

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of December 31, 2017 (unaudited)
and 2016 (audited) and for the years then ended

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2017 (unaudited) and December 31, 2016 (audited)

	Note	2017 S/(000)	2016 S/(000)		Note	2017 S/(000)	2016 S/(000)
Assets				Liabilities and equity			
Cash and due from banks:	3			Deposits and obligations:	8		
Non-interest bearing		2,966,649	2,628,115	Non-interest bearing		4,791,792	5,081,940
Interest bearing		6,265,149	5,869,583	Interest bearing		<u>27,815,845</u>	<u>25,015,910</u>
Restricted funds		<u>1,973,045</u>	<u>3,264,105</u>			32,607,637	30,097,850
		11,204,843	11,761,803				
Inter-bank funds		403,526	5,002	Inter-bank funds		30,008	332,255
Trading securities		216,008	80,149	Due to banks and correspondents	9	4,407,392	5,328,603
Available-for-sale investments	4(a)	15,459,660	9,518,398	Bonds, notes and other obligations	10	5,602,357	4,769,390
Held-to-maturity investments	4(h)	1,248,475	611,293	Due from customers on acceptances		41,715	16,392
				Insurance contract liabilities	11	10,839,435	5,010,513
				Accounts payable, provisions and other liabilities	7	1,301,919	1,162,064
				Deferred Income Tax liability, net		<u>11,233</u>	<u>3,946</u>
				Total liabilities		<u>54,841,696</u>	<u>46,721,013</u>
Loans, net:							
Loans, net of unearned interest		29,420,729	28,192,647	Equity, net	12		
Allowance for loan losses		<u>(1,216,561)</u>	<u>(1,166,782)</u>	Equity attributable to IFS's shareholders:			
		28,204,168	27,025,865	Capital stock		963,446	963,446
				Treasury stock		(467,200)	(522,106)
Investment property	6	1,118,608	745,185	Capital surplus		268,077	268,077
Property, plant and equipment, net		612,639	589,820	Reserves		3,700,000	2,600,000
Due from customers on acceptances		41,715	16,392	Unrealized results, net		446,370	16,358
Accounts receivable and other assets, net	7	2,104,709	1,331,174	Retained earnings		<u>889,850</u>	<u>1,553,336</u>
Deferred Income Tax asset, net		64,252	34,278			5,800,543	4,879,111
				Non-controlling interest		36,364	119,235
Total assets		<u>60,678,603</u>	<u>51,719,359</u>	Total equity, net		<u>5,836,907</u>	<u>4,998,346</u>
				Total liabilities and equity, net		<u>60,678,603</u>	<u>51,719,359</u>

Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the years ended December 31, 2017 (unaudited) and 2016 (audited)

	Note	2017 S/(000)	2016 S/(000)
Interest and similar income	14	3,809,020	3,704,812
Interest and similar expenses	14	(1,119,889)	(1,081,859)
Net interest and similar income		2,689,131	2,622,953
Provision for loan losses, net of recoveries	5(c)	(827,935)	(783,645)
Net interest and similar income after provision for loan losses, net of recoveries		1,861,196	1,839,308
Other income			
Fee income from financial services, net	15	910,770	862,447
Net gain on foreign exchange transactions		201,829	264,183
Net gain on sale of securities		182,604	103,338
Net trading income (loss)		18,443	(47,931)
Rental income		27,284	21,849
Gain on sale of investment property		-	2,655
Impairment loss on investment properties	6(c)	(1,878)	(1,380)
Others	16	133,944	98,614
Total other income		1,472,996	1,303,775
Insurance premiums and claims			
Net premiums earned	17	63,730	70,892
Net claims and benefits incurred for life insurance contracts and others	18	(412,276)	(318,200)
Total net premiums earned less claims and benefits		(348,546)	(247,308)
Other expenses			
Salaries and employee benefits	19	(714,582)	(711,358)
Administrative expenses	20	(820,498)	(776,318)
Depreciation and amortization		(145,162)	(130,118)
Impairment loss on available-for-sale investments	4(c)	(18,516)	(28,323)
Expenses related to rental income		(659)	(1,091)
Others	16	(137,766)	(101,045)
Total other expenses		(1,837,183)	(1,748,253)
Income before translation result and Income Tax		1,148,463	1,147,522
Translation result		15,898	20,062
Income Tax		(326,526)	(333,863)
Net profit for the year		837,835	833,721
Attributable to:			
IFS's shareholders		831,760	828,143
Non-controlling interest		6,075	5,578
		837,835	833,721
Earnings per share attributable to IFS's shareholders (stated in Soles)	21	7.793	7.641
Weighted average number of outstanding shares (in thousands)	21	106,736	108,384

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, 2017 (unaudited) and 2016 (audited)

	Note	2017 S/(000)	2016 S/(000)
Net profit for the year		837,835	833,721
Other comprehensive income			
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:			
Net gain on available-for-sale investments	12(e)	454,299	388,269
Net movement on cash flow hedges	12(e)	(1,356)	1,771
Exchange differences on translation of foreign operations	12(e)	(22,480)	(11,340)
		<hr/>	<hr/>
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods, net of Income Tax		430,463	378,700
		<hr/>	<hr/>
Total other comprehensive income for the period, net of Income Tax		1,268,298	1,212,421
		<hr/>	<hr/>
Attributable to:			
IFS's shareholders		1,261,772	1,205,896
Non-controlling interest		6,526	6,525
		<hr/>	<hr/>
		1,268,298	1,212,421
		<hr/>	<hr/>

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

InterCorp Financial Services Inc. and Subsidiaries

Consolidated statements of changes in equity

For the years ended December 31, 2017 (unaudited) and 2016 (audited)

	Number of shares		Attributable to IFS's shareholders											
	Issued (in thousands)	In treasury (in thousands)	Capital stock S/(000)	Treasury stock S/(000)	Capital Surplus S/(000)	Reserves S/(000)	Unrealized results, net, Note 12(d)				Retained earnings S/(000)	Total S/(000)	Non-controlling interest S/(000)	Total equity S/(000)
							Available-for- sale investments S/(000)	Cash flow hedges S/(000)	Exchange differences on translation of foreign operations S/(000)					
Balances as of January 1, 2016	113,110	(4,290)	963,446	(322,214)	268,077	2,000,000	(471,151)	(458)	110,214	1,797,637	4,345,551	115,380	4,460,931	
Net profit for the year	-	-	-	-	-	-	-	-	-	828,143	828,143	5,578	833,721	
Other comprehensive income	-	-	-	-	-	-	387,334	1,759	(11,340)	-	377,753	947	378,700	
Total other comprehensive income	-	-	-	-	-	-	387,334	1,759	(11,340)	828,143	1,205,896	6,525	1,212,421	
Declared and paid dividends, Note 12(a)	-	-	-	-	-	-	-	-	-	(496,862)	(496,862)	-	(496,862)	
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,623)	(2,623)	
Transfer from retained earnings to reserves, Note 12(f)	-	-	-	-	-	600,000	-	-	-	(600,000)	-	-	-	
Net variation of treasury stock held by Subsidiaries, Note 12(b)	-	(1,889)	-	(199,892)	-	-	-	-	-	-	(199,892)	-	(199,892)	
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	18,258	18,258	-	18,258	
Others	-	-	-	-	-	-	-	-	-	6,160	6,160	(47)	6,113	
Balances as of December 31, 2016	113,110	(6,179)	963,446	(522,106)	268,077	2,600,000	(83,817)	1,301	98,874	1,553,336	4,879,111	119,235	4,998,346	
Net profit for the year	-	-	-	-	-	-	-	-	-	831,760	831,760	6,075	837,835	
Other comprehensive income	-	-	-	-	-	-	453,829	(1,337)	(22,480)	-	430,012	451	430,463	
Total other comprehensive income	-	-	-	-	-	-	453,829	(1,337)	(22,480)	831,760	1,261,772	6,526	1,268,298	
Declared and paid dividends, Note 12(a)	-	-	-	-	-	-	-	-	-	(475,773)	(475,773)	-	(475,773)	
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,722)	(2,722)	
Transfer from retained earnings to reserves, Note 12(f)	-	-	-	-	-	1,100,000	-	-	-	(1,100,000)	-	-	-	
Net variation of treasury stock held by Subsidiaries, Note 12(b)	-	751	-	54,906	-	-	-	-	-	34,984	89,890	175	90,065	
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	24,081	24,081	161	24,242	
Purchase of non-controlling interest	-	-	-	-	-	-	-	-	-	22,426	22,426	(88,646)	(66,220)	
New non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	1,912	1,912	
Others	-	-	-	-	-	-	-	-	-	(964)	(964)	(277)	(1,241)	
Balances as of December 31, 2017	113,110	(5,428)	963,446	(467,200)	268,077	3,700,000	370,012	(36)	76,394	889,850	5,800,543	36,364	5,836,907	

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, 2017 (unaudited) and 2016 (audited)

	2017	2016
	S/(000)	S/(000)
Cash flows from operating activities		
Net profit for the year	837,835	833,721
Plus (minus)		
Provision for loan losses, net of recoveries	827,935	783,645
Depreciation and amortization	145,162	130,118
Provision for sundry risks	9,748	14,685
Deferred Income Tax	(4,375)	1,043
Net gain on sale of securities	(182,604)	(103,338)
Impairment loss on available-for-sale investments	18,516	28,323
Net trading (income) loss	(18,443)	47,931
Impairment loss on investment property	1,878	1,380
Translation result	(15,898)	(20,062)
Gain on sale of investment property	-	(2,655)
Decrease in accrued interest receivable	(69,790)	(23,371)
Increase in accrued interest payable	(15,887)	(7,648)
Net changes in assets and liabilities		
Increase in loans, net	(2,035,076)	(1,805,900)
(Decrease) increase in accounts receivables and other assets, net	448,918	(64,292)
Decrease in restricted funds	1,311,951	388,523
Increase in deposits and obligations	2,509,351	1,608,560
Decrease in due to banks and correspondents	(900,386)	(842,973)
Increase in accounts payable, provisions and other liabilities	990,294	721,195
Income Tax paid	(341,650)	(338,586)
Sale of trading securities, net	32,319	46,237
Net cash provided by operating activities	<u>3,549,798</u>	<u>1,396,536</u>

Consolidated statements of cash flows (continued)

	2017	2016
	S/(000)	S/(000)
Cash flows from investing activities		
Purchase of available-for-sale and held-to-maturity investments, net	(1,267,242)	(1,158,874)
Purchase of property, furniture and equipment	(106,516)	(79,835)
Purchase of intangible assets	(159,263)	(132,579)
Purchase of investment property	(124,089)	(56,833)
Sale of investment property	-	26,185
Acquisition of subsidiaries	(894,077)	-
Acquisition of non-controlling interest	(64,745)	-
Net cash used in investing activities	<u>(2,615,932)</u>	<u>(1,401,936)</u>
Cash flows from financing activities		
Net increase (decrease) in bonds, notes and other obligations	957,476	(88,375)
Net (increase) decrease in receivable inter-bank funds	(400,537)	240,026
Net (decrease) increase in payable inter-bank funds	(296,554)	332,255
Net sale (purchase) of treasury stock	89,890	(199,892)
Dividends payment	(475,773)	(496,862)
Dividends payment to non-controlling interest	(2,722)	(2,623)
Net cash used in financing activities	<u>(128,220)</u>	<u>(215,471)</u>
Net increase (decrease) in cash and cash equivalents	805,646	(220,871)
Translation loss on cash and cash equivalents	(72,380)	(63,243)
Cash and cash equivalents at the beginning of the year	<u>8,497,047</u>	<u>8,781,161</u>
Cash and cash equivalents at the end of the year (*)	<u>9,230,313</u>	<u>8,497,047</u>

(*) Does not include accrued interest earned on cash and due from banks for S/1,485,000 and S/651,000 as of December 31, 2017 and 2016, respectively.

