Translation of independent auditor's report and consolidated financial statements originally issued in Spanish – Note 34

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of December 31, 2017 and 2016, together with Independent Auditor's Report

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Content

Translation of independent auditor's report originally issued in Spanish – Note 34

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Intercorp Financial Services Inc. and Subsidiaries (a holding company incorporated in the Republic of Panama, and a Subsidiary of Intercorp Perú Ltd.) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated income statements, other comprehensive income, changes in equity and cash flows for each of the three years ended December 31, 2017, 2016 and 2015, respectively, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

Translation of independent auditor's report originally issued in Spanish - Note 34

Independent Auditor's Report (continued)

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Intercorp Financial Services Inc. and Subsidiaries as of December 31, 2017 and 2016, as well as the consolidated results of their operations and their consolidated cash flows for each of the three years ended December 31, 2017, 2016 and 2015, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Lima, Peru,
March 19, 2018

Paredes, Burga & Asoc.

Countersigned by:

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Assets			
Cash and due from banks -	5		
Non-interest bearing		2,963,085	2,628,115
Interest bearing		6,264,339	5,869,583
Restricted funds		1,977,419	3,264,105
		11,204,843	11,761,803
Inter-bank funds		403,526	5,002
Trading securities		216,008	80,149
Available-for-sale investments	6(a)	15,459,660	9,518,398
Held-to-maturity investments	6(i)	1,248,475	611,293
Loans, net -	7		
Loans, net of unearned interest		29,406,286	28,192,647
Allowance for loan losses		(1,202,118)	(1,166,782)
		28,204,168	27,025,865
Investment property	8	1,118,608	745,185
Property, furniture and equipment, net	9	612,639	589,820
Due from customers on acceptances		41,715	16,392
Accounts receivable and other assets, net	10	2,026,917	1,331,174
Deferred Income Tax asset, net	15	53,277	34,278
Total assets		60,589,836	51,719,359

	Note	2017 S/(000)	2016 S/(000)
Liabilities and equity			
Deposits and obligations -	11		
Non-interest bearing		4,791,792	5,081,940
Interest bearing		27,815,845	25,015,910
		32,607,637	30,097,850
Inter-bank funds		30,008	332,255
Due to banks and correspondents	12	4,407,392	5,328,603
Bonds, notes and other obligations	13	5,602,358	4,769,390
Due from customers on acceptances		41,715	16,392
Insurance contract liabilities	14	10,709,843	5,010,513
Accounts payable, provisions and other liabilities	10	1,353,719	1,162,064
Deferred Income Tax liability, net	15	257	3,946
Total liabilities		54,752,929	46,721,013
Equity, net	16		
Equity attributable to IFS's shareholders:			
Capital stock		963,446	963,446
Treasury stock		(467,200)	(522,106)
Capital surplus		268,077	268,077
Reserves		3,700,000	2,600,000
Unrealized results, net		446,370	16,358
Retained earnings		889,850	1,553,336
		5,800,543	4,879,111
Non-controlling interest		36,364	119,235
Total equity, net		5,836,907	4,998,346
Total liabilities and equity net		60,589,836	51,719,359

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the years ended December 31, 2017, 2016 and 2015

	Note	2017 S/(000)	2016 S/(000)	2015 S/(000)
Interest and similar income	19	3,809,020	3,704,812	3,342,686
Interest and similar expenses	19	(1,119,889)	(1,081,859)	(921,695)
Net interest and similar income		2,689,131	2,622,953	2,420,991
Provision for loan losses, net of recoveries	7(c)	(827,935)	(783,645)	(645,824)
Net interest and similar income after provision for loan losses		1,861,196	1,839,308	1,775,167
Other income				
Fee income from financial services, net	20	910,770	862,447	818,366
Net gain on foreign exchange transactions		201,829	264,183	521,194
Net gain on sale of securities		184,847	103,338	134,901
Net trading income (loss)		18,443	(47,931)	(111,834)
Rental income		27,284	21,849	18,045
Gain (loss) on sale of investment property	8(c)	-	2,655	(1,259)
Valuation (loss) gain from investment property	8(a)	(1,878)	(1,380)	26,700
Others	21	115,845	98,614	99,788
Total other income		1,457,140	1,303,775	1,505,901
Insurance premiums and claims				
Net premiums earned	22	63,730	70,892	364,454
Net claims and benefits incurred for life insurance contracts and others	23	(412,276)	(318,200)	(258,911)
Total net premiums earned minus claims and benefits		(348,546)	(247,308)	105,543
Other expenses				
Salaries and employee benefits	24	(714,582)	(711,358)	(692,469)
Administrative expenses	25	(820,498)	(776,318)	(772,912)
Depreciation and amortization	9(a) and 10(d)	(145,162)	(130,118)	(111,060)
Impairment loss on available-for-sale investments	6(c)	(20,759)	(28,323)	(78,285)
Expenses related to rental income		(659)	(1,091)	(811)
Others	21	(119,667)	(101,045)	(114,584)
Total other expenses		(1,821,327)	(1,748,253)	(1,770,121)
Income before translation result and Income Tax		1,148,463	1,147,522	1,616,490
Translation result		15,898	20,062	(25,100)
Income Tax	15(c)	(326,526)	(333,863)	(352,586)
Net profit for the year		837,835	833,721	1,238,804
Attributable to:				
IFS's shareholders		831,760	828,143	1,231,766
Non-controlling interest		6,075	5,578	7,038
		837,835	833,721	1,238,804
Earnings per share attributable to IFS's shareholders basic and diluted (stated in Soles)	26	7.793	7.641	11.295
Weighted average number of outstanding shares (in thousand)	26	106,736	108,384	109,059

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, 2016 and 2015

	Note	2017 S/(000)	2016 S/(000)	2015 S/(000)
Net profit for the year		837,835	833,721	1,238,804
Other comprehensive income				
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:				
Net gain (loss) on available-for-sale investments	16(e)	439,828	393,106	(574,721)
Income Tax	16(e)	14,471	(4,837)	2,373
		454,299	388,269	(572,348)
Net movement on cash flow hedges	16(e)	(2,528)	2,494	4,147
Income Tax	16(e)	1,172	(723)	(1,161)
		(1,356)	1,771	2,986
Exchange differences on translation of foreign operations	16(e)	(22,480)	(11,340)	65,643
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods, net of Income Tax		430,463	378,700	(503,719)
Total other comprehensive income for the year, net of Income Tax		1,268,298	1,212,421	735,085
Attributable to:				
IFS's shareholders		1,261,772	1,205,896	728,664
Non-controlling interest		6,526	6,525	6,421
		1,268,298	1,212,421	735,085

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, 2016 and 2015

	Number of shares		Attributable to IFS's shareholders										
							Unrealized results, net						
	Issued (in thousands)	In treasury (in thousands)	Capital stock S/(000)	Treasury stock S/(000)	Capital surplus S/(000)	Reserves S/(000)	Available-for-sale investments reserve S/(000)	Cash flow hedges reserve S/(000)	Foreign currency translation reserve S/(000)	Retained earnings S/(000)	Total S/(000)	Non-controlling interest S/(000)	Total equity, net S/(000)
Balances as of January 1, 2015	113,110	(3,750)	963,446	(285,776)	268,077	-	100,559	(3,423)	44,571	3,103,600	4,191,054	111,220	4,302,274
Net profit for the year	-	-	-	-	-	-	-	-	-	1,231,766	1,231,766	7,038	1,238,804
Other comprehensive income	-	-	-	-	-	-	(571,710)	2,965	65,643	-	(503,102)	(617)	(503,719)
Total other comprehensive income	-	-	-	-	-	-	(571,710)	2,965	65,643	1,231,766	728,664	6,421	735,085
Declared and paid dividends, Note 16(a)	-	-	-	-	-	-	-	-	-	(564,178)	(564,178)	-	(564,178)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,232)	(2,232)
Transfer of retained earnings to reserves, Note 16(g)	-	-	-	-	-	2,000,000	-	-	-	(2,000,000)	-	-	-
Net variation of treasury stock held by Subsidiaries, Note 16(b)	-	(540)	-	(36,438)	-	-	-	-	-	-	(36,438)	-	(36,438)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	19,234	19,234	-	19,234
Others	-	-	-	-	-	-	-	-	-	7,215	7,215	(29)	7,186
Balances as of December 31, 2015	113,110	(4,290)	963,446	(322,214)	268,077	2,000,000	(471,151)	(458)	110,214	1,797,637	4,345,551	115,380	4,460,931
Net profit for the year	-	-	-	-	-	-	-	-	-	828,143	828,143	5,578	833,721
Other comprehensive income	-	-	-	-	-	-	387,334	1,759	(11,340)	-	377,753	947	378,700
Total other comprehensive income	-	-	-	-	-	-	387,334	1,759	(11,340)	828,143	1,205,896	6,525	1,212,421
Declared and paid dividends, Note 16(a)	-	-	-	-	-	-	-	-	-	(496,862)	(496,862)	-	(496,862)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,623)	(2,623)
Transfer of retained earnings to reserves, Note 16(g)	-	-	-	-	-	600,000	-	-	-	(600,000)	-	-	-
Net variation of treasury stock, Note 16(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 16(a)	-	-	-	-	-	-	-	-	-	(475,773)	(475,773)	-	(475,773)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,722)	(2,722)
Transfer of retained earnings to reserves, Note 16(g)	-	-	-	-	-	1,100,000	-	-	-	(1,100,000)	-	-	-
Purchase of treasury stock, Note 16(b)	-	(500)	-	(52,774)	-	-	-	-	-	-	(52,774)	-	(52,774)
Sale of treasury stock, Note 16(b)	-	1,251	-	107,680	-	-	-	-	-	34,984	142,664	175	142,839
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	24,081	24,081	161	24,242
Acquisition of Subsidiary, Note 2	-	-	-	-	-	-	-	-	-	-	-	1,912	1,912
Purchase of non-controlling interest, Note 3(b)	-	-	-	-	-	-	-	-	-	21,462	21,462	(88,039)	(66,577)
Others	-	-	-	-	-	-	-	-	-	-	-	(884)	(884)
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.

