

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of December 31, 2016 (unaudited)
and 2015 (audited)

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Content

Consolidated financial statements

Consolidated statements of financial position

Consolidated income statements

Consolidated statements of other comprehensive income

Consolidated statements of changes in equity

Consolidated statements of cash flows

Notes to the consolidated financial statements

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2016 (unaudited) and December 31, 2015 (audited)

	Note	2016 S/(000)	2015 S/(000)		Note	2016 S/(000)	2015 S/(000)
Assets				Liabilities and equity			
Cash and due from banks:	3			Deposits and obligations:	8		
Non-interest bearing		2,628,115	2,092,189	Non-interest bearing		5,091,013	3,977,782
Interest bearing		5,869,583	6,689,335	Interest bearing		25,006,837	24,509,884
Restricted funds		3,264,105	3,650,261			<u>30,097,850</u>	<u>28,487,666</u>
		<u>11,761,803</u>	<u>12,431,785</u>				
Inter-bank funds		5,002	245,028	Inter-bank funds		332,255	-
Trading securities		80,149	105,189	Due to banks and correspondents	9	5,328,603	6,191,726
Investments available-for-sale	4	9,518,398	8,067,164	Bonds, notes and other obligations	10	4,769,390	4,925,413
Held-to-maturity investments		611,293	479,561	Due from customers on acceptances		16,392	27,118
				Insurance contract liabilities	11	5,010,513	4,477,089
				Accounts payable, provisions and other liabilities	7	1,156,549	1,426,762
				Deferred Income Tax liability, net		3,946	4,164
				Total liabilities		<u>46,715,498</u>	<u>45,539,938</u>
Loans, net:							
Loans, net of unearned income	5	28,192,647	27,035,814	Equity, net	12		
Allowance for loan losses		(1,166,782)	(1,041,579)	Equity attributable to IFS's shareholders:			
		<u>27,025,865</u>	<u>25,994,235</u>	Capital stock		963,446	963,446
				Treasury stock		(522,106)	(322,214)
Investment property	6	766,046	713,262	Capital surplus		268,077	268,077
Property, furniture and equipment, net		589,820	579,158	Reserves		2,600,000	2,000,000
Due from customers on acceptances		16,392	27,118	Unrealized results, net		16,358	(361,395)
Accounts receivable and other assets, net	7	1,310,221	1,316,810	Retained earnings		1,553,336	1,797,637
Deferred Income Tax asset, net		28,855	41,559			4,879,111	4,345,551
				Non-controlling interest		119,235	115,380
						<u>4,998,346</u>	<u>4,460,931</u>
				Total equity, net			
Total assets		<u>51,713,844</u>	<u>50,000,869</u>	Total liabilities and equity		<u>51,713,844</u>	<u>50,000,869</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the years ended December 31, 2016 (unaudited) and 2015 (audited)

	Note	2016 S/(000)	2015 S/(000)
Interest and similar income	14	3,704,812	3,342,686
Interest and similar expenses	14	(1,081,859)	(921,695)
Net interest and similar income		<u>2,622,953</u>	<u>2,420,991</u>
Provision for loan losses, net of recoveries	5(c)	(783,645)	(645,824)
Net interest and similar income after provision for loan losses, net of recoveries		1,839,308	1,775,167
Other income			
Fee income from financial services, net	15	862,447	818,366
Net gain on foreign exchange transactions		264,183	521,194
Net gain on sale of securities		103,338	134,901
Net trading loss		(47,931)	(111,834)
Rental income		21,849	18,045
Gain (loss) on sale of investment property		2,655	(1,259)
Valuation (loss) gain from investment property	6(b)	(1,380)	26,700
Other	16	98,614	99,788
Total other income		<u>1,303,775</u>	<u>1,505,901</u>
Insurance premiums and claims			
Net premiums earned	17	70,892	364,454
Net claims and benefits incurred for life insurance contracts and others	18	(318,200)	(258,911)
Total net premiums earned less claims and benefits		<u>(247,308)</u>	<u>105,543</u>
Other expenses			
Salaries and employee benefits	19	(697,872)	(682,595)
Administrative expenses	20	(776,318)	(772,912)
Depreciation and amortization		(130,118)	(111,060)
Impairment loss on available-for-sale investments	4(c)	(28,323)	(78,285)
Expenses related to rental income		(1,091)	(811)
Other	16	(114,531)	(124,458)
Total other expenses		<u>(1,748,253)</u>	<u>(1,770,121)</u>
Income before translation result and Income Tax		1,147,522	1,616,490
Translation result		20,062	(25,100)
Income Tax		(333,863)	(352,586)
Profit for the period		<u>833,721</u>	<u>1,238,804</u>
Attributable to:			
Equity holders of the Group		828,143	1,231,766
Non-controlling interest		5,578	7,038
		<u>833,721</u>	<u>1,238,804</u>
Basic and diluted earnings per share attributable to IFS (stated in Soles)	21	<u>7.641</u>	<u>11.295</u>
Weighted average number of outstanding shares (in thousands)	21	<u>108,384</u>	<u>109,058</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of other comprehensive income

For the years ended December 31, 2016 (unaudited) and 2015 (audited)

		2016 S/(000)	2015 S/(000)
Profit for the period		833,721	1,238,804
Other comprehensive income			
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:			
Unrealized gain (loss) on available-for-sale investments	12(f)	393,106	(574,721)
Income Tax		<u>(4,837)</u>	<u>2,373</u>
		388,269	(572,348)
Net movement on cash flow hedges	12(f)	2,494	4,147
Income Tax		<u>(723)</u>	<u>(1,161)</u>
		1,771	2,986
Translation results of foreign operations	12(f)	(11,340)	65,643
		<u>378,700</u>	<u>(503,719)</u>
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods, net Income Tax			
		<u>378,700</u>	<u>(503,719)</u>
Total comprehensive income for the period, net Income Tax		<u>1,212,421</u>	<u>735,085</u>
Attributable to:			
Equity holders of the Group		1,205,896	728,664
Non-controlling interest		<u>6,525</u>	<u>6,421</u>
		<u>1,212,421</u>	<u>735,085</u>

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 years ended December 31, 2016 (unaudited) and 2015 (audited)

	Number of shares		Attributable to IFS's shareholders										
	Issued	In treasury	Capital stock	Treasury stock	Capital Surplus	Reserves	Unrealized results, net, Note 12(e) (f)			Retained earnings	Total	Non-controlling interest	Total equity, net
							Available-for-sale investments	Derivative Instruments designated as cash flow hedges	Foreign currency translation reserves				
(in thousands)	(in thousands)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	
Balances as of January 1, 2015	113,110	(3,751)	963,446	(285,776)	268,077	-	100,559	(3,423)	44,571	3,103,600	4,191,054	111,220	4,302,274
Net income	-	-	-	-	-	-	-	-	-	1,231,766	1,231,766	7,038	1,238,804
Other comprehensive income	-	-	-	-	-	-	(571,710)	2,965	65,643	-	(503,102)	(617)	(503,719)
Total comprehensive income	-	-	-	-	-	-	(571,710)	2,965	65,643	1,231,766	728,664	6,421	735,085
Declared and paid dividends, Note 12(a)	-	-	-	-	-	-	-	-	-	(564,178)	(564,178)	-	(564,178)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,232)	(2,232)
Net variation of treasury stock held by Subsidiaries, Note 12(b)	-	(540)	-	(36,438)	-	-	-	-	-	-	(36,438)	-	(36,438)
Transfer of retained earnings to reserves, Note 12(d)	-	-	-	-	-	2,000,000	-	-	-	(2,000,000)	-	-	-
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	19,234	19,234	-	19,234
Other	-	-	-	-	-	-	-	-	-	7,215	7,215	(29)	7,186
Balances as of December 31, 2015	113,110	(4,291)	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
Balances as of January 1, 2016	113,110	(4,291)	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 income	-	-	-	-	-	-	-	-	-	828,143	828,143	5,578	833,721
Other comprehensive income	-	-	-	-	-	-	387,334	1,759	(11,340)	-	377,753	947	378,700
Total comprehensive income	-	-	-	-	-	-	387,334	1,759	(11,340)	828,143	1,205,896	6,525	1,212,421
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)	-	(1,455)	-	(156,009)	-	-	-	-	-	-	(156,009)	-	(156,009)
Transfer of retained earnings to reserves, Note 12(d)	-	-	-	-	-	600,000	-	-	-	(600,000)	-	-	-
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	18,258	18,258	-	18,258
Purchase of shares	-	(433)	-	(43,883)	-	-	-	-	-	-	(43,883)	-	(43,883)
Other	-	-	-	-	-	-	-	-	-	6,160	6,160	(47)	6,113
Balances as of December 31, 2016	113,110	(6,179)	963,446	(522,106)	268,077	2,600,000	(83,817)	1,301	98,874	1,553,336	4,879,111	119,235	4,998,346

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2016 (unaudited) and 2015 (audited)