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of December 31, 2017 (unaudited) and 2016 (audited)

1. Business activity and acquisition of Seguros Sura and Empresa Administradora Hipotecaria S.A

(a) Business activity

Intercorp Financial Services Inc., henceforth "IFS" or "the Company", is a limited liability holding company incorporated in the Republic of Panama in September 2006, and is a subsidiary of Intercorp Perú Ltd., henceforth "Intercorp Perú", a holding Company incorporated in 1997 in the Commonwealth of the Bahamas. As of December 31, 2017, Intercorp Perú held 79.12 percent of IFS's capital stock (79.78 percent of IFS's capital stock as of December 31, 2016).

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

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

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

The consolidated financial statements as of December 31, 2017 were approved by Board of Directors on February 14, 2018. The audited consolidated financial statements of IFS and Subsidiaries as of December 31, 2016 were approved by the General Shareholders' Meeting held on April 10, 2017.

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

In May 2017, IFS signed a Share Purchase Agreement with Sura Asset Management S.A. (Colombia), Sura Asset Management Perú S.A. (Peru) and Grupo Wiese (Peru), for the direct and indirect acquisition of up to 100 percent of the shares of Seguros Sura S.A. (henceforth "Seguros Sura") and Empresa Administradora Hipotecaria S.A. (henceforth the "Hipotecaria Sura"). The businesses that would be incorporated into IFS under the transaction were mainly retirement annuities and individual life insurance operations. This acquisition was realized through transfers made on November 2 and 22, 2017, as explained in the following paragraphs.

On November 2, the Company acquired 60.10 percent of the capital stock of Seguros Sura and 70 percent of the capital stock of Hipotecaria Sura. At the same date, Interseguro acquired 9.19 percent, approximately, of the capital stock of Seguros Sura.

Subsequently, on November 22, the Company acquired 30.10 percent, approximately, of the capital stock of Seguros Sura and 29.40 percent of the capital stock of Hipotecaria Sura. The acquisition of both percentages was performed through the acquisition of the companies Negocios e Inmuebles S.A. and Holding Retail Perú S.A.

Notes to the consolidated financial statements (continued)

The value paid by the Company and Interseguro, as a whole, amounted to approximately S/894,077,000 (US\$275,865,000) and was mainly financed by the issuance of a Corporate Bond made in October 2017, as explained in Note 10(f).

Following these transfers, the Company holds (directly and indirectly, through its Subsidiaries) 99.39 percent of the shareholding of Seguros Sura and 99.40 percent of the shareholding of Hipotecaria Sura.

The acquisition of Seguros Sura and Hipotecaria Sura was recorded in the consolidated financial statements of the Company in accordance with IFRS 3 “Business Combinations”, applying the purchase method of accounting; that is, reflecting the acquired assets and liabilities at their estimated fair value at the date of the acquisition, the intangible assets not recorded by the acquired companies as well as the resulting goodwill. The estimated fair values for the assets and liabilities of Seguros Sura and Hipotecaria Sura at the date of the acquisition (October 2017) are presented below:

	Total S/(000)
Assets	
Cash and due from banks	239,247
Trading securities	160,489
Investments available-for-sale	4,499,381
Investment property	251,212
Others	267,479
	<u>5,417,807</u>
Liabilities	
Deposits and obligations	(205)
Bonds, notes and other obligations	(9,823)
Insurance contract liabilities	(4,876,354)
Others	(67,831)
	<u>(4,954,212)</u>
Total net assets identified at fair value	463,595
Goodwill	285,600
Other assets, net	144,882
	<u>894,077</u>

(c) **Subsidiaries**

IFS's Subsidiaries are the following:

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

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

Notes to the consolidated financial statements (continued)

As of December 31, 2017 and 2016, Interbank had 272 and 282 offices, respectively, and a branch established in the Republic of Panama. Additionally, it holds 100 percent of the shares of the following Subsidiaries:

Entity	Activity
Interfondos S.A. Sociedad Administradora de Fondos	Manages mutual funds and investment funds.
Internacional de Títulos Sociedad Titulizadora S.A. - Intertítulos S.T.	Manages securitization funds.
Inversiones Huancavelica S.A.	Real estate activities.
Contacto Servicios Integrales de Créditos y Cobranzas S.A.	Collection services.
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities. In October 2017, this company was absorbed by Interbank. At the date of the merger, the assets and equity, net absorbed amounted to approximately S/5,546,000 and corresponded mainly to cash for S/4,627,000 and net fixed asset for S/580,000.
Compañía de Servicios Conexos - Expressnet S.A.C.	Services related to credit card transactions or products related to the brand “American Express”.
IBK DPR Securitizadora	A consolidated special purpose entity (SPE), through which Interbank issued negotiable long-term notes which matured in 2016.

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

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

As of December 31, 2017 and 2016, Interseguro controls the following Subsidiaries:

Entity	Activity
Centro Comercial Estación Central S.A.	Administration of "Centro Comercial Estación Central", located in downtown Lima; as of December 31, 2017 and 2016, Interseguro holds 75 percent of its shares.
Empresa Administradora Hipotecaria IS S.A.	Was incorporated in February 2014 in Peru; It does not have operations and it is under the process of liquidation. As of December 31, 2017 and 2016, Interseguro holds 100 percent of its shares and has a paid in capital of S/1.

Also, Interseguro holds contributions in Patrimonio Fideicometido D.S.093-2002-EF, Interproperties Perú (henceforth “Patrimonio Fideicometido – Interproperties Perú”), that is a structured entity, incorporated in April 2008, and in which several investors (related parties to the Group) contributed investment properties; each investor or investors have ownership of and specific control over the contributed investment property. For accounting purposes and under IFRS 10 “Consolidated financial statements” the assets included in said structure are considered “silos”, because they are ring-fenced parts of the wider structured entity (Patrimonio Fideicometido - Interproperties Perú). The Group has

Notes to the consolidated financial statements (continued)

ownership of and decision making power over these properties, and the Group has the exposure or rights to their returns; therefore, the Group has consolidated the silos containing the investment properties that it controls.

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

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

(iii) **Negocios e Inmuebles S.A. and Subsidiary (henceforth “NISA”)**

This company was acquired by IFS, as part of the acquisition of Seguros Sura and Hipotecaria Sura. It is entity mainly dedicated, directly or through its Subsidiary, to the management of investments in debt or capital securities, and real estate investments. As of December 31, 2017, IFS owns 98.01 percent of NISA’s capital stock and NISA holds 8.01 percent of shares of Seguros Sura. As of December 31, 2017, NISA controls the following Subsidiary:

Entity	Activity
Holding Retail Perú S.A. (henceforth “Holding Retail”)	Dedicated to the managing of investments in securities. It was constituted in May, 2011, in Peru. As of December 31, 2017, Holding Retail holds directly 22.69 percent of shares of Seguros Sura and 30 percent of shares of Hipotecaria Sura.

(iv) **Seguros Sura**

It is constituted in Peru and its operations comprise the contracting and managing of all kinds of life insurance, as well as the performing of investments in financial, real estate and related activities, to the extent permitted by the Bank and Insurance Act, and in accordance with the provisions issued by the SBS.

As of December 31, 2017, IFS holds 99.39 percent of shares of Seguros Sura. This shareholding includes a direct participation of 60.10 percent by the Company plus an indirect participation of 39.29 through its Subsidiaries (Interseguro, NISA and Holding Retail).

Notes to the consolidated financial statements (continued)

(v) Hipotecaria Sura

It is constituted in Peru and is authorized to operate as a specialized company. The Hipotecaria Sura's operations are governed by 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, 2017, IFS holds 99.40 percent of the shares of Hipotecaria Sura. This shareholding includes a direct participation of 70 percent by the Company plus an indirect participation of 29.40 through its subsidiary Holding Retail.

(vi) Inteligo Group Corp. and Subsidiaries

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

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

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

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

Notes to the consolidated financial statements (continued)

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

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries		Seguros Sura (*)	
	2017	2016	2017	2016	2017	2016	2017	2016
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Main captions of consolidated statements of financial position								
Cash and due from banks	10,655,090	10,966,505	71,713	84,225	377,486	757,929	124,848	-
Trading securities and available-for-sale investments	4,861,490	3,982,116	5,216,629	4,611,642	1,198,426	1,466,371	4,949,015	-
Held-to-maturity investments	1,248,474	611,293	-	-	-	-	-	-
Loans, net	26,869,700	25,331,312	-	-	1,334,573	1,695,421	-	-
Investment property	-	-	862,773	745,185	-	-	241,920	-
Total assets	45,554,532	42,402,877	6,468,404	5,795,908	3,013,892	4,014,633	5,470,297	-
Deposits and obligations	30,559,299	26,898,615	-	-	2,268,248	3,246,319	-	-
Due to banks and correspondents	4,386,724	5,259,484	20,568	1,847	100	67,271	-	-
Bonds, notes and other obligations	4,537,204	4,598,310	165,348	171,215	-	-	9,960	-
Insurance contract liabilities	-	-	5,596,098	5,010,513	-	-	4,909,237	-
Total liabilities	40,631,011	38,054,932	5,884,936	5,342,484	2,304,094	3,338,097	4,983,333	-
Equity attributable to IFS's shareholders	4,923,521	4,347,945	583,282	364,452	709,798	676,536	486,964	-
Non-controlling interest – equity	-	-	186	88,972	-	-	-	-
Main captions of consolidated income statements								
Net interest and similar income	2,300,986	2,269,576	281,428	278,540	96,083	92,729	41,961	-
Provision for loan losses, net of recoveries	(830,474)	(783,645)	-	-	2,539	-	-	-
Gain on sale and fair value adjustment loss of investment property	-	-	(5,604)	1,274	-	-	3,726	-
Fee income from financial services, net	836,149	789,619	(3,535)	(2,994)	116,927	116,862	(157)	-
Total net premiums earned minus claims and benefits	-	-	(285,490)	(247,308)	-	-	(63,056)	-
Impairment loss on available-for-sale investments	2,243	-	(5,353)	(28,323)	-	-	(143)	-
Net profit (loss) for the period attributable to IFS's shareholders	904,916	846,761	(123,351)	(114,788)	187,766	170,978	(21,092)	-
Non-controlling interest	-	-	(89)	(315)	-	-	-	-

(*) The main items of the consolidated income statements, correspond to two-month operations period since the acquisition date (november and december 2017).

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

3. Cash and due from banks

This caption is made up as follows:

	2017	2016
	S/(000)	S/(000)
Cash and clearing	2,073,062	1,545,638
Deposits in the Central Reserve Bank of Peru – BCRP	5,878,534	5,304,343
Deposits in banks	1,278,717	1,647,066
Restricted funds	<u>1,973,045</u>	<u>3,264,105</u>
	11,203,358	11,761,152
Accrued interest	<u>1,485</u>	<u>651</u>
Total	<u><u>11,204,843</u></u>	<u><u>11,761,803</u></u>

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

As of December 31, 2017, the “Cash and due from banks” caption of the consolidated statements of financial position includes approximately US\$1,912,638,000 and S/928,800,000 (US\$1,588,248,000 and S/856,453,000 as of December 31, 2016), which represent the legal reserve that Interbank must maintain for its deposits and obligations. These funds are kept in Interbank and BCRP vaults and are within the limits required by Peruvian regulations in force at those dates.

