

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of September 30, 2016, December 31, 2015, and for the nine-month periods ended September 30, 2016 and 2015

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of September 30, 2016 and December 31, 2015 (audited)

	Note	2016 S/(000)	2015 S/(000)		Note	2016 S/(000)	2015 S/(000)
Assets				Liabilities and equity			
Cash and due from banks:	3			Deposits and obligations:	8		
Non-interest bearing		2,819,454	2,092,189	Non-interest bearing		5,125,261	3,977,782
Interest bearing		5,072,311	6,689,335	Interest bearing		<u>23,542,172</u>	<u>24,509,884</u>
Restricted funds		<u>3,396,099</u>	<u>3,650,261</u>			28,667,433	28,487,666
		11,287,864	12,431,785				
Inter-bank funds		230,027	245,028	Inter-bank funds		238,003	-
Trading securities		47,816	105,189	Due to banks and correspondents	9	6,006,217	6,191,726
Investments available-for-sale	4	9,458,079	8,067,164	Bonds, notes and other obligations	10	4,855,471	4,925,413
Held-to-maturity investments		471,888	479,561	Due from customers on acceptances		28,615	27,118
				Insurance contract liabilities	11	5,029,336	4,477,089
				Accounts payable, provisions and other liabilities	7	1,535,012	1,426,762
				Deferred Income Tax liability, net		<u>3,780</u>	<u>4,164</u>
				Total liabilities		46,363,867	45,539,938
Loans, net:							
Loans, net of unearned income	5	28,055,307	27,035,814	Equity, net	12		
Allowance for loan losses		<u>(1,130,874)</u>	<u>(1,041,579)</u>	Equity attributable to IFS's shareholders:			
		26,924,433	25,994,235	Capital stock		963,446	963,446
				Treasury stock		(365,820)	(322,214)
				Capital surplus		268,077	268,077
Investment property	6	763,550	713,262	Reserves		2,600,000	2,000,000
Property, furniture and equipment, net		585,920	579,158	Unrealized results, net		259,581	(361,395)
Due from customers on acceptances		28,615	27,118	Retained earnings		<u>1,167,684</u>	<u>1,797,637</u>
Accounts receivable and other assets, net	7	1,554,419	1,316,810			4,892,968	4,345,551
Deferred Income Tax asset, net		23,474	41,559	Non-controlling interest		<u>119,250</u>	<u>115,380</u>
				Total equity, net		5,012,218	4,460,931
Total assets		51,376,085	50,000,869	Total liabilities and equity		51,376,085	50,000,869

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the nine-month periods ended September 30, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Interest and similar income	14	2,753,418	2,430,728
Interest and similar expenses	14	(806,115)	(661,837)
Net interest and similar income		<u>1,947,303</u>	<u>1,768,891</u>
Provision for loan losses, net of recoveries	5(c)	(589,665)	(463,334)
Net interest and similar income after provision for loan losses, net of recoveries		1,357,638	1,305,557
Other income			
Fee income from financial services, net	15	641,072	603,632
Net gain on foreign exchange transactions		211,655	360,994
Net gain on sale of securities		99,640	133,315
Net trading loss		(61,208)	(52,868)
Rental income		15,501	13,882
Gain (loss) on sale of investment property		2,655	(1,259)
Valuation (loss) gain from investment property	6(b)	(1,290)	24,316
Other	16	72,011	63,386
Total other income		<u>980,036</u>	<u>1,145,398</u>
Insurance premiums and claims			
Net premiums earned	17	(83,764)	338,350
Net claims and benefits incurred for life insurance contracts and others	18	(230,220)	(188,985)
Total net premiums earned less claims and benefits		<u>(313,984)</u>	<u>149,365</u>
Other expenses			
Salaries and employee benefits	19	(518,524)	(517,163)
Administrative expenses	20	(568,872)	(558,285)
Depreciation and amortization		(96,807)	(82,714)
Impairment loss on available-for-sale investments	4(c)	(62,176)	(50,895)
Expenses related to rental income		(1,068)	(464)
Other	16	(87,035)	(89,696)
Total other expenses		<u>(1,334,482)</u>	<u>(1,299,217)</u>
Income before translation result and Income Tax		689,208	1,301,103
Translation result		8,545	(16,347)
Income Tax		(250,375)	(266,851)
Profit for the period		<u>447,378</u>	<u>1,017,905</u>
Attributable to:			
Equity holders of the Group		441,976	1,012,271
Non-controlling interest		5,402	5,634
		<u>447,378</u>	<u>1,017,905</u>
Basic and diluted earnings per share attributable to IFS (stated in Soles)	21	<u>4.066</u>	<u>9.275</u>
Weighted average number of outstanding shares (in thousands)	21	<u>108,693</u>	<u>109,136</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of other comprehensive income

For the nine-month periods ended September 30, 2016 and 2015

	2016 S/(000)	2015 S/(000)
Profit for the period	447,378	1,017,905
Other comprehensive income		
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:		
Unrealized gain (loss) on available-for-sale investments	625,232	(634,681)
Net movement on cash flow hedges	335	2,459
Translation results of foreign operations	(3,454)	33,682
	<hr/>	<hr/>
Total comprehensive income for the period	1,069,491	419,365
Attributable to:		
Equity holders of the Group	1,062,952	414,324
Non-controlling interest	6,539	5,041
	<hr/>	<hr/>
	1,069,491	419,365

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

InterCorp Financial Services Inc. and Subsidiaries

Consolidated statements of changes in equity

For the nine-month periods ended September 30, 2016 and 2015

	Number of shares		Attributable to IFS's shareholders										
	Issued (in thousands)	In treasury (in thousands)	Capital stock S/(000)	Treasury stock S/(000)	Capital Surplus S/(000)	Reserves S/(000)	Unrealized results, net, Note 12(e) (f)			Retained earnings S/(000)	Total S/(000)	Non- controlling interest S/(000)	Total equity S/(000)
							Available-for- sale investments S/(000)	Derivatives Instruments designated as cash flow hedges S/(000)	Foreign currency translation reserve S/(000)				
Balances as of January 1, 2015	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 income	-	-	-	-	-	-	-	-	-	1,012,271	1,012,271	5,634	1,017,905
Other comprehensive income	-	-	-	-	-	-	(634,071)	2,442	33,682	-	(597,947)	(593)	(598,540)
Total comprehensive income	-	-	-	-	-	-	(634,071)	2,442	33,682	1,012,271	414,324	5,041	419,365
Declared and paid dividends, Note 12(a)	-	-	-	-	-	-	-	-	-	(564,178)	(564,178)	-	(564,178)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,232)	(2,232)
Net variation of treasury stock held by Subsidiaries, Note 12(b)	-	(540)	-	(36,350)	-	-	-	-	-	-	(36,350)	-	(36,350)
Transfer of retained earnings to reserves, Note 12(d)	-	-	-	-	-	2,000,000	-	-	-	(2,000,000)	-	-	-
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	19,374	19,374	-	19,374
Purchase of shares	-	-	-	-	-	-	-	-	-	(289)	(289)	-	(289)
Other	-	-	-	-	-	-	-	-	-	10,576	10,576	-	10,576
Balances as of September 30, 2015	113,110	(4,290)	963,446	(322,126)	268,077	2,000,000	(533,512)	(981)	78,253	1,581,354	4,034,511	114,029	4,148,540
Balances as of January 1, 2016	113,110	(4,290)	963,446	(322,214)	268,077	2,000,000	(471,154)	(455)	110,214	1,797,637	4,345,551	115,380	4,460,931
Net income	-	-	-	-	-	-	-	-	-	441,976	441,976	5,402	447,378
Other comprehensive income	-	-	-	-	-	-	624,097	333	(3,454)	-	620,976	1,137	622,113
Total comprehensive income	-	-	-	-	-	-	624,097	333	(3,454)	441,976	1,062,952	6,539	1,069,491
Declared and paid dividends, Note 12(a)	-	-	-	-	-	-	-	-	-	(496,862)	(496,862)	-	(496,862)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,623)	(2,623)
Net variation of treasury stock held by Subsidiaries, Note 12(b)	-	2	-	277	-	-	-	-	-	-	277	-	277
Transfer of retained earnings to reserves, Note 12(d)	-	-	-	-	-	600,000	-	-	-	(600,000)	-	-	-
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	18,258	18,258	-	18,258
Purchase of shares	-	(432)	-	(43,883)	-	-	-	-	-	-	(43,883)	-	(43,883)
Other	-	-	-	-	-	-	-	-	-	6,675	6,675	(46)	6,629
Balances as of September 30, 2016	113,110	(4,720)	963,446	(365,820)	268,077	2,600,000	152,943	(122)	106,760	1,167,684	4,892,968	119,250	5,012,218

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of cash flows

For the nine-month periods ended September 30, 2016 and 2015

	2016	2015
	S/(000)	S/(000)
Operating activities		
Profit for the period	447,378	1,017,905
Plus (less)		
Provision for loan losses, net of recoveries	589,665	463,334
Depreciation and amortization	96,807	82,714
Provision for sundry risks	8,981	21,949
Deferred Income Tax	18,443	25,256
Net gain on sale of securities	(99,640)	(133,315)
Impairment loss on available-for-sale investments	62,176	50,895
(Gain) loss on sale of investment property	(2,655)	1,259
Valuation loss (gain) from investment property	1,290	(24,316)
Net trading loss	61,208	52,868
Translation result	(8,545)	16,347
Decrease (increase) in accrued interest receivable	3,461	(14,595)
Increase in accrued interest payable	14,086	94,944
Net changes in assets and liabilities		
Increase in loans	(1,520,209)	(3,254,439)
Decrease (increase) in restricted funds	254,161	(2,598,560)
Decrease (increase) in accounts receivable and other assets, net	15,274	(250,894)
Increase in deposits and obligations	186,436	2,304,930
(Decrease) increase in due to banks and correspondents	(172,947)	3,165,201
Increase in accounts payable, provisions and other liabilities	<u>460,435</u>	<u>986,731</u>
Net cash provided by operating activities (*)	<u>415,805</u>	<u>2,008,214</u>

Consolidated statements of cash flows (continued)

	2016	2015
	S/(000)	S/(000)
Investing activities		
Increase of trading securities, available-for-sale and held-to-maturity investments	(793,696)	(979,848)
(Purchase) sale of trading security	(3,835)	16,628
Purchase of property, furniture and equipment	(56,063)	(35,952)
Purchase of intangible assets	(60,841)	(57,612)
Sale of investment property	26,185	57,486
Purchase of investment property	<u>(75,108)</u>	<u>(76,750)</u>
Cash used in investing activities	<u>(963,358)</u>	<u>(1,076,048)</u>
Financing activities		
Net decrease in bonds, notes and other obligations	(95,725)	(136,294)
Net decrease in receivable inter-bank funds	15,001	214,587
Increase in payable inter-bank funds	238,003	250,024
Payments of dividends	(496,862)	(564,178)
Dividend payments to non-controlling interest	<u>(2,623)</u>	<u>(2,232)</u>
Cash used in financing activities (*)	<u>(342,206)</u>	<u>(238,093)</u>
Net (decrease) increase in cash	(889,759)	694,073
Cash at the beginning of period	<u>8,781,524</u>	<u>5,447,366</u>
Cash at the end of period	<u>7,891,765</u>	<u>6,141,439</u>

(*) See Note 2.