Translation of consolidated financial statements originally issued in Spanish – Note 34

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2017, 2016 and 2015

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Cash flows from operating activities			
Net profit for the year	837,835	833,721	1,238,804
Plus (minus)			
Provision for loan losses, net of recoveries	827,935	783,645	645,824
Depreciation and amortization	145,162	130,118	111,060
Provision for sundry risks	9,748	14,685	12,948
Deferred Income Tax	(4,376)	1,043	(31,143)
Net gain on sale of securities	(184,847)	(103,338)	(134,901)
Impairment loss on available-for-sale investments	20,759	28,323	78,285
Net trading (income) loss	(18,443)	47,931	111,834
Valuation loss (gain) from investment property	1,878	1,380	(26,700)
Translation result	(15,898)	(20,062)	25,100
(Gain) loss on sale of investment property	-	(2,655)	1,259
Increase in accrued interest receivable	(70,112)	(23,371)	(57,679)
(Decrease) increase in accrued interest payable	(15,887)	(7,648)	45,958
Net changes in assets and liabilities			
Increase in loans	(2,035,076)	(1,805,900)	(3,976,455)
Decrease (increase) in accounts receivable and other assets, net	282,092	(64,292)	(377,569)
Decrease (increase) in restricted funds	1,307,577	388,523	(2,739,123)
Increase in deposits and obligations	2,509,351	1,608,560	5,111,154
(Decrease) increase in due to banks and correspondents	(900,386)	(842,973)	3,012,961
Increase in accounts payable, provisions and other liabilities	920,829	721,195	2,011,825
Income Tax paid	(341,650)	(338,586)	(369,785)
Sale (purchase) of trading securities, net	29,381	46,237	(94,130)
Net cash provided by operating activities	3,305,872	1,396,536	4,599,527

Consolidated statements of cash flows (continued)

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Cash flows from investing activities			
Purchase of available-for-sale and held-to-maturity investments, net	(1,275,199)	(1,158,874)	(586,823)
Purchase of property, furniture and equipment	(84,685)	(79,835)	(68,130)
Purchase of intangible assets	(160,515)	(132,579)	(104,561)
Purchase of investment property	(124,089)	(56,833)	(92,426)
Sale of investment property	-	26,185	57,486
Acquisition of Subsidiaries, net of received cash	(660,527)	-	-
Net cash used in investing activities	(2,305,015)	(1,401,936)	(794,454)
Cash flows from financing activities			
Issuance of bonds, notes and other obligations	956,575	-	-
Payments of bonds, notes and other obligations	-	(88,375)	(252,079)
Net (decrease) increase in payable inter-bank funds	(300,938)	332,255	-
Net (increase) decrease in receivable inter-bank funds	(400,537)	240,026	65,002
Sale (purchase) of treasury stock, net	90,065	(199,892)	(36,438)
Payments of cash dividends	(475,773)	(496,862)	(564,178)
Dividend payments to non-controlling interest	(2,722)	(2,623)	(2,232)
Purchase of non-controlling interest	(66,577)	-	-
Net cash used in financing activities	(199,907)	(215,471)	(789,925)
Net increase (decrease) in cash and cash equivalents	800,950	(220,871)	3,015,148
Translation (loss) gain on cash and cash equivalents	(72,380)	(63,243)	318,772
Cash and cash equivalents at the beginning of the year	8,497,047	8,781,161	5,447,241
Cash and cash equivalents at the end of the year	9,225,617	8,497,047	8,781,161
Supplementary cash flow information:			
Cash paid during the year for			
Interest	1,088,261	1,089,507	875,737
Cash received during the year from			
Interest	3,720,149	3,681,729	3,285,026

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

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements
As of December 31, 2017, 2016 and 2015

1. **Business activity**

Intercorp Financial Services Inc. and Subsidiaries (henceforth "IFS", "the Company" or "the Group") is a limited liability holding company incorporated in the Republic of Panama on September 19, 2006, and is a Subsidiary of Intercorp Perú Ltd. (henceforth "Intercorp Perú"), a holding Company incorporated in 1997 in the Commonwealth of the Bahamas. As of December 31, 2017 and 2016, Intercorp Perú holds 79.12 percent and 79.78 percent, respectively, of IFS's capital stock.

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

As of December 31, 2017 and 2016, IFS held 99.30 percent of the capital stock of Banco Internacional del Perú S.A.A. – Interbank (henceforth "Interbank" or "the Bank") and 100.00 percent of Interseguro Compañía de Seguros S.A. (henceforth "Interseguro") and Inteligo Group Corp. (henceforth "Inteligo"). In addition, as of December 31, 2017, IFS holds 99.39 percent and 99.40 percent of the capital stock of Seguros Sura S.A. (henceforth "Seguros Sura") and Hipotecaria Sura Empresa Administradora Hipotecaria S.A. (henceforth "Hipotecaria Sura"), respectively; see Note 2. The operations of Interbank, Interseguro, Seguros Sura and Hipotecaria Sura are concentrated in Peru, while the operations of Inteligo and Subsidiaries are concentrated in Peru and Panama.

The main activities of IFS's Subsidiaries and their assets, liabilities, equity, operating income, net income balances and other relevant information are presented in Note 3.

The consolidated financial statements of IFS and Subsidiaries as of December 31, 2016, were approved by the General Shareholders' Meeting held on April 10, 2017. The consolidated financial statements as of December 31, 2017, were approved by Management on March 19, 2018, and will be submitted for approval by the Board of Directors and the General Shareholders' Meeting that will be held within the deadline established by law. In Management's opinion, the accompanying consolidated financial statements will be approved by the Board of Directors and the General Shareholders' Meeting without modifications.

2. **Acquisition of subsidiaries**

In May 2017, IFS entered into an agreement with Sura Asset Management S.A. (Colombia), Sura Asset Management Perú S.A. (Peru) and Grupo Wiese (Peru) for the purchase of shares, which resulted in the direct and indirect acquisition of 100 percent of Seguros Sura as well as 100 percent of Hipotecaria Sura. The acquisition was approved by Peru's Superintendence of Banking, Insurance and Private Pension Funds Administrators (henceforth "SBS", by its Spanish acronym) on September 28, 2017.

As a consequence, on November 2, 2017, IFS acquired 60.10 percent of Seguros Sura's capital stock and 70.0 percent of Hipotecaria Sura's capital stock. On the same date, Interseguro acquired 9.19 percent of Seguros Sura's capital stock. Subsequently, on November 22, 2017, IFS acquired 30.10 percent of Seguros Sura's capital stock as well as 29.40 percent of Hipotecaria Sura's capital stock. The latter were made through the purchase of the companies Negocios e Inmuebles S.A. and Holding Retail Perú S.A. After such acquisitions, the Company holds 99.39 percent of Seguros Sura's capital stock and 99.40 percent of Hipotecaria Sura's capital stock.

The price of the overall transaction was US$275,865,000 (equivalent to S/891,911,000 approximately).

On the other hand, the SBS granted a six-month deadline to complete the merger between Interseguro and Seguros Sura as from the date the SBS approved the acquisition.

Seguros Sura is incorporated in Peru and its operations are regulated 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"). Seguros Sura is authorized to sell life insurance and general insurance policies. Likewise, Hipotecaria Sura is incorporated in Peru and its operations are regulated by the SBS; its main activity is to grant mortgage loans, and since 2015, it has not granted any new mortgage loans.

The acquisitions were recorded in accordance with the Acquisition method established by IFRS 3 "Business Combinations". Under this method, the assets and liabilities were recorded at their fair value estimated on acquisition date (November 2, 2017), including certain intangible assets that the acquired entities had not previously recognized. The cost related to the acquisition, amounting to S/7,863,000, was registered as an expense and is presented in the caption "Administrative expenses" of the consolidated income statements. The fair values of the acquired entities are detailed below:

	Fair value of the acquired entities S/(000)
Seguros Sura S.A.	
Assets -	
Cash and due from banks	230,315
Trading securities and available-for-sale investments	4,656,932
Investment property	251,212
Accounts receivable and other assets, net	
Insurance operations receivables, net	24,725
Present value of acquired in-force business (PVIF), Note 4.4.(o)	137,900
Others	242,063
Liabilities -	
Bonds, notes and other obligations	(9,823)
Insurance contract liabilities	(5,210,487)
Accounts payable, provisions and other liabilities	(67,340)

	Fair value of the acquired entities S/(000)
Hipotecaria Sura S.A.	
Assets (*)	12,560
Liabilities	(2,452)
Net assets acquired	265,605
Non-controlling interest – proportionate share of the acquired entities' net assets, Note 4.3	(1,912)
Total net assets identified	263,693
Goodwill, Note 4.4.(p)	628,218
Consideration transferred	891,911

(*) The balance includes S/8,932,000 of cash and due from banks.