The legal reserve funds maintained at the BCRP are non-interest bearing, except for the part that exceeds the minimum reserve required. As of December 31, 2017, the excess in foreign currency amounted to approximately US\$306,993,000 equivalent to approximately S/994,964,000 and accrued interest at an annual average rate of 0.37 percent (US\$345,688,000, equivalent to approximately S/1,160,129,000, and an annual average rate of 0.18 percent as of December 31, 2016), whereas the excess amount in Soles amounted to approximately S/5,825,878,000 and accrued interest in Soles at an annual average rate of 0.05 percent (S/2,429,162,000 and an annual average rate of 1.05 percent as of December 31, 2016).

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

Notes to the consolidated financial statements (continued)

As of December 31, 2017 and 2016, the “Restricted Funds” caption is mainly comprised of deposits in the BCRP amounting to approximately US\$580,760,000 (equivalent to S/1,882,244,000) and US\$915,204,000 (equivalent to S/3,071,424,000), respectively, as a guarantee for loans received from this entity, see Note 9(b).

Furthermore, as of December 31, 2017 and 2016, this caption included restricted funds for approximately US\$29,152,000 (equivalent to S/94,481,000) and US\$58,027,000 (equivalent to S/194,737,000), respectively, which mainly correspond to requirements from counterparties of derivative transactions, see Note 7(d).

Notes to the consolidated financial statements (continued)

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

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

	2017				2016			
	Amortized Cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)	Amortized Cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)
		Gains S/(000)	Losses S/(000)			Gains S/(000)	Losses S/(000)	
Corporate, leasing and subordinated bonds	6,930,254	197,132	(54,115)	7,073,271	4,120,202	38,627	(158,492)	4,000,337
Peruvian Sovereign Bonds (e)	2,439,351	81,635	(29,896)	2,491,090	1,223,965	4,171	(90,732)	1,137,404
Negotiable Certificates of Deposit issued by BCRP (d)	1,933,640	2,328	(18)	1,935,950	1,709,845	2,523	(84)	1,712,284
Bonds guaranteed by the Peruvian Government	1,003,914	20,206	(6,727)	1,017,393	471,338	7,674	(5,962)	473,050
Mutual funds and investment funds participations	895,304	82,440	(21,427)	956,317	1,030,427	61,319	(18,558)	1,073,188
Global Bonds of the Republic of Peru (e)	478,144	1,410	(2,355)	477,199	163,778	-	(5,636)	158,142
Sovereign and Global Bonds of foreign countries	402,976	1,648	(2,480)	402,144	249,554	-	(3,350)	246,204
Indexed Certificates of Deposit issued by BCRP	169,002	-	(1,598)	167,404	39,414	51	-	39,465
Payable Certificates of Deposit issued by BCRP	21,446	-	1	21,447	-	-	-	-
Total	14,274,031	386,799	(118,615)	14,542,215	9,008,523	114,365	(282,814)	8,840,074
Listed shares								
Peruvian and foreign entities	504,835	17,624	(13,830)	508,629	297,132	26,232	(8,387)	314,977
InRetail Perú Corp. (f)	75,376	92,830	-	168,206	110,217	92,857	-	203,074
Non-listed shares and participations								
Royalty Pharma (g)	60,766	7,774	-	68,540	62,923	5,341	-	68,264
Others	936	670	-	1,606	968	694	(129)	1,533
	641,913	118,898	(13,830)	746,981	471,240	125,124	(8,516)	587,848
	14,915,944	505,697	(132,445)	15,289,196	9,479,763	239,489	(291,330)	9,427,922
Accrued interest				170,464				90,476
Total				15,459,660				9,518,398

Notes to the consolidated financial statements (continued)

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

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

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

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

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

Notes to the consolidated financial statements (continued)

- (c) As a result of the impairment assessment of its available-for-sale investments, the Group recorded an impairment amounting to S/18,516,000, during 2017 (S/28,323,000 during 2016), which is presented in the caption “Impairment loss on available-for-sale investments” of the consolidated income statements. The movement of available-for-sale investments unrealized results, net of deferred Income Tax and non-controlling interest, is presented in Note 12(d). As of December 31, 2017 and 2016, the detail of unrealized losses of debt instruments and mutual fund and investment participations classified as available-for-sale is as follows:

	2017			2016		
	Amortized cost S/(000)	Unrealized Gross gain S/(000)	Unrealized gross loss S/(000)	Amortized cost S/(000)	Unrealized Gross gain S/(000)	Unrealized gross loss S/(000)
Issuer						
Peruvian Sovereign Bonds	2,439,351	81,635	(29,896)	1,223,965	4,171	(90,732)
Banco de Crédito del Perú S.A.	180,064	420	(12,283)	184,420	176	(6,962)
Corporación Financiera de Desarrollo S.A.	284,048	6,808	(8,615)	182,340	33	(15,368)
Bonds guaranteed by the Peruvian Government	1,003,914	20,206	(6,727)	471,338	7,674	(5,962)
H2Olmos S.A.	173,838	35	(3,951)	115,247	18	(11,417)
Fibra Uno	177,271	2,016	(3,329)	105,709	-	(17,868)
Línea Amarilla S.A.C.	172,110	2,352	(2,715)	91,071	163	(8,670)
Global Bonds of the Republic of Peru	478,144	1,410	(2,355)	163,778	-	(5,636)
Export Import Bank of Korea	89,669	1,543	(2,081)	86,014	1,008	(4,825)
Mexico City Airport Trust S.A	85,173	-	(1,539)	66,251	-	(5,400)
Abengoa Transmisión Sur S.A.	256,075	4,446	(485)	162,526	3	(10,217)
Mexichem S.A.	149,071	4,180	(164)	49,043	-	(4,865)
Fermaca Enterprises S.R.L.	143,157	4,590	(78)	96,470	-	(4,410)
Edelnor S.A.A.	1,428	51	-	41,991	557	(4,117)
Vale Overseas Ltd.	27,966	716	-	94,645	-	(11,183)
Southern Perú Copper Corporation S.A.A.	138,956	22,419	-	164,918	4,237	(4,226)
G y M Ferrovías S.A.	235,878	11,206	-	141,176	-	(6,357)
Votorantim Cimentos S.A.	106,306	10,542	-	97,127	1,095	(6,314)
Rutas de Lima S.A.C.	277,685	16,331	-	183,751	651	(4,841)
Concesionaria La Chira S.A.	94,623	2,266	-	96,173	-	(4,104)
Instruments with individual losses / lower than S/4 million	4,955,073	28,866	(44,397)	3,691,144	11,900	(49,340)
	<u>11,469,800</u>	<u>222,038</u>	<u>(118,615)</u>	<u>7,509,097</u>	<u>31,686</u>	<u>(282,814)</u>

- (d) As of December 31, 2016, Interbank holds Negotiable Certificates of Deposit issued by BCRP amounting to approximately S/101,054,000 as a guarantee for loans received from this entity, Note 9(b), which matured in January 2017.
- (e) During 2016, Interbank participated in a securities exchange program carried out by the Peruvian Government, through which the Bank:
- Delivered Global and Sovereign Bonds amounting to US\$52,360,000 (equivalent to approximately S/178,128,000) and S/74,152,000, respectively, which had maturities between March 2019 and July 2025 and accrued interests at effective annual rates between 1.50 and 2.59 percent, and 4.8 percent, respectively; and
 - Received Sovereign Bonds amounting to S/249,863,000, with maturity in August 2028 and effective interest annual rates between 6.35 and 6.38 percent.
- (f) As of December 31, 2017 and 2016, the Company and Subsidiaries held approximately 2,473,621 and 3,125,000 shares, respectively, which represented 2.41 and 3.04 percent, respectively, of InRetail Peru Corp.’s capital stock (a related entity).

Notes to the consolidated financial statements (continued)

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

As of December 31, 2017 and 2016, the Group held 152,251 participations of RPI Partnership which fair values amounted to approximately US\$21,148,000 and US\$20,341,000, respectively (equivalent to approximately S/68,540,000 and S/68,264,000, 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 2017 and 2016, the Group received dividends from these participations for approximately S/4,467,000 and S/22,097,000, respectively, which are included in the “Interest and similar income” caption in the consolidated income statements.

- (h) As of December 31, 2017 and 2016, held-to-maturity investments are entirely comprised of Peruvian Sovereign Bonds amounting to S/1,248,475,000 and S/611,293,000, respectively, including accrued interests.

During 2017 and 2016, Interbank reclassified Peruvian Sovereign Bonds classified as available-for-sale investments into held-to-maturity investments. At the reclassification date, the carrying values amounted to approximately S/62,796,000 and S/129,548,000, and the unrealized gains and losses accumulated in the shareholders’ equity amounted to S/298,000 and S/220,000, respectively; the unrealized gains and losses will be transferred to future period’s results through the remaining term of the instruments. As a result of these transfers, Interbank has recorded as of December 31, 2017 and 2016 a net loss of approximately S/2,626,000 and S/2,537,000, respectively.

As of December 31, 2017, these investments have maturities between August 2020 and August 2037, have accrued interest at effective annual rates between 3.20 and 5.82 percent; and their estimated fair value amounts to approximately S/1,295,765,000 (these investments have maturities between August 2020 and August 2037, have accrued interest at effective annual rates between 5.34 and 6.33 percent; and their estimated fair value amounts to approximately S/605,299,000 as of December 31, 2016).

As of December 31, 2017, Interbank held Peruvian Sovereign Bonds for approximately S/362,644,000, including accrued interests, as guarantee for loans received from BCRP, see Note 9(b).

Notes to the consolidated financial statements (continued)

5. Loans, net

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Direct loans		
Loans	21,847,321	20,638,183
Credit cards	3,798,746	3,859,148
Leasing	1,706,745	1,771,512
Discounted notes	547,857	407,435
Factoring	162,598	201,894
Advances and overdrafts	57,774	39,483
Refinanced loans	273,448	296,485
Past due and under legal collection loans	<u>794,655</u>	<u>693,320</u>
	29,189,144	27,907,460
Plus (minus)		
Accrued interest from performing loans	286,543	311,695
Unearned interest and interest collected in advance	(54,958)	(26,508)
Allowance for loan losses (c)	<u>(1,216,561)</u>	<u>(1,166,782)</u>
Total direct loans, net	<u>28,204,168</u>	<u>27,025,865</u>
Indirect loans	<u>4,288,672</u>	<u>4,450,470</u>

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

	2017 S/(000)	2016 S/(000)
Commercial loans	13,545,195	13,407,913
Consumer loans	9,187,000	8,888,561
Mortgage loans (*)	5,770,846	5,041,107
Small and micro-business loans	<u>686,103</u>	<u>569,879</u>
Total	<u>29,189,144</u>	<u>27,907,460</u>

(*) In October 2017, Interbank acquired a portfolio of mortgage loans from Seguros Sura and Hipotecaria Sura for approximately S/221,533,000. At the date of the acquisition, the gross value of the loan portfolio amounted to approximately S/262,119,000, allowance for loan losses amounted to S/14,443,000 and deferred income amounted to S/26,143,000.

Notes to the consolidated financial statements (continued)

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

	2017 S/(000)	2016 S/(000)
Beginning balances	1,190,758	1,065,192
Provision	827,935	783,645
Recovery of written-off loans	128,136	119,064
Written-off loans	(844,079)	(760,021)
Purchase of loan portfolio (b)	14,443	156
Sale of loan portfolio	(13,625)	(2,638)
Translation result	(9,514)	(5,117)
Others	<u>(24,648)</u>	<u>(9,523)</u>
Ending balances (*)	<u>1,269,406</u>	<u>1,190,758</u>

(*) The allowance for loan losses includes the allowance for direct and indirect loans amounting to S/1,216,561,000 and S/52,845,000, respectively, as of December 31, 2017 (S/1,166,782,000 and S/23,976,000, as of December 31, 2016, respectively). The allowance for loan losses for indirect loans is presented in the “Accounts payable, provisions and other liabilities” caption of the consolidated statements of financial position; see Note 7(a).