	2016	2015
	S/(000)	S/(000)
Operating activities		
Profit for the period	833,721	1,238,804
Plus (less)		
Provision for loan losses, net of recoveries	783,645	645,824
Depreciation and amortization	130,118	111,060
Provision for sundry risks	14,685	12,948
Deferred Income Tax	(1,043)	(31,143)
Net gain on sale of securities	(103,338)	(134,901)
Impairment loss on available-for-sale investments	28,323	78,285
Net trading loss	47,931	111,834
Valuation loss (gain) from investment property	1,380	(26,700)
Translation result	(20,062)	25,100
(Gain) loss on sale of investment property	(2,655)	1,259
Sale of trading security	(24,494)	(94,130)
Increase in accrued interest receivable	(22,720)	(57,316)
Increase in accrued interest payable	46,685	70,636
Net changes in assets and liabilities		
Increase in loans	(1,810,594)	(3,976,455)
Decrease (increase) in accounts receivable and other assets, net	85,790	(341,131)
Decrease (increase) in restricted funds	386,155	(2,739,123)
Increase in deposits and obligations	1,536,470	5,086,476
(Decrease) increase in due to banks and correspondents	(970,612)	3,012,961
Increase in accounts payable, provisions and other liabilities	<u>477,839</u>	<u>1,642,040</u>
Net cash provided by operating activities	<u>1,417,224</u>	<u>4,636,328</u>

Consolidated statements of cash flows (continued)

	2016	2015
	S/(000)	S/(000)
Investing activities		
Increase of trading securities, available-for-sale and held-to-maturity investments	(1,177,885)	(623,261)
Purchase of property, furniture and equipment	(76,502)	(68,130)
Purchase of intangible assets	(132,318)	(104,561)
Purchase of investment property	(77,694)	(92,426)
Sale of investment property	26,185	57,486
	<u>(1,438,214)</u>	<u>(830,892)</u>
Financing activities		
Net decrease in bonds, notes and other obligations	(89,091)	(252,079)
Net decrease in receivable inter-bank funds	240,026	65,002
Increase in payable inter-bank funds	332,254	-
Purchase of treasury stock	(199,892)	(36,438)
Payments of dividends	(496,862)	(564,178)
Dividend payments to non-controlling interest	(2,623)	(2,232)
	<u>(216,188)</u>	<u>(789,925)</u>
Net (decrease) increase in cash	(237,178)	3,015,511
Translation result on cash and cash equivalents	(46,285)	318,772
Cash at the beginning of period	<u>8,781,161</u>	<u>5,447,241</u>
Cash at the end of period	<u>8,497,698</u>	<u>8,781,524</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 December 31, 2016 and 2015

1. Business activity

(a) Business activity

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

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

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

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

The consolidated financial statements as of December 31, 2016, were approved by the Board of Directors held on February 14, 2017. The consolidated financial statements of IFS and Subsidiaries as of December 31, 2015, were approved by the General Shareholders' Meeting held on April 11, 2016.

(b) Subsidiaries

IFS's Subsidiaries are the following:

(i) Banco Internacional del Perú S.A.A. - Interbank and Subsidiaries

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

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

Notes to the consolidated financial statements (continued)

Entity	Activity
Interfondos S.A. Sociedad Administradora de Fondos.	Manages mutual funds and investment funds.
Internacional de Títulos Sociedad Titulizadora S.A. - Intertítulos S.T.	Manages securitization funds.
Inversiones Huancavelica S.A.	Real estate activities.
Contacto Servicios Integrales de Crédito y Cobranzas S.A.	Collection services.
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities.
Compañía de Servicios Conexos S.A. – Expressnet	Services related to credit card transactions or products related to the brand “American Express”.
IBK Securitizadora	A consolidated special purpose entity (SPE), by which Interbank issued negotiable long-term notes, see Note 10 (f).

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

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

On December 21, 2016, the Interseguro’s Shareholders Meeting approved the reorganization project between Interseguro and Mapfre Perú Vida Compañía de Seguros y Reaseguros S.A., through which Mapfre will contribute to Interseguro an equity block composed by assets, liabilities, goods, rights, obligations and legal relations related to its portfolio of annuities policies.

As of the date of this report, Interseguro is awaiting the confirmation of said operation by the SBS.

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

Entity	Activity
Centro Comercial Estación Central S.A.	Administration of "Centro Comercial Estación Central", located in downtown Lima; as of December 31, 2016 and 2015, Interseguro holds 75 percent of its shares.
Empresa Administradora Hipotecaria S.A.	Was incorporated in February 2014 in Peru; It does not have operations and is under the process of being liquidated.

Patrimonio Fideicometido D.S.093-2002-EF, Interproperties Perú (henceforth “Patrimonio Fideicometido – Interproperties Perú”) is a structured entity, incorporated in April 2008, in which several investors (related parties to the Group) contributed investment properties. For accounting purposes and under IFRS 10 “Consolidated Financial Statements” the assets included in said structure are considered “silos”, because they are ring-fenced parts of the wider structured entity (the Patrimonio Fideicometido - Interproperties Perú). The Group has ownership of and decision making power over these properties, and the Group has the exposure or rights to their returns; therefore, Interseguro has consolidated the silos containing the investment properties that it controls.

Notes to the consolidated financial statements (continued)

(iii) Inteligo and Subsidiaries

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

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

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

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

Notes to the consolidated financial statements (continued)

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

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2016	2015	2016	2015	2016	2015
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Main captions of the consolidated statements of financial position						
Trading securities and available-for-sale investments	3,982,116	3,173,210	4,611,642	4,138,555	1,466,371	1,084,093
Held-to-maturity investments	611,293	479,561	-	-	-	-
Loans, net	25,331,312	24,308,737	-	-	1,695,421	1,685,549
Investment property	-	-	766,045	713,262	-	-
Total assets	42,397,454	41,652,030	5,803,622	5,253,987	4,014,633	3,376,035
Deposits and obligations	26,898,615	25,880,904	-	-	3,246,319	2,706,931
Due to banks and correspondents	5,259,484	6,138,544	1,847	50,988	67,271	68,269
Bonds, notes and other obligations	4,598,310	4,689,925	171,215	174,192	-	-
Insurance contracts liabilities	-	-	5,010,513	4,477,089	-	-
Total liabilities	38,049,509	37,907,010	5,350,198	4,916,095	3,338,097	2,796,288
Equity attributable to Group's shareholders	4,347,945	3,745,020	364,452	248,580	676,536	579,747
Non-controlling interest – equity	-	-	88,972	89,312	-	-
Main captions of the consolidated income statements						
Interest and similar income and expenses, net	2,269,576	2,102,886	278,540	247,735	92,729	87,052
Provision for loan losses, net of recoveries	(783,645)	(643,917)	-	-	-	(1,907)
Valuation gain and gain from sale of investment properties	-	-	1,274	25,441	-	-
Fee income from financial services	789,619	733,722	(2,994)	(3,225)	116,862	121,946
Total net premiums earned minus claims and benefits	-	-	(247,308)	105,543	-	-
Net profit for the period attributable to Group's shareholders	846,761	868,378	(114,788)	310,967	170,978	105,551
Non-controlling interest	-	-	(315)	994	-	-

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 December 31, 2016, are consistent with respect to the rules applied as of December 31, 2015, which are included in the audited consolidated financial statements dated March 22, 2016.

3. Cash and due from banks

This caption is comprised of the following:

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

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

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

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

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

Notes to the consolidated financial statements (continued)

As of December 31, 2016 and 2015, the “Restricted Funds” caption is mainly comprised by deposits in the BCRP amounting to approximately US\$915,204,000 (equivalent to S/3,071,424,000) and US\$960,688,000 (equivalent to S/3,276,907,000), respectively, as a guarantee for loans received from this entity, see Note 9(b). As of December 31, 2016 and 2015, this caption included restricted funds related to requirements from counterparties of derivative financial instruments transactions (see Note 7(d)) amounted to approximately US\$58,027,000 (equivalent to S/194,737,000) and US\$98,653,000 (equivalent to S/336,504,000), respectively and; cash from remittances received which guarantee the payment of the trading notes issued by IBK DPR Securitizadora amounted to approximately US\$9,929,000 (equivalent to S/33,869,000), as of December 31, 2015, see Note 10(f).

