657	337,857	1,404,829	7,111,595	8,968,478
Other accounts payable, provisions and other liabilities	401,227	169,132	72,616	57,946	29,464	730,385
Total non-derivative financial liabilities	22,717,663	3,335,803	6,180,125	10,417,916	10,566,553	53,218,060
Derivatives held for trading (*)						
Contractual amounts receivable (inflow)	292,889	269,707	973,026	3,429,070	934,040	5,898,732
Contractual amounts payable (outflow)	282,953	260,148	962,323	3,417,194	979,749	5,902,367
Total	9,936	9,559	10,703	11,876	(45,709)	(3,635)
Derivatives held as hedges (**) -						
Contractual amounts receivable (inflow)	-	41	412	1,630	-	2,083
Contractual amounts payable (outflow)	-	44	160	-	-	204
Total	-	(3)	252	1,630	-	1,879

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	As of December 31, 2015					Total S/(000)
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	Over 5 years S/(000)	
Financial liabilities by type						
Deposits and obligations	21,614,036	2,094,715	3,240,431	1,670,900	1,586	28,621,668
Due to banks and correspondents	308,137	187,370	1,767,641	3,615,738	1,338,249	7,217,135
Bonds, notes and other obligations	6,602	39,759	337,112	4,238,945	2,247,585	6,870,003
Due from customers on acceptances	3,318	21,641	2,159	-	-	27,118
Insurance contract liabilities	32,215	63,025	286,007	1,288,478	6,612,021	8,281,746
Other accounts payable, provisions and other liabilities	489,986	214,238	157,081	93,618	87,103	1,042,026
Total non-derivative financial liabilities	<u>22,454,294</u>	<u>2,620,748</u>	<u>5,790,431</u>	<u>10,907,679</u>	<u>10,286,544</u>	<u>52,059,696</u>
Derivatives held for trading (*)						
Contractual amounts receivable (inflow)	1,031,202	474,434	672,544	3,366,071	1,392,013	6,936,264
Contractual amounts payable (outflow)	1,045,216	479,377	675,525	3,349,353	1,441,081	6,990,552
Total	<u>(14,014)</u>	<u>(4,943)</u>	<u>(2,981)</u>	<u>16,718</u>	<u>(49,068)</u>	<u>(54,288)</u>
Derivatives held as hedges (**)						
Contractual amounts receivable (inflow)	-	-	-	-	-	-
Contractual amounts payable (outflow)	-	529	227	-	-	756
Total	<u>-</u>	<u>(529)</u>	<u>(227)</u>	<u>-</u>	<u>-</u>	<u>(756)</u>

(*) It includes contracts with non-deliverable and full-deliverable settlements.

(**) It only includes contracts with non-deliverable settlements.

The table below shows the contractual maturity of the contingent credit (indirect loans) granted by the Group as of the dates of the consolidated statements of financial position:

	2016 S/(000)	2015 S/(000)
Contingent credits (indirect loans)		
Up to 1 month	936,846	1,357,477
From 1 to 3 months	1,181,865	1,163,236
From 3 to 12 months	2,130,600	2,137,548
From 1 to 5 years	200,738	284,486
Over 5 years	421	-
Total	<u>4,450,470</u>	<u>4,942,747</u>

The Group expects that not all of the contingent liabilities or commitments will be used before the maturity date of the commitments.

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29.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When internal controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage these risks. Controls include mainly the segregation of duties, accesses, authorization and reconciliation procedures, staff training and assessment processes, including the review by Internal Audit.

29.5 Insurance risk management

The risk under an insurance contract, in any of its various forms, is the possibility that the insured event occurs and, therefore, uncertainty is realized in the amount of the resulting claim. Given the nature of the insurance contract, this risk is random and, therefore, unpredictable.