In Management’s opinion, the allowance for loan losses recorded as of December 31, 2017 and 2016, has been established in accordance with IAS 39 and it is sufficient to cover incurred losses on the loan portfolio.

Notes to the consolidated financial statements (continued)

6. Investment property

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)	Acquisition or construction year	Hierarchy level (i)	Valuation methodology	
					2017	2016
Land -						
San Isidro – Lima	240,715	255,431	2008	Level 3	Appraisal	Appraisal
San Martín de Porres – Lima	63,299	60,008	2015	Level 3	Appraisal	Appraisal
Miraflores – Lima	72,421	-	2017	Level 3	Appraisal	-
Piura	40,142	39,889	2009	Level 3	Appraisal	Appraisal
Arequipa (b)	26,323	-	2017	Level 3	Appraisal	-
Sullana	25,419	25,008	2014	Level 3	Appraisal	Appraisal
Chorrillos - Lima	24,798	-	2017	Level 3	DCF	-
Cusco	23,794	-	2017	Level 3	DCF	-
Chimbote	9,399	8,710	2015	Level 3	Appraisal	Appraisal
Santa Clara – Lima (b)	9,937	-	2017	Level 3	Appraisal	-
Others	15,464	15,512	-	Level 3	Appraisal	Appraisal
	<u>551,711</u>	<u>404,558</u>				
Completed investment property						
Shopping Malls "Real Plaza" -						
Pucallpa	190,676	218,799	2014	Level 3	DCF	DCF
Talara	37,932	40,060	2015-2016	Level 3	DCF	DCF
	<u>228,608</u>	<u>258,859</u>				
Buildings -						
San Isidro – Lima (b)	133,230	-	2017	Level 3	DCF	-
Ate Vitarte – Lima	57,781	45,865	2006	Level 3	DCF	DCF
Huancayo (b)	30,510	-	2017	Level 3	DCF	-
Panorama – Lima	20,653	20,724	2016	Level 3	DCF	DCF
Trujillo	15,369	10,166	2016	Level 3	DCF	DCF
Cercado de Lima (b)	11,577	-	2017	Level 3	DCF	-
La Victoria – Lima (b)	10,058	-	2017	Level 3	DCF	-
San Isidro – Lima (b)	6,959	-	2017	Level 3	DCF	-
Barranca (b)	6,428	-	2017	Level 3	DCF	-
Pardo y Aliaga – Lima	3,310	3,596	2010	Level 3	DCF	DCF
Ica	3,526	-	2017	Level 3	Cost	-
	<u>299,401</u>	<u>80,351</u>				
Built on leased land -						
San Juan de Lurigancho – Lima (b)	37,726	-	-	Level 3	DCF	-
Others	1,162	1,417	-	Level 3	DCF	DCF
	<u>38,888</u>	<u>1,417</u>				
Total	<u>1,118,608</u>	<u>745,185</u>				

DCF: Discounted cash flow

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

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

Notes to the consolidated financial statements (continued)

(b) Corresponds mainly to Investment property included in the consolidated financial statements as part of the acquisition of Seguros Sura, made in November 2017, for S/251,212,000; see Note 2.

(c) The movement of investment property for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
	S/(000)	S/(000)
Beginning balances	745,185	713,262
Additions	124,089	56,833
Acquisition of Seguros Sura S.A.	251,212	-
Sales	-	(23,530)
Impairment loss	(1,878)	(1,380)
Ending balances	<u>1,118,608</u>	<u>745,185</u>

Notes to the consolidated financial statements (continued)

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

(a) These captions are comprised of the following:

	2017 S/(000)	2016 S/(000)
Accounts receivable and other assets		
Financial instruments		
Other accounts receivable, net	292,070	210,446
Assets for technical reserves for claims and premiums by reinsurers	124,441	128,168
Accounts receivable related to derivative financial instruments (d)	94,668	203,089
Operations in process (c)	67,783	37,429
Accounts receivable from sale of investments	60,892	147,655
Insurance operations receivables, net	50,745	19,407
Accounts receivable from reinsurers and coinsurers	36,427	28,936
Credit card commissions receivable	14,551	14,845
Total	<u>741,577</u>	<u>789,975</u>
Non-financial instruments		
Intangible assets, net (e)	1,114,154	267,401
Deferred charges	79,364	53,884
Investments in associates	55,993	51,777
Value Added Tax credit (b)	50,571	86,213
Prepaid Income Tax	44,429	55,178
Prepaid rights to related entity, Note 22(g)	10,876	14,532
Others	7,745	12,214
	<u>1,363,132</u>	<u>541,199</u>
Total	<u>2,104,709</u>	<u>1,331,174</u>
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	502,926	377,828
Operations in process (c)	148,483	116,273
Accounts payable related to derivative financial instruments (d)	133,921	236,137
Workers' profit sharing and salaries payable	114,084	110,549
Accounts payable for investments purchases	96,804	50,528
Accounts payable to reinsurers and coinsurers	58,561	51,468
Allowance for indirect loan losses, Note 5(d)	52,845	23,976
	<u>1,107,624</u>	<u>966,759</u>
Non-financial instruments		
Taxes payable	65,261	52,144
Deferred income	54,161	57,254
Provision for other contingencies	52,914	32,383
Others	21,959	53,524
	<u>194,295</u>	<u>195,305</u>
Total	<u>1,301,919</u>	<u>1,162,064</u>

Notes to the consolidated financial statements (continued)

- (b) Corresponds to the Value-Added Tax resulting from the purchase of goods devoted mostly to grant financial leasing loans, which is recovered through the collection of the loans.
- (c) Operations in process include transactions performed in the last days of the month and other similar types of transactions which are reclassified to their final balance sheets accounts in the following month. These transactions do not affect the consolidated results.
- (d) The following table presents, as of December 31, 2017 and 2016, the fair value of derivative financial instruments recorded as assets or liabilities, including their notional amounts. The notional amount is the nominal amount of the derivative's underlying asset and it is the base over which changes in the fair value of derivatives are measured.

	2017			Maturity	2016			Maturity	2017 and 2016 Hedged Instruments
	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)		Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)		
Derivatives held for trading (i) -									
Forward exchange contracts	22,221	17,138	5,473,643	Between January 2018 and October 2018	45,115	20,741	3,961,083	Between January 2017 and March 2018	
Interest rate swaps	16,463	11,937	2,220,102	Between February 2018 and December 2029	25,958	18,263	2,761,079	Between December 2017 and December 2029	
Currency swaps	51,697	47,405	989,181	Between January 2018 and January 2025	129,737	121,655	1,464,297	Between January 2017 and January 2025	
Options	6	1,587	227,647	Between January 2018 and April 2018	432	924	192,573	Between January 2017 and July 2017	
Cross currency swaps	-	51,669	190,759	January 2023	-	74,554	197,528	January 2023	
	<u>90,387</u>	<u>129,736</u>	<u>9,101,332</u>		<u>201,242</u>	<u>236,137</u>	<u>8,576,560</u>		
Derivatives held as hedges -									
Cash flow hedges:									
Interest rate swaps (IRS), Note 9d(i)	217	-	162,050	January 2018	499	-	167,800	January 2018	Due to banks
Interest rate swaps (IRS), Note 9d(ii)	1,036	-	162,050	October 2018	967	-	167,800	October 2018	Due to banks
Interest rate swaps (IRS), Note 9d(iii)	675	-	129,640	August 2018	381	-	134,240	August 2018	Due to banks
Cross currency swaps (CCS), Note 10 (e)	-	2,104	32,410	October 2020	-	-	-	-	Senior bonds
Cross currency swaps (CCS), Note 10 (e)	-	2,081	32,410	October 2020	-	-	-	-	Senior bonds
Principal Only Swap, Note 10(f)	2,353	-	486,150	October 2027	-	-	-	-	Senior bonds
	<u>4,281</u>	<u>4,185</u>	<u>518,560</u>		<u>1,847</u>	<u>-</u>	<u>469,840</u>		
	<u>94,668</u>	<u>133,921</u>	<u>9,619,892</u>		<u>203,089</u>	<u>236,137</u>	<u>9,046,400</u>		

As of December 31, 2017, certain derivative financial instruments required the establishment of collateral deposits, for approximately US\$27,798,000 (equivalent to S/90,093,000) and US\$57,252,000 equivalent to S/192,137,000, as of December 31, 2016, see Note 3.

- (i) Derivatives held for trading are traded mainly to cover clients' needs. The Group may also take positions with the expectation of profiting from favorable movements in prices or rates. Also, this caption includes any derivatives which do not comply with IAS 39 hedging accounting requirements.
- (e) As of December 31, 2017, includes i) net intangible assets, identified in the acquisition of Seguros Sura, minus their amortization and ii) the goodwill generated in the acquisition.

Notes to the consolidated financial statements (continued)

8. Deposits and obligations

(a) This caption is made up as follows:

	2017	2016
	S/(000)	S/(000)
Time deposits	11,562,024	10,099,575
Demand deposits	10,364,653	9,586,985
Saving deposits	9,092,846	8,915,374
Compensation for service time	1,582,278	1,490,213
Other obligations	<u>5,836</u>	<u>5,703</u>
Total	<u>32,607,637</u>	<u>30,097,850</u>

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

(c) As of December 31, 2017 and 2016, approximately S/8,689,589,000 and S/8,269,694,000, respectively, of deposits and obligations are covered by the Peruvian Deposit Insurance Fund.

Notes to the consolidated financial statements (continued)

9. Due to banks and correspondents

(a) This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)
By type		
Central Reserve Bank of Peru (b)	2,205,423	3,048,412
Promotional credit lines (c)	1,441,931	1,610,588
Loans received from foreign entities (d)	712,777	620,106
Loans received from Peruvian entities	<u>20,668</u>	<u>1,847</u>
	4,380,799	5,280,953
Interest and commissions payable	<u>26,593</u>	<u>47,650</u>
Total	<u>4,407,392</u>	<u>5,328,603</u>
By term -		
Short term	2,447,091	1,808,495
Long term	<u>1,960,301</u>	<u>3,520,108</u>
Total	<u>4,407,392</u>	<u>5,328,603</u>

(b) As of December 31, 2017 and 2016, corresponds to currency repurchase operations according to which Interbank receives Soles for approximately S/1,880,200,000 and S/2,948,500,000, respectively, and delivers US dollars to the BCRP (for an amount equivalent to the one received). The US dollars delivered are recorded as restricted funds, see Note 3. As of December 31, 2017, these obligations have maturities between April 2018 and June 2019 and bear an effective interest rate of 3.00 and 6.38 percent; these operations accrued interest payable for approximately S/10,761,000 (with maturities between January 2017 and March 2019 and bear an effective interest rate of 3.00 and 6.38 percent; these operations accrued interest payable for approximately S/41,531,000 as of December 31, 2016).

Furthermore as of December 31, 2017 and 2016, corresponds to security repurchase operations according to which Interbank receives Soles for approximately S/325,221,000 and these operations are guaranteed by Peruvian Sovereign Bonds, see Note 4. As of December 31, 2017, these operations have maturities between June 2018 and July 2020 and bear an effective interest rate of 4.05 and 4.72 percent for approximately S/7,629,000 (Interbank receives Soles for approximately S/99,912,000 and delivers Negotiable Certificates of Deposit issued by the BCRP, this operation was settled in January 2017 and bear an effective interest rate of 4.58 percent for approximately S/13,000, as of December 31, 2016).

