

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of September 30, 2017, December 31, 2016 and for the nine-month periods ended September 30, 2017 and 2016

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of September 30, 2017 and December 31, 2016 (audited)

	Note	2017 S/(000)	2016 S/(000)		Note	2017 S/(000)	2016 S/(000)
Assets				Liabilities and equity			
Cash and due from banks:	3			Deposits and obligations:	8		
Non-interest bearing		2,509,023	2,628,115	Non-interest bearing		4,819,594	5,081,940
Interest bearing		3,680,166	5,869,583	Interest bearing		23,731,895	25,015,910
Restricted funds		2,480,024	3,264,105			<u>28,551,489</u>	<u>30,097,850</u>
		<u>8,669,213</u>	<u>11,761,803</u>				
Inter-bank funds		231,044	5,002	Inter-bank funds		86,016	332,255
Trading securities		83,376	80,149	Due to banks and correspondents	9	5,674,639	5,328,603
Available-for-sale investments	4(a)	10,409,560	9,518,398	Bonds, notes and other obligations	10	4,765,523	4,769,390
Held-to-maturity investments	4(h)	1,232,386	611,293	Due from customers on acceptances		36,937	16,392
Loans, net:	5			Insurance contract liabilities	11	5,521,361	5,010,513
Loans, net of unearned interest		29,035,998	28,192,647	Accounts payable, provisions and other liabilities	7	1,153,678	1,162,064
Allowance for loan losses		(1,235,638)	(1,166,782)	Deferred Income Tax liability, net		300	3,946
		<u>27,800,360</u>	<u>27,025,865</u>	Total liabilities		<u>45,789,943</u>	<u>46,721,013</u>
Investment property	6	785,569	745,185				
Property, plant and equipment, net		581,115	589,820	Equity, net	12		
Due from customers on acceptances		36,937	16,392	Equity attributable to IFS's shareholders:			
Accounts receivable and other assets, net	7	1,300,060	1,331,174	Capital stock		963,446	963,446
Deferred Income Tax asset, net		60,556	34,278	Treasury stock		(574,785)	(522,106)
				Capital surplus		268,077	268,077
				Reserves		3,700,000	2,600,000
				Unrealized results, net		395,241	16,358
				Retained earnings		615,151	1,553,336
						<u>5,367,130</u>	<u>4,879,111</u>
				Non-controlling interest		33,103	119,235
						<u>5,400,233</u>	<u>4,998,346</u>
Total assets		<u>51,190,176</u>	<u>51,719,359</u>	Total equity, net		<u>5,400,233</u>	<u>4,998,346</u>
				Total liabilities and equity, net		<u>51,190,176</u>	<u>51,719,359</u>

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, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Interest and similar income	14	2,811,540	2,753,418
Interest and similar expenses	14	(831,816)	(806,115)
Net interest and similar income		1,979,724	1,947,303
Provision for loan losses, net of recoveries	5(c)	(639,183)	(589,665)
Net interest and similar income after provision for loan losses, net of recoveries		1,340,541	1,357,638
Other income			
Fee income from financial services, net	15	679,354	641,072
Net gain on foreign exchange transactions		150,508	211,655
Net gain on sale of securities		135,057	99,640
Net trading income (loss)		14,391	(61,208)
Rental income		18,809	15,501
Gain on sale of investment property		-	2,655
Fair value adjustment loss of investment property	6(b)	(8,768)	(1,290)
Others	16	81,168	72,011
Total other income		1,070,519	980,036
Insurance premiums and claims			
Net premiums earned (incurred)	17	15,646	(83,764)
Net claims and benefits incurred for life insurance contracts and others	18	(265,541)	(230,220)
Total net premiums earned less claims and benefits		(249,895)	(313,984)
Other expenses			
Salaries and employee benefits	19	(532,838)	(528,493)
Administrative expenses	20	(606,204)	(568,872)
Depreciation and amortization		(102,774)	(96,807)
Impairment loss on available-for-sale investments	4(c)	(7,053)	(62,176)
Expenses related to rental income		(599)	(1,068)
Others	16	(88,734)	(77,066)
Total other expenses		(1,338,202)	(1,334,482)
Income before translation result and Income Tax		822,963	689,208
Translation result		13,448	8,545
Income Tax		(239,790)	(250,375)
Net profit for the period		596,621	447,378
Attributable to:			
IFS's shareholders		592,280	441,976
Non-controlling interest		4,341	5,402
		596,621	447,378
Earnings per share attributable to IFS's shareholders (stated in Soles)	21	5.551	4.066
Weighted average number of outstanding shares (in thousands)	21	106,707	108,693

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, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Net profit for the period		596,621	447,378
Other comprehensive income			
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:			
Net gain on available-for-sale investments	12(e)	399,604	625,234
Net movement on cash flow hedges	12(e)	(2,065)	333
Exchange differences on translation of foreign operations	12(e)	(17,688)	(3,454)
		<hr/>	<hr/>
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods, net of Income Tax		379,851	622,113
		<hr/>	<hr/>
Total other comprehensive income for the period, net of Income Tax		976,472	1,069,491
		<hr/>	<hr/>
Attributable to:			
IFS's shareholders		971,163	1,062,952
Non-controlling interest		5,309	6,539
		<hr/>	<hr/>
		976,472	1,069,491
		<hr/>	<hr/>

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, 2017 and 2016

	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(d)			Retained earnings S/(000)	Total S/(000)	Non-controlling interest S/(000)	Total equity S/(000)
							Available-for- sale investments S/(000)	Cash flow hedges S/(000)	Exchange differences on translation of foreign operations S/(000)				
Balances as of January 1, 2016	113,110	(4,290)	963,446	(322,214)	268,077	2,000,000	(471,151)	(458)	110,214	1,797,637	4,345,551	115,380	4,460,931
Net profit for the period	-	-	-	-	-	-	-	-	-	441,976	441,976	5,402	447,378
Other comprehensive income	-	-	-	-	-	-	624,097	333	(3,454)	-	620,976	1,137	622,113
Total other 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 from retained earnings to reserves, Note 12(g)	-	-	-	-	-	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)
Others	-	-	-	-	-	-	-	-	-	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	152,946	(125)	106,760	1,167,684	4,892,968	119,250	5,012,218
Balances as of January 1, 2017	113,110	(6,179)	963,446	(522,106)	268,077	2,600,000	(83,807)	1,291	98,874	1,553,336	4,879,111	119,235	4,998,346
Net profit for the period	-	-	-	-	-	-	-	-	-	592,280	592,280	4,341	596,621
Other comprehensive income	-	-	-	-	-	-	398,622	(2,051)	(17,688)	-	378,883	968	379,851
Total other comprehensive income	-	-	-	-	-	-	398,622	(2,051)	(17,688)	592,280	971,163	5,309	976,472
Declared and paid dividends, Note 12(a)	-	-	-	-	-	-	-	-	-	(475,773)	(475,773)	-	(475,773)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,722)	(2,722)
Transfer from retained earnings to reserves, Note 12(g)	-	-	-	-	-	1,100,000	-	-	-	(1,100,000)	-	-	-
Net variation of treasury stock held by Subsidiaries, Note 12(b)	-	(499)	-	(52,679)	-	-	-	-	-	-	(52,679)	-	(52,679)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	24,081	24,081	-	24,081
Purchase of non-controlling interest	-	-	-	-	-	-	-	-	-	22,426	22,426	(88,646)	(66,220)
Others	-	-	-	-	-	-	-	-	-	(1,199)	(1,199)	(73)	(1,272)
Balances as of September 30, 2017	113,110	(6,678)	963,446	(574,785)	268,077	3,700,000	314,815	(760)	81,186	615,151	5,367,130	33,103	5,400,233

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, 2017 and 2016

	2017	2016
	S/(000)	S/(000)
Cash flows from operating activities		
Net profit for the period	596,621	447,378
Plus (minus)		
Provision for loan losses, net of recoveries	639,183	589,665
Depreciation and amortization	102,774	96,807
Provision for sundry risk	10,083	8,981
Deferred Income Tax	(13,097)	18,443
Net gain on sale of securities	(135,057)	(99,640)
Impairment loss on available-for-sale investments	7,053	62,176
Net trading (income) loss	(14,391)	61,208
Loss on fair value adjustment of investment property	8,768	1,290
Translation result	(13,448)	(8,545)
Gain on sale of investment property	-	(2,655)
Decrease in accrued interest receivable	16,124	10,363
Increase in accrued interest payable	20,760	14,086
Net changes in assets and liabilities		
Increase in loans	(1,421,840)	(1,519,917)
Decrease (increase) in accounts receivables and other assets, net	134,891	(18,947)
Decrease in restricted funds	793,762	254,492
(Decrease) increase in deposits and obligations	(1,523,247)	188,815
Increase (decrease) in due to banks and correspondents	360,817	(172,733)
Increase in accounts payable, provisions and other liabilities	719,955	713,831
Income Tax paid	(169,643)	(246,496)
Purchase of trading securities, net	2,389	73,682
Net cash from operating activities	<u>122,457</u>	<u>472,284</u>

Consolidated statements of cash flows (continued)

	2017	2016
	S/(000)	S/(000)
Cash flows from investing activities		
Purchase of available-for-sale and held-to-maturity investments, net	(1,021,166)	(800,522)
Purchase of property, furniture and equipment	(64,260)	(56,063)
Purchase of intangible assets	(100,761)	(60,841)
Purchase of investment property	(49,152)	(75,108)
Sale of investment property	-	26,185
Purchase of non-controlling interest	(66,220)	-
Net cash used in investing activities	<u>(1,301,559)</u>	<u>(966,349)</u>
Cash flows from financing activities		
Net decrease in bonds, notes and other obligations	-	(95,725)
Net (increase) decrease in receivable inter-bank funds	(226,042)	15,001
Net (decrease) increase in payable inter-bank funds	(241,734)	237,618
Purchase of treasury stock	(52,679)	(43,606)
Dividend payment	(475,773)	(496,862)
Dividend payments to non-controlling interest	(2,722)	(2,623)
Net cash used in financing activities	<u>(998,950)</u>	<u>(386,197)</u>
Net decrease in cash and cash equivalents	(2,178,052)	(880,262)
Translation loss on cash and cash equivalents	(130,759)	(9,506)
Cash and cash equivalents at the beginning of the year	<u>8,497,047</u>	<u>8,781,161</u>
Cash and cash equivalents at the end of the year	<u>6,188,236</u>	<u>7,891,393</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of September 30, 2017, December 31, 2016 and for the nine-month periods ended September 30, 2017 and 2016

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 in September 2006, and is a subsidiary of Intercorp Perú Ltd., henceforth "Intercorp Perú", a holding Company incorporated in 1997 in the Commonwealth of the Bahamas. As of September 30, 2017, Intercorp Perú held 80.22 percent of IFS's capital stock (79.78 percent of IFS's capital stock as of December 31, 2016).

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

As of September 30, 2017 and December 31, 2016, IFS held 99.30 percent of the capital stock of Banco Internacional del Perú S.A.A. – Interbank (henceforth "Interbank") and 100.00 percent of Interseguro Compañía de Seguros S.A. (henceforth "Interseguro") and Inteligo Group Corp. (henceforth "Inteligo"). The operations of Interbank and Interseguro are concentrated in Peru, while the operations of Inteligo and Subsidiaries are concentrated in Peru and Panama.

The main activities of IFS's Subsidiaries and their assets, liabilities, equity, operating income, net income balances and other relevant information are presented in Note 1(c).

The audited consolidated financial statements of IFS and Subsidiaries as of December 31, 2016 were approved by the General Shareholders' Meeting held on April 10, 2017. The consolidated financial statements as of September 30, 2017 were approved by Board of Directors on November 8, 2017.