Notes to the consolidated financial statements (continued)

4. Available-for-sale investments

(a) The detail of available-for-sale investments is as follows:

	2016				2015			
	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)
		Gains S/(000)	Losses S/(000)			Gains S/(000)	Losses S/(000)	
Debt Instruments								
Corporate, leasing and subordinated bonds	4,120,202	38,627	(158,492)	4,000,337	3,409,557	19,136	(404,820)	3,023,873
Negotiable Certificates of Deposit issued by BCRP	1,709,845	2,523	(84)	1,712,284	877,165	-	(2,845)	874,320
Peruvian sovereign bonds	1,223,965	4,171	(90,732)	1,137,404	1,117,769	269	(133,672)	984,366
Mutual funds and investments participations	1,030,427	61,319	(18,558)	1,073,188	926,127	38,219	(48,402)	915,944
Bonds guaranteed by the Peruvian Government	471,338	7,674	(5,962)	473,050	446,040	4,018	(20,129)	429,929
Sovereign and Global bonds from foreign countries	249,554	-	(3,350)	246,204	66,066	-	(1,151)	64,915
Peruvian Global Bonds	163,778	-	(5,636)	158,142	351,245	-	(8,187)	343,058
Indexed Certificates of Deposit issued by BCRP	39,414	51	-	39,465	668,699	176	(1,527)	667,348
Total	9,008,523	114,365	(282,814)	8,840,074	7,862,668	61,818	(620,733)	7,303,753
Listed shares								
Peruvian and foreign entities	297,132	26,402	(8,557)	314,977	317,674	1,727	(14,439)	304,962
InRetail Perú Corp. (d)	110,217	92,857	-	203,074	110,866	38,241	-	149,107
Non listed shares and participations								
Royalty Pharma (e)	62,923	5,341	-	68,264	147,243	81,758	-	229,001
Other	968	565	-	1,533	985	-	(430)	555
	<u>471,240</u>	<u>125,165</u>	<u>(8,557)</u>	<u>587,848</u>	<u>576,768</u>	<u>121,726</u>	<u>(14,869)</u>	<u>683,625</u>
	<u>9,479,763</u>	<u>239,530</u>	<u>(291,371)</u>	<u>9,427,922</u>	<u>8,439,436</u>	<u>183,544</u>	<u>(635,602)</u>	<u>7,987,378</u>
Add – Accrued Interest				90,476				79,786
Total				9,518,398				8,067,164

Notes to the consolidated financial statements (continued)

- (b) The Group has determined that the unrealized losses as of December 31, 2016 amounting to S/291,371,000 and December 31, 2015 amounting to S/635,602,000, are of temporary nature. The Group intends and has the ability to hold each investment for a period of time sufficient to allow for an anticipated recovery in fair value, until the earlier of its anticipated recovery or maturity.

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

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

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

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

Notes to the consolidated financial statements (continued)

- (c) As a result of the impairment assessment of its available-for-sale investments, the Group recorded an impairment loss amounting to S/28,323,000, during 2016 (S/78,285,000 during 2015), 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(e). The table below presents debt instruments (by issuer) with unrealized losses as of December 31, 2016 and December 31, 2015:

	2016			2015		
	Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)	Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)
Debt instruments (by issuer)						
Peruvian Sovereign bonds	1,223,965	4,171	(90,732)	1,117,769	269	(133,672)
Fibra Uno	105,709	-	(17,868)	66,617	-	(8,154)
Corporación Financiera de Desarrollo S.A.	139,140	-	(15,109)	168,843	-	(28,727)
H2Olmos S.A.	113,878	-	(11,417)	110,617	85	(17,194)
Vale Overseas Ltd.	94,645	-	(11,183)	96,725	-	(36,574)
Abengoa Transmisión Sur S.A.	162,526	3	(10,217)	160,319	-	(8,462)
Línea Amarilla S.A.C.	91,071	163	(8,670)	90,066	-	(14,506)
G y M Ferrovías S.A.	141,176	-	(6,357)	141,361	-	(8,880)
Votorantim Cimentos SA	97,127	1,095	(6,314)	172,207	-	(47,392)
Other less than S/6 million	-	20,718	(104,947)	-	14,534	(317,172)
	<u>2,169,237</u>	<u>26,150</u>	<u>(282,814)</u>	<u>2,124,524</u>	<u>14,888</u>	<u>(620,733)</u>

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

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

During 2016, the Group sold 300,000 and 131,286 participations of RPS Partnership and RPI Partnership, respectively, at their fair value, of approximately US\$39,431,000, generating gains amounting to US\$13,133,000 (equivalent to approximately S/44,469,000), which are included in the "Net gain on sale of securities" caption of the consolidated income statements.

During 2015, Interseguro sold to a related entity 54,978 and 135,000 participations of RPS Partnership and RPI Partnership, respectively, at their fair value of approximately US\$23,496,000, generating a realized gain of approximately US\$18,347,000 (equivalent to approximately S/60,343,000), which is included in the "Net gain on sale of securities" caption of the consolidated income statements.

During 2016, the Group received dividends from these participations for approximately S/22,097,000 (S/20,448,000 to December 2015), which are included in the "Interest and similar income" caption in the consolidated income statements.

Notes to the consolidated financial statements (continued)

5. Loans, net

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

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

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

	2016 S/(000)	2015 S/(000)
Commercial loans	13,407,912	13,042,800
Consumer loans	8,888,561	8,416,020
Mortgage loans	5,041,107	4,766,516
Small and micro-business loans	<u>569,880</u>	<u>532,336</u>
Total	<u>27,907,460</u>	<u>26,757,672</u>

Notes to the consolidated financial statements (continued)

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

	2016	2015
	S/(000)	S/(000)
	(*)	(*)
Balance as of January 1st	1,065,192	835,205
Provision	783,645	645,824
Recoveries of written-off loans	119,064	108,725
Written-off loans	(769,548)	(530,976)
Sale of loan portfolio	(2,638)	(33,818)
Translation result	(5,114)	40,232
Others	157	-
Balances as of December 31	<u>1,190,758</u>	<u>1,065,192</u>

(*) The allowance for loan losses includes allowance for direct and indirect loans amounting to S/1,166,782,000 and S/23,976,000, respectively, as of December 31, 2016 (S/1,041,579,000 and S/23,613,000, respectively, as of December 31, 2015). The allowance for indirect loans is presented in the “Accounts payable, provisions and other liabilities” caption of the consolidated statements of financial position; see Note 7(a).

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

Notes to the consolidated financial statements (continued)

6. Investment property

(a) This caption is made up as follows:

	2016 S/(000)	2015 S/(000)	Acquisition or construction year	Hierarchy (i)	Valuation methodology	
					2016	2015
Land -						
San Isidro	255,431	253,366	2008	Level 3	Appraisal	Appraisal
San Martin de Porres	60,008	58,106	2015	Level 3	Appraisal	Appraisal
Talara	40,060	23,000	2015-2016	Level 3	DCF	Cost
Piura	39,889	36,752	2009	Level 3	Appraisal	Appraisal
Sullana	25,008	23,896	2014	Level 3	Appraisal	Appraisal
Chimbote	8,710	8,247	2015	Level 3	Appraisal	Appraisal
Trujillo	10,166	-	2016	Level 3	DCF	-
Lurín	-	23,530	2012	Level 3	-	Appraisal
Others	15,512	15,303	-	Level 3	Appraisal	Appraisal
	<u>454,784</u>	<u>442,200</u>				
Completed investment property						
Shopping mall "Real Plaza" -						
Pucallpa	218,799	219,549	2014	Level 3	DCF	DCF
	<u>218,799</u>	<u>219,549</u>				
Buildings -						
Ate Vitarte	45,865	46,612	2006	Level 3	DCF	DCF
Hebraica	20,861	-	2016	Level 3	DCF	-
Panorama	20,724	-	2016	Level 3	DCF	-
Pardo y Aliaga	3,596	3,233	2010	Level 3	DCF	DCF
	<u>91,046</u>	<u>49,845</u>				
Built on leased land -						
Others	1,417	1,668	-	Level 3	DCF	DCF
	<u>1,417</u>	<u>1,668</u>				
Total	<u>766,046</u>	<u>713,262</u>				

DCF: Discounted cash flow

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

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

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

	2016 S/(000)	2015 S/(000)
Balance as of January 1st	713,262	652,881
Additions	77,694	92,426
Sales	(23,530)	(58,745)
Valuation (loss) gain	<u>(1,380)</u>	<u>26,700</u>
Balances as of December 31	<u>766,046</u>	<u>713,262</u>

Notes to the consolidated financial statements (continued)

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

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Accounts receivable and other assets		
Financial instruments		
Accounts receivable related to derivative financial instruments (d)	203,089	324,268
Other accounts receivable	158,059	181,723
Accounts receivable from sale of investments	147,655	86,544
Assets for technical reserves for claims and premiums by reinsurers	128,168	91,100
Insurance operation receivables, net	50,841	42,912
Operations in process (c)	37,429	28,411
Accounts receivable from reinsurers and coinsurers	28,936	21,347
Credit card commissions receivable	14,845	17,864
Total	<u>769,022</u>	<u>794,169</u>
Non-financial instruments		
Intangible assets, net	267,401	199,361
Value-Added-Tax credit (b)	86,213	165,223
Income Tax credit	55,178	30,249
Prepaid expenses	53,884	48,356
Investments in associates	51,777	49,513
Prepaid rights to related entity, Note 22(f)	14,532	16,819
Other	12,214	13,120
	<u>541,199</u>	<u>522,641</u>
Total	<u>1,310,221</u>	<u>1,316,810</u>
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	377,734	427,152
Accounts payable related to derivative financial instruments (d)	230,714	384,734
Operations in process (c)	116,273	82,064
Workers' profit sharing and salaries payable	110,549	115,182
Accounts payable to reinsurers and coinsurers	51,468	47,479
Accounts payable for acquisitions of investments	50,528	165,074
Allowance for indirect loan losses, Note 5(c)	23,976	23,613
	<u>961,242</u>	<u>1,245,298</u>
Non-financial instruments		
Deferred income	57,254	58,055
Taxes payable	52,144	57,910
Provision for other contingencies	26,708	23,160
Other	59,201	42,339
	<u>195,307</u>	<u>181,464</u>
Total	<u>1,156,549</u>	<u>1,426,762</u>

Notes to the consolidated financial statements (continued)

- (b) Corresponds to the Value-Added-Tax (henceforth “IGV”, by its Spanish acronym) resulting from the purchase of goods devoted mostly to grant financial leasing loans, which is recovered through the collection of the loans.
- (c) Operations in process include transactions performed in the last days of the month and other similar types of transactions which are reclassified to their final balance sheets accounts in the following month. These transactions do not affect the consolidated results.
- (d) The following table presents, as of December 31, 2016 and 2015, the fair value of derivative financial instruments recorded as assets or liabilities, including their notional amounts. The notional amount is the derivative’s underlying financial instrument and is the base over which changes in fair value are measured.