(c) The promotional credit lines represent loans in Soles and US dollars received from Corporación Financiera de Desarrollo (COFIDE) with the purpose of promoting development in Peru. These liabilities are guaranteed with the loan portfolio up to the used amount and include specific terms on how the funds should be used, the financial conditions that must be maintained and other administrative matter. In Management's opinion, the Group is complying with all these requirements. As of December 31, 2017, these loans accrued an effective

Notes to the consolidated financial statements (continued)

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

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

Bank	Country	Maturity	2017 S/(000)	2016 S/(000)
Corporación Andina de Fomento	Multilateral	2018	243,075	-
HSBC Bank PLC (i)	United Kingdom	2018	162,050	167,800
Wells Fargo Bank & Co. (ii)	United States of America	2018	162,050	167,800
JP Morgan Chase & Co. (iii)	United States of America	2018	129,640	134,240
Bladex	Multilateral	2018	15,962	49,586
Bank J. Safra Sarasin	Switzerland	April 2017	-	67,120
Sumitomo Bank	United States of America	December 2017	-	33,560
			<u>712,777</u>	<u>620,106</u>

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

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

Notes to the consolidated financial statements (continued)

10. Bonds, notes and other obligations

(a) This caption is comprised of the following:

	Issuer	Annual interest rate	Interest payment	Maturity	Amount issued (000)	2017 S/(000)	2016 S/(000)
Local issuances							
Subordinated bonds							
Second (B series)	Interbank	9.50%	Semiannually	2023	US\$30,000	89,977	100,680
Third (A series)	Interbank	3.5% + VAC (*)	Semiannually	2023	S/110,000	70,000	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	48,972	50,709
Eighth (A series)	Interbank	6.91%	Semiannually	2022	S/137,900	137,125	137,184
Second, first tranche	Interseguro	6.97%	Semiannually	2024	US\$35,000	113,435	117,460
Second, second tranche	Interseguro	6.00%	Semiannually	2024	US\$15,000	48,615	50,340
First	Seguros Sura	6.67%	Quarterly	December 2018	US\$3,000	9,723	-
						<u>521,147</u>	<u>569,673</u>
Subordinated bonds (b)							
Second (A series)	Interbank	5.81%	Semiannually	2023	S/150,000	149,729	149,684
Third (A series)	Interbank	7.50%	Semiannually	2023	US\$50,000	155,192	167,360
						<u>304,921</u>	<u>317,044</u>
Total local issuances						<u>826,068</u>	<u>886,717</u>
International issuances							
Subordinated bonds (c)	Interbank	6.625%	Semiannually	2029	US\$300,000	966,729	1,000,573
Junior subordinated notes (d)	Interbank	8.50%	Semiannually	2070	US\$200,000	643,314	664,153
Senior bonds (e) – first issuance	Interbank	5.75%	Semiannually	2020	US\$400,000	1,282,083	1,335,970
Senior bonds (e) – second issuance	Interbank	5.75%	Semiannually	2020	US\$250,000	827,482	780,328
Senior bonds (f)	IFS	4.125%	Semiannually	2027	US\$300,000	957,476	
Total international issuances						<u>4,677,084</u>	<u>3,781,024</u>
Total local and international issuances						<u>5,503,152</u>	<u>4,667,741</u>
Interest payable						<u>99,205</u>	<u>101,649</u>
Total						<u>5,602,357</u>	<u>4,769,390</u>

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

Notes to the consolidated financial statements (continued)

- (b) Subordinated bonds do not have specific guarantees and in accordance to SBS rules they qualify as second level equity (Tier 2), see Note 12(g).
- (c) Starting in March 2024, the applicable interest rate will be a floating rate of 3-month Libor for US dollars deposits plus 576 basis points payable quarterly. Starting on that date and on any interest payment date, Interbank can redeem all the notes without penalties.

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

As of December 31, 2017, Management does not intend to redeem these bonds before their maturity date.

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

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

As of December 31, 2017, Management does not intend to redeem these bonds before their maturity date.

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

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

As of December 31, 2017, Management does not intend to redeem these bonds before their maturity date.

- (f) In October 2017, the Company issued Senior bonds for US\$300,000,000. Proceeds from the issuance were used mainly to finance the acquisition of Seguros Sura and Hipotecaria Sura.
- (g) International issuances are listed at the Luxembourg Stock Exchange. On the other hand, local and international issuances have financial and operating covenants, which, in Management's opinion, do not limit its operations. The Group has complied with financial and operating covenants as of the dates of the consolidated statements of financial position.

Notes to the consolidated financial statements (continued)

11. Insurance contract liabilities

(a) This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)
Technical reserves (b)	10,598,820	4,838,260
Claims reserves (c)	<u>240,615</u>	<u>172,253</u>
Total	<u>10,839,435</u>	<u>5,010,513</u>
By term -		
Short term	583,692	452,055
Long term	<u>10,255,743</u>	<u>4,558,458</u>
Total	<u>10,839,435</u>	<u>5,010,513</u>

Notes to the consolidated financial statements (continued)

(b) The movement of technical reserves disclosed by type of insurance for the years ended December 31, 2017 and 2016, is as follows:

	2017					2016				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year 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
Insurance subscriptions	419,305	-	3,064	27,941	450,310	425,895	-	3,953	27,631	457,479
Sura Acquisition, Note 1(b)	4,212,148	537,442	363,013	-	5,112,603	-	-	-	-	-
Acquisition of Mapfre, Note 1(c)	181,849	855	-	(28,986)	153,718	-	-	-	-	-
Time passage adjustments (*)	82,352	12,754	21,555	-	116,661	68,318	(935)	30,996	(22,523)	75,856
Maturities and recoveries	-	-	(9,596)	-	(9,596)	-	-	(10,879)	-	(10,879)
Exchange differences	(57,514)	-	(5,609)	(13)	(63,136)	(29,734)	-	(2,299)	103	(31,930)
End of year balances	9,364,311	672,643	525,384	36,482	10,598,820	4,526,171	121,592	152,957	37,540	4,838,260

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

	2017				2016			
	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Interest rate effect	195,619	-	-	195,619	116,468	-	-	116,468
Aging insured population effect	(108,150)	21,555	-	(86,595)	(78,202)	30,996	(22,523)	(69,729)
Inflation and other effects	7,637	-	-	7,637	29,117	-	-	29,117
Time passage adjustments	95,106	21,555	-	116,661	67,383	30,996	(22,523)	75,856

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

(c) Below is the balance of technical reserves for outstanding claims (according to the type of insurance) as of December 31, 2017 and 2016:

	2017					2016				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Reported claims	1,492	128,792	39,342	10,047	179,673	991	87,813	25,679	8,603	123,086
IBNR	-	42,583	18,085	274	60,942	-	36,249	12,443	475	49,167
	1,492	171,375	57,427	10,321	240,615	991	124,062	38,122	9,078	172,253

Notes to the consolidated financial statements (continued)

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

2017					
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year balances	991	124,062	38,122	9,078	172,253
Claims	354,411	(26,160)	30,925	15,288	374,464
Seguros Sura Acquisition, Note 1(b)	-	105,923	13,747	981	120,651
Adjustments to prior years claims	-	51,205	13,856	(8,351)	56,710
Payments	(353,900)	(83,886)	(39,034)	(6,618)	(483,438)
Exchange difference	(10)	231	(189)	(57)	(25)
End of year balances	1,492	171,375	57,427	10,321	240,615
2016					
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year balances	655	93,361	26,336	9,003	129,355
Claims	251,911	75,342	35,441	12,710	375,404
Adjustments to prior years claims	-	60,606	12,991	5,685	79,282
Payments	(251,568)	(105,246)	(36,602)	(18,287)	(411,703)
Exchange difference	(7)	(1)	(44)	(33)	(85)
End of year balances	991	124,062	38,122	9,078	172,253

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

Notes to the consolidated financial statements (continued)

12. Equity

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

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

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

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

(b) Treasury stock held by Subsidiaries -

As of December 31, 2017, the Group holds approximately 5,428,000 shares issued by IFS with a total cost of S/467,200,000 (as of December 31, 2016, the Group holds approximately 6,179,000 shares issued by IFS with a total cost of S/522,106,000).

At the date of this report (February 2018), the Group holds approximately 2,419,000 shares issued by IFS with a total cost of S/208,178,000.

Stock buyback program

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

In this sense, since June 2016 and while the program was in effect, IFS and its Subsidiaries bought 2,392,000 shares with a total cost of S/252,942,000.

On August 09, 2017, the Board of Directors resolved to cancel the program for the acquisition of own issuance shares.

(c) Capital surplus -

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

Notes to the consolidated financial statements (continued)

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

	Unrealized gain (loss)			Total S/(000)
	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Exchange differences on translation of foreign operations S/(000)	
Balances as of January 1, 2016	(471,151)	(458)	110,214	(361,395)
Unrealized gain from available-for-sale investments, net of unrealized loss	405,349	-	-	405,349
Transfer to realized gain from available-for-sale investments, net of realized loss	(48,875)	-	-	(48,875)
Transfer of impairment loss of available-for-sale investments to consolidated income statements	28,323	-	-	28,323
Foreign currency translation	-	-	(11,340)	(11,340)
Others, net	2,537	1,759	-	4,296
Balances as of December 31, 2016	(83,817)	1,301	98,874	16,358
Sura Acquisition	(15,316)	-	-	(15,316)
Unrealized gain from available-for-sale investments, net of unrealized loss	558,410	-	-	558,410
Transfer to realized gain from available-for-sale investments, net of realized loss	(113,306)	-	-	(113,306)
Transfer of impairment loss of available-for-sale investments to consolidated income statements	20,759	-	-	20,759
Foreign currency translation	-	-	(22,480)	(22,480)
Others, net	3,282	(1,337)	-	1,945
Balances as of December 31, 2017	370,012	(36)	76,394	446,370

Notes to the consolidated financial statements (continued)

(e) Components of other comprehensive income -

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

	2017 S/(000)	2016 S/(000)
Available-for-sale investments:		
Seguros Sura Acquisition	(15,316)	-
Unrealized gain from available-for-sale investments	558,410	405,349
Transfer to realized gain from available-for-sale investments, net of realized loss	(113,306)	(48,875)
Transfer of impairment loss from available-for-sale investments to consolidated income statements, Note 4(c)	20,759	28,323
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	3,282	2,537
Subtotal	<u>453,829</u>	<u>387,334</u>
Non-controlling interest	<u>470</u>	<u>935</u>
Total	<u>454,299</u>	<u>388,269</u>
Cash flow hedges:		
Net unrealized loss from cash flow hedges	(1,477)	1,111
Transfer of net realized loss from cash flow hedge to consolidated income statements	<u>140</u>	<u>648</u>
Sub total	(1,337)	1,759
Non-controlling interest	<u>(19)</u>	<u>12</u>
Total	<u>(1,356)</u>	<u>1,771</u>
Foreign currency translation reserve	<u>(22,480)</u>	<u>(11,340)</u>
Total other comprehensive income for the year	<u>430,463</u>	<u>378,700</u>

(f) Reserves

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

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

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

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

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

Notes to the consolidated financial statements (continued)

Central Bank of the Bahamas. The regulatory capital required for Interbank, Interseguro and Inteligo Bank is detailed below:

Regulatory capital of the peruvian financial system's companies -

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

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

	Interbank		Hipotecaria Sura
	2017 S/(000)	2016 S/(000)	2017 S/(000)
Total risk weighted assets and credits	37,745,504	35,475,270	4,289
Total regulatory capital	6,066,349	5,638,867	11,171
Basic regulatory capital (Level 1)	4,250,426	3,789,347	11,171
Supplementary regulatory capital (Level 2)	1,815,923	1,849,520	-
Global capital to regulatory capital ratio	16.07%	15.90%	260.45%

As of December 31, 2017 and 2016, Interbank and Hipotecaria Sura have complied with SBS Resolutions No.2115-2009, No.6328-2009, No.14354-2009 and No.4128-2014, "Regulations for the Regulatory Capital Requirement for Operational Risk", "Market Risk" and "Credit Risk", respectively, as amended. These resolutions establish, mainly, the methodologies to be applied by financial entities to calculate the assets and credits weighted per type of risk.