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of September 30, 2016, December 31, 2015, and for the nine-month periods ended September 30, 2016 and 2015

1. Business activity

(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, subsidiary of Intercorp Perú Ltd. (henceforth "Intercorp Perú"), a holding Company incorporated in 1997 in the Commonwealth of The Bahamas. As of September 30, 2016 and December 31, 2015, Intercorp Perú holds 78.46 percent of IFS's capital stock.

As of September 30, 2016 and December 31, 2015, IFS holds approximately 99.30 percent of the capital stock of Banco Internacional del Perú S.A.A. – Interbank (henceforth "Interbank") and 100 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. The operations of Inteligo and Subsidiaries are concentrated in Panama and Peru.

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 1(b).

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

The consolidated financial statements as of September 30, 2016, were approved by the Board of Directors held on November 9, 2016. 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.

(b) Subsidiaries

IFS's Subsidiaries are the following:

(i) 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", by 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 September 30, 2016 and December 31, 2015, Interbank had 289 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:

Notes to the consolidated financial statements (continued)

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 Crédito y Cobranzas S.A.	Collection services.
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities.
Compañía de Servicios Conexos S.A. – Expressnet	Services related to credit card transactions or products related to the brand “American Express”.
IBK Securitizadora	A consolidated special purpose entity (SPE), by which Interbank issued negotiable long-term notes, see Note 10 (f).

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

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

As of September 30, 2016 and December 31, 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 September 30, 2016 and December 31, 2015, Interseguro holds 75 percent of its shares.
Empresa Administradora Hipotecaria S.A.	Was incorporated in February 2014 in Peru; It does not have operations and is under the process of being liquidated. As of September 30, 2016, Interseguro holds 100 percent of its shares and has a paid-in capital of S/1 (S/2,550 as of December 31, 2015)

Patrimonio Fideicometido D.S.093-2002-EF, Interproperties Perú (henceforth “Patrimonio Fideicometido – Interproperties Perú”) is a structured entity, incorporated in April 2008, in which several investors (related parties to the Group) contributed investment properties. 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, Interseguro has consolidated the silos containing the investment properties that it controls.

Notes to the consolidated financial statements (continued)

(iii) Inteligo and Subsidiaries

Inteligo is an entity incorporated in the Republic of Panama. As of September 30, 2016 and December 31, 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 Superintendencia of Banks of the Republic of Panama. Its main activities are private and institutional banking services provided mainly to Peruvian citizens.
Inteligo Sociedad Agente de Bolsa S.A.	Brokerage firm incorporated in Peru.

(iv) San Borja Global Opportunities S.A.C.

Its corporate purpose is the acquisition and holding of shares and securities. As of September 30, 2016 and December 31, 2015, it did not have operations.

Notes to the consolidated financial statements (continued)

The table below presents a summary of the financial statements of the main Subsidiaries, before adjustments and eliminations for consolidation, as of September 30, 2016, December 31, 2015, and for the nine-month periods ended September 30, 2016 and 2015, in accordance with IFRS:

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2016	2015	2016	2015	2016	2015
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Condensed consolidated statements of financial position						
Trading securities and available-for-sale investments	3,683,262	3,173,210	4,823,572	4,138,555	1,316,339	1,084,093
Held-to-maturity investments	471,888	479,561	-	-	-	-
Loans, net	25,216,816	24,308,737	-	-	1,707,657	1,685,549
Investment property	-	-	763,549	713,262	-	-
Total assets	41,879,655	41,652,030	5,961,673	5,253,987	3,873,372	3,376,035
Deposits and obligations	25,529,916	25,880,904	1,978	-	3,163,857	2,706,931
Due to banks and correspondents	5,915,143	6,138,544	22,903	50,988	68,171	68,269
Bonds, notes and other obligations	4,683,187	4,689,925	172,322	174,192	-	-
Insurance contracts liabilities	-	-	5,029,337	4,477,089	-	-
Total liabilities	37,727,736	37,907,010	5,398,286	4,916,095	3,248,213	2,796,288
Equity attributable to Group's shareholders	4,151,919	3,745,020	473,032	248,580	625,159	579,747
Non-controlling interest – equity	-	-	90,355	89,312	-	-

For the nine-month periods ended September, 30

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2016	2015	2016	2015	2016	2015
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Condensed consolidated income statements						
Interest and similar income and expenses, net	1,688,387	1,543,040	205,445	182,392	71,326	60,218
Provision for loan losses, net of recoveries	(589,665)	(461,455)	-	-	-	(1,879)
Valuation gain and gain from sale of investment properties	-	-	1,365	23,057	-	-
Fee income from financial services	584,433	532,133	(2,076)	(2,755)	86,436	98,631
Total net premiums earned minus claims and benefits	-	-	(313,984)	149,365	-	-
Net profit for the period attributable to Group's shareholders	623,049	648,500	(246,388)	307,341	132,521	102,914
Non-controlling interest	-	-	1,066	1,120	-	-

Notes to the consolidated financial statements (continued)

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (henceforth “IFRS”) as issued by the International Accounting Standards Board (henceforth “IASB”). The accounting principles and practices as of September 30, 2016, are consistent with respect to the rules applied as of December 31, 2015, which are included in the audited consolidated financial statements dated March 22, 2016.

Notwithstanding the aforementioned - for presentation and comparison purposes - cash flow from due to banks and correspondents amounting to S/3,165,201,000 has been reclassified as operating activities in the consolidated statement of cash flows of period 2015.

3. Cash and due from banks

This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Cash and clearing	1,465,858	1,700,838
Deposits in Central Reserve Bank of Peru – BCRP	4,666,343	6,054,798
Deposits in other banks	1,759,194	1,025,525
Restricted funds	3,396,097	3,650,261
	<u>11,287,492</u>	<u>12,431,422</u>
Accrued interest	372	363
Total	<u>11,287,864</u>	<u>12,431,785</u>

As of September 30, 2016 the “Cash and due from banks” caption of the consolidated statements of financial position includes approximately US\$1,510,974,000 and S/887,799,000 (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 obligations with the public. These funds are kept in Interbank’s vaults and in the Central Reserve Bank of Peru (henceforth “BCRP”, by its Spanish acronym) and are within the limits required by prevailing Peruvian regulations at those dates.

The legal reserve funds maintained in the BCRP are non-interest bearing, except for the part that exceeds the minimum reserve required. As of September 30, 2016 the excess in US Dollars amounted to approximately US\$182,389,000 equivalent to approximately S/620,121,000 and accrued interest at an annual average rate of 0.13 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/1,028,697,000 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 domestic and foreign banks are mainly in Soles and US Dollars, they are freely available and bear interest at market rates. As of September 30, 2016 and December 31, 2015, the Group does not have significant deposits in any specific financial institution.

Cash and cash equivalent presented in the consolidated statements of cash flows exclude the restricted funds.

Notes to the consolidated financial statements (continued)

As of September 30, 2016 and December 31, 2015, the “Restricted Funds” caption is mainly comprised by deposits in the BCRP amounting to approximately US\$931,290,000 (equivalent to S/3,166,387,000) and US\$960,688,000 (equivalent to S/3,276,907,000), respectively, as a guarantee for loans received from this entity, see Note 9(b). As of September 30, 2016 and December 31, 2015, this caption included restricted funds related to requirements from counterparties of derivative financial instruments transactions (see Note 7(d)) amounted to approximately US\$67,935,000 (equivalent to S/230,980,000) and US\$98,653,000 (equivalent to S/336,504,000), respectively and; cash from remittances received which guarantee the payment of the trading notes issued by IBK DPR Securitizadora amounted to approximately US\$9,929,000 (equivalent to S/33,869,000), as of December 31, 2015, see Note 10(f).

Notes to the consolidated financial statements (continued)

4. Available-for-sale investments

(a) The detail of available-for-sale investments 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)	
Debt Instruments								
Corporate, leasing and subordinated bonds	3,961,229	99,756	(81,243)	3,979,742	3,409,557	19,136	(404,820)	3,023,873
Negotiable Certificates of Deposit issued by BCRP	1,676,586	2,564	(237)	1,678,913	877,165	-	(2,845)	874,320
Peruvian sovereign bonds	1,304,868	34,460	(37,033)	1,302,295	1,117,769	269	(133,672)	984,366
Mutual funds and investments participations	1,038,273	36,563	(23,002)	1,051,834	926,127	38,219	(48,402)	915,944
Bonds guaranteed by the Peruvian Government	475,510	28,779	(1,158)	503,131	446,040	4,018	(20,129)	429,929
Indexed Certificates of Deposit issued by BCRP	129,906	133	(322)	129,717	668,699	176	(1,527)	667,348
Sovereign and Global bonds from foreign countries	41,851	-	(1)	41,850	66,066	-	(1,151)	64,915
Peruvian Global Bonds	-	-	-	-	351,245	-	(8,187)	343,058
Total	8,628,223	202,255	(142,996)	8,687,482	7,862,668	61,818	(620,733)	7,303,753
Listed shares								
Peruvian and foreign entities	367,029	46,900	(6,527)	407,402	317,674	1,727	(14,439)	304,962
InRetail Perú Corp. (d)	110,736	83,099	-	193,835	110,866	38,241	-	149,107
Non listed shares and participations								
Royalty Pharma (e)	89,712	1,439	-	91,151	147,243	81,758	-	229,001
Other	982	703	(131)	1,554	985	-	(430)	555
	<u>568,459</u>	<u>132,141</u>	<u>(6,658)</u>	<u>693,942</u>	<u>576,768</u>	<u>121,726</u>	<u>(14,869)</u>	<u>683,625</u>
	<u>9,196,682</u>	<u>334,396</u>	<u>(149,654)</u>	<u>9,381,424</u>	<u>8,439,436</u>	<u>183,544</u>	<u>(635,602)</u>	<u>7,987,378</u>
Add – Accrued Interest on investments				76,655				79,786
Total				9,458,079				8,067,164

Notes to the consolidated financial statements (continued)

- (b) The Group has determined that the unrealized losses as of September 30, 2016 amounting to S/149,654,000 and December 31, 2015 amounting to S/635,602,000, are of temporary nature. The Group intends and has the ability to hold each investment for a period of time sufficient to allow for an anticipated recovery in fair value, until the earlier of its anticipated recovery or maturity.