(b) Acquisition of Seguros Sura S.A. and Hipotecaria Sura Empresa Administradora S.A. -

On May 31, 2017, IFS signed a Share Purchase Agreement with Sura Asset Management S.A. (Colombia), Sura Asset Management Perú S.A. (Peru) and Grupo Wiese (Peru), for the direct and indirect acquisition of up to 100 percent of the shares of Seguros Sura S.A. (Peru) and Hipotecaria Sura Empresa Administradora Hipotecaria S.A. (henceforth the "Transaction"). The businesses that will be incorporated into IFS under the transaction are mainly retirement annuities and individual life insurance operations. In September 2017, the General Shareholders' Meeting agreed on the issuance and placement of debt instruments for an outstanding amount of up to US\$300,000,000, which are to be placed on the international and/or Peruvian market within the framework of Rule 144A and Regulation S of the U.S. Securities Act of 1933, with the purpose of aiming the obtained funds to the payment of the purchase price under the transaction. At the end of September 2017, the Superintendence of Banking, Insurance and AFPs (henceforth "SBS", for its acronym in Spanish) approved the transaction.

Notes to the consolidated financial statements (continued)

(c) **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 SBS 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, 2017 and December 31, 2016, Interbank had 276 and 282 offices, respectively, and a branch established in the Republic of Panama. Additionally, it holds 100 percent of the shares of the following Subsidiaries:

Entity	Activity
Interfondos S.A. Sociedad Administradora de Fondos	Manages mutual funds and investment funds.
Internacional de Títulos Sociedad Titulizadora S.A. - Intertítulos S.T.	Manages securitization funds.
Inversiones Huancavelica S.A.	Real estate activities.
Contacto Servicios Integrales de Créditos y Cobranzas S.A.	Collection services.
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities. In October 2017, this company was absorbed by Interbank. At the date of the merger, the assets and equity, net absorbed amounted to approximately S/5,572,000.
Compañía de Servicios Conexos - Expressnet S.A.C.	Services related to credit card transactions or products related to the brand "American Express".
IBK DPR Securitizadora	A consolidated special purpose entity (SPE), through which Interbank issued negotiable long-term notes which matured in 2016.

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

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

Notes to the consolidated financial statements (continued)

As of September 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, Interseguro holds 75 percent of its shares.
Empresa Administradora Hipotecaria IS S.A.	Was incorporated in February 2014 in Peru; It does not have operations and it is under the process of liquidation. As of September 30, 2017 and December 31, 2016, Interseguro holds 100 percent of its shares and has a paid in capital of S/1.

Also, Interseguro holds contributions in Patrimonio Fideicometido D.S.093-2002-EF, Interproperties Perú (henceforth "Patrimonio Fideicometido – Interproperties Perú"), that is a structured entity, incorporated in April 2008, and in which several investors (related parties to the Group) contributed investment properties; each investor or investors have ownership of and specific control over the contributed investment property. 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 (Patrimonio Fideicometido - Interproperties Perú). The Group has ownership of and decision making power over these properties, and the Group has the exposure or rights to their returns; therefore, the Group has consolidated the silos containing the investment properties that it controls.

On the other hand, in the Universal Shareholders' Meeting held on December 21, 2016, it was approved a project of "simple reorganization" between Interseguro and Mapfre Peru Vida Compañía de Seguros y Reaseguros S.A. (henceforth "Mapfre", an unrelated party), through which Interseguro is committed to the acquisition of an equity block comprised of assets, liabilities, rights, obligations and legal matters related to an annuity retirement insurance policies portfolio issued by Mapfre. On May 24, 2017, the SBS authorized said reorganization. Consequently, Interseguro acquired a package comprising assets for S/182,704,000 and liabilities for the same amount. In that sense, there was not an increase in equity.

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

Notes to the consolidated financial statements (continued)

(iii) Inteligo Group Corp. and Subsidiaries

Inteligo is an entity incorporated in the Republic of Panama. As of September 30, 2017 and December 31, 2016, it holds 100 percent of the shares of the following Subsidiaries:

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

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

Its corporate purpose is the acquisition and holding of shares and securities. As of September 30, 2017 and December 31, 2016, it did not have operations and had paid in capital of S/1,000.

Notes to the consolidated financial statements (continued)

The table below presents a summary of the consolidated financial statements of the main Subsidiaries, before adjustments and eliminations for consolidation, as of September 30, 2017 and December 31, 2016 and for the nine-month periods ended September 30, 2017 and 2016, in accordance with the IFRS (see Note 23):

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2017	2016	2017	2016	2017	2016
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Consolidated statements of financial position						
Cash and due from banks	8,197,312	10,966,505	73,626	84,225	413,803	757,929
Trading securities and available-for-sale investments	4,469,605	3,982,116	5,237,525	4,611,642	1,392,107	1,466,371
Held-to-maturity investments	1,232,386	611,293	-	-	-	-
Loans, net	26,189,346	25,331,312	-	-	1,611,088	1,695,421
Investment property	-	-	785,569	745,185	-	-
Total assets	41,942,808	42,402,877	6,349,004	5,795,908	3,516,105	4,014,633
Deposits and obligations	25,819,117	26,898,615	-	-	2,793,787	3,246,319
Due to banks and correspondents	5,671,167	5,259,484	3,358	1,847	114	67,271
Bonds, notes and other obligations	4,600,392	4,598,310	165,316	171,215	-	-
Insurance contract liabilities	-	-	5,521,361	5,010,513	-	-
Total liabilities	37,218,365	38,054,932	5,786,279	5,342,484	2,815,906	3,338,097
Equity attributable to IFS's shareholders	4,724,443	4,347,945	562,504	364,452	700,199	676,536
Non-controlling interest – equity	-	-	221	88,972	-	-
For the nine-month periods ended September, 30						
	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2017	2016	2017	2016	2017	2016
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Consolidated income statements						
Net interest and similar income	1,711,748	1,688,387	216,713	205,445	73,494	71,326
Provision for loan losses, net of recoveries	(641,840)	(589,665)	-	-	2,657	-
Gain on sale and fair value adjustment loss of investment property	-	-	(8,768)	1,365	-	-
Fee income from financial services, net	623,678	584,433	(2,625)	(2,076)	85,962	86,436
Total net premiums earned minus claims and benefits	-	-	(249,895)	(313,984)	-	-
Impairment loss on available-for-sale investments	2,243	-	(5,789)	(62,176)	(3,507)	-
Net profit (loss) for the period attributable to IFS's shareholders	631,514	623,049	(126,460)	(246,388)	146,915	132,521
Non-controlling interest	-	-	(54)	1,066	-	-

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, 2017, are consistent with respect to the rules applied as of December 31, 2016, which are included in the audited consolidated financial statements dated March 24, 2017.

3. Cash and due from banks

This caption is made up as follows:

	2017	2016
	S/(000)	S/(000)
Cash and clearing	1,862,904	1,545,638
Deposits in the Central Reserve Bank of Peru – BCRP	3,289,870	5,304,343
Deposits in banks	1,035,462	1,647,066
Restricted funds	<u>2,480,024</u>	<u>3,264,105</u>
	8,668,260	11,761,152
Accrued interest	<u>953</u>	<u>651</u>
Total	<u><u>8,669,213</u></u>	<u><u>11,761,803</u></u>

Cash and cash equivalents presented in the consolidated statements of cash flows exclude the restricted funds and accrued interest.

As of September 30, 2017, the “Cash and due from banks” caption of the consolidated statements of financial position includes approximately US\$1,213,770,000 and S/905,470,000 (US\$1,588,248,000 and S/856,453,000 as of December 31, 2016), which represent the legal reserve that Interbank must maintain for its deposits and obligations. These funds are kept in Interbank and BCRP vaults and are within the limits required by Peruvian regulations in force at those dates.

The legal reserve funds maintained at the BCRP are non-interest bearing, except for the part that exceeds the minimum reserve required. As of September 30, 2017, the excess in foreign currency amounted to approximately US\$335,639,000 equivalent to approximately S/1,095,863,000 and accrued interest at an annual average rate of 0.31 percent (US\$345,688,000, equivalent to approximately S/1,160,129,000, and an annual average rate of 0.18 percent as of December 31, 2016), whereas the excess amount in Soles amounted to approximately S/7,291,583,000 and accrued interest in Soles at an annual average rate of 0.38 percent (S/2,429,162,000 and an annual average rate of 1.05 percent as of December 31, 2016).

Deposits in banks of the country and abroad are mainly in Soles and US Dollars, they are freely available and accrue interests at market rates. As of September 30, 2017 and December 31, 2016, the Group does not have significant deposits in any specific financial institution.

Notes to the consolidated financial statements (continued)

As of September 30, 2017 and December 31, 2016, the “Restricted Funds” caption is mainly comprised of deposits in the BCRP amounting to approximately US\$723,933,000 (equivalent to S/2,363,642,000) and US\$915,204,000 (equivalent to S/3,071,424,000), respectively, as a guarantee for loans received from this entity, see Note 9(b).

Furthermore, as of September 30, 2017 and December 31, 2016, this caption included restricted funds for approximately US\$36,534,000 (equivalent to S/119,283,000) and US\$58,027,000 (equivalent to S/194,737,000), respectively, which mainly correspond to requirements from counterparties of derivative transactions, see Note 7(d).

Notes to the consolidated financial statements (continued)

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

(a) The detail of available-for-sale and held-to-maturity investments as of September 30, 2017 and December 31, 2016, is as follows:

	2017				2016			
	Amortized Cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)	Amortized Cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)
		Gains S/(000)	Losses S/(000)			Gains S/(000)	Losses S/(000)	
Corporate, leasing and subordinated bonds	4,133,367	168,956	(39,445)	4,262,878	4,120,202	38,627	(158,492)	4,000,337
Negotiable Certificates of Deposit issued by BCRP	1,587,152	682	(70)	1,587,764	1,709,845	2,523	(84)	1,712,284
Peruvian Sovereign Bonds	1,320,714	38,751	(24,986)	1,334,479	1,223,965	4,171	(90,732)	1,137,404
Mutual funds and investment funds participations	994,358	85,188	(22,912)	1,056,634	1,030,427	61,319	(18,558)	1,073,188
Bonds guaranteed by the Peruvian Government	527,219	22,403	(4,758)	544,864	471,338	7,674	(5,962)	473,050
Payable Certificates of Deposit issued by BCRP	353,969	-	(50)	353,919	-	-	-	-
Sovereign and Global Bonds of foreign countries	336,154	1,565	(1,871)	335,848	249,554	-	(3,350)	246,204
Global Bonds of the Republic of Peru	237,203	-	(1,022)	236,181	163,778	-	(5,636)	158,142
Indexed Certificates of Deposit issued by BCRP	-	-	-	-	39,414	51	-	39,465
Total	9,490,136	317,545	(95,114)	9,712,567	9,008,523	114,365	(282,814)	8,840,074
Listed shares								
Peruvian and foreign entities	351,189	27,726	(8,035)	370,880	297,132	26,232	(8,387)	314,977
InRetail Perú Corp. (f)	92,365	77,949	-	170,314	110,217	92,857	-	203,074
Non-listed shares and participations								
Royalty Pharma (g)	61,216	7,831	-	69,047	62,923	5,341	-	68,264
Others	943	675	-	1,618	968	694	(129)	1,533
	505,713	114,181	(8,035)	611,859	471,240	125,124	(8,516)	587,848
	9,995,849	431,726	(103,149)	10,324,426	9,479,763	239,489	(291,330)	9,427,922
Accrued interest				85,134				90,476
Total				10,409,560				9,518,398

Notes to the consolidated financial statements (continued)

- (b) The Group has determined that the unrealized losses as of September 30, 2017 and December 31, 2016, are of temporary nature. The Group intends and has the capacity to hold each investment for a period of time sufficient to allow for an anticipated recovery in fair value, until the maximum period for anticipated recovery or maturity.