The net cash flow used in the acquisition is presented below:

	S/(000)
Consideration transferred	891,911
Cash and due from banks of the acquired entities	(239,247)
Transaction cost of the acquisition	7,863
	660,527

Goodwill represents the future synergies that are expected to arise from the combination of operations, distribution channels, workforce and other efficiencies not included in the intangible assets of the present value of acquired in-force business.

Taking into account the acquisition dates, the initial recognition for the business combination is complete by the end of the reporting period.

Since the date of the acquisition of the aforementioned companies, they have contributed to the Group with S/18,878,000 of net premiums earned and S/48,742,000 of net financial income. Should the combination had taken place at the beginning of the year, it would have contributed with S/97,797,000 of net premiums earned and S/311,508,000 of net financial income. It should be noted that, since the negotiation date of the acquisition, and considering that Interseguro and Seguros Sura will merge within a six-month term, Seguros Sura has not issued new premiums and those issued previously are being managed by Interseguro.

3. **Subsidiaries**

IFS's Subsidiaries are the following:

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

Interbank is incorporated in Peru and is authorized by the SBS to operate as a universal bank in accordance with Peruvian legislation. The Bank'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 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.
Compañía de Servicios Conexos – Expressnet S.A.C.	Services related to credit card transactions or products related to the brand "American Express".
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities. On March 27, 2017, the General Shareholders' Meeting of Interbank approved the merger transaction between Interbank and Corporación Inmobiliaria de La Unión 600 S.A.

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

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

As of December 31, 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 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. The fair values of the properties contributed by Interseguro, which were included in this structured entity as of December 31, 2017 and 2016, amounted to S/608,689,000 and S/486,264,000, respectively; see Note 8 for further detail. For accounting purposes and under IFRS 10 "Consolidated Financial Statements" the assets included in said structure are considered "silos", because they are ring-fenced parts of the wider structured entity (the Patrimonio Fideicometido - Interproperties Perú). The Group has ownership of and decision making power over these properties, and the Group has the exposure or rights to their returns; therefore, the Group has consolidated the silos containing the investment properties that it controls.

Regarding the "Patrimonio Fideicometido", as of December 31, 2016, Inteligo Real Estate (a related entity, Subsidiary of Intercorp Perú) and Interseguro held 27.17 percent and 72.83 percent, respectively, of an investment property located in San Isidro, Lima (see Note 8(a)). On September 26, 2017, Interseguro purchased the Inteligo Real Estate's share, thus obtaining the whole ownership of such investment property. The consideration transferred for the acquisition amounted to US$20,542,000 (equivalent to S/66,577,000), which corresponds to the purchase of the non-controlling interest that is reflected as an increase in the cost of Interseguros' investment; additionally, S/21,462,000 were recognized as equity transaction.

In April 2016, the 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", by its Spanish acronym) 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", by its Spanish acronym).

In 2017, Interseguro launched the product named "Renta Particular Plus" for S/128,200,000 (see Notes 4.4(c) and 10(a)). This allowed to maintain the product portfolio level and the long-term cash fundraising, while counterbalancing the retirement income reduction due to the modification of the Private Pension System Law, which, in 2017, amounted to S/24,786,000 (in 2016 and 2015 amounted to S/137,119,000 and S/362,861,000, respectively).

(c) 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.

(d) Seguros Sura S.A. -
Seguros Sura is incorporated in Peru and its operations are governed by Banking and Insurance Act. It is authorized to issue life and general risk insurance contracts.

(e) Hipotecaria Sura Empresa Administradora Hipotecaria S.A. -
Hipotecaria Sura Empresa Administradora Hipotecaria S.A. is incorporated in Peru and its regulated by the SBS. Its main activity is to grant mortgage loans, and since 2015, it has not granted any new mortgage loans.

(f) Negocios e Inmuebles S.A. and Holding Retail Perú S.A. -
These entities were acquired by IFS as part of the purchase of Seguros Sura and Hipotecaria Sura. As of December 31, 2017, the only activity of these entities is to maintain collectively 30.7 percent of Seguros Sura's capital stock and 30.0 percent of Hipotecaria Sura's capital stock.

(g) 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 a paid-in capital of S/1,000.

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 28):

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries		Seguros Sura (*)
	2017 S/(000)	2016 S/(000)	2017 S/(000)	2017 S/(000)	2017 S/(000)	2016 S/(000)	2017 S/(000)
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	4,935,100
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	-	-	255,836
Total assets	45,478,588	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	-	-	5,466,506	5,010,513	-	-	4,909,237
Total liabilities	40,555,067	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	-	-	-
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	-	-
Net (loss) gain from sale and valuation of investment properties	-	-	(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 less claims and benefits	-	-	(285,490)	(247,308)	-	-	(63,056)
Impairment loss on available-for-sale investments	-	-	(5,353)	(28,323)	(15,263)	-	(143)
Net profit (loss) for the year 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 balances related to the income statements of Seguros Sura have been recorded since the acquisition's date until December 31, 2017, see Note 2 y 3(b).

4. Significant accounting policies

4.1 Basis of presentation and use of estimates -

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

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

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

The accounting policies adopted are consistent with those of the previous periods, except that the Group has adopted the new IFRS and revised International Accounting Standards (henceforth "IAS") mandatory for periods beginning on or after January 1, 2017, as described below:

- IAS 7 "Statement of Cash Flows" – Amendments to IAS 7

  The amendments are part of the Disclosure Initiative of the IASB and require that the Group provides disclosures that allow users of consolidated financial statements, assess changes in liabilities arising from financing activities, including those related to cash flows and non-monetary changes. In the initial application of the amendments, entities are not required to provide comparative information for prior periods. The Management of the

Group has decided to not provide comparative information. See required disclosures in Note 30.3.

- IAS 12 "Recognition of Deferred Income Tax for Unrealized Losses" – Amendments to IAS 12
  The amendments clarify that entities need to consider if tax rules restrict the sources of taxable income with which it could make deductions on the reversal of a deductible temporary difference. Also, the amendments provide a guideline about the way an entity must determine future taxable income and explain the circumstances in which the taxable income might include the recovery of some assets for a value greater than their book values. The Management of the Group concluded that this amendment does not have effects on its consolidated financial statements.

- IFRS 12 "Disclosure of Interests in Other Entities" – Clarification of the scope of diclosure requeriments of IFRS 12
  The amendment clarifies that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a Subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The Management of the Group concluded that this clarification does not have effects on its consolidated financial statements.

4.2 Basis of consolidation -
The consolidated financial statements comprise the financial statements of IFS and its Subsidiaries (see Note 3).

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

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

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

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

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

The subsequent (if occurring in the future) acquisition of the non-controlling interest is directly recorded in the consolidated statements of changes in equity; the difference between the paid amount and the acquired net assets is registered as an equity transaction. Therefore, the Group reports no additional goodwill after the purchase of the non-controlling interest and recognizes no profit or loss for the sale of the non-controlling interest.

Assets in custody or managed by the Group, such as investment funds and others, are not part of the Group's consolidated financial statements; see Note 4.4(z).

4.3 Business combinatios -

Business combinations are accounted for using the acquisition method established by IFRS 3 "Business Combinations". The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date's fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the caption "Administrative expenses" of the consolidated income statements.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer shall be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 "Financial Instruments: Recognition and Measurement", is measured at fair value with the changes in the consolidated income statements or in the consolidated statements of other comprehensive income. If the contingent consideration is not within the scope of IAS 39, this shall be measured according to the applicable IFRS. The contingent consideration that is classified as equity must no be measured again and its subsequent settlement shall be recorded in equity.

4.4 Summary of significant accounting policies

(a) Foreign currency translation -

Functional and presentation currency:

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

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

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

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

Foreign currency balances and transactions:

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

(b) Income and expenses recognition from banking activities -

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

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

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

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

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

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

(c) Insurance contracts -

Accounting policies for insurance activities:

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

- Incurred but not reported claims reserve (IBNR): This reserves were calculated and applied retrospectively at each recording period using the Chain Ladder methodology which considers past experience based on cumulative claims losses to estimate future claims developments.

- Technical reserves for annuities and retirement, disability and survival insurances: The Group considered current mortality and morbidity tables which differ from those established by the SBS and set the interest rate to discount the future cash flows of these liabilities as the current interest rate that reflects the interest rate performance of the debt instruments in the portfolio, adjusted by credit risk (see detail of tables and interest rates used in Note 14(e)).

Product classification:
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder for a specified uncertain future event (the insured event) that adversely affects the policyholder. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts may also transfer a financial risk. When the contract has a financial component and transfers no relevant insurance risk as established by IFRS 4 "Insurance Contracts," the contract is recorded based on IAS 39 "Financial Instruments: Recognition and Measurement". These contracts are presented as "Contract liability with investment component" in the caption "Accounts payable, provisions and other liabilities" of the consolidated statements of financial position (see Note 10(a)).

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

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

Insurance receivables:
Insurance receivables are initially recognized when due and are measured at the fair value of the consideration received or receivable. Consequently, in its initial recognition, insurance receivables are measured at amortized cost. As of December 31, 2017 and 2016, the carrying value of the insurance receivables is similar to its fair value due to its short term maturity. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated income statements.

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

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

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

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

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

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

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

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

The technical reserves for retirement, disability and survival insurance and annuities are determined as the sum of the discounted value of expected future pensions to be paid during a defined or non-defined period, computed on the basis of current mortality and morbidity tables and current discount interest rates described in Note 14(e).