Regarding a portfolio of insurance contracts where the theory of large numbers and probabilities for pricing and provisions is applied, the main risk faced by the insurance business of the Group, managed by Interseguro, is that claims and/or payments of benefits covered by the policies exceed the book value of insurance liabilities. This could happen to the extent that the frequency and/or severity of claims and benefits are greater than estimated. The factors that are considered to perform the assessment of insurance risks are the following:

- Frequency and severity of claims;
- Sources of uncertainty in the calculation of payment of future claims;
- Mortality tables for different coverage plans in the life insurance segment;
- Changes in market rates of investments that directly affect the discount rates to calculate mathematical reserves; and
- Specific requirements established by the SBS according to insurance plans.

On the other hand, Interseguro has contracts of automatic reinsurance coverage that protect it from losses due to frequency and severity. The objective of this reinsurance negotiation is that the total net insurance losses do not affect the equity and liquidity of Interseguro in any year. Interseguro's policy is to sign contracts with companies with international rating determined by the rules of the SBS. Annuities contracts do not have reinsurance coverage.

(a) Life insurance contracts

Interseguro has developed its insurance underwriting strategy in order to diversify the type of insurance risks accepted. Factors that aggravate the insurance risk include lack of risk diversification in terms of type and amount of risk and geographic location. The underwriting strategy aims to ensure that underwriting risks are well diversified in terms of type and amount of risk. Underwriting limits serve to implement the selection criteria for appropriate risk. As of December 31, 2016 and 2015, most of the insurance contracts entered into by Interseguro are located in the city of Lima.

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The sufficiency of reserves is a principle of insurance management. Technical reserves for claims and premiums are estimated by Interseguro's actuaries and reviewed by independent experts when deemed necessary.

Interseguro's Management constantly monitors trends in claims, which allows it to perform estimates of claims incurred but not reported (IBNR) that are supported by recent information.

On the other hand, Interseguro is exposed to the risk that mortality and morbidity rates associated with customers do not reflect the actual mortality and morbidity and may cause the premium calculated for the coverage offered to be insufficient to cover claims. For this reason, Interseguro performs a careful risk selection or underwriting when issuing policies, because by doing so it can classify the degree of risk presented by a proposed insured, analyzing characteristics such as gender, smoker condition, health condition, among others.

In the particular case of annuities, the risk assumed by Interseguro is that the real life expectancy of the insured population is greater than that estimated when determining income, which would mean a deficit of reserves to comply with the payment of pensions.

On the other hand, insurance products do not have particularly relevant terms or clauses that could have a significant impact or represent significant uncertainties upon Interseguro's cash flows.

(b) Real estate risk management

Real estate risk is defined as the possibility of losses due to changes or volatility of market prices of properties; see Note 7. Investment properties are held by Interseguro in order to manage its long term inflows and match its technical reserves. SBS Resolution No. 2840-2012, dated May 11, 2012, "Regulations on Real Estate Risk Management in Insurance Companies", requires that insurance companies adequately identify, measure, control and report the real estate risk level they face.

Additionally, Interseguro has identified the following risks associated to its real property portfolio:

- The cost to develop a project may increase if there are delays in the planning process. Interseguro receives services from advisors in order to reduce the risks that may arise in the planning process.

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- A major lessee may become insolvent thus causing a significant loss in rental income and a reduction in the value of the associated property. To reduce this risk, Interseguro reviews the financial position of all prospective lessees and decides on the appropriate level of safety required, such as lease deposits or guarantees.

- The fair values of the investment property portfolio could be affected by the cash flows generated by the tenants and/or lessees, as well as by the economic conditions of Peru and future expectations.

29.6 Capital management

The Group manages in an active manner a capital base in order to cover the risks inherent to its activities. Capital adequacy of the Group is monitored by using regulations and ratios established by the different regulators; see Note 15(f).