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

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

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

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

Notes to the consolidated financial statements (continued)

- (c) As a result of the impairment assessment of its available-for-sale investments, the Group recorded an impairment amounting to S/7,053,000 and S/62,176,000 in the periods ended September 30, 2017 and 2016, 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). As of September 30, 2017 and December 31, 2016, the detail of unrealized losses of debt instruments and mutual fund and investment participations classified as available-for-sale is as follows:

	2017			2016		
	Amortized cost S/(000)	Unrealized Gross gain S/(000)	Unrealized gross loss S/(000)	Amortized cost S/(000)	Unrealized Gross gain S/(000)	Unrealized gross loss S/(000)
Issuer						
Peruvian Sovereign Bonds	1,320,714	38,751	(24,986)	1,223,965	4,171	(90,732)
Corporación Financiera de Desarrollo S.A.	158,186	6,688	(8,614)	182,340	33	(15,368)
Banco de Crédito del Perú S.A.	186,363	998	(7,369)	184,420	176	(6,962)
Bonds guaranteed by the Peruvian Government	527,219	22,403	(4,758)	471,338	7,674	(5,962)
H2Olmos S.A.	117,842	30	(3,240)	115,247	18	(11,417)
Export Import Bank of Korea	58,902	578	(3,149)	86,014	1,008	(4,825)
Línea Amarilla S.A.C.	91,772	1,326	(3,061)	91,071	163	(8,670)
Edelnor S.A.A.	40,527	1,361	(1,815)	41,991	557	(4,117)
Vale Overseas Ltd.	91,693	1,300	(1,719)	94,645	-	(11,183)
Abengoa Transmisión Sur S.A.	196,937	2,682	(1,433)	162,526	3	(10,217)
Fibra Uno	102,731	2,966	(1,083)	105,709	-	(17,868)
Global Bonds of the Republic of Peru	237,203	-	(1,022)	163,778	-	(5,636)
Southern Perú Copper Corporation S.A.A.	154,141	14,941	(23)	164,918	4,237	(4,226)
G y M Ferrovías S.A.	140,545	10,708	-	141,176	-	(6,357)
Votorantim Cimentos S.A.	94,438	6,884	-	97,127	1,095	(6,314)
Mexico City Airport Trust S.A	74,198	2,589	-	66,251	-	(5,400)
Mexichem S.A.	95,823	3,155	-	49,043	-	(4,865)
Rutas de Lima S.A.C.	185,466	11,151	-	183,751	651	(4,841)
Fermaca Enterprises S.R.L.	126,203	6,984	-	96,470	-	(4,410)
Concesionaria La Chira S.A.	96,041	2,336	-	96,173	-	(4,104)
Instruments with individual losses / lower than S/4 million	3,212,769	7,692	(32,842)	3,691,144	11,900	(49,340)
	<u>7,309,713</u>	<u>145,523</u>	<u>(95,114)</u>	<u>7,509,097</u>	<u>31,686</u>	<u>(282,814)</u>

- (d) As of December 31, 2016, Interbank holds Negotiable Certificates of Deposit issued by BCRP amounting to approximately S/101,054,000 as a guarantee for loans received from this entity, Note 9(b).
- (e) During 2016, Interbank participated in a securities exchange program carried out by the Peruvian Government, through which the Bank:
- Delivered Global and Sovereign Bonds amounting to US\$52,360,000 (equivalent to approximately S/178,128,000) and S/74,152,000, respectively, which had maturities between March 2019 and July 2025 and accrued interests at effective annual rates between 1.50 and 2.59 percent, and 4.8 percent, respectively; and
 - Received Sovereign Bonds amounting to S/249,863,000, with maturity in August 2028 and effective interest annual rates between 6.35 and 6.38 percent.
- (f) As of September 30, 2017 and December 31, 2016, the Group held approximately 2,746,920 and 3,125,000 shares, respectively, which represented 2.67 and 3.04 percent, respectively, of InRetail Peru Corp.’s capital stock (a related entity).

Notes to the consolidated financial statements (continued)

- (g) Corresponds to participations in RPI International Holding, LP (“RPI Partnership”), Royalty Pharma Cayman Holding and LP (“RPS Partnership”). RPI Partnership and RPS Partnership invest in a series of feeder funds whose objective is to invest in Royalty Pharma Investments and Royalty Pharma Select, respectively, which are investment funds established under the laws of the Republic of Ireland and authorized by the Central Bank of the Republic of Ireland. These investment funds are engaged in the purchase of medical patents and biotechnology. The participations in RPI Partnership and RPS Partnership are not liquid and require authorization for their trading.

As of September 30, 2017 and December 31, 2016, the Group held 152,251 participations of RPI Partnership which fair values amounted to approximately US\$21,148,000 and US\$20,341,000, respectively (equivalent to approximately S/69,047,000 and S/68,264,000, respectively).

During 2016, the Group (through its subsidiaries Interseguro and Inteligo Bank) 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 2017 and 2016, the Group received dividends from these participations for approximately S/3,293,000 and S/20,977,000, respectively, which are included in the “Interest and similar income” caption in the consolidated income statements.

- (h) As of September 30, 2017 and December 31, 2016, held-to-maturity investments are entirely comprised of Peruvian Sovereign Bonds amounting to S/1,232,386,000 and S/611,293,000, respectively, including accrued interests.

During 2017 and 2016, Interbank reclassified Peruvian Sovereign Bonds classified as available-for-sale investments into held-to-maturity investments. At the reclassification date, the carrying values amounted to approximately S/62,796,000 and S/129,548,000, and the unrealized gains and losses accumulated in the shareholders’ equity amounted to S/298,000 and S/220,000, respectively; the unrealized gains and losses will be transferred to future period’s results through the remaining term of the instruments. As a result of these transfers, Interbank has recorded a net loss of approximately S/1,957,000 and S/1,887,000, in the income statements as of September 30, 2017 and 2016, respectively. As of September 30, 2017 and December 31, 2016, the carrying amount of these investments is S/874,544,000 and S/432,832,000, respectively.

As of September 30, 2017, these investments have maturities between August 2020 and August 2037, have accrued interest at effective annual rates between 3.61 and 5.97 percent; and their estimated fair value amounts to approximately S/1,277,534,000 (these investments have maturities between August 2020 and August 2037, have accrued interest at effective annual rates between 5.34 and 6.33 percent; and their estimated fair value amounts to approximately S/605,299,000 as of December 31, 2016).

Notes to the consolidated financial statements (continued)

5. Loans, net

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Direct loans		
Loans	21,558,357	20,638,183
Credit cards	3,733,094	3,859,148
Leasing	1,752,299	1,771,512
Discounted notes	464,011	407,435
Factoring	154,039	201,894
Advances and overdrafts	52,530	39,483
Refinanced loans	276,501	296,485
Past due and under legal collection loans	<u>770,667</u>	<u>693,320</u>
	28,761,498	27,907,460
Plus (minus)		
Accrued interest from performing loans	305,070	311,695
Unearned interest and interest collected in advance	(30,570)	(26,508)
Allowance for loan losses (c)	<u>(1,235,638)</u>	<u>(1,166,782)</u>
Total direct loans, net	<u>27,800,360</u>	<u>27,025,865</u>
Indirect loans	<u>4,377,753</u>	<u>4,450,470</u>

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

	2017 S/(000)	2016 S/(000)
Commercial loans	13,704,335	13,407,913
Consumer loans	9,040,707	8,888,561
Mortgage loans	5,379,446	5,041,107
Small and micro-business loans	<u>637,010</u>	<u>569,879</u>
Total	<u>28,761,498</u>	<u>27,907,460</u>

Notes to the consolidated financial statements (continued)

- (c) The changes in the allowance for loan losses (direct and indirect) for the nine-month periods ended September 30, 2017 and 2016, were as follows:

	2017 S/(000)	2016 S/(000)
Beginning balances	1,190,758	1,065,192
Provision	639,183	589,665
Recovery of written-off loans	93,222	89,289
Written-off loans	(620,301)	(582,412)
Sale of loan portfolio	(3,969)	(1,665)
Translation result	(7,428)	(1,329)
Others	<u>(18,069)</u>	<u>(5,098)</u>
Ending balances (*)	<u>1,273,396</u>	<u>1,153,642</u>
Balances as of December 31, 2016 (*)		<u>1,190,758</u>

(*) The allowance for loan losses includes the allowance for direct and indirect loans amounting to S/1,235,638,000 and S/37,758,000, respectively, as of September 30, 2017 (S/1,130,874,000 and S/22,768,000, as of September 30, 2016 and S/1,166,782,000 and S/23,976,000, as of December 31, 2016, respectively). The allowance for loan losses for indirect loans is presented in the “Accounts payable, provisions and other liabilities” caption of the consolidated statements of financial position; see Note 7(a).

In Management’s opinion, the allowance for loan losses recorded as of September 30, 2017 and December 31, 2016, has been established in accordance with IAS 39 and it 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:

	2017 S/(000)	2016 S/(000)	Acquisition or construction year	Hierarchy level (i)	Valuation methodology	
					2017	2016
Land -						
San Isidro – Lima	242,290	255,431	2008	Level 3	Appraisal	Appraisal
San Martín de Porres – Lima	60,617	60,008	2015	Level 3	Appraisal	Appraisal
Miraflores – Lima	48,600	-	2017	Level 3	Appraisal	-
Piura	38,465	39,889	2009	Level 3	Appraisal	Appraisal
Sullana	24,166	25,008	2014	Level 3	Appraisal	Appraisal
Chimbote	9,100	8,710	2015	Level 3	Appraisal	Appraisal
Others	15,596	15,512	-	Level 3	Appraisal	Appraisal
	<u>438,834</u>	<u>404,558</u>				
Completed investment property						
Shopping Malls "Real Plaza" -						
Pucallpa	213,226	218,799	2014	Level 3	DCF	DCF
Talara	38,775	40,060	2015-2016	Level 3	DCF	DCF
	<u>252,001</u>	<u>258,859</u>				
Buildings -						
Ate Vitarte – Lima	54,368	45,865	2006	Level 3	DCF	DCF
Panorama – Lima	20,573	20,724	2016	Level 3	DCF	DCF
Trujillo	15,257	10,166	2016	Level 3	DCF	DCF
Pardo y Aliaga – Lima	3,311	3,596	2010	Level 3	DCF	DCF
	<u>93,509</u>	<u>80,351</u>				
Built on leased land -						
Others	1,225	1,417	-	Level 3	DCF	DCF
	<u>1,225</u>	<u>1,417</u>				
Total	<u>785,569</u>	<u>745,185</u>				

DCF: Discounted cash flow

(i) During 2017 and 2016, there were no transfers between levels of hierarchy.

(ii) As of September 30, 2017 and December 31, 2016, there are no liens on investment property.