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

Insurance claims reserves include reserves for reported claims and an estimate of the IBNR. As of December 31, 2017 and 2016, IBNR reserves were determined on the basis of the Chain Ladder methodology, whereby the weighted average of past claim development is projected into the future. Adjustments to the liabilities at each reporting date are recorded in the consolidated income statements. The liability is derecognized when the obligation expires, is discharged or cancelled.

At each reporting date, an assessment is made on whether the recognized life insurance liabilities are adequate, by using an existing liability adequacy test as established by IFRS 4. In the case of annuities and retirement, disability and survival insurance, this test was conducted by using current assumptions for mortality and morbidity tables and interest rates. As of December 31, 2017 and 2016, Management determined that liabilities were adequate and therefore, it has not recorded any additional insurance liability.

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

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

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

Recognition of benefits, claims and expenses:

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

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

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

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

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

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

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

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

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

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

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

(i) Financial assets and liabilities at fair value through profit or loss

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

Derivative financial instruments are also categorized as held for trading unless they are designated as hedging instruments; see Note 4.4(h).

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term and are presented in the caption "Trading securities" of the consolidated statements of financial position. Changes in fair value are recognized in the caption "Net trading income (loss)" of the consolidated income statements. Interest and dividend earned are accrued in the consolidated income statements in the caption "Interest and similar income", according to the terms of the contract, or when the right to the payment has been established.

(ii) Available-for-sale financial assets

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

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

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

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

During 2017 and 2016, Interbank reclassified a group of available-for-sale investments into held-to-maturity investments for an amount of S/62,796,000 and S/129,548,000, respectively; see Note 6(i).

(iii) Held-to-maturity financial assets
Held-to-maturiry investments are non-derivative financial assets with fixed or variable payments and fixed maturity, for which IFS has the intention and ability to hold them to maturity. After their initial measurement, held-to maturity investments are valued at the amortized cost, using the effective interest rate. The amortized cost is calculated taking into account any discount or premium acquisition and fees that are an integral part of the effective interest. The amortization is included in "Interest and similar income" caption of the consolidated income statements. Losses arising from the impairment of these investments are recognized in consolidated income statements.

As of December 31, 2017 and 2016, the Group has not recognized any impairment loss on held-to-maturity investments; see policy of impairment of financial assets carried at amortized cost in Note 4.4(g)(i).

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

As of December 31, 2017, the Group does not plan to sell, before maturity, or reclassify any of its held-to-maturity investments.

(iv) Loans and receivables

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

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

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

(v) Finance leases

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

(vi) Financial liabilities at amortized cost

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

(vii) Repurchase agreements

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

As of December 31, 2017 and 2016, the Group does not keep any repurchase agreements.

(e) Derecognition of financial assets and liabilities -

Financial assets

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

Financial liabilities

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

(f) Offsetting of financial instruments -

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset them and Management has the intention to settle them on a net basis, or realize the assets and settle the liability simultaneously.

(g) Impairment of financial assets -

The Group assesses at each date of the consolidated statements of financial position whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that have occurred since the initial recognition of the asset (an incurred "loss event") have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will go bankrupt or initiate any legal financial reorganization process and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statements.

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

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

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

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

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

(ii) Available-for-sale financial investments

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

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

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

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

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

(iii) Rescheduled loans

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

(h) Derivatives -

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

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

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

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

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

IAS 39 presents three hedge accounting categories: fair value hedge; cash flow hedge; and hedge of net investments in a foreign operation. The Group uses derivatives as hedging instruments under cash flow hedge, as detailed in Note 10(b).

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

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

(i) Investments in associates -
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but without having control over those policies. The considerations made for

determining significant influence are similar to those needed to determine control over Subsidiaries.

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

(j) Leases -

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

Operating leases

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

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

(k) Lease revenues -

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

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

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

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

(l) Investment property and inventory property -
The Group determines whether a property is classified as investment property or inventory property:

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

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

The Group has not classified any property as inventory property.

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

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

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

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

Fair values are assessed periodically by Management, based on the discounted cash flows that are expected to be obtained from these investments. Fair values of investment properties under construction or investment properties held to operate in the future are assessed by an independent external appraiser, through the application of a recognized valuation model. See Note 8 for details of fair value and related assumptions.

Transfers are made to or from investment property only when there is a change in its use. No such transfers have occurred for the years ended December 31, 2017 and 2016.

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

(m) Property, furniture and equipment -

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

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

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

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

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

(n) Assets seized through legal actions -
Assets seized through legal actions are recorded in the item "Others" of the caption "Accounts receivable and other assets" at the lower value between the cost or the estimated market value (minus cost to sell), determined from valuations made by independent appraisers. Reductions in book value are recorded in the consolidated income statements.

(o) Intangible assets with finite useful lives -
Generally, the intangible assets with finite useful lives are included in the "Accounts receivable and other assets, net" caption of the consolidated statements of financial position and they are mainly costs incurred in connection with the acquisition of computer software used in operations and other minor intangible assets. The amortization expense is calculated following the straight-line method over the useful life estimated between 4 and 5 years, see Note 10(d).

On the other hand, when an insurance contract portfolio is acquired, whether directly from another insurance company or as part of a business combination (in the case of the Group, the acquisition of Seguros Sura), the difference between the fair value of the insurance contract liability and the value of the insurance contract liability, as measured with the acquirer's accounting policies, is recognized as an intangible asset named "Present Value of In-Force Business" (henceforth "PVIF").

In this sense, PVIFs resulting from the acquisition of Seguros Sura are recognized in the consolidated statements of financial position at their estimated market value at the acquisition date. After the initial recognition, the PVIF is recorded at cost, minus the accumulated amortization and accumulated impairment loss, if any. The PVIF is amortized on a linear basis over the useful life of the acquired policies, which has been estimated in ten years.

The recoverability of PVIF is considered as part of the liability adequacy test performed at each reporting period. PVIF is derecognized when the related contracts are settled or disposed of.

Changes in the estimated useful life or in the pattern of consumption of the expected future economic benefits embedded in the intangible asset (PVIF) are recorded by changing the amortization period or method and are treated as a change in an accounting estimate.

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

(p) Goodwill -

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, if any, over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss, if any. A goodwill impairment testing is performed on a yearly basis. To perform an impairment testing, goodwill acquired in a business combination is allocated, since the acquisition date, to one of the Group's cash-generating units (henceforth "CGU") that are expected to benefit from the business combination.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill, recorded by the Group (see Note 2) arise from the acquisition of Seguros Sura and; considering that this entity will merge with Interseguro, has been allocated to the CGU comprised of Interseguro and Seguros Sura.

(q) Impairment of non-financial assets -

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

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

(r) Due from customers on acceptances -

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

(s) Financial guarantees -

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

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

(t) Defined contribution pension plan -

The Group only operates a defined contribution pension plan. The defined contribution payable in the pension plan is in proportion to the services rendered to the Group by the employees and it is recorded as an expense in the caption "Salaries and employee benefits" of the consolidated income statements. Unpaid contributions are recorded as liabilities.

(u) Provisions -

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statements net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the specific risks of the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense.

(v) Contingencies -

Contingent liabilities are not recognized in the consolidated financial statements, but are disclosed in the notes to the consolidated financial statements, unless the probability of an outflow of resources is remote. Contingent assets are not recorded in the consolidated financial statements, but they are disclosed if it is probable that an inflow of economic benefits will be accomplished.

(w) Fair value measurement -

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- On the principal market for the asset or liability; or
- In the absence of a principal market, on the most advantageous market for the asset or liability.

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

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

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

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

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

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

The fair value of investment property in the consolidated statements of financial position must reflect the volatile nature of real estate markets; therefore, Management and its appraisers use their market knowledge and professional criteria and do not depend solely on historical comparable transactions. In this sense, there is a greater degree of uncertainty than when a more active market exists for the estimation of fair value. Significant methods and assumptions used in the estimation of fair value of investment property are detailed in Note 8.

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

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

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

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

Fair values of financial instruments measured at amortized cost are disclosed in Note 31(b).

(x) Income Tax -

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

Deferred Income Tax is accounted for in accordance with IAS 12 "Income Taxes". In this sense, the deferred Income Tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes. Deferred assets and liabilities are measured using the tax rates that are expected to be in force in the years in which such temporary differences are expected to be recovered or settled. Consequently, the deferred Income Tax as of

December 31, 2017, has been calculated by applying the rates that will be effective since January 1, 2017; see Note 17(c). The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that arise from the manner in which each individual entity of the Group expects, at the consolidated statements of financial position dates, to recover or settle the carrying amount of their assets and liabilities.

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

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

(y) Segment information -

IFRS 8 "Operating Segments" requires that the information of operating segments be disclosed consistently with information provided by the chief operating decision maker, who is the person or group of persons that allocate resources to the segments and assesses their performance. Segment information is presented in Note 28.

(z) Fiduciary activities and management of funds -

The Group provides trust management, investment management, advisory and custody services to third parties that result in the holding of assets on their behalf. These assets and the income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group; see Note 32.

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

(aa) Earnings per share -

The amount of basic earnings per share is calculated by dividing the net profit for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. As of December 31, 2017 and 2016, the Group does not have financial instruments with dilutive effect, therefore basic and diluted earnings per share are identical for the years reported.

(ab) Capital surplus -
It is the difference between the nominal value of shares issued and their offering price made in 2017. Capital surplus is presented net of expenses incurred in the issuance of shares.