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

Also, said resolution establishes a gradual adequacy period of five years, starting in July 2012. As of December 31, 2017 and 2016, the percentage of adequacy required by the SBS is 100 percent, therefore the additional regulatory capital estimated by Interbank amounts to approximately S/710,314,000 and S/657,852,000, respectively. As of December 31, 2017, the additional regulatory capital estimated by Hipotecaria Sura amounts to approximately S/680,000.

Notes to the consolidated financial statements (continued)

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

Regulatory capital of the peruvian insurance companies -

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

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

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

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

	Interseguro		Seguros Sura
	2017	2016	2017
	S/ (000)	S/ (000)	S/ (000)
Regulatory capital	549,281	584,755	488,262
Less:			
Solvency equity (solvency margin)	301,671	297,661	231,720
Guarantee fund	105,585	104,181	81,102
Surplus	142,026	182,913	175,440

Inteligo Bank's regulatory capital -

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

	2017	2016
	US\$(000)	US\$(000)
Total eligible capital	212,459	187,497
Total risk weighted assets	652,229	764,520
Capital adequacy ratio (in percentage)	32.57%	24.52%

Notes to the consolidated financial statements (continued)

13. Tax situation

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

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

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

- (b) Legal entities or individuals not domiciled in Peru are subject to an additional tax on dividends received from entities domiciled in Peru. The corresponding tax is withheld by the entity that distributes the dividends. In this regard, since IFS controls the entities that distribute the dividends, it recognizes the amount of the additional Income Tax as expense of the financial year of the dividends. In this sense, as of December 31, 2017 and 2016, the Company has recorded expenses for S/23,677,000 and S/29,375,000, respectively, included in the caption “Income Tax” of the consolidated income statements.

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

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

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

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

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

Notes to the consolidated financial statements (continued)

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

The years subject to review by SUNAT for the main Subsidiaries of IFS established in Peru are presented below:

	Income Tax	Value-Added Tax
Interbank	2012 to 2017	2012 to 2017
Interseguro	2012 to 2017	2012 to 2017
Seguros Sura	2012 to 2017	2012 to 2017
Hipotecaria Sura	2012 to 2017	2012 to 2017
Holding Retail	2012 to 2017	2012 to 2017
Negocios e Inmuebles S.A.	2015 to 2017	2015 to 2017

On the other hand, on April 2004, June 2006, February, June and November 2007, October 2008 and December 2010, Interbank was notified with Tax Assessments and Fine Imposing Resolutions regarding mainly the assessments of the Income Tax years 2000 to 2006, for which it filed Tax Claims and Tax Appeals. In March 2009, August 2010 and December 2011, the Tax Authority issued Intendancy Resolutions regarding tax years 2000 to 2006 for which Interbank filed the corresponding appeals. In December 2014, the Tax Authority declared as partially founded the appeal filed by the Bank corresponding to the 2001 Income Tax. On the part not accepted by SUNAT, Interbank filed a new appeal. In February 2016, the Tax Authority declared as partially founded the case concerning to the 2001 Income Tax. In February 2017, the Lima's Superior Court of Justice declared invalid the judgment in first instance ordering the judge to re-issue a new decision about the case concerning to the 2002 Income Tax. In September 2017, the Tax Authority declared as partially founded the case concerning to the 2004 Income Tax.

Also, for the periods 2012 and 2013, Interbank is in the process of auditing by SUNAT. In the opinion of Management and its legal advisors, any possible additional tax assessment would not have any material consequences on the Bank's financial statements as of December 31, 2017 and 2016.

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

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

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

Since tax regulations are subject to interpretation by SUNAT, it is not possible to determine to date whether such tax audits procedures would result in additional liabilities for the Group's Subsidiaries or not. Therefore, any unpaid tax, penalties or interest that might result from said audit procedures will be recorded as expenses

Notes to the consolidated financial statements (continued)

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, 2017 and 2016.

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

Notes to the consolidated financial statements (continued)

14. Interest and similar income and expenses

This caption is comprised of the following:

	2017	2016
	S/(000)	S/(000)
Interest and similar income		
Interest and fees on loan portfolio	3,201,545	3,184,336
Interest on available-for sale investments	557,997	463,369
Interest on due from banks and inter-bank funds	30,057	20,537
Other interest and similar income	19,421	36,570
Total	<u>3,809,020</u>	<u>3,704,812</u>
Interest and similar expenses		
Interest and fees on deposits and obligations	534,211	461,959
Interest on bonds, notes and other obligations	315,758	320,986
Interest and fees on obligations with financial institutions	222,406	255,268
Deposit insurance fund fees	37,304	35,165
Other interest and similar expenses	10,210	8,481
Total	<u>1,119,889</u>	<u>1,081,859</u>

Notes to the consolidated financial statements (continued)

15. Fee income from financial services, net

This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)
Income		
Maintenance and mailing of accounts, transfer fees and commissions on credit and debit card services	593,154	561,843
Commissions for banking services	147,336	137,364
Funds management fees	139,215	131,975
Fees for indirect loans	60,205	60,249
Collection services fees	32,792	30,205
Brokerage and custody services fees	11,638	13,204
Others	<u>27,207</u>	<u>29,240</u>
Total	<u>1,011,547</u>	<u>964,080</u>
Expenses		
Debtor's life insurance premiums	50,777	54,689
Fees paid to foreign banks	11,054	9,967
Brokerage and custody services	3,754	2,777
Others	<u>35,192</u>	<u>34,200</u>
Total	<u>100,777</u>	<u>101,633</u>
Net	<u>910,770</u>	<u>862,447</u>

Notes to the consolidated financial statements (continued)

16. Other income and expenses

This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)
Other income		
ATM rental income	25,031	23,632
Investments in associates	18,475	14,856
Gain from sale of written-off-loans	16,956	8,207
Other technical income for insurance operations	9,273	10,308
Services rendered to third parties	7,962	7,015
Incentives for credit card operations	3,148	11,676
Other income	53,099	22,920
Total other income	<u>133,944</u>	<u>98,614</u>
Other expenses		
Commissions from insurance activities	50,971	31,671
Technical insurance expenses	16,753	14,999
Provision for sundry risk	9,748	14,685
Donations	6,696	5,932
Administrative and tax penalties	2,185	3,152
Other expenses	51,413	30,606
Total other expenses	<u>137,766</u>	<u>101,045</u>

Notes to the consolidated financial statements (continued)

17. Net premiums earned

This caption is comprised of the following for the years ended December 31, 2017 and 2016:

	Premiums assumed		Adjustment of technical reserves		Gross premium earned (*)		Premiums ceded to reinsurers		Net premiums earned	
	(1)		(2)		(3) = (1) - (2)		(4)		(5) = (3) - (4)	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance										
Annuities (**)	350,642	337,755	(533,085)	(494,213)	(182,443)	(156,458)	-	-	(182,443)	(156,458)
Group life	128,259	119,534	5	(630)	128,264	118,904	(3,437)	(3,538)	124,827	115,366
Individual life	64,467	48,986	(13,234)	(20,230)	51,233	28,756	(2,778)	(2,177)	48,455	26,579
Retirement, disability and survival (***)	36,436	139,633	(12,753)	935	23,683	140,568	(26,189)	(130,536)	(2,506)	10,032
Others	10	539	(2,266)	(3,250)	(2,256)	(2,711)	(1)	(131)	(2,257)	(2,842)
Total life insurance	579,814	646,447	(561,333)	(517,388)	18,481	129,059	(32,405)	(136,382)	(13,924)	(7,323)
Total general insurance	77,894	84,109	1,461	(3,952)	79,355	80,157	(1,701)	(1,942)	77,654	78,215
Total	657,708	730,556	(559,872)	(521,340)	97,836	209,216	(34,106)	(138,324)	63,730	70,892

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

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

(***) In December 2014, the SBS called a public tender for the management of retirement, disability, survival, and other burial expenses risks under a group insurance policy to the affiliates of the Private Pension Fund Management System. Interseguro won the contract for the period 2015 and 2016. Interseguro reinsured said risks at 100 percent with three prestigious, internationally recognized reinsurers.

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

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

This caption is comprised of the following for the years ended December 31, 2017 and 2016:

	Gross claims and benefits		Ceded claims and benefits		Net insurance claims and benefits	
	2017	2016	2017	2016	2017	2016
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance						
Annuities	(332,513)	(251,911)	-	-	(332,513)	(251,911)
Group life	(41,110)	(40,164)	2,582	3,649	(38,528)	(36,515)
Individual life	(2,666)	(3,404)	518	830	(2,148)	(2,574)
Retirement, disability and survival	(33,120)	(135,948)	12,262	128,718	(20,858)	(7,230)
Others	(3,282)	(4,864)	3,386	3,215	104	(1,649)
General Insurance	(18,483)	(18,395)	150	74	(18,333)	(18,321)
	(431,174)	(454,686)	18,898	136,486	(412,276)	(318,200)

Notes to the consolidated financial statements (continued)

19. Salaries and employee benefits

This caption is comprised of the following:

	2017	2016
	S/(000)	S/(000)
Salaries	515,333	507,691
Workers' profit sharing	70,267	70,441
Social security	47,116	45,868
Vacations, health insurance and others	44,211	50,416
Severance indemnities	37,655	36,942
Total	<u>714,582</u>	<u>711,358</u>

20. Administrative expenses

This caption is comprised of the following:

	2017	2016
	S/(000)	S/(000)
Services received from third parties	778,777	735,740
Taxes and contributions	41,721	40,578
Total	<u>820,498</u>	<u>776,318</u>

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

Notes to the consolidated financial statements (continued)

21. Earnings per share

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

	Outstanding shares (in thousands)	Shares considered in computation (in thousands)	Effective days in the year	Weighted average number of shares (in thousands)
Period 2016				
Balance as of January 1	108,820	108,820	365	108,820
Sale of treasury stock	8	8	275	6
Purchase of treasury stock	<u>(1,897)</u>	<u>(1,897)</u>	85	<u>(442)</u>
Balance as of December 31	<u>106,931</u>	<u>106,931</u>		<u>108,384</u>
Net profit attributable to IFS S/(000)				<u>828,143</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>7.641</u>
Period 2017				
Balance as of January 1	106,931	106,931	365	106,931
Sale of treasury stock	(500)	(500)	213	(292)
Purchase of treasury stock	<u>1,251</u>	<u>1,251</u>	28	<u>97</u>
Balance as of December 31	<u>107,682</u>	<u>107,682</u>		<u>106,736</u>
Net profit attributable to IFS S/(000)				<u>831,760</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>7.793</u>

Notes to the consolidated financial statements (continued)