Notes to the consolidated financial statements (continued)

- (b) The movement of investment property for the nine-month periods ended September 30, 2017 and 2016, is as follows:

	2017 S/(000)	2016 S/(000)
Beginning balance	745,185	713,262
Additions	49,152	75,107
Sales	-	(23,530)
Valuation loss	(8,768)	(1,290)
Ending balance	<u>785,569</u>	<u>763,549</u>
Balance as of December 31		<u>745,185</u>

Notes to the consolidated financial statements (continued)

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

(a) These captions are comprised of the following:

	2017 S/(000)	2016 S/(000)
Accounts receivable and other assets		
Financial instruments		
Accounts receivable from sale of investments	225,140	147,655
Other accounts receivable, net	221,775	210,446
Accounts receivable related to derivative financial instruments (d)	121,020	203,089
Assets for technical reserves for claims and premiums by reinsurers	74,192	128,168
Operations in process (c)	43,447	37,429
Accounts receivable from reinsurers and coinsurers	22,113	28,936
Credit card commissions receivable	16,383	14,845
Insurance operations receivables, net	2,389	19,407
Total	<u>726,459</u>	<u>789,975</u>
Non-financial instruments		
Intangible assets, net	314,737	267,401
Deferred charges	82,051	53,884
Value Added Tax credit (b)	70,090	86,213
Investments in associates	52,134	51,777
Prepaid Income Tax	33,587	55,178
Prepaid rights to related entity, Note 22(f)	11,495	14,532
Others	9,507	12,214
	<u>573,601</u>	<u>541,199</u>
Total	<u>1,300,060</u>	<u>1,331,174</u>
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	444,787	377,828
Accounts payable related to derivative financial instruments (d)	159,790	236,137
Operations in process (c)	113,399	116,273
Workers' profit sharing and salaries payable	110,454	110,549
Accounts payable for acquisitions of investments	106,671	50,528
Allowance for indirect loan losses, Note 5(c)	37,758	23,976
Accounts payable to reinsurers and coinsurers	15,737	51,468
	<u>988,596</u>	<u>966,759</u>
Non-financial instruments		
Deferred income	52,716	57,254
Taxes payable	43,627	52,144
Provision for other contingencies	26,036	32,383
Others	42,703	53,524
	<u>165,082</u>	<u>195,305</u>
Total	<u>1,153,678</u>	<u>1,162,064</u>

Notes to the consolidated financial statements (continued)

- (b) Corresponds to the Value-Added Tax resulting from the purchase of goods devoted mostly to grant financial leasing loans, which is recovered through the collection of the loans.
- (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, 2017 and December 31, 2016, the fair value of derivative financial instruments recorded as assets or liabilities, including their notional amounts. The notional amount is the nominal amount of the derivative's underlying asset and it is the base over which changes in the fair value of derivatives are measured:

	2017			Maturity	2016			Maturity	2017 and 2016 Hedged Instruments
	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)		Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)		
Derivatives held for trading (i) -									
Forward exchange contracts	37,293	25,719	6,734,057	Between October 2017 and September 2018	45,115	20,741	3,961,083	Between January 2017 and March 2018	
Interest rate swaps	15,732	12,983	2,555,267	Between December 2017 and December 2029	25,958	18,263	2,761,079	Between December 2017 and December 2029	
Currency swaps	64,749	60,182	1,138,573	Between October 2017 and January 2025	129,737	121,655	1,464,297	Between January 2017 and January 2025	
Options	1,635	2,020	353,639	Between October 2017 and April 2018	432	924	192,573	Between January 2017 and July 2017	
Cross currency swaps	-	55,812	192,172	January 2023	-	74,554	197,528	January 2023	
	<u>119,409</u>	<u>156,716</u>	<u>10,973,708</u>		<u>201,242</u>	<u>236,137</u>	<u>8,576,560</u>		
Derivatives held as hedges -									
Cash flow hedges:									
Interest rate swaps (IRS), Note 9d(i)	218	-	163,250	January 2018	499	-	167,800	January 2018	Due to banks
Interest rate swaps (IRS), Note 9d(ii)	865	-	163,250	October 2018	967	-	167,800	October 2018	Due to banks
Interest rate swaps (IRS), Note 9d(iii)	528	-	130,600	August 2018	381	-	134,240	August 2018	Due to banks
Cross currency swaps (CCS), Note 10 (e)	-	1,551	32,650	October 2020	-	-	-	-	Senior bonds
Cross currency swaps (CCS), Note 10 (e)	-	1,523	32,650	October 2020	-	-	-	-	Senior bonds
	<u>1,611</u>	<u>3,074</u>	<u>522,400</u>		<u>1,847</u>	<u>-</u>	<u>469,840</u>		
	<u>121,020</u>	<u>159,790</u>	<u>11,496,108</u>		<u>203,089</u>	<u>236,137</u>	<u>9,046,400</u>		

As of September 30, 2017 and December 31, 2016, certain derivative financial instruments required the establishment of collateral deposits; see Note 3.

- (i) Derivatives held for trading are traded mainly to satisfy clients' needs. The Group may also take positions with the expectation of profiting from favorable movements in prices or rates. Also, this caption includes any derivatives which do not comply with IAS 39 hedging accounting requirements.

Notes to the consolidated financial statements (continued)

8. Deposits and obligations

(a) This caption is made up as follows:

	2017	2016
	S/(000)	S/(000)
Demand deposits	9,446,080	9,586,985
Saving deposits	8,946,325	8,915,374
Time deposits	8,703,164	10,099,575
Compensation for service time	1,443,035	1,490,213
Other obligations	<u>12,885</u>	<u>5,703</u>
Total	<u>28,551,489</u>	<u>30,097,850</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, 2017 and December 31, 2016, approximately S/8,337,003,000 and S/8,269,694,000, 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:

	2017 S/(000)	2016 S/(000)
By type		
Central Reserve Bank of Peru (b)	2,680,421	3,048,412
Promotional credit lines (c)	1,498,295	1,610,588
Loans received from foreign entities (d)	1,470,603	620,106
Loans received from Peruvian entities	<u>3,472</u>	<u>1,847</u>
	5,652,791	5,280,953
Interest and commissions payable	<u>21,848</u>	<u>47,650</u>
Total	<u>5,674,639</u>	<u>5,328,603</u>
By term -		
Short term	3,493,300	1,808,495
Long term	<u>2,181,339</u>	<u>3,520,108</u>
Total	<u>5,674,639</u>	<u>5,328,603</u>

(b) As of September 30, 2017 and December 31, 2016, corresponds to currency repurchase operations according to which Interbank receives Soles for approximately S/2,355,200,000 and S/2,948,500,000, respectively, 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, 2017, these obligations have maturities between November 2017 and June 2019 and bear an effective interest rate of 3.00 and 6.38 percent; these operations accrued interest payable for approximately S/12,559,000 (with maturities between January 2017 and March 2019 and bear an effective interest rate of 3.00 and 6.38 percent; these operations accrued interest payable for approximately S/41,531,000 as of December 31, 2016).

Furthermore as of September 30, 2017 and December 31, 2016, corresponds to security repurchase operations according to which Interbank receives Soles for approximately S/325,221,000 and these operations are guaranteed by Peruvian Sovereign Bonds. As of September 30, 2017, these operations have maturities between June 2018 and July 2020 and bear an effective interest rate of 4.05 and 4.72 percent for approximately S/3,917,000 (Interbank receives Soles for approximately S/99,912,000 and delivers Negotiable Certificates of Deposit issued by the BCRP, this operation was settled in January 2017 and bear an effective interest rate of 4.58 percent for approximately S/13,000, as of December 31, 2016).

(c) The promotional credit lines represent loans in Soles and US dollars received from Corporación Financiera de Desarrollo (COFIDE) with the purpose of promoting development in Peru. These liabilities are guaranteed with the loan portfolio up to the used amount and include specific terms on how the funds should be used, the financial conditions that must be maintained and other administrative matter. In Management's opinion, the Group is complying with all these requirements. As of September 30, 2017, these loans accrued an effective

Notes to the consolidated financial statements (continued)

annual interest rate that fluctuated between 7.55 and 10.00 percent in Soles and between 4.62 and 8.55 percent in foreign currency and have maturities between December 2018 and November 2031 (7.55 and 10.00 percent in Soles and 4.13 and 8.06 percent in foreign currency and have maturities between January 2019 and November 2031, as of December 31, 2016).

(d) As of September 30, 2017 and December 31, 2016, includes the following:

Entity	Country	Maturity	2017 S/(000)	2016 S/(000)
Corporación Andina de Fomento	Multilateral	2018	244,875	-
Sumitomo Bank	United States of America	December 2017	244,875	33,560
HSBC Bank PLC (i)	United Kingdom	2018	163,250	167,800
Wells Fargo Bank & Co. (ii)	United States of America	2018	163,250	167,800
JP Morgan Chase & Co. (iii)	United States of America	2018	130,600	134,240
Bank of Montreal	Canada	2017	130,600	-
Banco Estado de Chile	Chile	November 2017	130,600	-
Bank of America N.A.	United States of America	December 2017	97,950	-
Standard Chartered Bank US	United States of America	December 2017	83,223	-
Citibank N.A.	United States of America	December 2017	65,300	-
Bladex	Multilateral	2018	16,080	49,586
Bank J. Safra Sarasin	Switzerland	April 2017	-	67,120
			<u>1,470,603</u>	<u>620,106</u>

Transactions with foreign entities bore an effective annual average interest rate of 2.23 percent during 2017 (2.48 percent during 2016).

- (i) Corresponds to a loan received by Interbank in December 2015 for US\$50,000,000, which bears interest at a 3-month Libor rate plus 0.90 percent. In July 2016, Interbank signed an interest rate swap contract, which was designated as cash flow hedge; see Note 7(d). Through this transaction the loan was economically converted into a fixed rate obligation.
- (ii) Corresponds to two loans received in September 2016 for US\$40,000,000 and US\$10,000,000 which bear interest at a 3-month Libor rate plus 1.20 percent and at a 3-month Libor rate plus 1.10 percent, respectively. In October 2016, Interbank signed two interest rate swaps contracts, which were designated as cash flow hedges; see Note 7(d). Through these operations, the loans were economically converted into fixed rate obligations.
- (iii) Corresponds to a loan received by Interbank in July 2016 for US\$40,000,000 which bears interest at a 6-month Libor rate plus 1.15 percent. In July 2016, the Bank signed an interest rate swap contract, which was designated as cash flow hedge; see Note 7(d). Through this operation the loan was economically converted into a fixed rate obligation.

Notes to the consolidated financial statements (continued)

10. Bonds, notes and other obligations

(a) This caption is comprised of the following:

Issuance	Annual interest rate	Interest payment	Maturity	Amount issued (000)	2017 S/(000)	2016 S/(000)
Local issuances						
Subordinated bonds – first program (b)						
Second (B series) - Interbank	9.50%	Semiannually	2023	US\$30,000	97,950	100,680
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	49,334	50,709
Eighth (A series) - Interbank	6.91%	Semiannually	2022	S/137,900	137,135	137,184
Second, first tranche – Interseguro	6.97%	Semiannually	2024	US\$35,000	114,275	117,460
Second, second tranche – Interseguro	6.00%	Semiannually	2024	US\$15,000	48,975	50,340
					<u>560,969</u>	<u>569,673</u>
Subordinated bonds – second program (b)						
Second (A series) – Interbank	5.81%	Semiannually	2023	S/150,000	149,717	149,684
Third (A series) – Interbank	7.50%	Semiannually	2023	US\$50,000	162,858	167,360
					<u>312,575</u>	<u>317,044</u>
Total local issuances					<u>873,544</u>	<u>886,717</u>
International issuances						
Subordinated bonds (c) – Interbank	6.625%	Semiannually	2029	US\$300,000	973,749	1,000,573
Junior subordinated notes (d) – Interbank	8.50%	Semiannually	2070	US\$200,000	647,625	664,153
Senior bonds (e) – Interbank – 1st	5.75%	Semiannually	2020	US\$400,000	1,300,901	1,335,970
Senior bonds (e) – Interbank – 2nd	5.75%	Semiannually	2020	US\$250,000	835,128	780,328
					<u>3,757,403</u>	<u>3,781,024</u>
Total local and international issuances					<u>4,630,947</u>	<u>4,667,741</u>
Interest payable					<u>134,576</u>	<u>101,649</u>
Total					<u>4,765,523</u>	<u>4,769,390</u>

(*) Constant Update Value (VAC, for its acronym in Spanish).

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 equity (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 deposits plus 576 basis points payable quarterly. Starting on that date and on any interest payment date, Interbank can redeem all the notes without penalties.