(ac) Treasury stock -
Shares repurchased are recorded in the shareholders' equity under treasury stock caption at their purchase price. No loss or gain is recorded in the consolidated income statements arising from the purchase, sale, issuance or amortization of these instruments. Shares that are subsequently sold are recorded as a reduction in treasury stock, measured at the average price of treasury stock held at such date; and the resulting gain or loss is recorded in the caption "Reatined earnings" of the consolidated statements of changes in net equity.

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

Cash collateral committed as part of a repurchase agreement is included in the "Cash and due from banks" caption of the consolidated statements of financial position; see Note 5(d).

(ae) Consolidated financial statements as of December 31, 2016 -
When needed, the comparative amounts of the respective prior year have been reclassified in order to make them comparable with the current year presentation. In Management's opinion, the reclassifications made in the consolidated financial statements as of December 31, 2016, are not significant considering the consolidated financial statements as a whole.

4.5 Standards issued but not yet effective
As of the date of preparation of the accompanying consolidated financial statements, the standards and interpretations that have been issued, but whose effective date is after December 31, 2017, are disclosed below:

- **IFRS 9 "Financial Instruments"**
  In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments," which replaces IAS 39 "Financial Instruments: Recognition and Measurement" and all previous IFRS 9 versions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The main impacts of the adoption of IFRS 9 are the following:

(a) **Classification and measurement – Financial assets**
IFRS 9 contains a new approach for the classification and measurement of financial assets that is based on the business model through which assets and its cash flow characteristics are managed.

IFRS 9 includes three main classification categories for financial assets: measured at amortized cost; at fair value through profit and loss; and at fair value through other comprehensive income. It also eliminates IAS 39's existing categories of held-to-maturity, loans and receivables, and available-for-sale.

A financial asset that meets the following two conditions must be measured at amortized cost unless the asset is designated at fair value through profit and loss:

- The business model's objective is to hold the financial asset to collect the contractual cash flows; and
- The contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest "SPPI" on the principal amount standing.

A financial asset that meets the following two conditions must be measured at fair value through other comprehensive income unless the asset is designated at fair value through profit and loss:

- The business model's objective is to hold the financial asset in order to collect the contractual cash flows and sell financial assets; and
- The contractual terms of the assets correspond to cash flows that are solely payments of principal and interest on the outstanding principal amount.

At the initial recognition of an equity instrument that is not held for trading, the Group can make an irrevocable choice to present value changes in other comprehensive income. This decision is made per instrument.

All the financial assets that are not measured at amortized cost or fair value through other comprehensive income are measured at fair value through profit and loss, according to the previously discussed conditions.

(b) **Impairment – Financial assets, loan commitments and financial guarantee contracts**

IFRS 9 replaces the model of incurred loss of IAS 39 with the model of expected credit loss (ECL). This shall require considerable professional judgement on how future changes in macroeconomic factors affect the expected credit loss (forward-looking approach), which shall be determined based on probability weighting.

The new impairment model is applied to financial instruments that are not measured at fair value through profit and loss, such as:

- Financial assets that are debt instruments;
- Rental receivables;
- Loan commitments and financial guarantee contracts (formerly, impairment was measured under IAS 37 "Provisions, contingent liabilities and contingent assets).

According to IFRS 9, equity instruments that are measured at fair value are not subject to credit loss due to impairment. The definition of credit-impaired financial assets in IFRS 9 is similar to that in IAS 39.

Expected credit loss model

At each reporting date, the Group shall measure the expected credit loss by classifying financial assets as follows:

- Stage 1: A 12-month expected credit loss shall be recognized in financial assets whose credit risk has not increased significantly since its initial recognition. The interest income shall be measured based on the gross carrying amount of the financial asset.
- Stage 2: A lifetime expected credit loss shall be recognized in financial assets whose credit risk has increased significantly since its initial recognition. The interest income shall be measured based on the gross carrying amount of the financial asset.
- Stage 3: A lifetime expected credit loss shall be recognized in credit-impaired financial assets. The interest income shall be measured based on the net carrying amount of the financial asset.

Significant increase of credit risk

Under IFRS 9, when determining whether the credit risk on a financial asset has increased significantly since initial recognition, the Group shall consider reasonable and supportable information that is available without undue cost or effort, including quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

Credit risk grade

The Group shall allocate a credit risk grade to each exposure based on predictive data of the risk of default and applying experienced credit judgment.

Credit risk grades are defined and calibrated in a way that the risk of default increases exponentially as the credit risk deteriorates.

Measurement of the expected credit loss

The parameters for measuring the expected credit loss are:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

These parameters, together with other historical data, are used in internally developed statistical models and will be adjusted to reflect the future effect of changes in economic factors.

Under IFRS 9, the Group shall use prospective information to determine its expected credit loss. This process shall imply developing economic scenarios and considering relative probabilities of each result. The external information may include economic data and forecasting by regulating bodies.

The Group has identified and documented key credit risk factors and credit losses in each portfolio and, by performing an analysis of historical data, it has estimated the relations between macroeconomic variables, credit risk and credit losses.

(c) **Classification – Financial liabilities**

IFRS 9 maintains most of IAS 39's existing requirements for the classification of financial liabilities.

Nevertheless, under IAS 39, all gains and losses on financial liabilities designated at fair value through profit and loss are recognized in profit or loss, while, under IFRS 9, they shall be presented as follows:

- The amount of change in fair value attributable to changes in credit risk of the liability shall be presented in other comprehensive income; and
- The remaining amount shall be presented in profit or loss.

(d) **Derecognition and contract amendment**

IFRS 9 includes IAS 39's requirements for the derecognition of financial asset and liability accounts without significant modifications.

However, it contains a specific accounting guide in case the modification of a financial instrument not measured at fair value through profit or loss does not result in the derecognition of the instrument. Under IFRS 9, the Group shall recalculate the book value of the financial asset (or the amortized cost of the financial liability) by discounting the contractual modified cash flows at the original effective interest rate, and it shall recognize any adjustment as profit or loss in the income statement.

(e) **Hedge accounting**

This standard does not change the general principles on how an entity accounts for the effective hedges; therefore, the application of IFRS 9's hedge requirements shall not have a significant impact on the Group's consolidated financial statements.

(f) **Transition**

Changes in the accounting policies resulting from the adoption of IFRS 9 shall be applied as follows:

The Group shall use the exception of the standard, which allows not to re-express information from previous periods regarding classification and measurement changes, including impairment. As a result, the differences in the book value of financial assets and liabilities resulting from the adoption of IFRS 9 shall be recognized in the opening balances as of January 1, 2018, in the consolidated statements of changes in equity.

Based on the current preliminary estimations, the adoption of IFRS 9 is expected to generate approximately a 3 percent reduction of the net equity as of January 1, 2018. Its impact is mainly related to higher provisions for expected credit losses.

- IFRS 15 "Revenue from Contracts with Customers"

This standard is effective for annual periods beginning on or after January 1, 2018 and supersede all existing revenue recognition guidelines: IAS 18 "Revenue", IAS 11 "Construction Contracts", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers", and SIC 31 "Revenue – Barter Transactions Involving Advertising Services". Under IFRS 15, the revenue recognition model is structured around the following five steps: identification of the contract with a customer; identification of all the individual performance obligations in the contract; determination of the transaction price; allocation of the transaction price to the performance obligations in the contract; and recognition of the revenue as the entity satisfies a performance obligation.

- Clarifications to IFRS 15 "Revenue from Contracts with Customers"
  The application of this accounting standard does not generate significant effects on the Group's consolidated financial statements.

- IAS 40 "Investment Property" – Amendments to IAS 40
  These amendments clarify when an entity must transfer goods, including properties under construction or development, to or from investment property. Also, the amendments point out that a change in use occurs when the property meets or no longer meets the definition of investment property and there is evidence of change in use. A change in Management's intentions for using a property provides no evidence of a change in use.

  These amendments must apply retrospectively for annual periods in which the Group first applies such amendments. An entity must reassess the classification of the property that is held at this date and, if applicable, reclassify the property to reflect the conditions prevailing at that date. Furthermore, the retrospective application according to IAS 8 is only permitted if it is posible without the use of hindsight. These amendments are effective for periods beginning on or after January 1, 2018.

Improvements to IFRS (2014-2016 cycle)

- IFRS 1 "First-time Adoption of International Financial Reporting Standards": The exemptions of paragraphs E3 to E7 of IFRS 1 are deleted because they already fulfilled their purpose. This amendment is effective beginning on or after January 1, 2018.

- IAS 28 "Investments in Associates and Joint Ventures": Clarifies that the measurement of investments in associates and joint ventures at fair value through profit or loss is an election separately for each associate or joint venture. This amendment must be applied retrospectively for periods beginning on or after January 1, 2018. Early application is permitted and must be disclosed.

The Group considers that these amendments will not have any significant impact on its consolidated financial statements taken as a whole. However, it continues to monitor the impact of the adoption of these standards on its consolidated financial statements.

As of the date of preparation of the accompanying consolidated financial statements, the following standards were not effective yet. The effective date is indicated in each standard and the Group will adopt them on said effective dates and not earlier.

- IFRS 16 "Leases"
  IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17, unless such operations are short-term operations or involve low-value assets.

  At the commencement date of a lease, a lessee shall recognize an asset and a liability that represents the right to use the underlying asset and the related consideration, respectively. Also, lessees shall be required to separately recognize the interest and depreciation expense.

  Lessees shall be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee shall generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors shall continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

  The Group is conducting a diagnosis and in the year 2018 the Group will continue assessing the potential effect of the applying of this new standard in the consolidated financial statements.