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

- The length of time and the extent to which its 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.

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

- 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 income represents the security’s decline in fair value due to the decrease of forecasted cash flow and the increase of market interest rates.
- For financial instruments with unrealized losses but not identified as impaired, the Group determines whether it has the positive intent and ability to hold each investment for a period of time sufficient to allow for an anticipated recovery in its amortized cost. 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 ability 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 to 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 ability to hold the security for a sufficient time period, the unrealized loss is recorded directly in the consolidated income statements.

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 loss amounting to S/62,176,000 and S/50,895,000 as of September 30, 2016 and 2015, 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 12(d). The table below presents debt instruments (by issuer) with unrealized losses as of September 30, 2016 and December 31, 2015:

	2016			2015		
	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)
Debt instruments (by issuer)						
Peruvian Sovereign bonds	1,304,868	34,460	(37,033)	1,117,769	269	(133,672)
Bonds guaranteed by the Peruvian Government	475,510	28,779	(1,158)	446,040	4,018	(20,129)
Vale Overseas Ltd.	95,983	-	(13,923)	96,725	-	(36,574)
Fibra Uno	107,105	-	(7,383)	66,617	-	(8,154)
Corporación Financiera de Desarrollo S.A.	89,143	-	(12,731)	168,843	-	(28,727)
H2Olmos S.A.	113,200	-	(6,551)	110,617	85	(17,194)
Other less than S/6 million	-	71,887	(64,217)	-	10,516	(376,283)
	<u>2,185,809</u>	<u>135,126</u>	<u>(142,996)</u>	<u>2,006,611</u>	<u>14,888</u>	<u>(620,733)</u>

- (d) As of September 30, 2016 and December 31, 2015, the Group held approximately 3,125,000 shares, which represent 3.04 percent of InRetail Peru Corp's capital stock (a related entity).
- (e) Corresponds to participations in RPI International Holding, LP (RPI Partnership) and Royalty Pharma Cayman Holding, 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 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 September 30, 2016, the Group holds 70,000 and 167,251 participations of RPS Partnership and RPI Partnership, respectively, whose fair values amounted to approximately US\$4,537,000 and US\$22,273,000 (equivalent to approximately S/15,424,000 and S/75,727,000, respectively). As of December 31, 2015, the Group holds 300,000 and 283,537 participations of RPS Partnership and RPI Partnership, respectively, whose fair values amounted 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 sold 230,000 and 116,286 participations of RPS Partnership and RPI Partnership, respectively, at their fair value, of approximately US\$32,890,000, generating gains amounting to US\$14,243,000 (equivalent to approximately S/48,199,000), which are 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 participations 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.

During 2016 and 2015, the Group received dividends from these participations for approximately S/20,977,000 and S/6,197,000, respectively, which are included in the "Interest and similar income" caption in the consolidated income statements.

Notes to the consolidated financial statements (continued)

5. Loans, net

(a) The detail of the loan portfolio is as follows:

	2016 S/(000)	2015 S/(000)
Direct loans		
Loans	20,291,034	19,481,899
Credit cards	3,960,329	3,708,647
Leasing	1,811,186	2,010,253
Discounted notes	395,302	438,044
Factoring	229,082	213,824
Advances and overdrafts	105,589	66,683
Refinanced loans	304,782	249,216
Past due and under legal collection loans	<u>682,040</u>	<u>589,106</u>
	<u>27,779,344</u>	<u>26,757,672</u>
Plus (less)		
Accrued interest from performing loans	302,240	302,586
Unearned interest and interest collected in advance	(26,277)	(24,444)
Allowance for loan losses (c)	<u>(1,130,874)</u>	<u>(1,041,579)</u>
Total direct loans, net	<u>26,924,433</u>	<u>25,994,235</u>
Indirect loans	<u>4,948,641</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	13,242,846	13,042,800
Consumer loans	8,964,958	8,416,020
Mortgage loans	5,016,324	4,766,516
Small and micro-business loans	<u>555,216</u>	<u>532,336</u>
Total	<u>27,779,344</u>	<u>26,757,672</u>

Notes to the consolidated financial statements (continued)

(c) The changes in the allowance for loan losses is as follows:

	2016	2015
	S/(000)	S/(000)
	(*)	(*)
Balance as of January 1st	1,065,192	835,205
Provision	589,665	463,334
Recoveries of written-off loans	89,289	81,860
Written-off loans	(582,412)	(386,663)
Sale of loan portfolio	(1,665)	(3,165)
Translation result	(1,329)	21,430
Others	<u>(5,098)</u>	<u>-</u>
Balances as of September 30	<u>1,153,642</u>	<u>1,012,001</u>
Balance as of December 31, 2015		<u>1,065,192</u>

(*) The allowance for loan losses includes allowance for direct and indirect loans amounting to S/1,130,874,000 and S/22,768,000, respectively, as of September 30, 2016 (S/1,041,579,000 and S/23,613,000, respectively, as of December 31, 2015). The allowance for indirect loans is presented in the “Accounts payable, provisions and other liabilities” caption of the consolidated statements of financial position; see Note 7(a).

In Management’s opinion, the allowance for loan losses recorded as of September 30, 2016 and December 31, 2015, has been calculated in accordance with IAS 39 and is sufficient to cover incurred losses on the loan portfolio.

Notes to the consolidated financial statements (continued)

6. Investment property

(a) This caption is made up as follows:

	2016 S/(000)	2015 S/(000)	Acquisition or construction year	Hierarchy (i)	Valuation methodology	
					2016	2015
Land -						
San Isidro	258,355	253,366	2008	Level 3	Appraisal	Appraisal
San Martin de Porres	57,984	58,106	2015	Level 3	Appraisal	Appraisal
Talara	40,087	23,000	2015-2016	Level 3	Appraisal	Appraisal
Piura	38,033	36,752	2009	Level 3	Appraisal	Appraisal
Sullana	23,793	23,896	2014	Level 3	Appraisal	Appraisal
Chimbote	8,632	8,247	2015	Level 3	Appraisal	Appraisal
Trujillo	7,281	-	2016	Level 3	Appraisal	Appraisal
Lurín	-	23,530	2012	Level 3	Appraisal	Appraisal
Others	15,305	15,303	-	Level 3	Appraisal	Appraisal
	<u>449,470</u>	<u>442,200</u>				
Completed investment property						
Shopping mall "Real Plaza" -						
Pucallpa	220,144	219,549	2014	Level 3	DCF	DCF
	<u>220,144</u>	<u>219,549</u>				
Buildings -						
Ate Vitarte	48,269	46,612	2006	Level 3	DCF	DCF
Hebraica	20,386	-	2016	Level 3	DCF	-
Panorama	20,771	-	2016	Level 3	DCF	-
Pardo y Aliaga	3,032	3,233	2010	Level 3	DCF	DCF
	<u>92,458</u>	<u>49,845</u>				
Built on leased land -						
Others	1,478	1,668	-	Level 3	DCF	DCF
	<u>1,478</u>	<u>1,668</u>				
Total	<u>763,550</u>	<u>713,262</u>				

DCF: Discounted cash flow

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

(ii) As of September 30, 2016 and December 31, 2015, there are no liens on investment properties.

(b) The movement of investment property for the nine-month periods ended September 30, 2016 and 2015, is as follows:

	2016 S/(000)	2015 S/(000)
Balance as of January 1st	713,262	652,881
Additions	75,108	76,750
Sales	(23,530)	(58,745)
Fair value adjustment	<u>(1,290)</u>	<u>24,316</u>
Balances as of September 30	<u>763,550</u>	<u>695,202</u>
Balance as of December 31		<u>713,262</u>

Notes to the consolidated financial statements (continued)

7. Accounts receivable and other assets, net; accounts payable, provisions and other liabilities

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Accounts receivable and other assets		
Financial instruments		
Accounts receivable from sale of investments	373,536	86,544
Accounts receivable related to derivative financial instruments (d)	267,607	324,268
Other accounts receivable	122,856	181,723
Assets for technical reserves for claims and premiums by reinsurers	118,649	91,100
Operations in process (c)	78,621	28,411
Insurance operation receivables, net	46,536	42,912
Accounts receivable from reinsurers and coinsurers	21,557	21,347
Credit card commissions receivable	16,218	17,864
Total	<u>1,045,580</u>	<u>794,169</u>
Non-financial instruments		
Intangible assets, net	212,696	199,361
Value-Added-Tax credit (b)	105,196	165,223
Prepaid expenses	61,504	48,356
Income Tax credit	56,744	30,249
Investments in associates	47,614	49,513
Prepaid rights to related entity, Note 22(f)	14,620	16,819
Other	10,465	13,120
	<u>508,839</u>	<u>522,641</u>
Total	<u>1,554,419</u>	<u>1,316,810</u>
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	383,431	427,152
Accounts payable for acquisitions of investments	383,167	165,074
Accounts payable related to derivative financial instruments (d)	301,226	384,734
Operations in process (c)	128,995	82,064
Workers' profit sharing and salaries payable	105,620	115,182
Accounts payable to reinsurers and coinsurers	41,201	47,479
Allowance for indirect loan losses, Note 5(c)	22,768	23,613
	<u>1,366,408</u>	<u>1,245,298</u>
Non-financial instruments		
Deferred income	56,459	58,055
Taxes payable	40,544	57,910
Provision for other contingencies	27,569	23,160
Other	44,032	42,339
	<u>168,604</u>	<u>181,464</u>
Total	<u>1,535,012</u>	<u>1,426,762</u>

Notes to the consolidated financial statements (continued)

- (b) Corresponds to the Value-Added-Tax (henceforth “IGV”, by its Spanish acronym) resulting from the purchase of goods devoted mostly to grant financial leasing loans, which is recovered through the collection of the loans.
- (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.
- (d) The following table presents, as of September 30, 2016 and December 31, 2015, the fair value of derivative financial instruments recorded as assets or liabilities, including their notional amounts. The notional amount is the derivative’s underlying financial instrument and is the base over which changes in fair value are measured.