In accordance with SBS regulation, this issuance qualifies as second tier equity (Tier 2) in the determination of the regulatory capital; see Note 12(f).

As of September 30, 2017, Management does not intend to redeem these bonds before their maturity date.

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

This issuance qualifies as Tier 1 equity, nevertheless, the SBS establishes a 17.65 percent limit, which is computed over the capital, reserves and retained earnings with capitalization agreement; any excess qualifies as Tier 2 equity; see Note 12(f).

As of September 30, 2017, Management does not intend to redeem these bonds before their maturity date.

- (e) Starting in April 2016, Interbank can redeem these bonds, at the coupon payment date, paying a penalty equal to the United States Treasury rate plus 50 basis points. The principal payment of both issuances will take place on the maturity date of the bonds or when Interbank redeems them.

In June 2017, Interbank subscribed two exchange rate swap operations for US\$20,000,000 (equivalent to S/65,300,000), which were designated as cash flow hedges. Through these operations, the debt issued in US Dollars was translated into Soles up until its maturity; see Note 7(d).

As of September 30, 2017, Management does not intend to redeem these bonds before their maturity date.

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

Notes to the consolidated financial statements (continued)

11. Insurance contract liabilities

(a) This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)
Technical reserves (b)	5,401,019	4,838,260
Claims reserves (c)	<u>120,342</u>	<u>172,253</u>
Total	<u>5,521,361</u>	<u>5,010,513</u>
By term -		
Short term	608,102	452,055
Long term	<u>4,913,259</u>	<u>4,558,458</u>
Total	<u>5,521,361</u>	<u>5,010,513</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, 2017 and 2016 and December 31, 2016, is as follows:

	30.09.2017					30.09.2016					31.12.2016				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning balances	4,526,171	121,592	152,957	37,540	4,838,260	4,061,692	122,527	131,186	32,329	4,347,734	4,061,692	122,527	131,186	32,329	4,347,734
Insurance subscriptions	310,252	-	3,077	24,756	338,085	336,031	-	3,363	17,697	357,091	425,895	-	3,953	27,631	457,479
Acquisition of Mapfre, Note 1(b)	181,849	855	-	-	182,704	-	-	-	-	-	-	-	-	-	-
Time passage adjustments (*)	90,615	7,452	30,890	(25,034)	103,923	-	2,667	22,950	(14,377)	11,240	68,318	(935)	30,996	(22,523)	75,856
Maturities and recoveries	-	-	(8,328)	-	(8,328)	167,918	-	(7,994)	-	159,924	-	-	(10,879)	-	(10,879)
Exchange differences	(49,923)	-	(3,690)	(12)	(53,625)	-	-	(573)	152	(421)	(29,734)	-	(2,299)	103	(31,930)
Ending balances	5,058,964	129,899	174,906	37,250	5,401,019	4,565,641	125,194	148,932	35,801	4,875,568	4,526,171	121,592	152,957	37,540	4,838,260

(*) The table below presents the composition of the adjustments due to time passage as of September 30, 2017 and December 31, 2016:

	2017				2016			
	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	145,219	-	-	145,219	116,468	-	-	116,468
Aging insured population effect	(66,873)	30,890	(25,034)	(61,017)	(78,202)	30,996	(22,523)	(69,729)
Inflation and other effects	19,721	-	-	19,721	29,117	-	-	29,117
Time passage adjustments	98,067	30,890	(25,034)	103,923	67,383	30,996	(22,523)	75,856

(**) 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, 2017 and December 31, 2016:

	2017					2016				
	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	1,362	55,019	26,485	8,796	91,662	991	87,813	25,679	8,603	123,086
IBNR	-	13,446	14,957	277	28,680	-	36,249	12,443	475	49,167
	1,362	68,465	41,442	9,073	120,342	991	124,062	38,122	9,078	172,253

Notes to the consolidated financial statements (continued)

The movement of claims' technical reserves for the years ended September 30, 2017 and 2016 and December 31, 2016, is as follows:

30.09.2017					
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning balances	991	124,062	38,122	9,078	172,253
Claims	216,928	(32,216)	21,755	11,713	218,180
Adjustments to prior years claims	-	36,228	11,715	2,013	49,956
Payments	(216,550)	(59,609)	(30,020)	(13,685)	(319,864)
Exchange difference	(7)	-	(130)	(46)	(183)
Ending balances	1,362	68,465	41,442	9,073	120,342
30.09.2016					
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning balances	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 difference	1	-	20	(11)	10
Ending balances	869	117,417	32,979	8,537	159,802
31.12.2016					
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning balances	655	93,361	26,336	9,003	129,355
Claims	251,911	75,342	35,441	12,710	375,404
Adjustments to prior years claims	-	60,606	12,991	5,685	79,282
Payments	(251,568)	(105,246)	(36,602)	(18,287)	(411,703)
Exchange difference	(7)	(1)	(44)	(33)	(85)
Ending balances	991	124,062	38,122	9,078	172,253

In Management's opinion, these balances reflect the exposure of life and general insurance contracts as of September 30, 2017 and 2016 and December 31, 2016, in accordance with IFRS 4.

Notes to the consolidated financial statements (continued)

12. Equity

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

As of September 30, 2017 and December 31, 2016, IFS's capital stock is represented by 113,110,864 common shares subscribed and paid-in. IFS's shares quote in the Lima Stock Exchange; have no nominal value and the issuance value was US\$9.72 per share.

The General Shareholders' Meeting of IFS, held on April 10, 2017, agreed to distribute dividends from the results of the year 2016 for approximately US\$146,482,000 (equivalent to approximately S/475,773,000).

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

(b) Treasury stock held by Subsidiaries -

As of September 30, 2017, the Group holds approximately 6,678,000 shares issued by IFS with a total cost of S/574,785,000 (as of December 31, 2016, the Group holds approximately 6,179,000 shares issued by IFS with a total cost of S/522,106,000).

Stock buyback program

In the Shareholders' Meeting of IFS, held on May 25, 2016, the acquisition of own issuance shares was approved. Such acquisition, as agreed, may be carried out on one or more occasions, as appropriate to the IFS's interests, according to the market conditions and other legal limits and factors in force at the time of the acquisition. These acquisitions shall be subject to the current legal limit (ten percent limit of the capital stock) established in Article 84 of the Securities Market Act. Likewise, the Shareholders' Meeting set a limit for the acquisitions made under this program, which may not exceed 3,500,000 shares (equivalent to 3.09 percent of the Company's capital stock). In this sense, since June 2016, IFS and its Subsidiaries have bought 2,392,000 shares issued by IFS with a total cost of S/252,942,000.

In August 2017, the Board of Directors resolved to cancel the program for the acquisition of own issuance shares.

(c) Capital surplus -

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

Notes to the consolidated financial statements (continued)

- (d) Unrealized results on financial instruments -
This item is made-up as follows:

	Unrealized gain (loss)			Total S/(000)
	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Exchange differences on translation of foreign operations S/(000)	
Balances as of January 1, 2016	(471,151)	(458)	110,214	(361,395)
Unrealized gain from available-for-sale investments, net of unrealized loss	631,721	-	-	631,721
Transfer to realized gain from available-for-sale investments, net of realized loss	(71,687)	-	-	(71,687)
Transfer of impairment loss of available-for-sale investments to consolidated income statements	62,176	-	-	62,176
Foreign currency translation	-	-	(3,454)	(3,454)
Others, net	1,887	333	-	2,220
Balances as of September 30, 2016	152,946	(125)	106,760	259,581
Balances as of January 1, 2017	(83,807)	1,291	98,874	16,358
Unrealized gain from available-for-sale investments, net of unrealized loss	460,305	-	-	460,305
Transfer to realized gain from available-for-sale investments, net of realized loss	(72,932)	-	-	(72,932)
Transfer of impairment loss of available-for-sale investments to consolidated income statements	9,292	-	-	9,292
Foreign currency translation	-	-	(17,688)	(17,688)
Others, net	1,957	(2,051)	-	(94)
Balances as of September 30, 2017	314,815	(760)	81,186	395,241

Notes to the consolidated financial statements (continued)

(e) Components of other comprehensive income -

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

	30.09.2017 S/(000)	30.09.2016 S/(000)
Available-for-sale investments:		
Unrealized gain from available-for-sale investments	460,305	631,721
Transfer to realized gain from available-for-sale investments, net of realized loss	(72,932)	(71,687)
Transfer of impairment loss from available-for-sale investments to consolidated Income statements, Note 4(c)	9,292	62,176
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	1,957	1,887
Subtotal	<u>398,622</u>	<u>624,097</u>
Non-controlling interest	<u>982</u>	<u>1,135</u>
Total	<u>399,604</u>	<u>625,232</u>
Cash flow hedges:		
Net unrealized loss from cash flow hedges	(1,920)	(312)
Transfer of net realized (gain) loss from cash flow hedge to consolidated income statements	(131)	645
Sub total	<u>(2,051)</u>	<u>333</u>
Non-controlling interest	<u>(14)</u>	<u>2</u>
Total	<u>(2,065)</u>	<u>335</u>
Foreign currency translation reserve	<u>(17,688)</u>	<u>(3,454)</u>
Total other comprehensive income for the period	<u>379,851</u>	<u>622,113</u>

(f) Shareholders' equity for statutory purposes (regulatory capital) -

IFS and Inteligo are not required to establish a regulatory capital for statutory purposes. The regulatory capital required for Interbank and Interseguro is calculated based on the separate financial statements of each subsidiary prepared following the accounting principles and practices of the SBS. Also, as of those dates, the shareholders' equity required for Inteligo Bank is calculated in accordance with the requirements of the Central Bank of the Bahamas.

The regulatory capital required for Interbank, Interseguro and Inteligo Bank is detailed below:

Interbank's regulatory capital -

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

Notes to the consolidated financial statements (continued)

In application of Legislative Decree No. 1028, as amended, as of September 30, 2017 and December 31, 2016, Interbank maintains the following amounts related to its assets and contingent credits weighted by risk and regulatory capital (basic and supplementary):

	30.09.2017	31.12.2016
	S/(000)	S/(000)
Total risk weighted assets and credits	36,331,144	35,475,270
Total regulatory capital	5,986,584	5,638,867
Basic regulatory capital (Level 1)	4,206,967	3,789,347
Supplementary regulatory capital (Level 2)	1,779,617	1,849,520
Global capital to regulatory capital ratio	16.48%	15.90%

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

Also, said resolution establishes a gradual adequacy period of five years, starting in July 2012. As of September 30, 2017 and December 31, 2016, the percentage of adequacy required by the SBS is 100 percent, therefore the additional regulatory capital estimated by Interbank amounts to approximately S/698,689,000 and S/657,852,000, respectively.

In Management's opinion, Interbank has complied with the requirements set forth in the SBS current regulations.

Interseguro's regulatory capital -

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

The solvency net equity is represented by the greater amount between the solvency margin and the minimal capital. As of September 30, 2017 and December 31, 2016, the solvency net equity is represented by the solvency margin. The solvency margin is the complementary support that insurance entities must maintain to deal with possible situations of excess claims not foreseen in the establishment of technical reserves. The total solvency margin corresponds to the sum of the solvency margins of each branche in which Interseguro operates.

Also, the guarantee fund represents the additional equity support that insurance companies must maintain to deal with the other risks that can affect them and that are not covered by the solvency net equity, such as

Notes to the consolidated financial statements (continued)

investment risks and other risks. The monthly amount of said fund must be equivalent to 35 percent of the solvency net equity, calculated in accordance with SBS Resolution No. 1124-2006, as amended.