- IFRS 17 "Insurance Contracts"
  The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects and also including (i) a specific adaptation for contracts with direct participation features (the variable fee approach) and (ii) a simplified approach (the premium allocation approach) mainly for short-duration contracts.

  IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

These requirements do not apply for the Group because its activities are predominantly related to financial services (banks).

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
  The interpretation clarifies that when determining the exchange rate to be used in the initial recognition of the asset, expense or income (or part thereof), corresponding to the derecognition of a non-monetary asset or liability related to an advance consideration, the transaction date is the date at which the entity initially recognizes the non-monetary asset or liability arising from the advance payment.

  The Group has made an assessment and concluded that the applying of the standard will not have significant effects on its consolidated financial statements.

- Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty must be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019.

  The Management of the Group concluded that this interpretation will not have a significant impact on its consolidated financial statements.

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

  These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. In December 2015, the IASB decided to defer the application date of this amendment indefinitely.

5. Cash and due from banks

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Cash and clearing (b)	2,073,078	1,545,638
Deposits in the Central Reserve Bank of Peru – BCRP (b)	5,878,533	5,304,343
Deposits in banks (c)	1,274,006	1,647,066
Restricted funds	1,807	651
	9,227,424	8,497,698
Accrued interest (d)	1,977,419	3,264,105
Total	11,204,843	11,761,803

(b) In accordance with rules in force, Interbank is required to maintain a legal reserve in order to honor its obligations with the public. This reserve may be comprised of funds kept in Interbank and BCRP vaults and is made up as follows:

	2017 S/(000)	2016 S/(000)
Legal reserve		
Deposits in BCRP	5,178,949	4,663,823
Cash in vaults	1,948,711	1,522,791
Subtotal legal reserve	7,127,660	6,186,614
Non-mandatory reserve		
Overnight BCRP deposits	699,584	640,520
Cash	124,163	22,803
Subtotal non-mandatory reserve	823,747	663,323
Cash and due from banks not subject to legal reserve	204	44
Total	7,951,611	6,849,981

The legal reserve funds maintained at the BCRP are non-interest bearing, except for the part that exceeds the minimum reserve required that accrued interest at an annual rate established by the BCRP. As of December 31, 2017, the excess in foreign currency accrued interest in US Dollars at an annual average rate of 0.37 percent (0.18 percent as of December 31, 2016), whereas the excess amount in Soles accrued interest in Soles at an annual average rate of 0.05 percent (1.05 percent as of December 31, 2016).

In Management's opinion, Interbank has complied with the requeriments established by the rules in force related to the computation of the legal reserve.

(c) Deposits in domestic banks 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.

(d) The Group maintains restricted funds related to:

	2017 S/(000)	2016 S/(000)
Repurchase agreements with BCRP (*)	1,882,244	3,071,424
Derivative financial instruments, Note 10(b)	90,093	192,137
Others	5,082	544
Total	1,977,419	3,264,105

(*) As of December 31, 2017, correspond to deposits maintained in BCRP which guarantee repurchase agreements amounting to S/1,890,962,000 including interests (guaranteed repurchase agreements amounting to S/2,990,031,000 including interests as of December 31, 2016), Note 12(b).

Cash and cash equivalents presented in the consolidated statements of cash flows exclude the restricted funds and accrued interest, see Note 4.4(ad).

6. 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			
		Unrealized gross amount				Unrealized gross amount		
	Amortized cost S/(000)	Gains S/(000)	Losses S/(000)	Estimated fair value S/(000)	Amortized cost S/(000)	Gains S/(000)	Losses S/(000)	Estimated fair value S/(000)
Corporate, leasing and subordinated bonds	7,073,038	197,914	(48,087)	7,222,865	4,120,202	33,861	(153,726)	4,000,337
Peruvian Sovereign Bonds	2,439,351	67,811	(16,071)	2,491,091	1,223,965	1,659	(88,220)	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
Mutual funds and investment funds participations	895,304	82,440	(21,427)	956,317	1,030,427	61,319	(18,558)	1,073,188
Bonds guaranteed by the Peruvian Government	857,344	15,883	(5,426)	867,801	471,338	7,308	(5,596)	473,050
Global Bonds of the Republic of Peru	478,144	1,330	(2,274)	477,200	163,778	-	(5,636)	158,142
Global Bonds of the Republic of Colombia	212,818	1,304	(1,509)	212,613	44,957	-	(1,091)	43,866
Indexed Certificates of Deposit issued by BCRP	169,002	-	(1,598)	167,404	39,414	51	-	39,465
Global Bonds of the United Mexican States	105,247	224	(375)	105,096	138,022	-	(1,708)	136,314
United States of America Treasury Bonds	45,611	-	(355)	45,256	66,575	-	(551)	66,024
Global Bonds of the Republic of Panama	35,295	120	(210)	35,205	-	-	-	-
Certificates of deposits payable in US Dollars issued by BCRP	21,446	-	(1)	21,445	-	-	-	-
Global Bonds of Canada	4,005	-	(31)	3,974	-	-	-	-
Total	14,270,245	369,354	(97,382)	14,542,217	9,008,523	106,721	(275,170)	8,840,074
Listed shares								
BioPharma Credit PLC (f)	280,601	11,359	-	291,960	-	-	-	-
InRetail Perú Corp. (g)	75,376	92,830	-	168,206	110,217	92,857	-	203,074
Energía del Sur	71,307	-	(7,167)	64,140	72,024	7,941	-	79,965
Graña y Montero (*)	-	-	-	-	45,152	2,954	-	48,106
Peruvian and foreign entities	152,927	6,075	(6,475)	152,527	179,956	15,337	(8,387)	186,906
Non-listed shares and participations								
Royalty Pharma (h)	60,766	7,774	-	68,540	62,923	5,341	-	68,264
Others	936	670	-	1,606	968	694	(129)	1,533
	641,913	118,708	(13,642)	746,979	471,240	125,124	(8,516)	587,848
	14,912,158	488,062	(111,024)	15,289,196	9,479,763	231,845	(283,686)	9,427,922
Accrued interest				170,464				90,476
Total				15,459,660				9,518,398

(*) During 2017, the Group sold 2,330,319 shares recording a loss amounting to approximately S/6,814,000 that is part of the caption "Net gain on sale of securities" of the consolidated income statements.

(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 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):

- Assessing 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.

(c) As a result of the impairment assessment of its available-for-sale investments, the Group recorded an impairment amounting to S/20,759,000, S/28,323,000 and S/78,285,000 during 2017, 2016 and 2015, respectively, which is presented in the caption "Impairment loss on available-for-sale investments" of the consolidated income statements. The movement of available-for-sale investments unrealized results, net of deferred Income Tax and non-controlling interest, is presented in Note 16(d) and (e). 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				
Issuer	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)	Maturity as of December 31, 2017	Risk rating as of December 31, 2017 (***)
Peruvian Sovereign Bonds	2,439,351	67,811	(16,071)	1,223,965	1,659	(88,220)	2018 - 2055	A- (*)
Bonds guaranteed by the Peruvian Government	857,344	15,883	(5,426)	471,338	7,308	(5,596)	2024 - 2034	BBB+ (*)
Global Bonds of the Republic of Peru	478,144	1,330	(2,274)	163,778	-	(5,636)	2025 - 2050	BBB+ (*)
Banco de Crédito del Perú S.A.	180,064	420	(12,283)	184,420	176	(6,962)	2020 - 2069	BB- (*)
Corporación Financiera de Desarrollo S.A.	376,004	8,416	(8,641)	182,340	33	(15,368)	2019 - 2046	AA+ (*)
H2Olmos S.A.	173,838	35	(3,951)	115,247	18	(11,417)	2018 - 2032	AA+ (**)
Fibra Uno	177,271	2,016	(3,329)	105,709	-	(17,868)	2044	BBB (*)
Línea Amarilla S.A.C.	172,110	2,352	(2,715)	91,071	163	(8,670)	2037	AA (**)
Export Import Bank of Korea	89,669	1,543	(2,081)	86,014	1,008	(4,825)	2022 - 2041	AA (*)
Mexico City Airport Trust S.A	85,173	-	(1,539)	66,251	-	(5,400)	2047	BBB+ (*)
Abengoa Transmisión Sur S.A.	256,075	4,446	(485)	162,526	3	(10,217)	2043	BBB (*)
Mexichem S.A.	149,071	4,180	(164)	49,043	-	(4,865)	2042 - 2044	BBB- (*)
Fermaca Enterprises S.R.L.	143,157	4,590	(78)	96,470	-	(4,410)	2038	BBB- (*)
Vale Overseas Ltd.	118,870	6,457	-	94,645	-	(11,183)	2034 - 2039	BBB- (*)
G y M Ferrovías S.A.	235,878	11,206	-	141,176	-	(6,357)	2039	AA+ (**)
Votorantim Cimentos S.A.	106,306	10,542	-	97,127	1,095	(6,314)	2041	BB+ (*)
Rutas de Lima S.A.C.	277,685	16,331	-	183,751	651	(4,841)	2036 - 2039	A- (**)
Southern Perú Copper Corporation S.A.A.	138,956	22,419	-	164,918	4,237	(4,226)	2028 - 2040	BBB (*)
Edelnor S.A.A.	1,428	51	-	41,991	557	(4,117)	2022	AAA (**)
Concesionaria La Chira	94,623	2,266	-	96,173	-	(4,104)	2036	AAA (**)
Instruments with individual minor losses		21,517	(38,345)		-	(44,574)		
		203,811	(97,382)		16,908	(275,170)		

(*) Instrument rated abroad.