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30. Fair value

(a) Financial instruments measured at their fair value and fair value hierarchy

The following table presents an analysis of the financial instruments that are measured at their fair value, including the level of hierarchy of fair value. The amounts are based on the balances presented in the consolidated statements of financial position:

	As of December 31, 2016				As of December 31, 2015			
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Financial assets								
Trading securities	77,052	1,929	1,168	80,149	84,468	20,721	-	105,189
Available-for-sale investments								
Debt instruments	4,680,267	3,086,619	-	7,766,886	4,058,803	2,329,006	-	6,387,809
Mutual funds and investment funds participations	167,431	643,460	262,297	1,073,188	420,244	244,619	251,081	915,944
Shares of the private sector, foreign entities and others	314,772	1,738	-	316,510	304,779	738	-	305,517
Royalty Pharma	-	-	68,264	68,264	-	-	229,001	229,001
InRetail Perú Corp.	203,074	-	-	203,074	149,107	-	-	149,107
Derivatives receivable	-	203,089	-	203,089	-	324,268	-	324,268
	<u>5,442,596</u>	<u>3,936,835</u>	<u>331,729</u>	<u>9,711,160</u>	<u>5,017,401</u>	<u>2,919,352</u>	<u>480,082</u>	<u>8,416,835</u>
Accrued interest				90,476				79,786
Total financial assets				<u>9,801,636</u>				<u>8,496,621</u>
Financial liabilities								
Derivatives payable	-	236,137	-	236,137	-	384,734	-	384,734

Financial assets included in Level 1 are those measured on the basis of information that is available in the market, to the extent that their quoted prices reflect an active and liquid market and that are available in some centralized trading mechanism, trading agent, price supplier or regulatory entity.

Financial instruments included in Level 2 are valued with the market prices of other instruments with similar characteristics or with financial valuation models based on information of variables observable in the market (interest rate curves, price vectors, etc.).

Financial assets included in Level 3 are valued by using assumptions and data that do not correspond to prices of operations traded in the market. Fair value is estimated using a discounted cash flow (DCF) model. The valuation requires Management to make certain assumptions about the model variables and data, including cash flow forecast, discount rate, credit risk and volatility.

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The table below presents a description of significant unobservable data used in valuation:

	Valuation technique	Significant unobservable inputs	Valuation	Sensitivity of inputs to fair value
Royalty Pharma	DCF Method	Sales forecast	Average sector analysis, estimates	10 percent increase (decrease) in the sales forecast would result in increase (decrease) in fair value by S/10,686,000. 500 basis points increase in the WACC would result in decrease in fair value by S/19,612,000.
		WACC	8.0%	500 basis points decrease in the WACC would result in increase in fair value by S/29,365,000.
Mutual funds and investment funds participations	DCF Method	Discount rate	Depends on the credit risk	500 basis points increase in the discount rate would result in decrease in fair value by S/2,923,000. 500 basis points decrease in the discount rate would result in increase in fair value by S/3,779,000.
		WACC	9.0%	500 basis points increase in the WACC would result in decrease in fair value by S/8,541,000. 500 basis points decrease in the WACC would result in increase in fair value by S/6,873,000.
	Comparable multiples Equity value	Price-to-sales ratio	Depends on industry's entity Depends on the credit risk	10 percent increase (decrease) in the price-to-sales ratio would result in increase (decrease) in fair value by S/772,000. 500 basis points increase (decrease) in the equity value would result in increase (decrease) in fair value by S/536,000.

The table below includes a reconciliation of fair value measurement of financial instruments classified by the Group within Level 3 of the valuation hierarchy:

	Available-for-sale investments	
	2016 S/(000)	2015 S/(000)
Balance as of January 1	480,082	342,581
Purchases	117,188	219,749
Sales	(219,629)	(90,624)
Valuation recognized in the consolidated statements of other comprehensive income	(45,912)	8,376
Balance as of December 31	<u>331,729</u>	<u>480,082</u>

As of December 31, 2016 and 2015, the unrealized gain on Level 3 financial instruments amounts to S/18,286,000 and S/108,929,000, respectively, and the unrealized loss amounts to S/9,250,000 and S/3,436,000 respectively. During 2016 and 2015, there were no transfers of financial instruments from Level 3 to Level 1 or to Level 2.