As of September 30, 2017 and December 31, 2016, Interseguro's regulatory capital for statutory purposes is as follows:

	30.09.2017 S/ (000)	31.12.2016 S/ (000)
Regulatory capital	580,205	584,755
Less:		
Solvency equity (solvency margin)	301,339	297,661
Guarantee fund	105,469	104,181
	<u>173,397</u>	<u>182,913</u>
Surplus	<u>173,397</u>	<u>182,913</u>

Inteligo Bank shareholders' equity for legal purposes (regulatory capital) -

The Central Bank of the Bahamas requires Inteligo Bank to maintain a regulatory capital of not less than 8 percent of its risk weighted assets. Inteligo Bank's capital ratio as of September 30, 2017 and December 31, 2016 is the following:

	30.09.2017 US\$(000)	31.12.2016 US\$(000)
Total eligible capital	<u>153,380</u>	<u>187,497</u>
Total risk weighted assets	<u>740,869</u>	<u>764,520</u>
Capital adequacy ratio (in percentage)	<u>20.70%</u>	<u>24.52%</u>

(g) Reserves

The General Shareholders' Meeting of IFS held on September 18, 2017 agreed to constitute a reserve up to an amount S/600,000,000 charged to retained earnings as of June 30, 2017.

The General Shareholders' Meeting of IFS held on August 9, 2017 agreed to constitute a reserve up to an amount S/500,000,000 charged to retained earnings as of December 31, 2016.

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

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(c)), are not subject to any Income Tax, or any other taxes on capital gains, equity or property; nevertheless, IFS is subject to an additional tax on dividends received from its Subsidiaries incorporated and domiciled in Peru; see paragraph (b). The Subsidiaries incorporated and domiciled in Peru (see Note 1(c)) are subject to the Peruvian Tax legislation, see paragraph (c).

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

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

- (b) Legal entities or individuals not domiciled in Peru are subject to an additional tax on dividends received from entities domiciled in Peru. The corresponding tax is withheld by the entity that distributes the dividends. In this regard, since IFS controls the entities that distribute the dividends, it recognizes the amount of the additional Income Tax as expense of the financial year of the dividends. In this sense, as of September 30, 2017 and 2016, the Group has recorded expenses for S/17,243,000 and S/21,898,000, respectively, in the caption “Income Tax” of the consolidated income statements.

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

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

As of December 31, 2016, the applicable current Income Tax rate was 28 percent on the taxable income.

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

- (d) The Tax Authority (henceforth “SUNAT” by its Spanish acronym) is legally entitled to perform tax audits procedures for up to four years subsequent to the date on which the tax return regarding a taxable period must

Notes to the consolidated financial statements (continued)

be filed. SUNAT is also entitled to challenge the Income Tax assessment performed by taxpayers in their tax returns.

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

On the other hand, on April 2004, June 2006, February 2007, June 2007, November 2007, October 2008 and December 2010, Interbank was notified with Tax Assessments and Fine Imposing Resolutions regarding mainly the assessments of the Income Tax years 2000 to 2006, for which it filed Tax Claims and Tax Appeals. In March 2009, August 2010 and December 2011, the Tax Authority issued Intendancy Resolutions regarding tax years 2000 to 2006 for which Interbank filed the corresponding appeals. In December 2014, the Tax Authority issued Resolution of Intendancy N° 0150140011647 declaring partly accepted the appeal filed by the Bank corresponding to the 2001 Income Tax. On the part not accepted by SUNAT, Interbank filed a new appeal. In February 2016, Interbank obtained the Tax Court Resolution N° 00783-3-2016, which declares as partially founded the case concerning to the 2001 Income Tax. In February 2017, the Lima's Superior Court of Justice declared invalid the judgment in first instance ordering the judge to re-issue a new decision about the case concerning to the 2002 Income Tax. In September 2017, Interbank obtained the Tax Court Resolution N° 08225-1-2017, which declares as partially founded the case concerning to the 2004 Income Tax. Also, for the period 2013, Interbank is in the process of auditing by SUNAT. In the opinion of Management and its legal advisors, any possible additional tax assessment would not have any material consequences on the Bank's financial statements as of September 30, 2017 and December 31, 2016.

During the years 2013, 2014 and 2017, SUNAT closed the audit processes corresponding to the assessment of the Income Tax of tax years 2007, 2008, 2009 and 2010, respectively, thus issuing a series of Assessment Resolutions without any additional settlement of said tax.

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

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

Since tax regulations are subject to interpretation by SUNAT, it is not possible to determine to date whether such tax audits procedures would result in additional liabilities for the Group's Subsidiaries or not. Therefore, any unpaid tax, penalties or interest that might result from said audit procedures will be recorded as expenses in the year in which they are assessed. Nevertheless, Management and its legal advisors consider that any additional tax assessment would not have a significant impact on the consolidated financial statements as of September 30, 2017 and December 31, 2016.

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

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	
	2017 S/(000)	2016 S/(000)
Interest and similar income		
Interest and fees on loan portfolio	2,388,682	2,370,477
Interest on available-for sale investments	389,956	337,455
Interest on due from banks and inter-bank funds	20,652	14,548
Other interest and similar income	12,250	30,938
Total	2,811,540	2,753,418
Interest and similar expenses		
Interest and fees on deposits and obligations	399,612	338,794
Interest on bonds, notes and other obligations	230,140	241,207
Interest and fees on obligations with financial institutions	168,281	194,823
Deposit insurance fund fees	27,770	26,071
Other interest and similar expenses	6,013	5,220
Total	831,816	806,115

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	
	2017 S/(000)	2016 S/(000)
Income		
Maintenance and mailing of accounts, transfer fees and commissions on credit and debit card services	441,789	415,320
Commissions for banking services	116,061	108,274
Funds management fees	102,798	98,240
Fees for indirect loans	43,769	45,145
Collection services fees	24,553	22,157
Brokerage and custody services fees	6,950	8,129
Others	19,641	20,875
Total	<u>755,561</u>	<u>718,140</u>
Expenses		
Debtor's life insurance premiums	38,825	41,332
Fees paid to foreign banks	8,249	7,421
Brokerage and custody services	2,146	1,459
Others	26,987	26,856
Total	<u>76,207</u>	<u>77,068</u>
Net	<u>679,354</u>	<u>641,072</u>

Notes to the consolidated financial statements (continued)

16. Other income and expenses

This caption is comprised of the following:

	For the nine-month periods ended September 30	
	2017 S/(000)	2016 S/(000)
Other income		
ATM rental income	17,847	17,328
Equity in income of investments in associates	11,462	10,117
Other technical income for insurance operations	7,323	8,288
Services rendered to third parties	5,517	5,149
Gain from sale of written-off-loans	5,093	85
Incentives for credit card operations	3,148	9,921
Other income	30,778	21,123
Total other income	81,168	72,011
Other expenses		
Commissions from insurance activities	39,275	25,722
Sundry technical insurance expenses	10,738	11,734
Provision for sundry risk	10,083	8,981
Donations	4,816	5,545
Administrative and tax penalties	1,785	2,579
Other expenses	22,037	22,505
Total other expenses	88,734	77,066

Notes to the consolidated financial statements (continued)

17. Net premiums earned

This caption is comprised of the following for the six-month periods ended September 30, 2017 and 2016:

	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)	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance										
Annuities (**)	256,763	256,409	(400,867)	(503,949)	(144,104)	(247,540)	-	-	(144,104)	(247,540)
Group life	98,246	87,619	(315)	(658)	97,931	86,961	(2,501)	(2,702)	95,430	84,259
Individual life	40,330	36,054	(22,834)	(14,777)	17,496	21,277	(1,589)	(1,621)	15,907	19,656
Retirement, disability and survival (***)	10,689	104,017	(7,451)	(2,667)	3,238	101,350	(9,830)	(97,265)	(6,592)	4,085
Others	8	584	(2,409)	(2,809)	(2,401)	(2,225)	(1)	(111)	(2,402)	(2,336)
Total life insurance	406,036	484,683	(433,876)	(524,860)	(27,840)	(40,177)	(13,921)	(101,699)	(41,761)	(141,876)
Total general insurance	58,105	61,971	558	(2,228)	58,663	59,743	(1,256)	(1,631)	57,407	58,112
Total	464,141	546,654	(433,318)	(527,088)	30,823	19,566	(15,177)	(103,330)	15,646	(83,764)

(*) 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 a public tender for the management of retirement, disability, survival, and other burial expenses risks under a group insurance policy to the affiliates of the Private Pension Fund Management System. Interseguro won the contract for the period 2015 and 2016. Interseguro reinsured said risks at 100 percent with three prestigious, internationally recognized reinsurers.

In November 2016, the SBS called a new public tender for the period January 1, 2017 and December 31, 2018; Interseguro did not win said contract.

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

This caption is comprised of the following for the nine-month periods ended September 30, 2017 and 2016:

	Gross claims and benefits		Ceded claims and benefits		Net insurance claims and benefits	
	2017	2016	2017	2016	2017	2016
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance						
Annuities	(216,928)	(182,909)	-	-	(216,928)	(182,909)
Group life	(30,262)	(27,739)	1,705	1,972	(28,557)	(25,767)
Individual life	(926)	(1,896)	250	321	(676)	(1,575)
Retirement, disability and survival	(4,012)	(103,810)	(2,266)	98,604	(6,278)	(5,206)
Others	(2,283)	(2,608)	2,843	1,541	560	(1,067)
General Insurance	(13,726)	(13,731)	64	35	(13,662)	(13,696)
	(268,137)	(332,693)	2,596	102,473	(265,541)	(230,220)

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	
	2017	2016
	S/(000)	S/(000)
Salaries	382,722	377,580
Workers' profit sharing	52,650	52,068
Social security	34,268	33,629
Severance indemnities	27,608	27,639
Vacations, health insurance and others	35,590	37,577
Total	532,838	528,493

20. Administrative expenses

This caption is comprised of the following:

	For the nine-month periods ended September 30	
	2017	2016
	S/(000)	S/(000)
Services received from third parties	575,123	538,620
Taxes and contributions	31,081	30,252
Total	606,204	568,872

Services received from third parties 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 and diluted earnings per share, determined and calculated based on the earnings attributable to the Group:

	Outstanding shares (in thousands)	Shares considered in computation (in thousands)	Effective days in the year	Weighted average number of shares (in thousands)
Period 2016				
Balance as of January 1, 2016	108,820	108,820	270	108,820
Sale of treasury stock	8	8	183	5
Purchase of treasury stock	(438)	(438)	81	(132)
Balance as of September 30, 2016	<u>108,390</u>	<u>108,390</u>		<u>108,693</u>
Net profit attributable to IFS S/(000)				441,976
Basic and diluted earnings per share attributable to IFS (Soles)				<u>4.066</u>
Period 2017				
Balance as of January 1, 2017	106,931	106,931	270	106,931
Sale of treasury stock	1	1	101	-
Purchase of treasury stock	(500)	(500)	121	(224)
Balance as of September 30, 2017	<u>106,432</u>	<u>106,432</u>		<u>106,707</u>
Net profit attributable to IFS S/(000)				592,280
Basic and diluted earnings per share attributable to IFS (Soles)				<u>5.551</u>

Notes to the consolidated financial statements (continued)

22. Transactions with shareholders, related parties and affiliated entities

- (a) The table below presents the main transactions with shareholders, related parties and affiliated companies as of September 30, 2017 and December 31, 2016:

	2017 S/(000)	2016 S/(000)
Assets		
Trading securities	19,866	19,757
Available-for-sale investments		
Royalty Pharma, Note 4(g)	69,047	68,264
InRetail Perú Corp. Note 4(f)	170,314	203,074
Corporate bonds - InRetail Shopping Malls S.A.	56,381	54,209
Corporate bonds – Colegios Peruanos S.A.	45,857	45,177
Corporate bonds - Intercorp Retail Inc.	20,241	19,077
Corporate bonds / Certificates of Deposit – Financiera Oh! S.A.	19,593	13,683
Corporate bonds – Cineplex S.A.	14,383	16,907
Corporate bonds - Intercorp Perú Ltd.	7,473	7,513
Corporate bonds – San Miguel Industrias PET S.A.C.	-	24,070
	<hr/>	<hr/>
	403,289	451,974
Loan portfolio, net (b)	801,576	784,750
Accounts receivable from Homecenters Peruanos S.A. (g)	19,619	20,861
Accounts receivable related to derivative financial instruments	6,216	11,854
Other assets (f)	11,275	17,931
Liabilities		
Deposits and obligations	331,541	283,564
Accounts payable related to derivative financial instruments	849	-
Other liabilities	550	4,444
Off-balance sheet accounts		
Indirect loans (b)	189,755	127,733
	For the nine-month periods ended	
	September 30	
	<hr/>	<hr/>
	2017	2016
	S/(000)	S/(000)
Income (expenses)		
Interest and similar income	51,859	45,641
Interest and similar expenses	(7,265)	(4,695)
Valuation from derivative financial instruments	49	(229)
Rental income	2,440	1,477
Administrative expenses	(23,241)	(21,161)
Others, net	30,197	19,149

Notes to the consolidated financial statements (continued)

- (b) As of September 30, 2017 and December 31, 2016, the detail of loans is the following:

	2017	2016
	S/(000)	S/(000)
Supermercados Peruanos S.A.	189,968	116,153
GTP Inversionistas S.A.C.	106,308	-
Homecenters Peruanos S.A.	79,493	85,905
Nessus Hoteles Perú S.A.	69,873	81,040
Cineplex S.A.	60,410	19,286
Agrícola Don Ricardo S.A.C.	58,306	9,939
Colegios Peruanos S.A.	50,823	50,872
Tiendas Peruanas S.A.	40,374	37,637
San Miguel Industrias PET S.A.	39,318	21,092
San Miguel Industrias Ecuador	32,500	32,500
Procesos de Medios de Pago S.A.	31,071	34,110
Bembos S.A.C.	28,796	30,861
Eckerd Perú S.A.	25,744	31,759
Financiera Oh! S.A.	25,341	74,149
PF Interproperties Perú	21,376	21,423
Domus Hogares del Norte S.A.	20,605	19,267
Intercorp Perú Ltd.	-	121,656
Other less than S/20,000,000	111,025	124,834
	<u>991,331</u>	<u>912,483</u>

- (c) As of September 30, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, direct loans to employees, directors and officers amounted to S/176,026,000 and S/153,424,000, respectively; said loans are repaid monthly and bear interest at market rates.

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

- (d) The Group's key personnel compensations, including the Income Tax assumed for the periods ended September 30, 2017 and 2016, are presented below:

	2017	2016
	S/(000)	S/(000)
Salaries	14,522	11,883
Board of Directors' compensation	1,151	1,015
Total	<u>15,673</u>	<u>12,898</u>

Notes to the consolidated financial statements (continued)

- (e) As of December 31, 2016, the Group holds participations in different mutual funds managed by Interfondos, they amount to S/161,000 and are classified as investment at fair value through profit or loss.
- (f) It corresponds mainly to prepaid expenses for spaces ceded to Interbank in the stores of Supermercados Peruanos S.A. for the operation of financial agencies until year 2030, and for an amount of approximately S/11,495,000 and S/14,532,000 as of September 30, 2017 and December 31, 2016, 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 standard market conditions and within the limits permitted by SBS. Taxes generated by these transactions and the taxable base used for computing them are those customarily used in the industry and they are determined according to the tax rules in force.

23. Business segments

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

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

Banking -

Mainly loans, credit facilities, deposits and current accounts.

Insurance -

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

Wealth management -

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

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

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

No revenue from transactions with a single external customer or counterparty exceeded 10 percent of the Group's total revenues for the periods as of September 30, 2017 and 2016.

Notes to the consolidated financial statements (continued)

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

	2017					2016				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total S/(000)	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total S/(000)
Total income (*)										
Third party	3,393,686	310,348	247,366	(53,695)	3,897,705	3,282,251	208,594	236,128	(77,283)	3,649,690
Inter-segment	(53,339)	(36)	(439)	53,814	-	(47,429)	(32)	(700)	48,161	-
Total income	3,340,347	310,312	246,927	119	3,897,705	3,234,822	208,562	235,428	(29,122)	3,649,690
Extracts of results										
Interest and similar income	2,495,407	225,311	114,943	(24,121)	2,811,540	2,442,139	216,988	113,625	(19,334)	2,753,418
Interest and similar expenses	(783,659)	(8,598)	(41,449)	1,890	(831,816)	(753,752)	(11,543)	(42,299)	1,479	(806,115)
Net interest and similar income	1,711,748	216,713	73,494	(22,231)	1,979,724	1,688,387	205,445	71,326	(17,855)	1,947,303
Provision for loan losses, net of recoveries	(641,840)	-	2,657	-	(639,183)	(589,665)	-	-	-	(589,665)
Net interests and similar income after provision for loan losses	1,069,908	216,713	76,151	(22,231)	1,340,541	1,098,722	205,445	71,326	(17,855)	1,357,638
Fee income from financial services, net	623,678	(2,625)	85,962	(27,661)	679,354	584,433	(2,076)	86,436	(27,721)	641,072
Net gain on sale of securities	32,972	48,225	53,861	(1)	135,057	15,984	54,165	29,493	(2)	99,640
Other income	241,629	23,792	(7,400)	(1,909)	256,112	239,697	23,281	6,574	(30,228)	239,324
Total net premiums earned minus claims and benefits	-	(249,895)	-	-	(249,895)	-	(313,984)	-	-	(313,984)
Depreciation and amortization	(93,765)	(3,243)	(5,766)	-	(102,774)	(88,048)	(3,355)	(5,404)	-	(96,807)
Impairment loss of available-for-sale investments	2,243	(5,789)	(3,507)	-	(7,053)	-	(62,176)	-	-	(62,176)
Other expenses	(1,033,440)	(154,214)	(53,988)	13,263	(1,228,379)	(997,060)	(145,711)	(55,614)	22,886	(1,175,499)
Income before translation result and Income Tax	843,225	(127,036)	145,313	(38,539)	822,963	853,728	(244,411)	132,811	(52,920)	689,208
Translation result	11,317	522	1,120	489	13,448	(2,180)	(497)	(725)	11,947	8,545
Income Tax	(223,028)	-	482	(17,244)	(239,790)	(228,499)	(414)	435	(21,897)	(250,375)
Net profit for the period	631,514	(126,514)	146,915	(55,294)	596,621	623,049	(245,322)	132,521	(62,870)	447,378
Attributable to:										
IFS's shareholders	631,514	(126,460)	146,915	(59,689)	592,280	623,049	(246,388)	132,521	(67,206)	441,976
Non-controlling interest	-	(54)	-	4,395	4,341	-	1,066	-	4,336	5,402
	631,514	(126,514)	146,915	(55,294)	596,621	623,049	(245,322)	132,521	(62,870)	447,378

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

Notes to the consolidated financial statements (continued)

	2017				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total Consolidated S/(000)
As of September 30, 2017					
Total assets	41,942,808	6,349,004	3,516,105	(617,741)	51,190,176
Total liabilities	37,218,365	5,786,279	2,815,906	(30,607)	45,789,943
	2016				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total Consolidated S/(000)
As of December 31, 2016					
Total assets	42,402,877	5,795,908	4,014,633	(494,059)	51,719,359
Total liabilities	38,054,932	5,342,484	3,338,097	(14,500)	46,721,013

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, 2017						As of December 31, 2016						
	Financial assets at fair value		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 at fair value		Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)
	For trading or hedging purposes S/(000)							For trading or hedging purposes S/(000)					
Financial Assets													
Cash and due from banks	-	8,669,213	-	-	-	8,669,213	-	11,761,803	-	-	-	-	11,761,803
Inter-bank funds	-	231,044	-	-	-	231,044	-	5,002	-	-	-	-	5,002
Trading securities	83,376	-	-	-	-	83,376	80,149	-	-	-	-	-	80,149
Available-for-sale investments	-	-	10,409,560	-	-	10,409,560	-	-	9,518,398	-	-	-	9,518,398
Held-to-maturity investments	-	-	-	1,232,386	-	1,232,386	-	-	-	611,293	-	-	611,293
Loan portfolio, net	-	27,800,360	-	-	-	27,800,360	-	27,025,865	-	-	-	-	27,025,865
Due from customers on acceptances	-	36,937	-	-	-	36,937	-	16,392	-	-	-	-	16,392
Accounts receivable and other assets, net	121,020	605,439	-	-	-	726,459	203,089	586,886	-	-	-	-	789,975
	<u>204,396</u>	<u>37,342,993</u>	<u>10,409,560</u>	<u>1,232,386</u>	<u>-</u>	<u>49,189,335</u>	<u>283,238</u>	<u>39,395,948</u>	<u>9,518,398</u>	<u>611,293</u>	<u>-</u>	<u>-</u>	<u>49,808,877</u>
Financial liabilities													
Deposits and obligations	-	-	-	-	28,551,489	28,551,489	-	-	-	-	-	30,097,850	30,097,850
Inter-bank funds	-	-	-	-	86,016	86,016	-	-	-	-	-	332,255	332,255
Due to banks and correspondents	-	-	-	-	5,674,639	5,674,639	-	-	-	-	-	5,328,603	5,328,603
Bonds, notes and other obligations	-	-	-	-	4,765,523	4,765,523	-	-	-	-	-	4,769,390	4,769,390
Due from customers on acceptances	-	-	-	-	36,937	36,937	-	-	-	-	-	16,392	16,392
Insurance contract liabilities	-	-	-	-	5,521,361	5,521,361	-	-	-	-	-	5,010,513	5,010,513
Accounts payable, provision and other liabilities	159,790	-	-	-	828,806	988,596	236,137	-	-	-	-	730,622	966,759
	<u>159,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,464,771</u>	<u>45,624,561</u>	<u>236,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,285,625</u>	<u>46,521,762</u>

Notes to the consolidated financial statements (continued)

25. Financial risk management

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

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

(a) Maximum exposure to credit risk -

As of September 30, 2017 and December 31, 2016, Management estimates that the maximum credit risk to which the Group is exposed is represented by the book value of the financial assets which show a potential credit risk and consist mostly of deposits in banks, inter-bank funds, investments, loans (direct and indirect), without considering the fair value of the collateral or guarantees, derivative financial instruments transactions, receivables from insurance transactions and other monetary assets. In this sense, as of September 30, 2017 and December 31, 2016:

- 86.7 percent and 84.4 percent, respectively, of the cash and due from banks represent amounts deposited in the Group's vaults or in the BCRP;
- 94.8 percent and 95.0 percent, respectively, of the loan portfolio are classified into the two lower credit risk categories defined by the Group;
- 91.9 percent and 92.3 percent, respectively, of the loan portfolio is deemed non-past-due and non-impaired; and
- 77.2 percent and 75.1 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 five risk categories, depending on the degree of risk of non-payment of each debtor. The categories used are: (i) normal - A, (ii) with potential problems - B, (iii) substandard - C, (iv) doubtful - D and (v) loss - E.

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 in three groups: (i) Neither past-due and non-impaired loans, which comprise direct loans that currently do not present delinquency characteristics and are related to clients classified as “Normal” and “with Potential problems”; (ii) Past-due but non impaired loans, which comprise past-due loans of clients classified as “Normal” or “with Potential problems”; and (iii) impaired loans, those past-due loans classified as “Substandard”, “Doubtful” or “Loss”. Also, the allowance for loan losses for each type of loan is presented.