(**) Instrument rated in Peru.

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

(d) As of December 31, 2016, Interbank held Negotiable Certificates of Deposit issued by BCRP amounting to approximately S/101,054,000 as a guarantee for loans received from this entity, see Note 12(b), which matured in January 2017.

(e) As of December 31, 2017 and 2016, the maturities and the annual effective interest rates of the most significant available-for-sale investments in debt instruments are as follows:

	Maturity		Annual effective interest rates							
	2017	2016	2017				2016			
			S/		US$		S/		US$	
			Min %	Max %	Min %	Max %	Min %	Max %	Min %	Max %
Corporate, leasing and subordinated bonds	Jan 2018 / Jan 2114	Jan 2017 / Feb 2097	1.00	14.00	1.66	15.15	3.16	9.41	1.05	23.92
Peruvian Sovereign Bonds	Feb 2018 / Feb 2055	Feb 2018 / Feb 2055	2.00	8.09	-	-	1.90	8.09	-	-
Negotiable Certificates of Deposit issued by BCRP	Jan 2018 / Jun 2019	Jan 2017 / Mar 2018	3.50	3.71	-	-	4.25	4.51	-	-
Bonds guaranteed by the Peruvian Government	May 2024 / Jul 2034	May 2024 / Apr 2043	4.00	6.01	4.00	6.60	4.10	6.01	5.16	6.60
Global Bonds of the Republic of Peru	Jul 2025 / Nov 2050	Mar 2019 / Jul 2025	-	-	2.47	4.20	-	-	2.10	3.49
Global Bonds of the Republic of Colombia	Mar 2019 / Sep 2037	Mar 2019 / Jul 2021	-	-	1.99	5.00	-	-	2.24	3.29
Indexed Certificates of Deposit issued by BCRP	Feb 2018	Jan 2017	-	-	0.00	0.00	-	-	0.00	0.00
Global Bonds of the United Mexican States	Dec 2019 / Sep 2034	Mar 2022 / Jan 2045	-	-	2.00	4.00	-	-	3.61	5.44
United States of America Treasury Bonds	Jan 2018 / Nov 2024	Jan 2017 / Aug 2026	-	-	1.09	2.31	-	-	0.37	2.32
Global Bonds of the Republic of Panama	Apr 2034 / Jan 2036	-	-	-	4.00	5.00	-	-	-	-
Certificates of deposits payable in US Dollars issued by BCRP	Jan 2018	-	3.30	3.30	-	-	-	-	-	-
Global Bonds of Canada	Jul 2023	-	-	-	3.00	3.00	-	-	-	-

See Note 30.2(b)(ii) for the analysis by currency of these investments.

(f) As of December 31, 2017, the Group through its Subsidiaries, Interseguro, Inteligo Bank and Seguro Sura, holds 85,957,350 shares, which represent 9.40 percent of BioPharma Credit PLC's capital stock, a public company dedicated to the life sciences industry whose shares are listed on the "Specialist Fund Segment" (segment designed for highly specialized investment entities that target institutional, highly knowledgeable investors or professionally investors) of the London Stock Exchange.

(g) As of December 31, 2017 and 2016, the Group held approximately 2,473,621 and 3,125,000 shares, which represented 2.41 and 3.04 percent, respectively, of InRetail Perú Corp.'s capital stock (a related entity).

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

As of December 31, 2017 and 2016, the Group held 152,251 shares of RPI Partnership. As of December 31, 2017, the fair value of these shares amounted to approximately US$21,148,000, equivalent to approximately S/68,540,000 (US$20,341,000, equivalent to approximately S/68,264,000, as of December 31, 2016).

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

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

During 2017, 2016 and 2015, the Group received dividends from these shares for approximately S/4,467,000, S/22,097,000 and S/20,148,000, respectively, which are included in the "Interest and similar income" caption in the consolidated income statements.

(i) As of December 31, 2017 and 2016, held-to-maturity investments are entirely comprised of Peruvian Sovereign Bonds amounting to S/1,248,745,000 and S/611,293,000, respectively, including accrued interests.

As of December 31, 2017, these investments have maturities between August 2020 and August 2037, have accrued interest at effective annual rates between 4.05 percent and 6.33 percent; and their estimated fair value amounts to approximately S/1,303,196,000 (with maturities between August 2020 and August 2037, accrued interest at effective annual rates between 5.34 percent and 6.33 percent; and their estimated fair value amounts to approximately S/605,299,000, as of December 31, 2016).

During 2017, Interbank reclassified Peruvian Sovereign Bonds classified as available-for-sale investments into held-to-maturity investments whose carrying value and cumulative unrealized gain recorded in equity at such date amounted to approximately S/62,796,000 and S/298,000, respectively (during 2016, it was reclassified Peruvian Sovereign Bonds whose carrying value and cumulative unrealized gain recorded in equity amounted to approximately S/129,548,000 and S/220,000, respectively; and during 2015, it reclassified Peruvian Sovereign Bonds whose carrying value and cumulative unrealized loss recorded in equity amounted to approximately S/295,041,000 and S/25,208,000, respectively). In accordance with accounting rules, such unrealized gains and losses will be transferred to each period's results through the remaining term of the instruments. As a result of these transfers, Interbank has recorded a net loss of approximately S/2,608,000, S/2,537,000 and S/1,511,000, in the consolidated income statements for the period 2017, 2016 and 2015, respectively, notes 16(d) and (e).

As of December 31, 2017, Interbank holds repurchase agreements with BCRP for approximately S/332,850,000, including accrued interests, which are guaranteed with Peruvian Sovereign Bonds, classified and restricted, for approximately S/362,644,000, see Note 12(b).

(j) The table below presents the balance of available-for-sale and held-to-maturity investments as of December 31, 2017 and 2016, classified by maturity, excluding accrued interest:

	2017		2016	
	Available-for-sale investments S/(000)	**Held-to-maturity investments** S/(000)	**Available-for-sale investments** S/(000)	**Held-to-maturity investments** S/(000)
Up to 3 months	1,592,653	-	418,994	-
From 3 months to 1 year	749,050	-	1,469,575	-
From 1 to 3 years	749,127	193,998	726,887	-
From 3 to 5 years	395,317	-	630,468	102,254
From 5 years onwards	10,099,753	1,027,252	4,520,962	495,934
Shares and participations in mutual funds and investment funds (without maturity)	1,703,296	-	1,661,036	-
Total	15,289,196	1,221,250	9,427,922	598,188

7. Loans, net

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Direct loans		
Loans	21,833,083	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	794,450	693,320
	29,174,701	27,907,460
Plus (minus)		
Accrued interest from performing loans (d)	286,543	311,695
Unearned interest and interest collected in advance	(54,958)	(26,508)
Allowance for loan losses (c)	(1,202,118)	(1,166,782)
Total direct loans, net	28,204,168	27,025,865
Indirect loans, Note 18(a)	4,266,504	4,450,470

(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 (*)	5,756,403	5,041,107
Small and micro-business loans	686,103	569,879
Total	29,174,701	27,907,460

(*) In October 2017, Interbank acquired a mortgage loan portfolio from Seguros Sura and Hipotecaria Sura for approximately S/217,776,000 and S/3,757,000, respectively.

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

	2017				
	Commercial S/(000)	Mortgage S/(000)	Consumer S/(000)	Small and micro-business S/(000)	Total S/(000)
Beginning of year balances	221,134	60,497	851,927	57,200	1,190,758
Provision	47,325	9,135	743,494	27,981	827,935
Recovery of written-off loans	187	-	123,226	4,723	128,136
Written-off portfolio and sales	(19,772)	(955)	(810,803)	(26,174)	(857,704)
Translation result and others	(5,759)	(2,134)	(25,970)	(299)	(34,162)
End of year balances (*)	243,115	66,543	881,874	63,431	1,254,963

	2016				
	Commercial S/(000)	Mortgage S/(000)	Consumer S/(000)	Small and micro-business S/(000)	Total S/(000)
Beginning of year balances	197,167	46,468	771,266	50,291	1,065,192
Provision	46,343	12,154	703,728	21,420	783,645
Recovery of written-off loans	527	1	115,107	3,429	119,064
Written-off portfolio and sales	(14,116)	(978)	(733,417)	(23,519)	(772,030)
Translation result and others	(8,787)	2,852	(4,757)	5,579	(5,113)
End of year balances (*)	221,134	60,497	851,927	57,200	1,190,758

	2015				
	Commercial S/(000)	Mortgage S/(000)	Consumer S/(000)	Small and micro-business S/(000)	Total S/(000)
Beginning of year balances	192,158	31,660	574,758	36,629	835,205
Provision	40,168	7,407	564,515	33,734	645,824
Recovery of written-off loans	5,161	-	100,543	3,021	108,725
Written-off portfolio and sales	(50,878)	(93)	(488,505)	(25,318)	(564,794)
Translation result and others	10,558	7,494	19,955	2,225	40,232
End of year balances (*)	197,167	46,468	771,266	50,291	1,065,192

(*) The allowance for loan losses includes the allowance for direct and indirect loans amounting to S/1,202,118,000 and S/52,845,000, respectively, as of December 31, 2017 (S/1,166,782,000 and S/23,976,000, respectively, as of December 31, 2016 and S/1,041,579,000 and S/23,613,000, respectively, as of December 31, 2015). 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 10(a).