	2016			Maturity	Hedged instrument
	Assets	Liabilities	Notional amount		
	S/(000)	S/(000)	S/(000)		
Derivatives held for trading (i)					
Currency forwards	45,115	20,741	3,961,083	Between January 2017 and March 2018	-
Interest rate swaps	25,958	18,263	2,761,079	Between December 2017 and December 2029	-
Currency swaps	129,737	121,655	1,464,297	Between January 2017 and January 2025	-
Cross currency swaps	-	69,131	197,528	January 2023	-
Foreign currency options	432	924	192,573	Between January 2017 and July 2017	-
	<u>201,242</u>	<u>230,714</u>	<u>8,576,560</u>		
Derivatives held as hedges -					
Cash flow hedges:					
Interest rate swaps (IRS), Note 9d(i)	381	-	134,240	August 2018	Loan received from JP Morgan Chase & Co.
Interest rate swaps (IRS), Note 9d(ii)	497	-	167,800	January 2018	Loan received from HSBC Bank PLC
Interest rate swaps (IRS), Note 9d(iv)	969	-	167,800	October 2018	Loan received from Wells Fargo Bank & Co.
	<u>1,847</u>	<u>-</u>	<u>469,840</u>		
	<u>203,089</u>	<u>230,714</u>	<u>9,046,400</u>		

Notes to the consolidated financial statements (continued)

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

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

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

Notes to the consolidated financial statements (continued)

8. Deposits and obligations

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Time deposits	10,096,923	9,819,261
Demand deposits	9,589,637	9,053,339
Savings deposits	8,915,374	8,198,498
Compensation for service time ("CTS", by its Spanish acronym)	1,490,213	1,388,849
Other obligations	<u>5,703</u>	<u>27,719</u>
Total	<u>30,097,850</u>	<u>28,487,666</u>

(b) Interest rates applied to deposits and obligations are determined by the Bank based on interest rates prevailing on the Peruvian market.

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

Notes to the consolidated financial statements (continued)

9. Due to banks and correspondents

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
By type		
Central Reserve Bank of Peru (b)	3,048,412	3,005,900
Promotional credit lines (c)	1,610,588	1,628,189
Loans received from foreign entities (d)	620,106	1,445,638
Loans received from Peruvian entities	1,847	50,852
	<u>5,280,953</u>	<u>6,130,579</u>
Interest and commissions payable	47,650	61,147
	<u>5,328,603</u>	<u>6,191,726</u>
By term		
Short term	1,799,392	2,128,167
Long term	3,529,211	4,063,559
	<u>5,328,603</u>	<u>6,191,726</u>
Total	<u>5,328,603</u>	<u>6,191,726</u>

(b) Corresponds to currency repo operations according to which Interbank receives Soles and delivers US Dollars to the BCRP (for an amount equivalent to the one received). The US Dollars delivered are recorded as restricted funds; see Note 3. As of December 31, 2016, these obligations have maturities between January 2017 and March 2019, and bear effective interest rates between 3.00 and 6.38 percent (with maturities between February 2016 and March 2019, and bearing effective interest rates between 3.00 and 6.16 percent, as of December 31, 2015).

(c) The promotional credit lines represent loans in Soles and US Dollars received from Corporación Financiera de Desarrollo (COFIDE) with the purpose of promoting development in Peru. These liabilities are guaranteed with the loan portfolio up to the used amount and include specific terms on how the funds should be used, the financial conditions that must be maintained and other administrative matters. In Management's opinion, the Group is complying with all these requirements. These loans accrued interests at rates that fluctuated between 7.55 and 10.00 percent in Soles and between 4.13 and 8.06 percent in US Dollars and have maturities between January 2019 and November 2031, as of December 31, 2016 (accrued an annual effective interest rate of 7.12 and 9.85 percent in Soles and 4.02 and 8.01 percent in US Dollars and maturities between April 2016 and December 2029, as of December 31, 2015).

Notes to the consolidated financial statements (continued)

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

Entity	Country	Final maturity	2016 S/(000)	2015 S/(000)
Syndicated loan (iii)	-	2016	-	679,393
HSBC Bank PLC (i)	United Kingdom	2018-2016	167,800	170,550
Wells Fargo Bank & Co. (iv)	United States of America	2018-2016	167,800	170,550
JP Morgan Chase & Co. (ii)	United States of America	2018-2016	134,240	68,220
Bank J. Safra Sarasin Ltd.	Switzerland	Ene 2017-2016	67,120	68,269
Bladex	Multilateral	2018	49,586	83,996
Sumitomo Bank	United States of America	2017	33,560	-
Bank of America N.A.	United States of America	2016	-	102,330
Corporación Andina de Fomento	Multilateral	2016	-	85,275
China Development Bank	China	2016	-	17,055
			<u>620,106</u>	<u>1,445,638</u>

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

- (i) Corresponds to a loan granted to the Company in December 2015 for US\$50,000,000. Over this operation, Interbank performed an interest rate swap at a 3-month Libor rate plus a 0.90 percent funding rate, and pays an annual fixed rate of 1.80 percent. The maturity schedule equals that of the granted loan. Interbank recorded this derivative instrument as a cash flow hedge; see Note 7(d).
- (ii) Corresponds to a loan granted to the Company in July 2016 for US\$40,000,000. Over this operation, Interbank performed an interest rate at a 6-month Libor rate plus a 1.15 percent funding rate, and pays an annual fixed rate of 2.34 percent. The maturity schedule equals that of the granted loan. Interbank recorded this derivative instrument as a cash flow hedge; see Note 7(d).
- (iii) Corresponds to a syndicated loan received in July 2013 for approximately US\$200,000,000 in which fifteen foreign financial entities participate, of which Bank of America N.A. (USA) and Citibank N.A. (USA) participated with US\$40,000,000 each. This loan expired on October 2016 and while was outstanding, accrued an annual interest rate of Libor 6 months plus 1.85 percent.
- (iv) Corresponds to two loans granted to the Company in September 2016 for US\$40,000,000 and US\$10,000,000. Over this operation, Interbank performed two interest rate swaps. For the first swap granted at a 3-month Libor rate plus a 1.20 percent funding rate, and pays an annual fixed rate of 2.30 percent and for the second swap granted at a 3-month Libor rate plus a 1.10 percent funding rate, and pays an annual fixed rate of 2.20 percent. The maturity schedule equals that of the granted loan. Interbank recorded this derivative instrument as a cash flow hedge; see Note 7(d).

Notes to the consolidated financial statements (continued)

10. Bonds, notes and other obligations

(a) This caption is made up as follows:

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

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

Notes to the consolidated financial statements (continued)

- (b) Subordinated bonds do not have specific guarantees and in accordance to SBS rules they qualify as second tier equity (Tier 2); see Note 12(g).
- (c) Starting in March 2024, the applicable interest rate will be a floating rate of 3-month Libor for US Dollars deposit plus 576 basis points payable quarterly. Starting on that date and on any interest payment date, Interbank can redeem all the notes without penalties. In accordance with SBS regulation, this issuance qualifies as second tier equity (“Tier 2”) in the determination of effective equity; see Note 12(g).
- (d) Starting in April 2020, the applicable interest rate will be a floating rate of 3-month Libor plus 674 basis points payable on a semi-annual basis, provided that the floating rate for any interest period will not be less than 10.5 percent per annum. Starting on that date, Interbank can redeem all the notes, without penalties. Interest payments are non-cumulative if they cease to be made, due to Interbank’s right to cancel interest payments for mandatory prohibitions established by the SBS, or if it is determined that Interbank is in non-compliance with applicable minimum regulatory capital requirements. In such cases, Interbank may not declare, pay or distribute any dividend for the period in which interest payments are not made. The payment of principal will take place on the maturity date of the notes or when Interbank redeems the notes.

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

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

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

- (f) As of December 31, 2015, these notes were guaranteed by remittances received by Interbank through SWIFT transfers.

In order to hedge the interest rate variable component, Interbank signed an interest rate swap agreement, with a notional amount of US\$121,000,000, for which it received the 3-month Libor rate plus 425 basis points and paid an annual fixed rate of 7.9 percent. The swap payment schedule was identical to that of the notes and it was designated as cash flow hedge; see Note 7(d). This operation expired on June 2016.