Loan portfolio classification	As of September 30, 2017					%
	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	13,080,287	7,805,764	4,764,985	555,490	26,206,526	95
With potential problems	139,860	61,594	29,574	4,669	235,697	1
	<u>13,220,147</u>	<u>7,867,358</u>	<u>4,794,559</u>	<u>560,159</u>	<u>26,442,223</u>	
Past due but not impaired -						
Normal	148,748	16,456	176,429	13,535	355,168	1
With potential problems	120,199	276,134	65,013	9,974	471,320	2
	<u>268,947</u>	<u>292,590</u>	<u>241,442</u>	<u>23,509</u>	<u>826,488</u>	
Impaired -						
Substandard	57,325	237,077	78,134	9,506	382,042	1
Doubtful	36,337	376,383	81,579	10,453	504,752	2
Loss	121,579	267,299	183,732	33,383	605,993	2
	<u>215,241</u>	<u>880,759</u>	<u>343,445</u>	<u>53,342</u>	<u>1,492,787</u>	
Total loan portfolio, gross	<u>13,704,335</u>	<u>9,040,707</u>	<u>5,379,446</u>	<u>637,010</u>	<u>28,761,498</u>	104
Less: Allowance for loan losses	<u>205,095</u>	<u>899,488</u>	<u>70,039</u>	<u>61,016</u>	<u>1,235,638</u>	4
Total, net	<u>13,499,240</u>	<u>8,141,219</u>	<u>5,309,407</u>	<u>575,994</u>	<u>27,525,860</u>	100

Notes to the combined financial statements (continued)

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

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, 2017 and December 31, 2016, loans amounting to approximately S/757,954,000 and S/678,035,000, respectively, were not impaired and were past due for less than 30 days.

As of September 30, 2017 and December 31, 2016, refinanced loans amount to S/276,501,000 and S/296,485,000, respectively. Past due refinanced loans as of those dates amount to S/43,741,000, and S/63,735,000, respectively, out of which S/2,802,000 and S/309,000, respectively, are classified as past-due and not-impaired; and S/40,939,000 and S/63,426,000, 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 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, 2017, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.263 per US\$1 for buying and S/3.267 US\$1 for selling (S/3.352 and S/3.360 as of December 31, 2016, respectively). As of September 30, 2017, the exchange rate for the accounting of asset and liability accounts in foreign currency set by the SBS was S/3.265 per US\$1 (S/3.356 as of December 31, 2016).

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

	As of September 30, 2017				As of December 31, 2016			
	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	7,163,417	1,247,233	258,563	8,669,213	10,497,324	991,219	273,260	11,761,803
Inter-bank funds	-	231,044	-	231,044	-	5,002	-	5,002
Trading securities	60,627	22,749	-	83,376	43,502	36,647	-	80,149
Available-for-sale investments	4,949,651	5,365,368	94,541	10,409,560	4,763,512	4,746,382	8,504	9,518,398
Held-to-maturity investments	-	1,232,386	-	1,232,386	-	611,293	-	611,293
Loan portfolio, net	8,530,842	19,269,518	-	27,800,360	8,655,259	18,370,606	-	27,025,865
Due from customers on acceptances	14,582	-	22,355	36,937	16,392	-	-	16,392
Accounts receivable and other assets	197,343	527,869	1,247	726,459	151,058	635,086	3,831	789,975
	<u>20,916,462</u>	<u>27,896,167</u>	<u>376,706</u>	<u>49,189,335</u>	<u>24,127,047</u>	<u>25,396,235</u>	<u>285,595</u>	<u>49,808,877</u>
Liabilities								
Deposits and obligations	12,359,030	15,947,834	244,625	28,551,489	15,414,006	14,575,525	108,319	30,097,850
Inter-bank funds	-	86,016	-	86,016	332,255	-	-	332,255
Due to banks and correspondents	1,816,972	3,857,667	-	5,674,639	1,054,747	4,273,856	-	5,328,603
Bonds, notes and other obligations	4,326,265	439,258	-	4,765,523	4,332,219	437,171	-	4,769,390
Due from customers on acceptances	14,582	-	22,355	36,937	16,392	-	-	16,392
Insurance contract liabilities	2,149,126	3,372,235	-	5,521,361	1,957,701	3,052,812	-	5,010,513
Accounts payable, provision and other liabilities	246,792	734,033	7,771	988,596	167,582	781,773	17,404	966,759
	<u>20,912,767</u>	<u>24,437,043</u>	<u>274,751</u>	<u>45,624,561</u>	<u>23,274,902</u>	<u>23,121,137</u>	<u>125,723</u>	<u>46,521,762</u>
Forwards position, net	570,380	(571,749)	1,369	-	(231,204)	270,864	(39,660)	-
Currency swaps position, net	53,468	(53,468)	-	-	(9,583)	9,583	-	-
Cross currency swaps position, net	(192,172)	192,172	-	-	(197,528)	197,528	-	-
Options position, net	147,944	(136,371)	(11,573)	-	(6,102)	6,102	-	-
Monetary position, net	<u>583,315</u>	<u>2,889,708</u>	<u>91,751</u>	<u>3,564,774</u>	<u>407,728</u>	<u>2,759,175</u>	<u>120,212</u>	<u>3,287,115</u>

Notes to the consolidated financial statements (continued)

As of September 30, 2017, the Group granted indirect loans (contingent operations) in foreign currency for approximately US\$690,822,000, equivalent to S/2,255,533,000 (US\$683,290,000, equivalent to S/2,293,120,000 as of December 31, 2016).

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, 2017 and December 31, 2016. The analysis determines the effect of a reasonably possible variation of the exchange rate of US Dollar against the Sol, considering all the other variables held constant in the consolidated statements of other comprehensive income before Income Tax. A negative amount shows a potential net reduction in the consolidated income statements, whereas a positive amount reflects a net potential increase:

Sensitivity analysis	Changes in currency rates %	2017 S/(000)	2016 S/(000)
Devaluation			
US Dollar	5	(29,166)	(20,386)
US Dollar	10	(58,332)	(40,773)
US Dollar	15	(87,497)	(61,159)
Revaluation			
US Dollar	5	29,166	20,386
US Dollar	10	58,332	40,773
US Dollar	15	87,497	61,159

Notes to the consolidated financial statements (continued)

26. Fair value

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

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

	As of September 30, 2017				As of December 31, 2016			
	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	70,684	11,556	1,136	83,376	77,052	1,929	1,168	80,149
Available-for-sale investments								
Debt instruments	5,445,875	3,210,058	-	8,655,933	4,680,267	3,086,619	-	7,766,886
Mutual funds and investment funds participations	193,391	649,683	213,560	1,056,634	167,431	643,460	262,297	1,073,188
Shares of the private sector, foreign entities and others	370,881	1,617	-	372,498	314,772	1,738	-	316,510
InRetail Peru Corp.	170,314	-	-	170,314	203,074	-	-	203,074
Royalty Pharma	-	-	69,047	69,047	-	-	68,264	68,264
Derivatives receivable	-	121,020	-	121,020	-	203,089	-	203,089
	<u>6,251,145</u>	<u>3,993,934</u>	<u>283,743</u>	<u>10,528,822</u>	<u>5,442,596</u>	<u>3,936,835</u>	<u>331,729</u>	<u>9,711,160</u>
Accrued interest				85,134				90,476
Total financial assets				<u>10,613,956</u>				<u>9,801,636</u>
Financial liabilities								
Derivatives payable	-	159,790	-	159,790	-	236,137	-	236,137

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

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

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

As of September 30, 2017 and December 31, 2016, the unrealized gain on Level 3 financial instruments amounts to S/24,425,000 and S/18,286,000, respectively, and the unrealized loss amounts to S/7,726,000 and S/9,250,000 respectively. During 2017 and 2016, 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 carrying amounts and fair values of the Group's financial instruments that are not measured at their fair value, presented by level of hierarchy of their fair value:

	As of September 30, 2017					As of December 31, 2016				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair Value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	8,669,213	-	8,669,213	8,669,213	-	11,761,803	-	11,761,803	11,761,803
Inter-bank funds	-	231,044	-	231,044	231,044	-	5,002	-	5,002	5,002
Held-to-maturity investments	1,277,534	-	-	1,277,534	1,232,386	204,275	401,024	-	605,299	611,293
Loan portfolio, net	-	28,068,064	-	28,068,064	27,800,360	-	26,856,208	-	26,856,208	27,025,865
Due from customers on acceptances	-	36,937	-	36,937	36,937	-	16,392	-	16,392	16,392
Other accounts receivable and other assets, net	-	605,439	-	605,439	605,439	-	586,886	-	586,886	586,886
Total	1,277,534	37,610,697	-	38,888,231	38,575,379	204,275	39,627,315	-	39,831,590	40,007,241
Liabilities										
Deposits and obligations	-	28,570,974	-	28,570,974	28,551,489	-	30,100,962	-	30,100,962	30,097,850
Inter-bank funds	-	86,016	-	86,016	86,016	-	332,255	-	332,255	332,255
Due to banks and correspondents	-	5,699,494	-	5,699,494	5,674,639	-	5,338,642	-	5,338,642	5,328,603
Bonds, notes and notes issued	4,229,921	975,747	-	5,205,668	4,765,523	4,113,938	950,632	-	5,064,570	4,769,390
Due from customers on acceptances	-	36,937	-	36,937	36,937	-	16,392	-	16,392	16,392
Insurance contract liabilities	-	5,521,361	-	5,521,361	5,521,361	-	5,010,513	-	5,010,513	5,010,513
Accounts payable and other liabilities	-	828,806	-	828,806	828,806	-	730,622	-	730,622	730,622
Total	4,229,921	41,719,334	-	45,949,255	45,464,771	4,113,938	42,480,018	-	46,593,956	46,285,625

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

- (i) Long-term fixed-rate and variable-rate loans are assessed by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these loans. As of September 30, 2017 and December 31, 2016, the book value of loans, net of allowances, were not significantly different from their calculated fair values.
- (ii) Instruments which fair value approximate their book value - For financial assets and financial liabilities that are liquid or having a short term maturity (less than 3 months) it is assumed that the carrying amounts approximate to their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable-rate financial instruments.
- (iii) Fixed-rate financial instruments - The fair value of fixed-rate financial assets and financial liabilities at amortized cost is determined by comparing market interest rates when they were first recognized with current market rates related to similar financial instruments for their remaining term to maturity. The fair value of fixed interest rate deposits is based on discounted cash flows using market interest rates for financial instruments with similar credit risk and maturity. For quoted debt issued, the fair value is determined based on quoted market prices. When quotations are not available, a discounted cash flow model is used based on the yield curve of the adequate interest rate for the remaining term to maturity.

Notes to the consolidated financial statements (continued)

27. Fiduciary activities and management of funds

The Group provides custody, trustee, investment management and advisory services to third parties; therefore, the Group makes purchase and sale decisions in relation to a wide range of financial instruments. Assets that are held in trust are not included in the consolidated financial statements.

As of September 30, 2017 and December 31, 2016, the managed value of the financial assets managed off-balance sheet is as follows:

	2017 S/(000)	2016 S/(000)
Assets under management	12,036,221	11,887,065
Mutual funds	<u>4,009,122</u>	<u>3,511,240</u>
Total	<u>16,045,343</u>	<u>15,398,305</u>

28. Subsequent events

On October 12, 2017, the Company announced the issuance and placement of Senior Unsecured Notes for US\$300,000,000, under Rule 144A and Regulation S of the U.S. Securities Act of 1933, under the following terms:

Issuance amount:	US\$300,000,000
Annual interest rate:	4.125%
Issuance:	October 19, 2017
Maturity:	October 19, 2027
Interests payment:	Semiannually

The funds from the issuance will be used in the funding of the acquisition of up to 100 percent of shares of Seguros Sura S.A. and Hipotecaria Sura Empresa Administradora Hipotecaria S.A. The remaining amount, if any, will be used for corporate purposes in general.

29. Additional explanation for English translation

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