	2016			Maturity	Hedged instrument
	Assets	Liabilities	Notional amount		
	S/(000)	S/(000)	S/(000)		
Derivatives held for trading (i)					
Currency forwards	64,422	29,880	6,113,396	Between October 2016 and March 2018	-
Interest rate swaps	52,254	53,604	2,827,431	Between December 2017 and December 2029	-
Currency swaps	150,139	139,466	1,606,478	Between October 2016 and January 2025	-
Cross currency swaps	-	76,463	200,118	January 2023	-
Foreign currency options	630	1,479	302,260	Between October 2016 and July 2017	-
	<u>267,445</u>	<u>300,892</u>	<u>11,049,683</u>		
Derivatives held as hedges -					
Cash flow hedges:					
Interest rate swaps (IRS), Note 9d(i)	162	-	170,000	January 2018	Loan received from HSBC Bank PLC
Interest rate swaps (IRS), Note 9d(ii)	-	334	136,000	August 2018	Loan received from JP Morgan Chase & Co.
	<u>162</u>	<u>334</u>	<u>306,000</u>		
	<u>267,607</u>	<u>301,226</u>	<u>11,355,683</u>		

Notes to the consolidated financial statements (continued)

	2015			Maturity	Hedged instrument
	Assets	Liabilities	Notional amount		
	S/(000)	S/(000)	S/(000)		
Derivatives held for trading (i)					
Currency forwards	20,868	53,881	5,131,814	Between January 2016 and February 2017	-
Interest rate swaps	32,898	26,186	2,933,951	Between February 2016 and December 2029	-
Currency swaps	268,262	207,464	3,581,877	Between January 2016 and January 2025	-
Cross currency swaps	-	92,920	200,765	January 2023	-
Foreign currency options	2,240	3,545	459,088	Between January 2016 and June 2017	-
	<u>324,268</u>	<u>383,996</u>	<u>12,307,495</u>		
Derivatives held as hedges -					
Cash flow hedges:					
Interest rate swaps (IRS), Note 10(f)	-	738	66,075	June 2016	Negotiable notes (DPR)
	<u>-</u>	<u>738</u>	<u>66,075</u>		
	<u>324,268</u>	<u>384,734</u>	<u>12,373,570</u>		

As of September 30, 2016 and December 31, 2015, certain derivative financial instruments required the establishment of collateral deposits, see Note 3.

- (i) Derivatives held for trading are traded mainly to satisfy client's 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.

Notes to the consolidated financial statements (continued)

8. Deposits and obligations

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Savings deposits	9,063,508	8,198,498
Time deposits	8,955,509	9,819,261
Demand deposits	8,736,703	9,053,339
Compensation for service time ("CTS", by its Spanish acronym)	1,360,826	1,388,849
Other obligations	550,887	27,719
Total	<u>28,667,433</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.

(c) As of September 30, 2016 and December 31, 2015, approximately S/7,945,288,000 and S/7,556,786,000, respectively, of deposits and obligations are covered by the Peruvian Deposit Insurance Fund.

Notes to the consolidated financial statements (continued)

9. 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)	2,998,500	3,005,900
Promotional credit lines (c)	1,628,260	1,628,189
Loans received from foreign entities (d)	1,308,011	1,445,638
Loans received from Peruvian entities	22,861	50,852
	<u>5,957,632</u>	<u>6,130,579</u>
Interest and commissions payable	48,585	61,147
	<u>6,006,217</u>	<u>6,191,726</u>
By term		
Short term	2,013,466	2,128,167
Long term	3,992,751	4,063,559
Total	<u>6,006,217</u>	<u>6,191,726</u>

(b) Corresponds to currency repo operations according to which Interbank receives Soles 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 3. As of September 30, 2016, these obligations have maturities between October 2016 and March 2019, and bear effective interest rates between 3.00 and 6.38 percent (with maturities between February 2016 and March 2019, and bearing effective interest rates between 3.00 and 6.16 percent, as of December 31, 2015).

(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 matters. In Management's opinion, the Group is complying with all these requirements. These loans accrued interests at rates that fluctuated between 7.55 and 9.72 percent in Soles and between 4.13 and 8.06 percent in US Dollars and have maturities between October 2018 and March 2030, as of September 30, 2016 (accrued an annual effective interest rate of 7.12 and 9.85 percent in Soles and 4.02 and 8.01 percent in US Dollars and maturities between April 2016 and December 2029, as of December 31, 2015).

Notes to the consolidated financial statements (continued)

(d) As of September 30, 2016 and December 31, 2015, includes the following:

Entity	Country	Final maturity	2016 S/(000)	2015 S/(000)
Syndicated loan (iii)	-	October 2016	679,775	679,393
HSBC Bank PLC (i)	United Kingdom	2018	170,000	170,550
Wells Fargo Bank & Co.	United States of America	2018	170,000	170,550
JP Morgan Chase & Co. (ii)	United States of America	2018	136,000	68,220
Bank J. Safra Sarasin Ltd.	Switzerland	October 2016	68,000	68,269
Bladex	Multilateral	2018	50,236	83,996
Sumitomo Bank	United States of America	2017	34,000	-
Bank of America N.A.	United States of America	2016	-	102,330
Corporación Andina de Fomento	Multilateral	2016	-	85,275
China Development Bank	China	2016	-	17,055
			<u>1,308,011</u>	<u>1,445,638</u>

Transactions with foreign entities bore an effective annual average interest rate of 2.54 percent during 2016 (2.40 percent during 2015).

- (i) Corresponds to a loan granted to the Company in December 2015 for US\$50,000,000. Over this operation, Interbank performed an interest rate swap at a 3-month Libor rate plus a 0.90 percent funding rate, and pays an annual fixed rate of 1.80 percent. The maturity schedule equals that of the granted loan. Interbank recorded this derivative instrument as a cash flow hedge; see Note 7(d).
- (ii) Corresponds to a loan granted to the Company in July 2016 for US\$40,000,000. Over this operation, Interbank performed an interest rate at a 6-month Libor rate plus a 1.15 percent funding rate, and pays an annual fixed rate of 2.34 percent. The maturity schedule equals that of the granted loan. Interbank recorded this derivative instrument as a cash flow hedge; see Note 7(d).
- (iii) Corresponds to a syndicated loan received in July 2013 for approximately US\$200,000,000 in which fifteen foreign financial entities participate, of which Bank of America N.A. (USA) and Citibank N.A. (USA) participated with US\$40,000,000 each. This loan will mature in October, 2016 and accrues an annual interest rate of Libor 6 months plus 1.85 percent.

Notes to the consolidated financial statements (continued)

10. Bonds, notes and other obligations

(a) This caption is made up as follows:

Issuance	Annual interest rate	Interest payment	Maturity	Used amount (000)	2016 S/(000)	2015 S/(000)
Local Issuances						
Subordinated bonds (b) – First Program						
Second (B series) - Interbank	9.50%	Semiannually	2023	US\$30,000	102,000	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	51,374	51,540
Eighth (A series) - Interbank	6.91%	Semiannually	2022	S/137,900	137,900	137,900
First - Interseguro	9.00%	Quarterly	December 2016	US\$5,000	170	171
Second, First Tranch - Interseguro	6.97%	Semiannually	2024	US\$35,000	119,000	119,385
Second, Second Tranch - Interseguro	6.00%	Semiannually	2024	US\$15,000	51,000	51,164
					<u>574,744</u>	<u>575,790</u>
Subordinated bonds (b) – Second Program						
Second (A Series) - Interbank	5.81%	Semiannually	2023	S/150,000	149,673	149,641
Third (A Series) - Interbank	7.50%	Semiannually	2023	US\$50,000	168,792	169,305
					<u>318,465</u>	<u>318,946</u>
Total local issuances					<u>893,209</u>	<u>894,736</u>
International Issuances						
Subordinated bonds (c) - Interbank	6.625%	Semiannually	2029	US\$300,000	1,013,523	1,016,314
Junior subordinated notes (d) - Interbank	8.50%	Semiannually	2070	US\$200,000	672,529	668,566
Senior bonds (e) – Interbank	5.75%	Semiannually	2020	US\$400,000	1,353,147	1,356,245
Senior bonds (e) - Interbank	5.75%	Semiannually	2020	US\$250,000	791,468	825,199
					<u>3,830,667</u>	<u>3,866,324</u>
Negotiable notes (DPR)						
IBK DPR Securitizadora (f)	Libor 3M + 4.25%	Quarterly	2016	US\$121,000	-	66,075
					<u>-</u>	<u>66,075</u>
Total international issuances					<u>3,830,667</u>	<u>3,932,399</u>
Total local and international issuances					<u>4,723,876</u>	<u>4,827,135</u>
Interest payable					<u>131,595</u>	<u>98,278</u>
Total					<u>4,855,471</u>	<u>4,925,413</u>

(*) Indexed Value ("VAC", by its Spanish acronym).

Notes to the consolidated financial statements (continued)

- (b) Subordinated bonds do not have specific guarantees and in accordance to SBS rules they qualify as second level stock (Tier 2); see Note 12(f).
- (c) Starting in March 2024, the applicable interest rate will be a floating rate of 3-month Libor for US Dollars deposit 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 effective equity; see Note 12(f).
- (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 Interbank redeems the notes.

This issuance qualifies as Tier 1 capital; 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 capital; see Note 12(f).

- (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.

- (f) As of December 31, 2015, these notes were 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, with a notional amount of US\$121,000,000, for which it receives the 3-month Libor rate plus 425 basis points and pays an annual fixed rate of 7.9 percent. The swap payment schedule was identical to that of the notes and it was designated as cash flow hedge; see Note 7(d). This operation expired on June 2016.

- (g) International issuances are listed on the Luxembourg Stock Exchange. On the other hand, local and international issuances have certain financial and operating covenants, which, in Management’s opinion, do not limit its operations and the Group has complied with them as of the dates of the consolidated statements of financial position.

Notes to the consolidated financial statements (continued)

11. Insurance contract liabilities

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Technical reserves (b)	4,869,534	4,347,734
Claims reserves (c)	<u>159,802</u>	<u>129,355</u>
	<u>5,029,336</u>	<u>4,477,089</u>
By term		
Short term	412,915	332,651
Long term	<u>4,616,421</u>	<u>4,144,438</u>
Total	<u>5,029,336</u>	<u>4,477,089</u>

Notes to the consolidated financial statements (continued)

(b) The movement of technical reserves disclosed by type of insurance for the periods ended September 30, 2016 and 2015 and December 31, 2015, is as follows:

	September 2016					September 2015					December 2015				
	Annuities S/(000)	Retirement, disability and survival annuities	Life insurance	General insurance	Total	Annuities S/(000)	Retirement, disability and survival annuities	Life insurance	General insurance	Total	Annuities S/(000)	Retirement, disability and survival annuities	Life insurance	General insurance	Total
		S/(000)	S/(000)	S/(000)	S/(000)		S/(000)	S/(000)	S/(000)	S/(000)		S/(000)	S/(000)	S/(000)	S/(000)
Beginning 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	3,437,762	129,349	98,363	32,546	3,698,020
Insurance subscriptions	336,031	-	3,363	17,697	357,091	492,394	-	2,936	20,606	515,936	642,672	-	4,968	24,823	672,463
Time passage adjustments (*)	167,918	2,667	22,950	(14,377)	179,158	(236,190)	(8,673)	14,698	(20,812)	(250,977)	(242,916)	(6,822)	20,826	(25,538)	(254,450)
Maturities and recoveries	-	-	(7,994)	-	(7,994)	-	-	(5,278)	-	(5,278)	-	-	(7,363)	-	(7,363)
Exchange differences	(6,034)	-	(573)	152	(6,455)	126,913	-	7,691	475	135,079	224,174	-	14,392	498	239,064
Ending balances	4,559,607	125,194	148,932	35,801	4,869,534	3,820,879	120,676	118,410	32,815	4,092,780	4,061,692	122,527	131,186	32,329	4,347,734