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

Notes to the consolidated financial statements (continued)

11. Insurance contract liabilities

(a) This caption is comprised of the following:

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

Notes to the consolidated financial statements (continued)

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

	December 2016					December 2015				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning balances	4,061,692	122,527	131,186	32,329	4,347,734	3,437,762	129,349	98,363	32,546	3,698,020
Insurance subscriptions	425,895	-	3,953	27,631	457,479	642,672	-	4,968	24,823	672,463
Time passage adjustments (*)	68,318	(935)	30,996	(22,523)	75,856	(242,916)	(6,822)	20,826	(25,538)	(254,450)
Maturities and recoveries	-	-	(10,879)	-	(10,879)	-	-	(7,363)	-	(7,363)
Exchange differences	(29,734)	-	(2,299)	103	(31,930)	224,174	-	14,392	498	239,064
Ending 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

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

	2016				2015			
	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Interest rate effect	116,468	-	-	116,468	(218,096)	-	-	(218,096)
Aging insured population effect	(78,202)	30,996	(22,523)	(69,729)	(65,240)	20,826	(25,538)	(69,952)
Inflation and other effects	29,117	-	-	29,117	33,598	-	-	33,598
Time passage adjustments	67,383	30,996	(22,523)	75,856	(249,738)	20,826	(25,538)	(254,450)

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

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

	2016					2015				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Reported claims	991	87,813	25,679	8,603	123,086	655	68,318	14,837	8,541	92,351
Incurred but not reported (IBNR)	-	36,249	12,443	475	49,167	-	25,043	11,499	462	37,004
	991	124,062	38,122	9,078	172,253	655	93,361	26,336	9,003	129,355

Notes to the consolidated financial statements (continued)

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

	December 2016				
		Retirement, disability and survival	Life	General	
	Annuities S/(000)	annuities S/(000)	insurance S/(000)	insurance S/(000)	Total S/(000)
Balance as of January 1st	655	93,361	26,336	9,003	129,355
Claims	251,911	(20,337)	35,441	12,710	279,725
Adjustments to prior years claims	-	156,285	12,991	5,685	174,961
Payments	(251,568)	(105,246)	(36,602)	(18,287)	(411,703)
Exchange differences	(7)	(1)	(44)	(33)	(85)
Balances as of December 31	<u>991</u>	<u>124,062</u>	<u>38,122</u>	<u>9,078</u>	<u>172,253</u>
	December 2015				
		Retirement, disability and survival	Life	General	
Annuities S/(000)	annuities S/(000)	insurance S/(000)	insurance S/(000)	Total S/(000)	
Balance as of January 1st	1,785	11,996	22,299	8,907	44,987
Claims	202,667	128,484	28,004	18,914	378,069
Adjustments to prior years claims	-	1,282	12,881	(5,104)	9,059
Payments	(203,919)	(48,401)	(37,720)	(13,939)	(303,979)
Exchange differences	122	-	872	225	1,219
Balances as of December 31	<u>655</u>	<u>93,361</u>	<u>26,336</u>	<u>9,003</u>	<u>129,355</u>

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

Notes to the consolidated financial statements (continued)

12. Equity

(a) Capital stock

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

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

Stock buyback program

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

(b) Treasury stock

As of December 31, 2016, IFS, Interbank and Interfondos hold 6,179,244 shares issued by IFS with acquisition cost amounting to approximately S/522,106,000 (as of December 31, 2015, Interbank and Inteligo SAB hold 4,290,825 shares issued by IFS with acquisition cost amounting to approximately S/322,214,000).

(c) Capital surplus

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

(d) Reserves

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

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

Notes to the consolidated financial statements (continued)

(e) Unrealized results, net

The movement of this caption for the year 2016 and 2015 was as follows:

	Unrealized gain (loss)			Total S/(000)
	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Foreign currency translation reserve S/(000)	
Balances as of January 1, 2015	100,559	(3,423)	44,571	141,707
Unrealized (net) loss from available-for-sale investments	(548,956)	-	-	(548,956)
Transfer to realized gains from available-for-sale investments, net of realized loss	(102,550)	-	-	(102,550)
Transfer of impairment loss from available-for-sale investments to consolidated income statements	78,285	-	-	78,285
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	1,511	-	-	1,511
Variation for net unrealized loss on cash flow hedges	-	3,190	-	3,190
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	(225)	-	(225)
Foreign currency translation	-	-	65,643	65,643
Balances as of December 31, 2015	(471,151)	(458)	110,214	(361,395)
Balances as of January 1, 2016	(471,151)	(458)	110,214	(361,395)
Unrealized (net) gain from available-for-sale investments	405,349	-	-	405,349
Transfer to (net) realized gain from available-for-sale investments, net of realized loss	(48,875)	-	-	(48,875)
Transfer of impairment loss from available-for-sale investments to consolidated income statements	28,323	-	-	28,323
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	2,537	-	-	2,537
Variation for net unrealized loss on cash flow hedges	-	1,111	-	1,111
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	648	-	648
Foreign currency translation	-	-	(11,340)	(11,340)
Balances as of December 31, 2016	(83,817)	1,301	98,874	16,358

Notes to the consolidated financial statements (continued)

(f) Other comprehensive income

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

	31.12.2016 S/(000)	31.12.2015 S/(000)
Available-for-sale investments:		
Unrealized net gain (loss) from available-for-sale investments	405,349	(548,956)
Transfer to realized gain from available-for-sale investment, net of realized loss	(48,875)	(102,550)
Transfer of impairment loss from available-for-sale investments to consolidated income statements, Note 4(c)	28,323	78,285
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	2,537	1,511
Sub Total	<u>387,334</u>	<u>(571,710)</u>
Cash flow hedges:		
Net gain from cash flow hedges	1,111	3,190
Transfer of net realized loss from cash flow hedge to consolidated income statements	648	(225)
Sub Total	<u>1,759</u>	<u>2,965</u>
Exchange difference on translation of foreign currency operations	<u>(11,340)</u>	<u>65,643</u>
Equity holders of the Group	377,753	(503,102)
Non-controlling interest	947	(617)
Total other comprehensive income for the period	<u>378,700</u>	<u>(503,719)</u>

Notes to the consolidated financial statements (continued)

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

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

Interbank's regulatory capital

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

Interseguro's regulatory capital

In accordance with SBS Resolution No. 1124-2006, amended by SBS Resolutions No. 8243-2008, No. 12687-2008, No.2742-2011, No.2842-2012, No.6271-2013, No.2904-2014 and No. 1601-2015, the regulatory capital must be greater than the amount resulting from the sum of the solvency net equity, the guarantee fund and the regulatory capital intended to cover credit risks.

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

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

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

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

Inteligo Bank's equity

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

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

Notes to the consolidated financial statements (continued)

13. Tax situation

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

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

- (b) Legal entities or individuals not domiciled in Peru are subject to an additional tax on dividends received from entities domiciled in Peru. The corresponding tax is withheld by the entity that distributes the dividends. In this regard, since IFS controls the entities that distribute the dividends, it recognizes the amount of the additional Income Tax as expense of the financial year of the dividends. In this sense, as of December 31, 2016 and 2015, IFS has recorded expenses for S/29,375,000 and S/31,859,000, respectively, in the consolidated income statements.
- (c) The Group's Subsidiaries incorporated in Peru are subject to the payment of Peruvian taxes; hence, they must calculate their tax expense on the basis of the separate financial statements. As of December 31, 2016 and 2015, the applicable Income Tax rate was 28 percent on the taxable income.

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

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

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

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

On the other hand, since January 1, 2010, Peruvian life insurance companies incorporated or established in the country are exempted from the Income Tax regarding the income derived from assets linked to technical reserves for pension insurance (retirement, disability and survival pensions) and annuities from the Private Pension Fund Administration System.

Notes to the consolidated financial statements (continued)

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

(e) Peruvian Tax Authority – SUNAT

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

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

- Interbank: Income Tax of tax years 2012 to 2016.
- Interseguro: Income Tax of tax years 2011 to 2016.

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

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

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

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

(f) Changes in tax regulation

- Income Tax

On December 10, 2016, the Government issued Legislative Decree No. 1261, which modified the Income Tax rate from 28 percent to 29.5 percent. Said change shall be effective since January 1, 2017.

- Income Tax on Dividends

As indicated in paragraph (b) above, legal persons non-domiciled in Peru and natural persons are subject to the withholding of an additional tax rate over dividends, as follows:

- 6.8 percent over income gained in 2015 and 2016.
- 5.0 percent over income gained since 2017.

Notes to the consolidated financial statements (continued)

- Tax exemption on sale of securities

On December 10, 2016, the Government issued Legislative Decree No. 1262, which modified Act No. 30341 – an Act that promotes liquidity and integration of the stock market – thus extending until December 31, 2019, the tax exemption on income gained from the sale of certain securities.

The securities included in said exemptions are: (i) Debt securities; (ii) Certificates of participation in securities investment mutual funds; (iii) Certificates of participation in Real Estate Investment Funds (FIRBI, by its Spanish acronym) and certificates of participation in Real Estate Investment Securitization Trusts (FIBRA, by its Spanish acronym); and (iv) Tradable invoices.

In order to obtain the exemption in the case of income from the sale of shares, investment shares, ADR and GDR, as well as bonds convertible into shares, the following criteria shall be complied with:

- The sale must be performed through a centralized exchange mechanism supervised by the SMV (i.e. the BVL).
- The ownership of 10% or more of the total number of shares issued by the company must not be transferred within a period of 12 months – the underlying shares in the case of ADR and GDR. Also included are the personal transfers and those of related parties.
- The securities must be listed on the stock market.