22. Transactions with shareholders, related parties and affiliated entities

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

	2017 S/(000)	2016 S/(000)
Assets		
Trading securities	7,808	19,757
Available-for-sale investments		
InRetail Perú Corp. Note 4(f)	168,206	203,074
Royalty Pharma, Note 4(g)	68,540	68,264
Corporate bonds – InRetail Shopping Malls S.A.	65,334	54,209
Corporate bonds – Colegios Peruanos S.A.	64,985	45,177
Corporate bonds – Certificates of Deposit – Financiera Oh! S.A.	27,843	13,683
Corporate bonds – Intercorp Perú Ltd.	16,051	7,513
Corporate bonds – Cineplex S.A.	13,399	16,907
Corporate bonds – San Miguel Industrias PET S.A.C.	10,194	24,070
Corporate bonds – Intercorp Retail Inc.	6,874	19,077
	<hr/> 441,426	<hr/> 451,974
Loan portfolio, net (b)	828,597	784,750
Accounts receivable (f)	55,722	20,861
Accounts receivable related to derivative financial instruments	5,832	11,854
Other assets (g)	15,089	17,931
Liabilities		
Deposits and obligations	311,092	283,564
Accounts payable related to derivative financial instruments	723	-
Other liabilities	(2,251)	4,444
Off-balance sheet accounts		
Indirect loans (b)	133,571	127,733
	<hr/> 2017 S/(000)	<hr/> 2016 S/(000)
Income (expenses)		
Interest and similar income	67,703	63,506
Interest and similar expenses	(9,397)	(3,383)
Valuation from derivative financial instruments	520	-
Rental income	3,318	2,190
Net profit from sale of investment property	-	2,655
Others, net	37,383	31,041
Administrative expenses	(21,780)	(9,583)

Notes to the consolidated financial statements (continued)

- (b) As of December 31, 2017 and 2016, the detail of direct and indirect loans granted by the Group is the following:

	2017 S/(000)	2016 S/(000)
Supermercados Peruanos S.A.	205,596	116,153
GTP Inversionistas S.A.C.	105,527	-
Nessus Hoteles Perú S.A.	67,767	81,040
Homecenters Peruanos S.A.	61,561	85,905
Agrícola Don Ricardo S.A.C.	57,933	9,939
Cineplex S.A.	56,911	19,286
Colegios Peruanos S.A.	50,816	50,872
Intercorp Perú Ltd.	45,004	121,656
San Miguel Industrias PET S.A.	40,923	21,092
San Miguel Industrias Ecuador	32,500	32,500
Procesos de Medios de Pago S.A.	30,127	34,110
Bembos S.A.C.	27,657	30,861
Eckerd Perú S.A.	24,788	31,759
Tiendas Peruanas S.A.	24,281	37,637
PF Interproperties Perú	21,291	21,423
Other less than S/20,000,000	<u>109,486</u>	<u>218,250</u>
	<u>962,168</u>	<u>912,483</u>

- (c) As of December 31, 2017 and 2016, the directors, executives and employees of the Group have been involved, directly and indirectly, in credit transactions with certain subsidiaries of the Group, as permitted by the Peruvian law, which regulates and limits on certain transactions with employees, directors and officers of financial entities. As of December 31, 2017 and 2016, direct loans to employees, directors and officers amounted to S/183,550,000 and S/153,424,000, respectively; said loans are repaid monthly and bear interest at market rates.

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

- (d) The Group's key personnel compensations, including the Income Tax assumed for the periods ended December 31, 2017 and 2016, are presented below:

	2017 S/(000)	2016 S/(000)
Salaries	18,880	16,799
Board of Directors' compensation	<u>1,940</u>	<u>1,706</u>
Total	<u>20,820</u>	<u>18,505</u>

Notes to the consolidated financial statements (continued)

- (e) As of December 31, 2017, the Group holds participations in different mutual funds managed by Interfondos, they amount to S/324,000 and are classified as investment at fair value through profit or loss (S/161,000 as of December 31, 2016).
- (f) As of December 31, 2017, corresponds to a leasing operation between Seguros Sura and Universidad Tecnológica del Perú for the construction of an educational campus in San Juan de Lurigancho district, for an amount of approximately S/32,713,000 and a loan to Homecenters Peruanos S.A; with maturity in 2046, and bears interest at market value for an amount of approximately S/23,009,000 (S/20,861,000 as of December 31, 2016).
- (g) It corresponds mainly to prepaid expenses for spaces ceded to Interbank in the stores of Supermercados Peruanos S.A. for the operation of financial agencies until year 2030, and for an amount of approximately S/10,876,000 and S/14,532,000 as of December 31, 2017 and 2016, respectively, see Note 7(a). Interbank may renew the term of the agreement for an additional term of 15 years.
- (h) In Management's opinion, transactions with related companies have been performed under standard market conditions and within the limits permitted by SBS. Taxes generated by these transactions and the taxable base used for computing them are those customarily used in the industry and they are determined according to the tax rules in force.

Notes to the consolidated financial statements (continued)

23. Business segments

The Company presents three operating segments based on products and services, as follows:

Banking -

Mainly loans, credit facilities, deposits and current accounts.

Insurance -

It provides annuities and conventional life insurance products, as well as other retail insurance products. As of December 31, 2017, this segment includes the activities developed by Interseguro, Seguros Sura and certain items attributable to segment, such as: intangibles, debt and others.

Wealth management -

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

The business segments monitor the operating results 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, 2017 and 2016.

Notes to the consolidated financial statements (continued)

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

	2017					2016				
	Banking S/(000)	Insurance (**) S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total S/(000)	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total S/(000)
Total income (*)										
Third party	4,579,056	517,633	340,265	(91,209)	5,345,745	4,412,828	438,841	316,424	(88,614)	5,079,479
Inter-segment	(93,242)	(46)	(672)	93,960	-	(60,916)	(44)	2,090	58,870	-
Total income	4,485,814	517,587	339,593	2,751	5,345,745	4,351,912	438,797	318,514	(29,744)	5,079,479
Extracts of results										
Interest and similar income	3,347,981	334,753	149,935	(23,649)	3,809,020	3,279,405	292,960	152,125	(19,678)	3,704,812
Interest and similar expenses	(1,046,995)	(18,151)	(53,852)	(891)	(1,119,889)	(1,009,829)	(14,420)	(59,396)	1,786	(1,081,859)
Net interest and similar income	2,300,986	316,602	96,083	(24,540)	2,689,131	2,269,576	278,540	92,729	(17,892)	2,622,953
Provision for loan losses, net of recoveries	(830,474)	-	2,539	-	(827,935)	(783,645)	-	-	-	(783,645)
Net interests and similar income after provision for loan losses	1,470,512	316,602	98,622	(24,540)	1,861,196	1,485,931	278,540	92,729	(17,892)	1,839,308
Fee income from financial services, net	836,149	(3,692)	116,927	(38,614)	910,770	789,619	(2,994)	116,862	(41,040)	862,447
Net gain on sale of securities	63,889	65,009	82,614	(28,908)	182,604	16,273	46,406	37,652	3,007	103,338
Other income (***)	331,037	57,834	(9,211)	(38)	379,622	327,530	31,577	9,785	(30,902)	337,990
Total net premiums earned minus claims and benefits	-	(348,546)	-	-	(348,546)	-	(247,308)	-	-	(247,308)
Depreciation and amortization	(127,629)	(9,656)	(7,870)	(7)	(145,162)	(118,401)	(4,457)	(7,260)	-	(130,118)
Impairment loss of available-for-sale investments	2,243	(5,496)	(15,263)	-	(18,516)	-	(28,323)	-	-	(28,323)
Other expenses (****)	(1,381,419)	(229,094)	(80,123)	17,131	(1,673,505)	(1,350,804)	(196,019)	(78,540)	35,551	(1,589,812)
Income before translation result and Income Tax	1,194,782	(157,039)	185,696	(74,976)	1,148,463	1,150,148	(122,578)	171,228	(51,276)	1,147,522
Translation result	13,618	873	1,523	(116)	15,898	859	8,137	(908)	11,974	20,062
Income Tax	(303,484)	41	547	(23,630)	(326,526)	(304,246)	(662)	658	(29,613)	(333,863)
Net profit for the year	904,916	(156,125)	187,766	(98,722)	837,835	846,761	(115,103)	170,978	(68,915)	833,721
Attributable to:										
IFS's shareholders	904,916	(156,036)	187,766	(104,886)	831,760	846,761	(114,788)	170,978	(74,808)	828,143
Non-controlling interest	-	(89)	-	6,164	6,075	-	(315)	-	5,893	5,578
	904,916	(156,125)	187,766	(98,722)	837,835	846,761	(115,103)	170,978	(68,915)	833,721

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

(**) It includes Interseguro, Seguros Sura and certain items allocated to segment.

(***) Other income caption includes: net gain on foreign exchange transactions for S/201,830,000, rental income for S/27,284,000, net gain on sale of securities for S/18,444,000, net loss on valuation from investment property for S/1,878,000 and other income for S/133,942,000.

(****) Other expenses caption includes: administrative expenses for S/820,501,000, salaries and employee benefits for S/714,582,000, expenses related to rental income for S/659,000 and other expenses for S/137,763,000.

Notes to the consolidated financial statements (continued)

	2017				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total Consolidated S/(000)
As of December 31, 2017					
Total assets	45,554,532	12,413,489	3,013,892	(303,310)	60,678,603
Total liabilities	40,631,011	12,020,819	2,304,094	(114,228)	54,841,696
	2016				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total Consolidated S/(000)
As of December 31, 2016					
Total assets	42,402,877	5,795,908	4,014,633	(494,059)	51,719,359
Total liabilities	38,054,932	5,342,484	3,338,097	(14,500)	46,721,013

Notes to the consolidated financial statements (continued)

24. Financial instruments classification

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

	As of December 31, 2017						As of December 31, 2016					
	Financial assets at fair value				Financial liabilities at amortized cost		Financial assets at fair value				Financial liabilities at amortized cost	
	For trading or hedging purposes 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)	For trading or hedging purposes 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	-	11,204,843	-	-	-	11,204,843	-	11,761,803	-	-	-	11,761,803
Inter-bank funds	-	403,526	-	-	-	403,526	-	5,002	-	-	-	5,002
Trading securities	216,008	-	-	-	-	216,008	80,149	-	-	-	-	80,149
Available-for-sale investments	-	-	15,459,660	-	-	15,459,660	-	-	9,518,398	-	-	9,518,398
Held-to-maturity investments	-	-	-	1,248,475	-	1,248,475	-	-	-	611,293	-	611,293
Loan portfolio, net	-	28,204,168	-	-	-	28,204,168	-	27,025,865	-	-	-	27,025,865
Due from customers on acceptances	-	41,715	-	-	-	41,715	-	16,392	-	-	-	16,392
Accounts receivable and other assets, net	94,668	646,909	-	-	-	741,577	203,089	586,886	-	-	-	789,975
	<u>310,676</u>	<u>40,501,161</u>	<u>15,459,660</u>	<u>1,248,475</u>	<u>-</u>	<u>57,519,972</u>	<u>283,238</u>	<u>39,395,948</u>	<u>9,518,398</u>	<u>611,293</u>	<u>-</u>	<u>49,808,877</u>
Financial liabilities												
Deposits and obligations	-	-	-	-	32,607,637	32,607,637	-	-	-	-	30,097,850	30,097,850
Inter-bank funds	-	-	-	-	30,008	30,008	-	-	-	-	332,255	332,255
Due to banks and correspondents	-	-	-	-	4,407,392	4,407,392	-	-	-	-	5,328,603	5,328,603
Bonds, notes and other obligations	-	-	-	-	5,602,357	5,602,357	-	-	-	-	4,769,390	4,769,390
Due from customers on acceptances	-	-	-	-	41,715	41,715	-	-	-	-	16,392	16,392
Insurance contract liabilities	-	-	-	-	10,839,435	10,839,435	-	-	-	-	5,010,513	5,010,513
Accounts payable, provision and other liabilities	133,921	-	-	-	973,703	1,107,624	236,137	-	-	-	730,622	966,759
	<u>133,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,502,247</u>	<u>54,636,168</u>	<u>236,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,285,625</u>	<u>46,521,762</u>

Notes to the consolidated financial statements (continued)

25. Financial risk management

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

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

(a) Maximum exposure to credit risk -

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

- 87.8 percent and 84.4 percent, respectively, of the cash and due from banks represent amounts deposited in the Group's vaults or in the BCRP;
- 94.9 percent and 95.0 percent, respectively, of the loan portfolio are classified into the two lower credit risk categories defined by the Group;
- 91.9 percent and 92.3 percent, respectively, of the loan portfolio is deemed non-past-due and non-impaired; and
- 85.3 percent and 75.1 percent, respectively, of available-for-sale-investments and held-to-maturity investments have at least an investment grade (BBB- or higher) or are debt instruments issued by the BCRP or the Peruvian Government.