(*) The table below presents the composition of the adjustments due to time passage as of September 30, 2016 and December 31, 2015:

	2016				2015			
	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	207,466	-	-	207,466	(218,096)	-	-	(218,096)
Aging insured population effect	(56,391)	22,950	(14,377)	(47,818)	(65,240)	20,826	(25,538)	(69,952)
Inflation and other effects	19,510	-	-	19,510	33,598	-	-	33,598
Time passage adjustments	170,585	22,950	(14,377)	179,158	(249,738)	20,826	(25,538)	(254,450)

(**) 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 September 30, 2016 and December 31, 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	869	84,449	21,692	8,053	115,063	655	68,318	14,837	8,541	92,351
Incurred but not reported (IBNR)	-	32,968	11,287	484	44,739	-	25,043	11,499	462	37,004
	869	117,417	32,979	8,537	159,802	655	93,361	26,336	9,003	129,355

Notes to the consolidated financial statements (continued)

The movement of technical reserves for claims for the periods ended September 30, 2016 and 2015 and December 31, 2015 is as follows:

	September 2016				
		Retirement, disability and survival	Life	General	Total
	Annuities S/(000)	annuities S/(000)	insurance S/(000)	insurance S/(000)	S/(000)
Balance as of January 1st	655	93,361	26,336	9,003	129,355
Claims	182,909	(10,447)	23,471	17,774	213,707
Adjustments to prior years claims	-	114,257	8,771	(4,043)	118,985
Payments	(182,696)	(79,754)	(25,619)	(14,186)	(302,255)
Exchange differences	1	-	20	(11)	10
Balances as of September 30	<u>869</u>	<u>117,417</u>	<u>32,979</u>	<u>8,537</u>	<u>159,802</u>
	September 2015				
		Retirement, disability and survival	Life	General	Total
Annuities S/(000)	annuities S/(000)	insurance S/(000)	insurance S/(000)	S/(000)	S/(000)
Balance as of January 1st	1,785	11,996	22,299	8,907	44,987
Claims	146,486	61,931	20,076	13,103	241,596
Adjustments to prior years claims	-	41,255	12,174	(3,596)	49,833
Payments	(146,771)	(25,919)	(29,227)	(10,002)	(211,919)
Exchange differences	83	-	501	102	685
Balances as of September 30	<u>1,582</u>	<u>89,263</u>	<u>25,823</u>	<u>8,515</u>	<u>125,182</u>
	December 2015				
		Retirement, disability and survival	Life	General	Total
Annuities S/(000)	annuities S/(000)	insurance S/(000)	insurance S/(000)	S/(000)	S/(000)
Balance as of January 1st	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 differences	122	-	872	225	1,219
Balances as of December 31	<u>655</u>	<u>93,361</u>	<u>26,336</u>	<u>9,003</u>	<u>129,355</u>

(d) In Management's opinion, these balances reflect the exposure of life and general insurance contracts as of September 30, 2016 and 2015 and December 31, 2015, in accordance with IFRS 4.

Notes to the consolidated financial statements (continued)

12. Equity

(a) Capital stock

As of September 30, 2016 and December 31, 2015, IFS's capital stock is represented by 113,110,864 common shares subscribed and paid-in. The issuance value is US\$9.72 per share and they do not have par value.

IFS's Shareholders Meeting held on April 11, 2016, agreed to distribute dividends corresponding to 2015 for US\$147,044,000 (equivalent to approximately S/496,862,000), as long as IFS's Shareholders Meeting held on April 14, 2015, agreed to distribute dividends corresponding to 2014 for US\$180,977,000 (equivalent to approximately S/564,178,000).

Likewise, the Shareholders' Meeting held on May 25, 2016, approved a stock buyback, to be executed from time to time, subject to market conditions and other factors and on the convenience to the interests of the company.

(b) Treasury stock

As of September 30, 2016, Interbank and Interfondos hold 4,287,611 shares issued by IFS with acquisition cost amounting to approximately S/321,937,000 (as of December 31, 2015, Interbank and Inteligo SAB hold 4,290,825 shares issued by IFS with acquisition cost amounting to approximately S/322,214,000).

On the other hand, during 2016 year, the Company has bought 432,521 shares, with acquisition cost amounted to approximately S/43,883,000.

(c) Capital surplus

Corresponds to the difference between the par 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 shares.

(d) Reserves

The Board meeting held on March 22, 2016, agreed to record reserves up to S/600,000,000 charged to retained earnings as of December 2015.

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

Notes to the consolidated financial statements (continued)

- (e) Unrealized results on financial instruments
The movement of this caption was as follows:

	Unrealized gain (loss)			
	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Foreign currency translation reserve S/(000)	Total S/(000)
Balances as of January 1, 2015	100,559	(3,423)	44,571	141,707
Unrealized loss from available-for-sale investments, net of unrealized gain	(656,874)	-	-	(656,874)
Transfer to realized gain from available-for-sale investments, net of realized loss	(28,092)	-	-	(28,092)
Transfer of impairment loss from available-for-sale investments to consolidated income statements	50,895	-	-	50,895
Foreign currency translation	-	-	33,682	33,682
Others, net	-	2,442	-	2,442
Balances as of September 30, 2015	(533,512)	(981)	78,253	(456,240)

	Unrealized gain (loss)			
	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Foreign currency translation reserve S/(000)	Total S/(000)
Balances as of January 1, 2016	(471,154)	(455)	110,214	(361,392)
Unrealized gain from available-for-sale investments, net of unrealized loss	631,717	-	-	631,717
Transfer to realized gain from available-for-sale investments, net of realized loss	(71,687)	-	-	(71,687)
Transfer of impairment loss from available-for-sale investments to consolidated income statements	62,176	-	-	62,176
Foreign currency translation	-	-	(3,454)	(3,454)
Others, net	1,891	333	-	2,221
Balances as of September 30, 2016	152,943	(122)	106,760	259,581

Notes to the consolidated financial statements (continued)

(f) Components of other comprehensive income

The consolidated statements of changes in equity includes other comprehensive income, the movement of this caption was as follows:

	30.09.2016 S/(000)	30.09.2015 S/(000)
i) Available-for-sale investments:		
Unrealized gain (loss) from available-for-sale investments	631,717	(656,874)
Transfer to realized gain from available-for-sale investment, net of realized loss	(71,687)	(28,092)
Transfer of impairment loss from available-for-sale investments to consolidated income statements, Note 4(c)	62,176	50,895
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	1,891	-
Total	<u>624,097</u>	<u>(634,071)</u>
ii) Cash flow hedges:		
Net unrealized (loss) gain from cash flow hedges	(313)	12,232
Transfer of net realized loss from cash flow hedge to consolidated income statements	646	(9,790)
Total	<u>333</u>	<u>2,442</u>
iii) Exchange difference on translation of foreign currency operations	<u>(3,454)</u>	<u>33,682</u>
Total other comprehensive income for the period	<u>620,976</u>	<u>(597,947)</u>

Notes to the consolidated financial statements (continued)

(g) Shareholders' equity for statutory purposes (regulatory capital)

IFS and Inteligo are not required to have a minimum regulatory capital for statutory purposes. As of September 30, 2016 and December 31, 2015, the shareholders' equity required for Interbank and Interseguro is calculated based on the requirements prescribed by the SBS. As of those dates, the shareholders' equity required for Interbank, Interseguro and Inteligo Bank is detailed below:

Interbank's regulatory capital

According to the provisions of Legislative Decree No. 1028, Interbank's shareholders' equity 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 and amendments, as of September 30, 2016 and December 31, 2015, Interbank maintains the following amounts related to its assets and contingent credits weighted by risk and regulatory capital (basic and supplementary):

	2016	2015
	S/(000)	S/(000)
Total risk weighted assets and credits	33,167,991	34,951,504
Total regulatory capital	5,791,828	5,427,924
Basic regulatory capital (Level 1)	3,851,774	3,454,244
Supplementary regulatory capital (Level 2)	1,940,054	1,973,680
Global ratio capital to regulatory capital	16.12%	15.53%

As of September 30, 2016 and December 31, 2015, Interbank has complied with SBS current regulations 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, and amendments. 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.

Said resolution establishes a gradual adequacy period of five years, starting in July 2012. As of September 30, 2016, the percentage of adequacy required by the SBS is 100 percent, therefore the additional regulatory capital estimated by Interbank amounts to approximately S/689,910,000 (S/569,358,000, with 85 percent of requirement as of December 31, 2015).

Notes to the consolidated financial statements (continued)

Interseguro's regulatory capital

In accordance with SBS Resolution No. 1124-2006, amended by SBS Resolutions No. 8243-2008, No. 12687-2008, No.2742-2011, No.2842-2012, No.6271-2013, No.2904-2014 and No. 1601-2015, 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 between the solvency margin and the minimal capital. As of September 30, 2016 and December 31, 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 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, and amendments.

As of September 30, 2016 and December 31, 2015, Interseguro's shareholders' equity for regulatory purposes is as follows:

	2016 S/(000)	2015 S/(000)
Regulatory capital	516,955	462,151
Less:		
Solvency equity (solvency margin)	294,103	279,564
Guarantee fund	<u>102,936</u>	<u>97,848</u>
Surplus	<u>119,916</u>	<u>84,739</u>

Inteligo Bank's equity

The Central Bank of the Bahamas requires Inteligo Bank to maintain a capital of not less than 8 percent of its risk weighted assets. Inteligo Bank's capital ratio as of September 30, 2016 and December 31, 2015, is the following:

	2016 US\$(000)	2015 US\$(000)
Total eligible capital	<u>136,269</u>	<u>145,663</u>
Total risk weighted assets	<u>684,602</u>	<u>547,526</u>
Capital adequacy ratio (in percentage)	<u>19.90</u>	<u>26.60</u>

Notes to the consolidated financial statements (continued)

13. Tax situation

- (a) IFS and its Subsidiaries incorporated and domiciled in the Republic of Panama and the Commonwealth of The Bahamas (see Note 1), are not subject to any income tax, or any taxes on capital gains, equity or property.

In accordance with current tax regulations in Panama, the branches of Inteligo Bank and Interbank are exempted from the payment of income taxes on profits derived from foreign operations.

- (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 September 30, 2016 and 2015, IFS has recorded expenses for S/21,898,000 and S/24,359,000, respectively, in the consolidated income statements.

- (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 the separate financial statements. As of September 30, 2016 and December 31, 2015, the applicable Income Tax rate was 28 percent on the taxable income.