For the rest of securities included in the exemption, it is mandatory that the sale must be performed through the BVL and be listed on the stock market. In the case of tradable invoices, it is only required that the sale must be performed through the BVL

Lastly, it has been added as cause of loss of the exemption that the issuer unlists the securities from the Public Registry of the Stock Market, entirely or partially, at once or progressively, within the 12 months following the sale. The exemptions shall be established by the corresponding Regulation.

Notes to the consolidated financial statements (continued)

14. Interest and similar income and expenses

This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Interest and similar income		
Interest and fees on loan portfolio	3,184,338	2,906,798
Interest on available-for-sale investments	463,369	389,924
Interest on due from banks and inter-bank funds	20,534	11,007
Other interest and similar income	36,571	34,957
Total	<u>3,704,812</u>	<u>3,342,686</u>
Interest and similar expenses		
Interest and fees on deposits and obligations	461,959	361,693
Interest on bonds, notes and other obligations	320,986	311,944
Interest and fees on obligations with financial institutions	255,267	212,106
Deposit Insurance Fund fees	35,165	31,096
Other interest and similar expenses	8,482	4,856
Total	<u>1,081,859</u>	<u>921,695</u>

Notes to the consolidated financial statements (continued)

15. Fee income from financial services, net

This caption is comprised of the following:

	2016	2015
	S/(000)	S/(000)
Income		
Maintenance and mailing of accounts, transfers fees and commissions on credit and debit card services	561,843	508,477
Commissions for banking services	137,364	144,989
Funds management fees	131,975	149,304
Fees for indirect loans	60,249	58,639
Collection services fees	30,205	26,664
Brokerage and custody services fees	13,204	7,550
Other	29,240	31,539
Total	<u>964,080</u>	<u>927,162</u>
Expenses		
Debtor's life insurance premiums	54,689	57,861
Fees paid to foreign banks	9,967	9,361
Brokerage and custody services	2,777	2,027
Other	34,200	39,547
Total	<u>101,633</u>	<u>108,796</u>
Net	<u>862,447</u>	<u>818,366</u>

Notes to the consolidated financial statements (continued)

16. Other income and expenses

(a) This caption is comprised of the following:

	2016 S/(000)	2015 S/(000)
Other income		
ATM rental income	23,632	21,109
Equity in income of investments in associates	14,856	10,606
Incentives for credit card operations	11,676	4,502
Other technical income from insurance operations	10,308	9,763
Gain from sale of written-off-loans	8,207	20,746
Services to third parties	7,015	7,236
Other income	22,920	25,826
Total other income	98,614	99,788
Other expenses		
Commissions from insurance activities	31,671	22,040
Sundry technical insurance expenses	14,999	14,476
Provision for sundry risk	14,685	12,948
Termination of employees	13,486	9,874
Donations	5,932	4,519
Administrative and tax sanctions	3,152	2,913
Other expenses	30,606	57,688
Total other expenses	114,531	124,458

Notes to the consolidated financial statements (continued)

17. Net premiums earned

This caption is comprised for the years ended December 31, 2016 and 2015 of the following:

	Premiums assumed		Adjustment of technical reserves		Gross premium earned (*)		Premiums ceded to reinsurers		Net premiums earned	
	(1)		(2)		(3) = (1) - (2)		(4)		(5) = (3) - (4)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance										
Annuities (**)	337,755	548,343	(494,213)	(399,757)	(156,458)	148,586	-	-	(156,458)	148,586
Group life	119,534	107,397	(630)	1,485	118,904	108,882	(3,538)	(3,171)	115,366	105,711
Individual life	48,986	42,229	(20,230)	(15,818)	28,756	26,411	(2,177)	(1,917)	26,579	24,494
Retirement, disability and survival (***)	139,633	133,170	935	6,822	140,568	139,992	(130,536)	(124,425)	10,032	15,567
Others	539	2,218	(3,250)	(4,078)	(2,711)	(1,860)	(131)	(338)	(2,842)	(2,198)
Total life insurance	646,447	833,357	(517,388)	(411,346)	129,059	422,011	(136,382)	(129,851)	(7,323)	292,160
Total general insurance (****)	84,109	71,617	(3,952)	715	80,157	72,332	(1,942)	(38)	78,215	72,294
Total general	730,556	904,974	(521,340)	(410,631)	209,216	494,343	(138,324)	(129,889)	70,892	364,454

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

(**) The variation of the adjustment of technical reserves is due to variation in the rates with which technical reserves are determined.

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

(****) As of December 31, 2016, this includes S/18,077,000, (S/673,000) and (S/1,411,000) of assumed premiums, adjustment of technical reserves, and premiums ceded for personal accident insurance, respectively (S/13,385,000, S/445,000, and S/38,000 as of December 31, 2015).

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

This caption is comprised, for the years ended December 31, 2016 and 2015 of the following:

	Gross claims and benefits		Ceded claims and benefits		Net insurance claims and benefits	
	2016	2015	2016	2015	2016	2015
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance						
Annuities	(251,911)	(202,667)	-	-	(251,911)	(202,667)
Group life	(40,164)	(38,826)	3,649	2,287	(36,515)	(36,539)
Individual life	(3,404)	(1,659)	830	302	(2,574)	(1,357)
Retirement, disability and survival	(135,948)	(128,484)	128,718	122,989	(7,230)	(5,495)
Others	(4,864)	(1,682)	3,215	2,656	(1,649)	974
General Insurance	(18,395)	(13,810)	74	(17)	(18,321)	(13,827)
	(454,686)	(387,128)	136,486	128,217	(318,200)	(258,911)

Notes to the consolidated financial statements (continued)

19. Salaries and employee benefits

This caption is comprised of the following:

	2016	2015
	S/(000)	S/(000)
Salaries	507,691	489,900
Workers' profit sharing	70,441	79,187
Social security	45,868	43,330
Compensation for service time	36,942	36,076
Vacations, health assistance and others	36,930	34,102
Total	<u>697,872</u>	<u>682,595</u>

20. Administrative expenses

(a) This caption is comprised of the following:

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

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

Notes to the consolidated financial statements (continued)

21. Earnings per share

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

	Outstanding shares	Shares considered in computation	Effective days in the year	Weighted average number of shares
	(in thousands)	(in thousands)		(in thousands)
Period 2015				
Balance as of January 1st, 2015	109,359	109,359	365	109,359
Sales of treasury stock	23	23	187	12
Purchase of treasury stock	(563)	(563)	203	(313)
	<u>108,819</u>	<u>108,819</u>		<u>109,058</u>
Balance as of December 31, 2015				<u>109,058</u>
Net earnings attributable to IFS S/(000)				1,231,766
Basic and diluted earnings per share attributable to IFS (Soles)				<u>11.295</u>
Period 2016				
Balance as of January 1st, 2016	108,819	108,819	365	108,819
Sales of treasury stock	8	8	275	6
Purchase of treasury stock	(1,896)	(1,896)	85	(441)
	<u>106,931</u>	<u>106,931</u>		<u>108,384</u>
Balance as of December 31, 2016				<u>108,384</u>
Net earnings attributable to IFS S/(000)				828,143
Basic and diluted earnings per share attributable to IFS (Soles)				<u>7.641</u>

Notes to the consolidated financial statements (continued)

22. Transactions with related parties and affiliated companies

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

	2016 S/(000)	2015 S/(000)
Assets		
Trading securities	19,757	20,721
Available-for-sale investments		
Royalty Pharma, Note 4(e)	68,264	229,001
InRetail Perú Corp. Note 4(d)	203,074	149,107
Corporate Bonds - InRetail Shopping Malls	54,209	-
Corporate Bonds - Colegios Peruanos S.A.C.	45,177	33,844
Corporate Bonds - Cineplex S.A.	16,907	13,850
Bonds / Certificates of Deposit – Financiera Oh! S.A. (formerly Financiera Uno S.A.)	13,683	20,320
Corporate Bonds - Intercorp Perú Ltd.	7,513	7,965
Corporate Bonds - Intercorp Retail Inc.	19,077	5,977
Corporate Bonds - San Miguel Industrias PET	24,070	-
Direct loans portfolio, net (b)	784,865	900,110
Accounts receivable related to derivative financial instruments	11,854	14,229
Other assets (f)	17,003	85,604
Liabilities		
Deposits and obligations	284,611	301,757
Other liabilities	4,887	4,819
Off-balance sheet accounts		
Indirect loans (b)	142,337	128,329
Income (expenses)		
	2016 S/(000)	2015 S/(000)
Interest and similar income	58,851	75,944
Interest and similar expenses	(6,464)	(4,779)
Net gain on sale of securities, Note 4(e)	-	60,343
Rental income	2,190	1,788
Gain (loss) on sale of investment property	2,655	(1,259)
Administrative expenses	(34,634)	(12,963)
Other, net	(7,589)	(3,436)

Notes to the consolidated financial statements (continued)

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

	2016 S/(000)	2015 S/(000)
Intercorp Perú Ltd.	121,775	177,531
Supermercados Peruanos S.A.	116,153	147,783
Homecenters Peruanos S.A.	85,905	72,124
Nessus Hoteles Perú S.A.	84,405	93,456
Financiera Oh! S.A. (formerly Financiera Uno S.A.)	74,149	49,296
Colegios Peruanos S.A.	50,965	1,481
Other less than S/40,000 (*)	<u>393,850</u>	<u>486,768</u>
	<u>927,202</u>	<u>1,028,439</u>

(*) Includes loans granted to directors and officers amounting to S/15,637,000 and S/15,136,000 as of December 31, 2016 and 2015, respectively.