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(b) Financial instruments not measured at their fair value

The table below presents the disclosure of the comparison between the carrying amounts and fair values of the Group's financial instruments that are not measured at their fair value, presented by level of hierarchy of their fair value:

	As of December 31, 2016					As of December 31, 2015				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	11,761,803	-	11,761,803	11,761,803	-	12,431,785	-	12,431,785	12,431,785
Inter-bank funds	-	5,002	-	5,002	5,002	-	245,028	-	245,028	245,028
Held-to-maturity investments	204,275	401,024	-	605,299	611,293	-	440,645	-	440,645	479,561
Loan portfolio, net	-	27,906,646	-	27,906,646	27,025,865	-	26,572,466	-	26,572,466	25,994,235
Due from customers on acceptances	-	16,392	-	16,392	16,392	-	27,118	-	27,118	27,118
Other accounts receivable and other assets, net	-	586,886	-	586,886	586,886	-	469,901	-	469,901	469,901
Total	204,275	40,677,753	-	40,882,028	40,007,241	-	40,186,943	-	40,186,943	39,647,628
Liabilities										
Deposits and obligations	-	30,100,962	-	30,100,962	30,097,850	-	28,479,474	-	28,479,474	28,487,666
Inter-bank funds	-	332,255	-	332,255	332,255	-	-	-	-	-
Due to banks and correspondents	-	5,338,642	-	5,338,642	5,328,603	-	6,202,037	-	6,202,037	6,191,726
Bonds, notes and notes issued	4,113,938	950,632	-	5,064,570	4,769,390	4,125,385	996,524	-	5,121,909	4,925,413
Due from customers on acceptances	-	16,392	-	16,392	16,392	-	27,118	-	27,118	27,118
Insurance contract liabilities	-	5,010,513	-	5,010,513	5,010,513	-	4,477,089	-	4,477,089	4,477,089
Accounts payable and other liabilities	-	730,622	-	730,622	730,622	-	860,564	-	860,564	860,564
Total	4,113,938	42,480,018	-	46,593,956	46,285,625	4,125,385	41,042,806	-	45,168,191	44,969,576

The methodologies and assumptions used to determine fair values depend on the terms and risk characteristics of each financial instrument and they include the following:

- (i) Long-term fixed-rate and variable-rate loans are assessed by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these loans. As of December 31, 2016 and 2015, the book value of loans, net of allowances, were not significantly different from their calculated fair values.
- (ii) Instruments which fair value approximate their book value - For financial assets and financial liabilities that are liquid or having a short term maturity (less than 3 months) it is assumed that the carrying amounts approximate to their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable-rate financial instruments.
- (iii) Fixed-rate financial instruments - The fair value of fixed-rate financial assets and financial liabilities at amortized cost is determined by comparing market interest rates when they were first recognized with current market rates related to similar financial instruments for their remaining term to maturity. The fair value of fixed interest rate deposits is based on discounted cash flows using market interest rates for financial instruments with similar credit risk and maturity. For quoted debt issued, the fair value is determined based on quoted market prices. When quotations are not available, a discounted cash flow model is used based on the yield curve of the adequate interest rate for the remaining term to maturity.

Translation of consolidated financial statements originally issued in Spanish – Note 33

Notes to the consolidated financial statements (continued)

31. Fiduciary activities and management of funds

The Group provides custody, trustee, investment management and advisory services to third parties; therefore, the Group makes purchase and sale decisions in relation to a wide range of financial instruments. Assets that are held in trust are not included in the consolidated financial statements. These services give rise to the risk that the Group could eventually be held responsible of poor yielding of the assets under its administration.

As of December 31, 2016 and 2015, the value of the financial assets managed off-balance sheet is as follows:

	2016 S/(000)	2015 S/(000)
Investment funds	11,638,129	10,684,729
Mutual funds	<u>3,511,240</u>	<u>2,927,113</u>
Total	<u>15,149,369</u>	<u>13,611,842</u>

32. Subsequent events

Since December 31, 2016, and as of the date of this report, no significant event that could impact the consolidated financial statements has occurred.

33. Additional explanation for English translation

The accompanying financial statements are presented on the basis of the IFRS. In the event of any discrepancy, the Spanish language version prevails.