In accordance with Act No. 30296, published on December 31, 2014, and in force since January 1, 2015, the Income Tax rate applicable on the net taxable income is as follows:

Years	%
2015 and 2016	28
2017 and 2018	27
2019 onwards	26

In addition, Peruvian-source income is considered to include that obtained 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 those cases in which the issuer is jointly and severally liable thereof.

The Income Tax act currently 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 of stock 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, it is established that, in any 12-month period, shares of stock or ownership interests are sold that represent 10 percent or more of the capital stock of a non-domiciled legal entity.

Notes to the consolidated financial statements (continued)

As indicated in the previous paragraph (b), legal entities not domiciled in Peru and individuals are subject to the withholding of an additional tax on dividends received for the profits generated from 2015 onwards, which distribution is made after said date, the percentages will be the following:

- Years 2015 and 2016: 6.8 percent.
- Years 2017 and 2018: 8 percent.
- Years 2019 onwards: 9.3 percent.

- (d) Since 2011, with the amendment introduced by Act No.29645 to the Income Tax Act, interest and other income generated by foreign loans granted to the National Public Sector are also included as one of the cases exempted from the Income Tax.

With regard to the IGV, said tax is not levied on the interest accrued on securities issued by public or private offering by legal entities incorporated or established in the country; as well as the interest accrued on securities not placed by public offering, when such securities have been acquired through any of the centralized trading mechanisms referred to in the Securities Market Act.

On the other hand, since January 1, 2010, Peruvian life insurance companies incorporated or established in the country are exempted from the 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.

Also, the income and profits generated by the assets that support technical reserves of annuities other than those mentioned in the previous paragraph and the technical reserves of other products traded by life insurance companies incorporated or established in the country are exempted, even if they have a savings and/or investment component.

- (e) Peruvian Tax Authority – SUNAT

The Tax Authority (SUNAT) 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 following taxable periods of the main Subsidiaries are pending to be audited by the Tax Authority:

- Interbank: Income Tax of tax years 2011 to 2015.
- Interseguro: Income Tax of tax years 2011 to 2015.

Currently, SUNAT is reviewing the Income Tax return of the Bank for tax year 2010.

On the other hand, during the last years and as of the date of these financial statements, SUNAT has performed different tax audits over the Income Tax returns of the Bank (tax years 2000 to 2009). According to said audits, SUNAT has concluded that for tax years 2007, 2008 and 2009 it does not correspond any additional settlement of the Income Tax.

Notwithstanding the aforementioned, regarding the audits performed over the Income Tax returns of the Bank for tax years 2000 to 2006, SUNAT has identified some controversies over which the Bank has filed several complaint and appeal procedures that are pending of resolution.

Notes to the consolidated financial statements (continued)

Since tax regulations are subject to interpretation by the Tax Authority, 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 September 30, 2016 and December 31, 2015.

Notes to the consolidated financial statements (continued)

14. Interest and similar income and expenses

This caption is comprised of the following:

	For the nine-month periods ended September 30	
	2016 S/(000)	2015 S/(000)
Interest and similar income		
Interest and fees on loan portfolio	2,370,477	2,119,182
Interest on available-for-sale investments	337,455	286,527
Interest on due from banks and inter-bank funds	14,548	5,315
Other interest and similar income	30,938	19,704
Total	2,753,418	2,430,728
Interest and similar expenses		
Interest and fees on deposits and obligations	338,794	259,010
Interest on bonds, notes and other obligations	241,207	231,373
Interest and fees on obligations with financial institutions	194,823	145,188
Deposit Insurance Fund fees	26,071	22,860
Other interest and similar expenses	5,220	3,406
Total	806,115	661,837

Notes to the consolidated financial statements (continued)

15. Fee income from financial services, net

This caption is comprised of the following:

	For the nine-month periods ended September 30	
	2016	2015
	S/(000)	S/(000)
Income		
Maintenance and mailing of accounts, transfers fees and commissions on credit and debit card services	415,320	366,742
Commissions for banking services	108,274	110,480
Funds management fees	98,240	117,839
Fees for indirect loans	45,145	43,410
Collection services fees	22,157	19,897
Brokerage and custody services fees	8,129	6,000
Other	20,875	20,629
Total	718,140	684,997
Expenses		
Debtor's life insurance premiums	41,332	42,864
Fees paid to foreign banks	7,421	6,719
Brokerage and custody services	1,459	1,548
Other	26,856	30,234
Total	77,068	81,365
Net	641,072	603,632

Notes to the consolidated financial statements (continued)

16. Other income and expenses

(a) This caption is comprised of the following:

	For the nine-month periods ended September 30	
	2016 S/(000)	2015 S/(000)
Other income		
ATM rental income	17,328	15,460
Equity in income of investments in associates	10,117	7,873
Incentives for credit card operations	9,921	4,502
Other technical income from insurance operations	8,288	7,423
Services to third parties	5,149	5,295
Gain from sale of written-off-loans	85	8,734
Other income	21,123	14,099
Total other income	72,011	63,386
Other expenses		
Commissions from insurance activities	25,722	16,311
Sundry technical insurance expenses	11,734	11,123
Termination of employees	9,969	7,772
Provision for sundry risk	8,981	21,949
Donations	5,545	4,220
Administrative and tax sanctions	2,579	2,870
Other expenses	22,505	25,451
Total other expenses	87,035	89,696

Notes to the consolidated financial statements (continued)

17. Net premiums earned

This caption is comprised for the nine-month periods ended September 30, 2016 and 2015 of the following:

	Premiums assumed		Adjustment of technical reserves		Gross premium earned (*)		Premiums ceded to reinsurers		Net premiums earned	
	(1)		(2)		(3) = (1) - (2)		(4)		(5) = (3) - (4)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance										
Annuities (**)	256,409	430,588	(503,949)	(256,204)	(247,540)	174,384	-	-	(247,540)	174,384
Group life	87,619	77,952	(658)	491	86,961	78,443	(2,702)	(2,397)	84,259	76,046
Individual life	36,054	31,337	(14,777)	(10,510)	21,277	20,827	(1,621)	(1,414)	19,656	19,413
Retirement, disability and survival (***)	104,017	98,894	(2,667)	8,673	101,350	107,567	(97,265)	(92,385)	4,085	15,182
Others	584	1,808	(2,809)	(2,276)	(2,225)	(468)	(111)	(293)	(2,336)	(761)
Total life insurance	484,683	640,579	(524,860)	(259,826)	(40,177)	380,753	(101,699)	(96,489)	(141,876)	284,264
Total general insurance (****)	61,971	53,908	(2,228)	206	59,743	54,114	(1,631)	(28)	58,112	54,086
Total general	546,654	694,487	(527,088)	(259,620)	19,566	434,867	(103,330)	(96,517)	(83,764)	338,350

(*) 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.

(***) In December 2014, the SBS called "Public Tender No. 02/2014" for the management of retirement, disability, survival, and other burial expenses risks under a group insurance policy (called SISCO) to the affiliates of the Private Pension Fund Management System. Interseguro won the contract for the period between January 1, 2015 and December 31, 2016. Interseguro reinsured said risks at 100 percent with three prestigious, internationally recognized reinsurers.

(****) As of September 30, 2016, this includes S/14,366,000, (S/774,000) and (S/1,244,000) of assumed premiums, adjustment of technical reserves, and premiums ceded for personal accident insurance, respectively (S/10,761,000, S/107,000, and (S/28,000) as of September 30, 2015).

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

This caption is comprised, for the nine-month periods ended September 30, 2016 and 2015 of the following:

	Gross claims and benefits		Ceded claims and benefits		Net insurance claims and benefits	
	2016	2015	2016	2015	2016	2015
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance						
Annuities	(182,909)	(146,486)	-	-	(182,909)	(146,486)
Group life	(27,739)	(29,528)	1,972	2,071	(25,767)	(27,457)
Individual life	(1,896)	(1,509)	321	365	(1,575)	(1,144)
Retirement, disability and survival	(103,810)	(103,186)	98,604	99,009	(5,206)	(4,177)
Others	(2,608)	(1,213)	1,541	994	(1,067)	(219)
General Insurance	(13,731)	(9,507)	35	5	(13,696)	(9,502)
	<u>(332,693)</u>	<u>(291,429)</u>	<u>102,473</u>	<u>102,444</u>	<u>(230,220)</u>	<u>(188,985)</u>

Notes to the consolidated financial statements (continued)

19. Salaries and employee benefits

This caption is comprised of the following:

	For the nine-month periods ended September 30	
	2016	2015
	S/(000)	S/(000)
Salaries	377,583	368,115
Workers' profit sharing	52,068	60,604
Social security	33,629	33,069
Compensation for service time	27,639	27,386
Vacations, health assistance and others	27,605	27,989
Total	518,524	517,163

20. Administrative expenses

(a) This caption is comprised of the following:

	For the nine-month periods ended September 30	
	2016	2015
	S/(000)	S/(000)
Services received from third parties (b)	538,620	528,844
Taxes and contributions	30,252	29,441
Total	568,872	558,285

(b) Correspond mainly to securities transportation services, repair and maintenance services, rental of premises (agencies), telecommunications, advertising, among others.

Notes to the consolidated financial statements (continued)

21. Earnings per share

The following table presents the calculation of the weighted average number of shares and the basic earnings per share, determined and calculated based on the earnings attributable to the Group:

	Outstanding shares	Shares considered in computation	Effective days in the year	Weighted average number of shares
	(in thousands)	(in thousands)		(in thousands)
Period 2015				
Balance as of January 1st, 2015	109,360	109,360	270	109,360
Sales of treasury stock	23	23	95	8
Purchase of treasury stock	(563)	(563)	111	(232)
	<u>108,820</u>	<u>108,820</u>		<u>109,136</u>
Balance as of September 30, 2015				<u>109,136</u>
Net earnings attributable to IFS S/(000)				<u>1,012,271</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>9.275</u>
Period 2016				
Balance as of January 1st, 2016	108,820	108,820	270	108,820
Sales of treasury stock	8	8	183	5
Purchase of treasury stock	(438)	(438)	81	(132)
	<u>108,390</u>	<u>108,390</u>		<u>108,693</u>
Balance as of September 30, 2016				<u>108,693</u>
Net earnings attributable to IFS S/(000)				<u>441,976</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>4.066</u>

Notes to the consolidated financial statements (continued)

22. Transactions with related parties and affiliated companies

- (a) The table below presents the main transactions with shareholders, related parties and affiliated companies as of September 30, 2016 and December 31, 2015:

	2016 S/(000)	2015 S/(000)
Assets		
Trading securities	8,725	20,721
Available-for-sale investments		
Royalty Pharma, Note 4(e)	91,152	229,001
InRetail Perú Corp. Note 4(d)	193,835	149,107
Corporate Bonds - InRetail Perú Corp.	56,358	-
Corporate Bonds - Colegios Peruanos S.A.C.	44,906	33,844
Corporate Bonds - Cineplex S.A.	17,939	13,850
Bonds / Certificates of Deposit – Financiera Oh! S.A. (formerly Financiera Uno S.A.)	13,661	20,320
Corporate Bonds - Intercorp Perú Ltd.	9,555	7,965
Corporate Bonds - San Miguel Industrias PET	6,716	-
Direct loans portfolio, net (b)	672,382	900,110
Accounts receivable related to derivative financial instruments	11,825	14,229
Other assets (f)	16,357	85,604
Liabilities		
Deposits and obligations	259,703	301,757
Accounts payable related to derivative financial instruments	108	-
Other liabilities	1,086	4,819
Off-balance sheet accounts		
Indirect loans (b)	137,336	128,329
	For the nine-month periods ended September 30	
	2016 S/(000)	2015 S/(000)
Income (expenses)		
Interest and similar income	43,696	42,635
Interest and similar expenses	(4,695)	(2,387)
Net gain on sale of securities, Note 4(e)	48,199	60,343
Rental income	1,477	1,866
Gain (loss) on sale of investment property	2,655	(1,259)
Administrative expenses	(21,161)	(11,360)
Other, net	(1,912)	880

Notes to the consolidated financial statements (continued)

(b) As of September 30, 2016 and December 31, 2015, the detail of direct and contingent loans granted to related parties is as follows:

	2016 S/(000)	2015 S/(000)
Supermercados Peruanos S.A.	115,231	147,783
Nessus Hoteles Perú S.A.	87,493	93,456
Homecenters Peruanos S.A.	68,618	72,124
Financiera Oh! S.A. (formerly Financiera Uno S.A.)	65,249	49,296
Tiendas Peruanas S.A.	49,230	29,559
Intercorp Perú Ltd.	47,477	177,531
San Miguel Industria Ecuador	33,996	32,500
Eckerd Perú S.A.	30,364	30,437
Bembos S.A.C.	29,500	30,917
Agrícola Don Ricardo S.A.C.	26,365	33,014
Cineplex S.A.	20,626	43,017
Victoria Global Opportunities S.A.C.	-	81,544
Other	235,569	207,261
	<u>809,718</u>	<u>1,028,439</u>

Notes to the consolidated financial statements (continued)

- (c) As of September 30, 2016 and December 31, 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 September 30, 2016 and December 31, 2015, direct loans to employees, directors and officers amounted to S/159,549,000 and S/146,439,000, respectively; are outstanding and bear interest at market rates.

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

- (d) The Group's key personnel compensations, including the Income Tax assumed for the nine-month periods ended September 30, 2016 and 2015, are presented below:

	2016 S/(000)	2015 S/(000)
Salaries	11,667	13,324
Board of Directors' compensation	<u>1,015</u>	<u>905</u>
Total	<u>12,682</u>	<u>14,229</u>

- (e) As of September 30, 2016 and December 31, 2015, the Group holds a participation in different mutual funds managed by Interfondos. As of September 30, 2016, they amount to S/126,000 and are classified as investment at fair value through profit or loss (S/8,000,000 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 the year 2030, and for an amount of approximately S/14,620,000 and S/16,819,000 as of September 30, 2016 and December 31, 2015, respectively (see Note 7(a)). Interbank may renew the term of the agreement for an additional term of 15 years.
- (g) In Management's opinion, transactions with related companies have been performed under normal 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.

Notes to the consolidated financial statements (continued)

23. Business segments

Segment information is presented for the consolidated entities. The Chief Operating Decision Maker (CODM) of IFS is the Chief Executive Officer (CEO). IFS has 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.

Wealth management

It provides brokerage and investment management services.

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 for the periods as of September 30, 2016 and 2015.

Notes to the consolidated financial statements (continued)

The following table presents the Group's financial information by business segments:

	For the nine-month periods ended September 30, 2016					For the nine-month periods ended September 30, 2015				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Corporate and eliminations S/(000)	Total S/(000)	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Corporate and eliminations S/(000)	Total S/(000)
Total income (*)										
Third Party	3,282,251	208,594	236,128	(77,288)	3,649,685	3,069,062	675,989	211,260	(41,836)	3,914,475
Inter-segment	(47,429)	(32)	(700)	48,161	-	(44,965)	(136)	(3,677)	(48,778)	(97,556)
Total income	3,234,822	208,562	235,428	(29,127)	3,649,685	3,024,097	675,853	207,583	(90,614)	3,816,919
Extracts of results										
Interest and similar income	2,442,139	216,988	113,625	(19,334)	2,753,418	2,158,872	190,599	99,179	(17,922)	2,430,728
Interest and similar expenses	(753,752)	(11,543)	(42,299)	1,479	(806,115)	(615,832)	(8,207)	(38,961)	1,163	(661,837)
Net interest	1,688,387	205,445	71,326	(17,855)	1,947,303	1,543,040	182,392	60,218	(16,759)	1,768,891
Provision for loan losses, net of recoveries	(589,665)	-	-	-	(589,665)	(461,455)	-	(1,879)	-	(463,334)
Net interest and similar income after provision for loan losses, net of recoveries	1,098,722	205,445	71,326	(17,855)	1,357,638	1,081,585	182,392	58,339	(16,759)	1,305,557
Fee income from financial services, net	584,433	(2,076)	86,436	(27,721)	641,072	532,133	(2,755)	98,631	(24,377)	603,632
Other income	255,681	77,446	36,067	(30,230)	338,964	378,057	149,796	13,450	463	541,766
Total premiums earned less claims and benefits	-	(313,984)	-	-	(313,984)	-	149,365	-	-	149,365
Depreciation and amortization	(88,048)	(3,355)	(5,404)	-	(96,807)	(75,020)	(3,269)	(4,425)	-	(82,714)
Impairment loss of available-for-sale investments	-	(62,176)	-	-	(62,176)	-	(44,759)	(6,136)	-	(50,895)
Administrative and other expenses	(997,060)	(145,711)	(55,614)	22,886	(1,175,499)	(997,165)	(128,562)	(57,036)	17,155	(1,165,608)
Income before translation result and Income Tax	853,728	(244,411)	132,811	(52,920)	689,208	919,590	302,208	102,823	(23,518)	1,301,103
Translation result	(2,180)	(497)	(725)	11,947	8,545	(29,014)	6,362	398	5,907	(16,347)
Income Tax	(228,499)	(414)	435	(21,897)	(250,375)	(242,076)	(109)	(307)	(24,359)	(266,851)
Profit for the year	623,049	(245,322)	132,521	(62,870)	447,378	648,500	308,461	102,914	(41,970)	1,017,905
Attributable to:										
Equity holders of the Group	623,049	(246,388)	132,521	(67,206)	441,976	648,500	307,341	102,914	(46,484)	1,012,271
Non-controlling interest	-	1,066	-	4,336	5,402	-	1,120	-	4,514	5,634
	623,049	(245,322)	132,521	(62,870)	447,378	648,500	308,461	102,914	(41,970)	1,017,905

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

Notes to the consolidated financial statements (continued)

	2016				
	Banking	Insurance	Wealth management	Holding and eliminations	Total Consolidated
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
As of September 30, 2016					
Total assets	41,879,655	5,961,673	3,873,372	(338,615)	51,376,085
Total liabilities	37,727,736	5,398,286	3,248,213	(10,368)	46,363,867
	2015				
	Banking	Insurance	Wealth management	Holding and eliminations	Total Consolidated
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
As of December 31, 2015					
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

Notes to the consolidated financial statements (continued)

24. 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 September 30, 2016						As of December 31, 2015					
	At fair value through profit or loss S/(000)	Loans and receivable accounts S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)	At fair value through profit or loss S/(000)	Loans and receivable accounts S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)
Financial Assets												
Cash and due from banks	-	11,287,864	-	-	-	11,287,864	-	12,431,785	-	-	-	12,431,785
Inter-bank funds	-	230,027	-	-	-	230,027	-	245,028	-	-	-	245,028
Trading securities	47,816	-	-	-	-	47,816	105,189	-	-	-	-	105,189
Available-for-sale investments	-	-	9,458,079	-	-	9,458,079	-	-	8,067,164	-	-	8,067,164
Held-to-maturity investments	-	-	-	471,888	-	471,888	-	-	-	479,561	-	479,561
Loan portfolio, net	-	26,924,433	-	-	-	26,924,433	-	25,994,235	-	-	-	25,994,235
Due from customers on acceptances	-	28,615	-	-	-	28,615	-	27,118	-	-	-	27,118
Accounts receivables and other assets, net	267,607	777,973	-	-	-	1,045,580	324,268	469,901	-	-	-	794,169
	<u>315,423</u>	<u>39,248,912</u>	<u>9,458,079</u>	<u>471,888</u>	<u>-</u>	<u>49,494,302</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	-	-	-	-	28,667,433	28,667,433	-	-	-	-	28,487,666	28,487,666
Inter-bank funds	-	-	-	-	238,003	238,003	-	-	-	-	-	-
Due to banks and correspondents	-	-	-	-	6,006,217	6,006,217	-	-	-	-	6,191,726	6,191,726
Bonds, notes and other obligations outstanding	-	-	-	-	4,855,471	4,855,471	-	-	-	-	4,925,413	4,925,413
Due from customers on acceptances	-	-	-	-	28,615	28,615	-	-	-	-	27,118	27,118
Insurance contract liabilities	-	-	-	-	5,029,336	5,029,336	-	-	-	-	4,477,089	4,477,089
Accounts payable, provisions and other liabilities	301,226	-	-	-	1,065,182	1,366,408	384,734	-	-	-	860,564	1,245,298
	<u>301,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,890,257</u>	<u>46,191,483</u>	<u>384,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,969,576</u>	<u>45,354,310</u>

(*) As of September 30, 2016 and December 31, 2015 the non financial assets amounted to S/1,881,783,000 and S/1,856,620,000, respectively; while non financial liabilities at those dates amounted to S/172,384,000 and S/185,628,000, respectively.

25. Financial risk management

It comprises the management of the main risks, that due to the nature of their operations, IFS and Subsidiaries are exposed to; namely: 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 statement 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 imbalances of cash flows.
- Insurance risk: is the possibility that the actual cost of claims and payments will differ from the estimates.

(a) Maximum exposure to credit risk

As of September 30, 2016 and December 31, 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, interbank funds, assets, 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 September 30, 2016 and December 31, 2015:

- 82.4 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;
- 95.1 percent and 95.4 percent, respectively, of the loan portfolio are classified into the two lower credit risk categories defined by the Group;
- 92.1 percent and 92.7 percent, respectively, of the loan portfolio is deemed non-past-due and non-impaired; and
- 74.6 percent and 76.5 percent, respectively, of available-for-sale-investments 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.

(b) Credit risk management for loans

The Group classifies each client that is part of its loan portfolio into one of the five risk categories, depending upon 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.