Notes to the consolidated financial statements (continued)

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

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 years ended December 31, 2016 and 2015, are presented below:

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

- (e) As of December 31, 2016 and 2015, the Group holds a participation in different mutual funds managed by Interfondos. As of December 31, 2016, they amount to S/161,000 and are classified as investment at fair value through profit or loss (S/8,000,000 as of December 31, 2015).
- (f) It corresponds mainly to prepaid expenses for spaces ceded to Interbank in the stores of Supermercados Peruanos S.A. for the operation of financial agencies until the year 2030, and for an amount of approximately S/14,532,000 and S/16,819,000 as of December 31, 2016 and 2015, respectively (see Note 7(a)). Interbank may renew the term of the agreement for an additional term of 15 years.
- (g) In Management's opinion, transactions with related companies have been performed under normal market conditions and within the limits permitted by SBS. Taxes generated by these transactions and the taxable base used for computing them are those customarily used in the industry and they are determined according to the tax rules in force.

Notes to the consolidated financial statements (continued)

23. Business segments

Segment information is presented for the consolidated entities. The Chief Operating Decision Maker (CODM) of IFS is the Chief Executive Officer (CEO). IFS has three operating segments based on products and services, as follows:

Banking

Mainly loans, credit facilities, deposits and current accounts.

Insurance

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

Wealth management

It provides brokerage and investment management services.

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

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

No revenue from transactions with a single external customer or counterparty exceeded 10 percent of the Group's total revenues for the periods as of December 31, 2016 and 2015.

Notes to the consolidated financial statements (continued)

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

	2016					2015				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Corporate and eliminations S/(000)	Total S/(000)	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Corporate and eliminations S/(000)	Total S/(000)
Total income (*)										
Third Party	4,412,828	438,841	316,424	(88,606)	5,079,487	4,201,971	791,228	271,627	(51,785)	5,213,041
Inter-segment	(60,916)	(44)	2,090	58,870	-	(54,809)	(147)	(3,934)	58,890	-
Total income	4,351,912	438,797	318,514	(29,736)	5,079,487	4,147,162	791,081	267,693	7,105	5,213,041
Extracts of results										
Interest and similar income	3,279,405	292,960	152,125	(19,678)	3,704,812	2,961,419	259,589	139,749	(18,071)	3,342,686
Interest and similar expenses	(1,009,829)	(14,420)	(59,396)	1,786	(1,081,859)	(858,533)	(11,854)	(52,697)	1,389	(921,695)
Net interest	2,269,576	278,540	92,729	(17,892)	2,622,953	2,102,886	247,735	87,052	(16,682)	2,420,991
Provision for loan losses, net of recoveries	(783,645)	-	-	-	(783,645)	(643,917)	-	(1,907)	-	(645,824)
Net interest and similar income after provision for loan losses, net of recoveries	1,485,931	278,540	92,729	(17,892)	1,839,308	1,458,969	247,735	85,145	(16,682)	1,775,167
Fee income from financial services, net	789,619	(2,994)	116,862	(41,040)	862,447	733,722	(3,225)	121,946	(34,077)	818,366
Other income	343,803	77,983	47,437	(27,892)	441,331	506,830	170,411	9,932	362	687,535
Total premiums earned less claims and benefits	-	(247,308)	-	-	(247,308)	-	105,543	-	-	105,543
Depreciation and amortization	(118,401)	(4,457)	(7,260)	-	(130,118)	(100,553)	(4,449)	(6,058)	-	(111,060)
Impairment loss of available-for-sale investments	-	(28,323)	-	-	(28,323)	(2,362)	(46,514)	(29,409)	-	(78,285)
Administrative and other expenses	(1,350,804)	(196,019)	(78,540)	35,548	(1,589,815)	(1,358,030)	(172,283)	(76,149)	25,686	(1,580,776)
Income before translation result and Income Tax	1,150,148	(122,578)	171,228	(51,276)	1,147,522	1,238,576	297,218	105,407	(24,711)	1,616,490
Translation result	859	8,137	(908)	11,974	20,062	(49,494)	14,835	74	9,485	(25,100)
Income Tax	(304,246)	(662)	658	(29,613)	(333,863)	(320,704)	(92)	70	(31,860)	(352,586)
Profit for the year	846,761	(115,103)	170,978	(68,915)	833,721	868,378	311,961	105,551	(47,086)	1,238,804
Attributable to:										
Equity holders of the Group	846,761	(114,788)	170,978	(74,808)	828,143	868,378	310,967	105,551	(53,130)	1,231,766
Non-controlling interest	-	(315)	-	5,893	5,578	-	994	-	6,044	7,038
	846,761	(115,103)	170,978	(68,915)	833,721	868,378	311,961	105,551	(47,086)	1,238,804

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

Notes to the consolidated financial statements (continued)

	2016				
	Banking	Insurance	Wealth management	Holding and eliminations	Total Consolidated
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Total assets	42,397,454	5,803,622	4,014,633	(501,865)	51,713,844
Total liabilities	38,049,509	5,350,198	3,338,097	(22,306)	46,715,498
	2015				
	Banking	Insurance	Wealth management	Holding and eliminations	Total Consolidated
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Total assets	41,652,030	5,253,987	3,376,035	(281,183)	50,000,869
Total liabilities	37,907,010	4,916,095	2,796,288	(79,455)	45,539,938

Notes to the consolidated financial statements (continued)

24. Financial instruments classification

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

	As of December 31, 2016						As of December 31, 2015					
	At fair value through profit or loss S/(000)	Loans and receivable accounts S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)	At fair value through profit or loss S/(000)	Loans and receivable accounts S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)
Financial Assets												
Cash and due from banks	-	11,761,803	-	-	-	11,761,803	-	12,431,785	-	-	-	12,431,785
Inter-bank funds	-	5,002	-	-	-	5,002	-	245,028	-	-	-	245,028
Trading securities	80,149	-	-	-	-	80,149	105,189	-	-	-	-	105,189
Available-for-sale investments	-	-	9,518,398	-	-	9,518,398	-	-	8,067,164	-	-	8,067,164
Held-to-maturity investments	-	-	-	611,293	-	611,293	-	-	-	479,561	-	479,561
Loan portfolio, net	-	27,025,865	-	-	-	27,025,865	-	25,994,235	-	-	-	25,994,235
Due from customers on acceptances	-	16,392	-	-	-	16,392	-	27,118	-	-	-	27,118
Accounts receivables and other assets, net	201,242	567,780	-	-	-	769,022	324,268	469,901	-	-	-	794,169
	<u>281,391</u>	<u>39,376,842</u>	<u>9,518,398</u>	<u>611,293</u>	<u>-</u>	<u>49,787,924</u>	<u>429,457</u>	<u>39,168,067</u>	<u>8,067,164</u>	<u>479,561</u>	<u>-</u>	<u>48,144,249</u>
Financial liabilities												
Deposits and obligations	-	-	-	-	30,097,850	30,097,850	-	-	-	-	28,487,666	28,487,666
Inter-bank funds	-	-	-	-	332,255	332,255	-	-	-	-	-	-
Due to banks and correspondents	-	-	-	-	5,328,603	5,328,603	-	-	-	-	6,191,726	6,191,726
Bonds, notes and other obligations outstanding	-	-	-	-	4,769,390	4,769,390	-	-	-	-	4,925,413	4,925,413
Due from customers on acceptances	-	-	-	-	16,392	16,392	-	-	-	-	27,118	27,118
Insurance contract liabilities	-	-	-	-	5,010,513	5,010,513	-	-	-	-	4,477,089	4,477,089
Accounts payable, provisions and other liabilities	230,714	-	-	-	730,528	961,242	384,734	-	-	-	860,564	1,245,298
	<u>230,714</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,285,531</u>	<u>46,516,245</u>	<u>384,734</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,969,576</u>	<u>45,354,310</u>

(*) As of December 31, 2016 and 2015 the non financial assets amounted to S/1,925,920,000 and S/1,856,620,000, respectively; while non financial liabilities at those dates amounted to S/199,253,000 and S/185,628,000, respectively.

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 Subsidiaries are exposed to; namely: credit risk, market risk, liquidity risk and insurance and real estate risk.