(b) Credit risk management for loans -

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

Notes to the consolidated financial statements (continued)

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

As of December 31, 2017						
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	12,785,862	8,039,450	5,129,196	595,972	26,550,480	95
With potential problems	186,748	51,597	25,221	5,945	269,511	1
	<u>12,972,610</u>	<u>8,091,047</u>	<u>5,154,417</u>	<u>601,917</u>	<u>26,819,991</u>	
Past due but not impaired -						
Normal	316,370	15,669	168,699	14,657	515,395	2
With potential problems	48,854	243,489	64,317	11,935	368,595	1
	<u>365,224</u>	<u>259,158</u>	<u>233,016</u>	<u>26,592</u>	<u>883,990</u>	
Impaired -						
Substandard	68,334	208,946	77,688	9,858	364,826	1
Doubtful	26,148	353,943	93,846	11,103	485,040	2
Loss	112,879	273,906	211,879	36,633	635,297	2
	<u>207,361</u>	<u>836,795</u>	<u>383,413</u>	<u>57,594</u>	<u>1,485,163</u>	
Total loan portfolio, gross	<u>13,545,195</u>	<u>9,187,000</u>	<u>5,770,846</u>	<u>686,103</u>	<u>29,189,144</u>	104
Less: Allowance for loan losses	<u>190,753</u>	<u>881,874</u>	<u>80,986</u>	<u>62,948</u>	<u>1,216,561</u>	4
Total, net	<u>13,354,442</u>	<u>8,305,126</u>	<u>5,689,860</u>	<u>623,155</u>	<u>27,972,583</u>	100

Notes to the consolidated financial statements (continued)

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

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

As of December 31, 2017 and 2016, loans amounting to approximately S/822,179,000 and S/678,035,000, respectively, were not impaired and were past due for less than 30 days.

As of December 31, 2017 and 2016, refinanced loans amount to S/273,448,000 and S/296,485,000, respectively. Past due refinanced loans as of those dates amount to S/41,724,000, and S/59,505,000, respectively, out of which S/4,022,000 and S/116,000, respectively, are classified as past-due and not-impaired; and S/37,702,000 and S/59,389,000, as impaired, respectively.

Notes to the consolidated financial statements (continued)

(c) Foreign exchange risk -

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

As of December 31, 2017, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.238 per US\$1 for buying and S/3.245 US\$1 for selling (S/3.352 and S/3.360 as of December 31, 2016, respectively). As of December 31, 2017, the exchange rate for the accounting of asset and liability accounts in foreign currency set by the SBS was S/3.241 per US\$1 (S/3.356 as of December 31, 2016).

The table below presents the detail of the Group's exposure foreign currency:

	As of December 31, 2017				As of December 31, 2016			
	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Assets								
Cash and due from banks	9,497,021	1,385,533	322,289	11,204,843	10,497,324	991,219	273,260	11,761,803
Inter-bank funds	113,449	290,077	-	403,526	-	5,002	-	5,002
Trading securities	102,379	113,629	-	216,008	43,502	36,647	-	80,149
Available-for-sale investments	7,029,572	8,329,405	100,683	15,459,660	4,763,512	4,746,382	8,504	9,518,398
Held-to-maturity investments	-	1,248,475	-	1,248,475	-	611,293	-	611,293
Loan portfolio, net	8,566,434	19,637,734	-	28,204,168	8,655,259	18,370,606	-	27,025,865
Due from customers on acceptances	21,138	-	20,577	41,715	16,392	-	-	16,392
Accounts receivable and other assets	163,676	577,160	741	741,577	151,058	635,086	3,831	789,975
	<u>25,493,669</u>	<u>31,582,013</u>	<u>444,290</u>	<u>57,519,972</u>	<u>24,127,047</u>	<u>25,396,235</u>	<u>285,595</u>	<u>49,808,877</u>
Liabilities								
Deposits and obligations	14,469,686	17,877,317	260,634	32,607,637	15,414,006	14,575,525	108,319	30,097,850
Inter-bank funds	-	30,008	-	30,008	332,255	-	-	332,255
Due to banks and correspondents	1,031,657	3,375,735	-	4,407,392	1,054,747	4,273,856	-	5,328,603
Bonds, notes and other obligations	5,215,011	387,346	-	5,602,357	4,332,219	437,171	-	4,769,390
Due from customers on acceptances	21,137	-	20,578	41,715	16,392	-	-	16,392
Insurance contract liabilities	4,142,822	6,696,613	-	10,839,435	1,957,701	3,052,812	-	5,010,513
Accounts payable, provision and other liabilities	223,567	802,428	81,629	1,107,624	167,582	781,773	17,404	966,759
	<u>25,103,880</u>	<u>29,169,447</u>	<u>362,841</u>	<u>54,636,168</u>	<u>23,274,902</u>	<u>23,121,137</u>	<u>125,723</u>	<u>46,521,762</u>
Asset (Liability), net								
Forwards position, net	(406,225)	458,390	(52,165)	-	(231,204)	270,864	(39,660)	-
Currency swaps position, net	54,369	(54,369)	-	-	(9,583)	9,583	-	-
Cross currency swaps position, net	(190,759)	190,759	-	-	(197,528)	197,528	-	-
Principal Only Swap	485,850	(485,850)	-	-	-	-	-	-
Options position, net	127,176	(127,176)	-	-	(6,102)	6,102	-	-
Monetary position, net	<u>460,200</u>	<u>2,394,320</u>	<u>29,284</u>	<u>2,883,804</u>	<u>407,728</u>	<u>2,759,175</u>	<u>120,212</u>	<u>3,287,115</u>

Notes to the consolidated financial statements (continued)

As of December 31, 2017, the Group granted indirect loans (contingent operations) in foreign currency for approximately US\$673,040,000, equivalent to S/2,181,322,000 (US\$683,290,000, equivalent to S/2,293,120,000 as of December 31, 2016).

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

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

Sensitivity analysis	Changes in exchange rates %	2017 S/(000)	2016 S/(000)
Devaluation			
US Dollar	5	(23,010)	(20,386)
US Dollar	10	(46,020)	(40,773)
US Dollar	15	(69,030)	(61,159)
Revaluation			
US Dollar	5	23,010	20,386
US Dollar	10	46,020	40,773
US Dollar	15	69,030	61,159

Notes to the consolidated financial statements (continued)

26. Fair value

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

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

	As of December 31, 2017				As of December 31, 2016			
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Financial assets								
Trading securities	200,962	12,704	2,342	216,008	77,052	1,929	1,168	80,149
Available-for-sale investments								-
Debt instruments	9,271,322	4,314,577	-	13,585,899	4,680,267	3,086,619	-	7,766,886
Mutual funds and investment funds participations	185,079	580,383	190,855	956,317	167,431	643,460	262,297	1,073,188
Shares of the private sector, foreign entities and others	508,628	1,607	-	510,235	314,772	1,738	-	316,510
InRetail Peru Corp.	168,206	-	-	168,206	203,074	-	-	203,074
Royalty Pharma	-	-	68,540	68,540	-	-	68,264	68,264
Derivatives receivable	-	94,668	-	94,668	-	203,089	-	203,089
	<u>10,334,197</u>	<u>5,003,939</u>	<u>261,737</u>	<u>15,599,873</u>	<u>5,442,596</u>	<u>3,936,835</u>	<u>331,729</u>	<u>9,711,160</u>
Accrued interest				170,464				90,476
Total financial assets				<u>15,770,337</u>				<u>9,801,636</u>
Financial liabilities								
Derivatives payable	-	133,921	-	133,921	-	236,137	-	236,137

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

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

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

As of December 31, 2017 and 2016, the unrealized gain on Level 3 financial instruments amounts to S/26,562,000 and S/18,286,000, respectively, and the unrealized loss amounts to S/955,000 and S/9,250,000 respectively. During 2017 and 2016, there were no transfers of financial instruments from Level 3 to Level 1 or to Level 2.

Notes to the consolidated financial statements (continued)

(b) Financial instruments not measured at their fair value

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

	As of December 31, 2017					As of December 31, 2016				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair Value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	11,204,843	-	11,204,843	11,204,843	-	11,761,803	-	11,761,803	11,761,803
Inter-bank funds	-	403,526	-	403,526	403,526	-	5,002	-	5,002	5,002
Held-to-maturity investments	879,559	423,637	-	1,303,196	1,248,475	204,275	401,024	-	605,299	611,293
Loan portfolio, net	-	29,019,417	-	29,019,417	28,204,168	-	26,856,208	-	26,856,208	27,025,865
Due from customers on acceptances	-	41,715	-	41,715	41,715	-	16,392	-	16,392	16,392
Other accounts receivable and other assets, net	-	646,909	-	646,909	646,909	-	586,886	-	586,886	586,886
Total	879,559	41,740,047	-	42,619,605	41,749,636	204,275	39,627,315	-	39,831,590	40,007,241
Liabilities										
Deposits and obligations	-	32,629,914	-	32,629,914	32,607,637	-	30,100,962	-	30,100,962	30,097,850
Inter-bank funds	-	30,008	-	30,008	30,008	-	332,255	-	332,255	332,255
Due to banks and correspondents	-	4,434,484	-	4,434,484	4,407,392	-	5,338,642	-	5,338,642	5,328,603
Bonds, notes and notes issued	5,244,757	735,428	-	5,980,185	5,602,357	4,290,561	779,417	-	5,069,978	4,769,390
Due from customers on acceptances	-	41,715	-	41,715	41,715	-	16,392	-	16,392	16,392
Insurance contract liabilities	-	10,839,435	-	10,839,435	10,839,435	-	5,010,513	-	5,010,513	5,010,513
Accounts payable and other liabilities	-	973,703	-	973,703	973,703	-	730,622	-	730,622	730,622
Total	5,244,757	49,684,687	-	54,929,444	54,502,247	4,290,561	42,308,802	-	46,599,363	46,285,625

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

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

Notes to the consolidated financial statements (continued)

27. Fiduciary activities and management of funds

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

As of December 31, 2017 and 2016, the value of the financial assets managed is as follows:

	2017 S/(000)	2016 S/(000)
Assets under management	11,982,512	11,887,065
Mutual funds	<u>4,247,369</u>	<u>3,511,240</u>
Total	<u>16,229,881</u>	<u>15,398,305</u>

28. Subsequent events

In 2018, Interbank issued corporate bonds denominated 3.375 Senior Unsecured Notes for US\$200,000,000, under Rule 144A and Regulation S of the U.S. Securities Act of 1933, under the following terms:

Issuance amount:	US\$200,000,000
Annual interest rate:	3.375%
Issuance:	January 18, 2018
Maturity:	January 18, 2023
Interests payment:	Semiannually

Subsequently, Interbank made an exchange offer aimed to the holders of the corporate bonds denominated “5.750% Senior Notes due 2010”. In that regard, US\$262,672,000 of the bond “5.750% Senior Notes due 2010”, with maturity in October 2020, were exchanged for US\$284,213,000 of the bond “3.375 Senior Unsecured Notes”, with maturity in January 2023.

29. Additional explanation for English translation

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