Notes to the consolidated financial statements (continued)

The table below presents the summary of direct loans (without including accrued interest and interest to be accrued) classified into 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.

As of September 30, 2016						
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	12,645,887	7,784,058	4,423,581	476,956	25,330,482	95
With potential problems	124,912	85,624	32,499	4,456	247,491	1
	<u>12,770,799</u>	<u>7,869,682</u>	<u>4,456,080</u>	<u>481,412</u>	<u>25,577,973</u>	
Past due but not impaired						
Normal	246,306	1,580	190,827	10,893	449,606	2
With potential problems	25,764	281,435	70,860	7,061	385,120	1
	<u>272,070</u>	<u>283,015</u>	<u>261,687</u>	<u>17,954</u>	<u>834,726</u>	
Impaired						
Substandard	63,095	229,951	73,724	6,523	373,293	1
Doubtful	52,965	338,296	74,284	10,987	476,532	2
Loss	83,917	244,014	150,549	38,340	516,820	2
	<u>199,977</u>	<u>812,261</u>	<u>298,557</u>	<u>55,850</u>	<u>1,366,645</u>	
Total loan portfolio, gross	<u>13,242,846</u>	<u>8,964,958</u>	<u>5,016,324</u>	<u>555,216</u>	<u>27,779,344</u>	104
Less: Allowance for loan losses	<u>168,960</u>	<u>824,783</u>	<u>59,397</u>	<u>77,734</u>	<u>1,130,874</u>	4
Total, net	<u>13,073,886</u>	<u>8,140,175</u>	<u>4,956,927</u>	<u>477,482</u>	<u>26,648,470</u>	100

Notes to the consolidated financial statements (continued)

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	1
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
Less: Allowance for loan losses	<u>173,750</u>	<u>767,300</u>	<u>50,434</u>	<u>50,095</u>	<u>1,041,579</u>	4
Total, net	<u>12,869,050</u>	<u>7,648,720</u>	<u>4,716,082</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 September 30, 2016 and December 31, 2015, loans amounting to approximately S/763,193,000 and S/687,807,000, respectively, were not impaired and were past due for less than 30 days.

As of September 30, 2016 and December 31, 2015, refinanced loans amount to S/304,782,000, and S/249,216,000, respectively. Past due refinanced loans as of those dates amount to S/59,836,000, and S/32,321,000, respectively, out of which S/634,000 and S/1,666,000, respectively, are classified as past-due and not-impaired; and S/59,202,000 and S/30,655,000, as impaired, respectively.

Notes to the consolidated financial statements (continued)

(c) 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 daily 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 September 30, 2016, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.397 per US\$1 bid and S/3.403 per US\$1 ask (S/3.408 and S/3.413 as of December 31, 2015, respectively). As of September 30, 2016, the exchange rate for the accounting of asset and liability accounts in foreign currency set by the SBS was S/3.400 per US\$1 (S/3.411 as of December 31, 2015).

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

	As of September 30, 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	9,919,329	1,039,046	329,489	11,287,864	10,994,640	1,191,209	245,936	12,431,785
Inter-bank funds	-	230,027	-	230,027	-	245,028	-	245,028
Trading securities	37,391	10,425	-	47,816	55,257	49,932	-	105,189
Available-for-sale investments	4,922,160	4,527,352	8,567	9,458,079	4,990,861	3,050,691	25,612	8,067,164
Held-to-maturity investments	-	471,888	-	471,888	-	479,561	-	479,561
Loan portfolio, net	8,621,125	18,303,308	-	26,924,433	8,830,039	17,164,196	-	25,994,235
Due from customers on acceptances	28,615	-	-	28,615	27,118	-	-	27,118
Accounts receivables and other assets	407,069	636,294	2,217	1,045,580	199,424	585,690	9,055	794,169
	<u>23,935,689</u>	<u>25,218,340</u>	<u>340,273</u>	<u>49,494,302</u>	<u>25,097,339</u>	<u>22,766,307</u>	<u>280,603</u>	<u>48,144,249</u>
Liabilities								
Deposits and obligations	14,256,390	14,108,111	302,932	28,667,433	15,778,230	12,494,433	215,003	28,487,666
Inter-bank funds	238,003	-	-	238,003	-	-	-	-
Due to banks and correspondents	1,758,968	4,247,249	-	6,006,217	1,897,237	4,294,489	-	6,191,726
Bonds, notes and other obligations	4,420,729	434,742	-	4,855,471	4,493,006	432,407	-	4,925,413
Due from customers on acceptances	28,615	-	-	28,615	27,118	-	-	27,118
Insurance contract liabilities	2,006,866	3,022,470	-	5,029,336	1,929,909	2,547,180	-	4,477,089
Accounts payable provision and other liabilities	287,933	820,762	257,713	1,366,408	291,974	919,902	33,422	1,245,298
	<u>22,997,504</u>	<u>22,633,334</u>	<u>560,645</u>	<u>46,191,483</u>	<u>24,417,474</u>	<u>20,688,411</u>	<u>248,425</u>	<u>45,354,310</u>
Forward position, net	329,374	(297,085)	(32,289)	-	(1,071,817)	1,127,898	(56,081)	-
Currency swaps position, net	30,743	(30,743)	-	-	1,685,088	(1,685,088)	-	-
Cross currency swaps position, net	(200,118)	200,118	-	-	(200,765)	200,765	-	-
Options position, net	(15,300)	15,300	-	-	(18,113)	18,113	-	-
Monetary position, net	<u>1,082,884</u>	<u>2,472,596</u>	<u>(252,661)</u>	<u>3,302,819</u>	<u>1,074,258</u>	<u>1,739,584</u>	<u>(23,903)</u>	<u>2,789,939</u>

Notes to the consolidated financial statements (continued)

As of September 30, 2016, the Group granted indirect loans (contingent operations) in foreign currency for approximately US\$769,752,000, equivalent to S/2,617,156,000 (US\$799,920,000, equivalent to S/2,728,527,000 as of December 31, 2015).

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 September 30, 2016 and December 31, 2015. The analysis determines the effect of a reasonably possible variation of the exchange rate of the 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	(54,144)	(53,713)
US Dollar	10	(108,288)	(107,425)
US Dollar	15	(162,433)	(161,138)
Revaluation			
US Dollar	5	54,144	53,713
US Dollar	10	108,288	107,425
US Dollar	15	162,433	161,138

Notes to the consolidated financial statements (continued)

26. Fair value of financial instruments

(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 September 30, 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	47,628	(995)	1,183	47,816	84,468	20,721	-	105,189
Available-for-sale investments								
Debt instruments	4,390,041	3,245,607	-	7,635,648	4,058,803	2,329,006	-	6,387,809
Mutual funds and investments participations	166,173	620,235	265,426	1,051,834	420,244	244,619	251,081	915,944
Shares of the private sector and of foreign entities and others	407,203	1,752	1	408,956	304,779	738	-	305,517
InRetail Perú Corp.	193,835	-	-	193,835	149,107	-	-	149,107
Royalty Pharma	-	-	91,151	91,151	-	-	229,001	229,001
Derivatives receivable	-	267,607	-	267,607	-	324,268	-	324,268
	<u>5,204,880</u>	<u>4,134,206</u>	<u>357,761</u>	<u>9,696,847</u>	<u>5,017,401</u>	<u>2,919,352</u>	<u>480,082</u>	<u>8,416,835</u>
Accrued interest				76,655				79,786
Total financial assets				<u>9,773,502</u>				<u>8,496,621</u>
Financial liabilities								
Derivatives payable	-	301,226	-	301,226	-	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 the forecast of cash flow, discount rate, credit risk and volatility.

As of September 30, 2016 and December 31, 2015, the unrealized gain on Level 3 financial instruments amounts to S/12,060,000 and S/108,929,000, respectively, and the unrealized loss amounts to S/14,980,000 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.

Notes to the consolidated financial statements (continued)

(b) Financial instruments not measured at their fair value

The table below presents the disclosure of the comparison between the book values 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 September 30, 2016					As of December 31, 2015				
	Level 1	Level 2	Level 3	Fair Value	Book value	Level 1	Level 2	Level 3	Fair value	Book value
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Assets										
Cash and due from banks	-	11,287,864	-	11,287,864	11,287,864	-	12,431,785	-	12,431,785	12,431,785
Inter-bank funds	-	230,027	-	230,027	230,027	-	245,028	-	245,028	245,028
Held-to-maturity investments	483,629	-	-	483,629	471,888	440,645	-	-	440,645	479,561
Loan portfolio, net	-	27,165,183	-	27,165,183	26,924,433	-	26,572,466	-	26,572,466	25,994,235
Due from customers on acceptances	-	28,615	-	28,615	28,615	-	27,118	-	27,118	27,118
Other accounts receivable and other assets, net	-	777,973	-	777,973	777,973	-	469,901	-	469,901	469,901
Total	483,629	39,489,662	-	39,973,291	39,720,800	440,645	39,746,298	-	40,186,943	39,647,628
Liabilities										
Deposits and obligations	-	28,657,110	-	28,657,110	28,667,433	-	28,479,474	-	28,479,474	28,487,666
Inter-bank funds	-	238,003	-	238,003	238,003	-	-	-	-	-
Due to banks and correspondents	-	6,015,809	-	6,015,809	6,006,217	-	6,202,037	-	6,202,037	6,191,726
Bonds, notes and notes issued	-	5,302,346	-	5,302,346	4,855,471	-	5,121,909	-	5,121,909	4,925,413
Due from customers on acceptances	-	28,615	-	28,615	28,615	-	27,118	-	27,118	27,118
Insurance contract liabilities	-	5,029,336	-	5,029,336	5,029,336	-	4,477,089	-	4,477,089	4,477,089
Accounts payable and other liabilities	-	1,065,182	-	1,065,182	1,065,182	-	860,564	-	860,564	860,564
Total	-	46,336,401	-	46,336,401	45,890,257	-	45,168,191	-	45,168,191	44,969,576

The methodologies and assumptions used to determine said 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 evaluated 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 September 30, 2016 and December 31, 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 have short term maturity (less than 3 months) it is assumed that their book values 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 maturity term. 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 maturity term.

Notes to the consolidated financial statements (continued)

27. Fiduciary activities and management of funds

As of September 30, 2016 and December 31, 2015, the managed value of the financial assets managed off-balance sheet is as follows:

	2016 S/(000)	2015 S/(000)
Investments funds	11,465,248	10,684,729
Mutual funds	<u>3,402,732</u>	<u>2,927,113</u>
Total	<u>14,867,980</u>	<u>13,611,842</u>

28. Additional explanation for the English translation

The accompanying consolidated financial statements are presented on the basis of the IFRS applicable to financial and insurance entities. Said accounting principles differ in certain respects to generally accepted accounting principles in other countries. In the event of any discrepancy, the Spanish language version prevails.