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

(a) Maximum exposure to credit risk

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

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

(b) Credit risk management for loans

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

Notes to the consolidated financial statements (continued)

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

As of December 31, 2016						
Loan portfolio classification	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro- business loans S/(000)	Total S/(000)	%
Neither past due nor impaired						
Normal	12,826,824	7,661,369	4,457,937	472,229	25,418,359	95
With potential problems	231,309	82,691	30,182	4,153	348,335	1
	<u>13,058,133</u>	<u>7,744,060</u>	<u>4,488,119</u>	<u>476,382</u>	<u>25,766,694</u>	
Past due but not impaired						
Normal	126,428	1,359	190,099	32,474	350,360	1
With potential problems	39,359	281,047	56,682	8,279	385,367	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	95,784	254,302	155,262	37,240	542,588	2
	<u>183,992</u>	<u>862,095</u>	<u>306,207</u>	<u>52,745</u>	<u>1,405,039</u>	
Total loan portfolio, gross	<u>13,407,912</u>	<u>8,888,561</u>	<u>5,041,107</u>	<u>569,880</u>	<u>27,907,460</u>	104
Less: Allowance for loan losses	<u>179,289</u>	<u>851,927</u>	<u>60,495</u>	<u>75,071</u>	<u>1,166,782</u>	4
Total, net	<u>13,228,623</u>	<u>8,036,634</u>	<u>4,980,612</u>	<u>494,809</u>	<u>26,740,678</u>	100

As of December 31, 2015

Loan portfolio classification	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro-business loans S/(000)	Total S/(000)	%
Neither past due nor impaired						
Normal	12,623,718	7,324,808	4,150,110	462,287	24,560,923	96
With potential problems	114,559	85,114	27,994	2,544	230,211	1
	<u>12,738,277</u>	<u>7,409,922</u>	<u>4,178,104</u>	<u>464,831</u>	<u>24,791,134</u>	
Past due but not impaired						
Normal	107,157	4,331	271,233	11,532	394,253	1
With potential problems	43,978	237,451	55,347	9,081	345,857	1
	<u>151,135</u>	<u>241,782</u>	<u>326,580</u>	<u>20,613</u>	<u>740,110</u>	
Impaired						
Substandard	43,534	200,483	74,580	8,675	327,272	1
Doubtful	36,089	321,094	62,686	10,388	430,257	2
Loss	73,765	242,739	124,566	27,829	468,899	2
	<u>153,388</u>	<u>764,316</u>	<u>261,832</u>	<u>46,892</u>	<u>1,226,428</u>	
Total loan portfolio, gross	<u>13,042,800</u>	<u>8,416,020</u>	<u>4,766,516</u>	<u>532,336</u>	<u>26,757,672</u>	104
Less: Allowance for loan losses	<u>173,750</u>	<u>767,300</u>	<u>50,434</u>	<u>50,095</u>	<u>1,041,579</u>	4
Total, net	<u>12,869,050</u>	<u>7,648,720</u>	<u>4,716,082</u>	<u>482,241</u>	<u>25,716,093</u>	100

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

As of December 31, 2016 and 2015, loans amounting to approximately S/1,754,000 and S/687,807,000, respectively, were not impaired and were past due for less than 30 days.

As of December 31, 2016 and 2015, refinanced loans amount to S/269,485,000, and S/249,216,000, respectively. Past due refinanced loans as of those dates amount to S/63,735,000, and S/32,321,000, respectively, out of which S/309,000 and S/1,666,000, respectively, are classified as past-due and not-impaired; and S/63,426,000 and S/30,655,000, as impaired, respectively.

Notes to the consolidated financial statements (continued)

(c) Foreign exchange risk

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

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

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

	As of December 31, 2016				As of December 31, 2015			
	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Assets								
Cash and due from banks	10,497,324	991,219	273,260	11,761,803	10,994,640	1,191,209	245,936	12,431,785
Inter-bank funds	-	5,002	-	5,002	-	245,028	-	245,028
Trading securities	43,502	36,647	-	80,149	55,257	49,932	-	105,189
Available-for-sale investments	4,763,512	4,746,382	8,504	9,518,398	4,990,861	3,050,691	25,612	8,067,164
Held-to-maturity investments	-	611,293	-	611,293	-	479,561	-	479,561
Loan portfolio, net	8,655,259	18,370,606	-	27,025,865	8,830,039	17,164,196	-	25,994,235
Due from customers on acceptances	16,392	-	-	16,392	27,118	-	-	27,118
Accounts receivables and other assets	151,058	614,133	3,831	769,022	199,424	585,690	9,055	794,169
	<u>24,127,047</u>	<u>25,375,282</u>	<u>285,595</u>	<u>49,787,924</u>	<u>25,097,339</u>	<u>22,766,307</u>	<u>280,603</u>	<u>48,144,249</u>
Liabilities								
Deposits and obligations	15,414,006	14,575,525	108,319	30,097,850	15,778,230	12,494,433	215,003	28,487,666
Inter-bank funds	332,255	-	-	332,255	-	-	-	-
Due to banks and correspondents	1,054,747	4,273,856	-	5,328,603	1,897,237	4,294,489	-	6,191,726
Bonds, notes and other obligations	4,332,219	437,171	-	4,769,390	4,493,006	432,407	-	4,925,413
Due from customers on acceptances	16,392	-	-	16,392	27,118	-	-	27,118
Insurance contract liabilities	1,957,701	3,052,812	-	5,010,513	1,929,909	2,547,180	-	4,477,089
Accounts payable provision and other liabilities	167,582	776,258	17,402	961,242	291,974	919,902	33,422	1,245,298
	<u>23,274,902</u>	<u>23,115,622</u>	<u>125,721</u>	<u>46,516,245</u>	<u>24,417,474</u>	<u>20,688,411</u>	<u>248,425</u>	<u>45,354,310</u>
Forward position, net	(231,204)	270,864	(39,660)	-	(1,071,817)	1,127,898	(56,081)	-
Currency swaps position, net	(9,583)	9,583	-	-	1,685,088	(1,685,088)	-	-
Cross currency swaps position, net	(197,528)	197,528	-	-	(200,765)	200,765	-	-
Options position, net	(6,102)	6,102	-	-	(18,113)	18,113	-	-
Monetary position, net	<u>407,728</u>	<u>2,743,737</u>	<u>120,214</u>	<u>3,271,679</u>	<u>1,074,258</u>	<u>1,739,584</u>	<u>(23,903)</u>	<u>2,789,939</u>

Notes to the consolidated financial statements (continued)

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

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

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

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

Notes to the consolidated financial statements (continued)

26. Fair value of financial instruments

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

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

	As of December 31, 2016				As of December 31, 2015			
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Financial assets								
Trading securities	77,052	1,929	1,168	80,149	84,468	20,721	-	105,189
Available-for-sale investments								
Debt instruments	4,680,267	3,086,619	-	7,766,886	4,058,803	2,329,006	-	6,387,809
Mutual funds and investments participations	167,431	643,460	262,297	1,073,188	420,244	244,619	251,081	915,944
Shares of the private sector and of foreign entities and others	314,772	1,738	-	316,510	304,779	738	-	305,517
InRetail Perú Corp.	203,074	-	-	203,074	149,107	-	-	149,107
Royalty Pharma	-	-	68,264	68,264	-	-	229,001	229,001
Derivatives receivable	-	203,089	-	203,089	-	324,268	-	324,268
	<u>5,442,596</u>	<u>3,936,835</u>	<u>331,729</u>	<u>9,711,160</u>	<u>5,017,401</u>	<u>2,919,352</u>	<u>480,082</u>	<u>8,416,835</u>
Accrued interest				90,476				79,786
Total financial assets				<u>9,801,636</u>				<u>8,496,621</u>
Financial liabilities								
Derivatives payable	-	230,714	-	230,714	-	384,734	-	384,734

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

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

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

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

Notes to the consolidated financial statements (continued)

(b) Financial instruments not measured at their fair value

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

	As of December 31, 2016					As of December 31, 2015				
	Level 1	Level 2	Level 3	Fair Value	Book value	Level 1	Level 2	Level 3	Fair value	Book value
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Assets										
Cash and due from banks	-	11,761,803	-	11,761,803	11,761,803	-	12,431,785	-	12,431,785	12,431,785
Inter-bank funds	-	5,002	-	5,002	5,002	-	245,028	-	245,028	245,028
Held-to-maturity investments	204,275	401,024	-	605,299	611,293	-	440,645	-	440,645	479,561
Loan portfolio, net	-	27,032,989	-	27,032,989	27,025,865	-	26,572,466	-	26,572,466	25,994,235
Due from customers on acceptances	-	16,392	-	16,392	16,392	-	27,118	-	27,118	27,118
Other accounts receivable and other assets, net	-	565,933	-	565,933	565,933	-	469,901	-	469,901	469,901
Total	204,275	39,783,143	-	39,987,418	39,986,288	-	40,186,943	-	40,186,943	39,647,628
Liabilities										
Deposits and obligations	-	30,084,795	-	30,084,795	30,097,850	-	28,479,474	-	28,479,474	28,487,666
Inter-bank funds	-	332,255	-	332,255	332,255	-	-	-	-	-
Due to banks and correspondents	-	5,338,642	-	5,338,642	5,328,603	-	6,202,037	-	6,202,037	6,191,726
Bonds, notes and notes issued	4,125,439	937,437	-	5,062,876	4,769,390	4,125,385	996,524	-	996,524	4,925,413
Due from customers on acceptances	-	16,392	-	16,392	16,392	-	27,118	-	27,118	27,118
Insurance contract liabilities	-	5,010,513	-	5,010,513	5,010,513	-	4,477,089	-	4,477,089	4,477,089
Accounts payable and other liabilities	-	730,528	-	730,528	730,528	-	860,564	-	860,564	860,564
Total	4,125,439	42,450,562	-	46,576,001	46,285,531	4,125,385	41,042,806	-	41,042,806	73,457,242

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

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

Notes to the consolidated financial statements (continued)

27. Fiduciary activities and management of funds

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

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

28. Additional explanation for the English translation

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