In Management's opinion, the allowance for loan losses recorded as of December 31, 2017, 2016 and 2015, has been established in accordance with IAS 39 and it is sufficient to cover incurred losses on the loan portfolio.

(d) Interest rates on loans are freely determined based on the rates prevailing in the market.

(e) Interest on past due loans for more than 90 days and loans under legal collection are recorded as income only when collected. Amounts not recognized as income are considered suspended interest income and are recorded in the off-balance sheet accounts.

As of December 31, 2017, 2016 and 2015, it amounted to S/479,261,000, S/351,166,000 and S/307,725,000, respectively.

(f) The table below presents the direct loan portfolio without including accrued interest and interest to be accrued and collected in advance as of December 31, 2017 and 2016, classified by maturity dates:

	2017 S/(000)	2016 S/(000)
Outstanding		
Up to 1 month	2,658,985	2,792,761
From 1 to 3 months	3,584,372	3,191,799
From 3 months to 1 year	6,074,474	6,233,778
From 1 to 5 years	10,707,514	10,230,000
Over 5 years	5,354,906	4,765,802
	28,380,251	27,214,140
Past due loans		
Up to 4 months	171,189	155,766
Over 4 months	280,238	242,498
Under legal collection	343,023	295,056
	29,174,701	27,907,460

See credit risk analysis in Note 30.1.

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

8. Investment property

(a) This caption is made up as follows:

	2017	2016	Acquisition or construction year	Hierarchy level (i)	Valuation methodology (d) 2017/2016
	S/(000)	S/(000)			
Land -					
San Isidro – Lima	240,715	255,431	2009	Level 3	Appraisal
Miraflores – Lima (b)	72,421	-	2017	Level 3	Appraisal
San Martín de Porres – Lima	63,299	60,008	2015	Level 3	Appraisal
Piura	40,142	39,889	2008	Level 3	Appraisal
Yanahuara – Arequipa (iii)	26,323	-	2017	Level 3	Appraisal
Sullana	25,419	25,008	2012	Level 3	Appraisal
Santa Clara - Lima (iii)	9,937	-	2017	Level 3	Appraisal
Chimbote	9,399	8,710	2015	Level 3	Appraisal
Others	15,464	15,512	-	Level 3	Appraisal
	503,119	404,558			
Completed investment property -					
"Real Plaza" Shopping Malls					
Pucallpa	190,676	218,799	2014	Level 3	DCF / appraisal (2017)
Talara	37,932	40,060	2015	Level 3	DCF
	228,608	258,859			
Buildings -					
Orquídeas - San Isidro - Lima (iii)	116,317	-	2017	Level 3	DCF
Ate Vitarte –Lima	57,781	45,865	2006	Level 3	DCF
Maestro – Huancayo (iii)	30,510	-	2017	Level 3	DCF
Chorrillos – Lima (b)	24,798	-	2017	Level 3	DCF
Cusco (b)	23,794	-	2017	Level 3	DCF
Panorama – Lima	20,653	20,724	2016	Level 3	DCF
Orquídeas - San Isidro -Lima (b)	16,913	-	2017	Level 3	DCF
Trujillo	15,369	10,166	2016	Level 3	DCF
Cercado de Lima – Lima (iii)	11,577	-	2017	Level 3	DCF
Others (iii)	23,445	-	2017	Level 3	DCF / appraisal
Others	6,836	3,596	-	Level 3	DCF / appraisal
	347,993	80,351			
Built on leased land -					
San Juan de Lurigancho – Lima (iii)	37,726	-	2017	Level 3	DCF
Others	1,162	1,417	-	Level 3	DCF
	38,888	1,417			
Total	1,118,608	745,185			

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 properties.

(iii) Investment property incorporated as part of the acquisition of Seguros Sura, Note 2.

The movement of investment property for the years ended December 31, 2017, 2016 and 2015, is as follows:

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Beginning of year balance	745,185	713,262	652,881
Acquisition of Seguros Sura, Note 2	251,212	-	-
Additions (b)	124,089	56,833	92,426
Sales (c)	-	(23,530)	(58,745)
Valuation (loss) gain	(1,878)	(1,380)	26,700
End of year balance	1,118,608	745,185	713,262

(b) During 2017, main additions correspond to the acquisition of a percentage of a land lot located in Miraflores, Lima (denominated "Cuartel San Martin"), for approximately S/48,600,000 from a related entity; also, a building located in Chorrillos, for approximately S/26,550,000, acquired from an unrelated entity and another building located in Cusco for approximately S/22,515,000 acquired from a related entity. The latter two amounts include subsequent disbursements related to the construction of said buildings.

During 2016, main additions correspond to the acquisition from unrelated parties of a land lot in Talara, a building in Trujillo and the "Panorama" building located in Lima.

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

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

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

(d) Fair value measurement – Investment property and investment property under construction
Valuation techniques -
The discounted cash flow (DCF) method is used for completed shopping malls, buildings and investment property built on land leases and own lands.

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

The fair value of land is determined based on the value assigned by an external appraiser. The external appraiser uses the market comparable method; under this method a property's fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter. As of December 31, 2017, the range of San Isidro land price per square meter is between US$4,750 and US$7,000 and the average is US$5,567; the range of Lima - San Martín de Porres land price per square meter is between US$650 and US$850 and the average is US$695, the range of Lima - Miraflores land price per square meter is between US$1,500 and US$3,500 and the average is US$2,178; and for the other land lots the average price per square meter is US$230.

Main assumptions

A brief description of the assumptions considered in the determination of cash flows as of December 31, 2017 and 2016, is presented below:

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

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

	US$ / Percentage	
	2017	2016
Average ERV	US$66.2	US$56.3
Long-term inflation	2.5%	2.5%
Long-term occupancy rate	95.0%	95.0%
Average growth rate of rental income	3.3%	3.8%
Average NOI margin	94.2%	94.0%
Discount rate	9.0%	9.0%

Sensitivity analysis

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

		2017 S/(000)	2016 S/(000)
Average growth rate of rental income (basis)			
Increase	+0.25%	15,608	5,210
Decrease	-0.25%	(14,486)	(4,838)
Long-term inflation (basis)			
Increase	+0.25%	15,127	4,939
Decrease	-0.25%	(14,018)	(4,574)
Discount rate (basis)			
Increase	+0.5%	(41,218)	(22,665)
Decrease	-0.5%	47,817	26,252

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

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

Year	2017 S/(000)	2016 S/(000)
Within 1 year	44,004	24,391
After 1 year but not more than 5 years	230,397	130,410
Over 5 years	1,142,181	624,804
Total	1,416,582	779,605

As of December 31, 2017 and 2016, the minimum rental income is computed considering a period between 20 and 25 years.

9. Property, furniture and equipment, net

(a) The movement of property, furniture and equipment and accumulated depreciation for the years ended December 31, 2017, 2016 and 2015, is as follows:

Description	Land S/(000)	Buildings, facilities and leasehold improvements S/(000)	Furniture and equipment S/(000)	Vehicles S/(000)	In-transit equipment and work-in-progress S/(000)	Total 2017 S/(000)	Total 2016 S/(000)	Total 2015 S/(000)
Cost								
Balance as of January 1	178,588	483,578	543,652	1,035	45,170	1,252,023	1,202,180	1,146,665
Acquisition of Seguros Sura and Hipotecaria Sura, note 2	766	5,363	1,926	146	-	8,201	-	-
Additions	-	7,242	45,798	-	31,645	84,685	79,835	68,130
Transfers	-	12,755	13,947	-	(26,702)	-	-	-
Disposals, write-offs and others (d)	-	(6,392)	(24,952)	(11)	-	(31,355)	(29,992)	(12,615)
Balance as of December 31	179,354	502,546	580,371	1,170	50,113	1,313,554	1,252,023	1,202,180
Accumulated depreciation								
Balance as of January 1	-	261,920	399,419	864	-	662,203	623,022	569,463
Depreciation of the year	-	20,077	48,016	84	-	68,177	65,840	63,130
Disposals, write-offs and others (d)	-	(5,184)	(24,274)	(7)	-	(29,465)	(26,659)	(9,571)
Balance as of December 31	-	276,813	423,161	941	-	700,915	662,203	623,022
Net cost as of December 31	179,354	225,733	157,210	229	50,113	612,639	589,820	579,158

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

(c) Management periodically reviews the residual values, useful life and the depreciation method to ensure they are consistent with the economic benefits and life expectation of property, furniture and equipment. In Management's opinion, there is no evidence of impairment in its property, furniture and equipment as of December 31, 2017, 2016 and 2015.

(d) During 2017, 2016 and 2015, corresponded mainly to write-offs performed on fully depreciated assets.

10. 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	239,671	210,446
Assets for technical reserves for claims and premiums by reinsurers	124,441	128,168
Accounts receivable related to derivative financial instruments (b)	92,820	203,089
Operations in process (c)	67,783	37,429
Accounts receivable from sale of investments	60,892	147,655
Accounts receivable from reinsurers and coinsurers	36,427	28,936
Insurance operations receivables, net	27,200	19,407
Credit card commissions receivable	14,551	14,845
Total	663,785	789,975
Non-financial instruments		
Intangible assets, net (d)	488,715	267,401
Goodwill, acquisition of Subsidiaries, Note 2	628,218	-
Deferred charges	78,114	53,884
Investments in associates	55,993	51,777
Value Added tax credit (e)	50,571	86,213
Prepaid Income Tax	44,429	55,178
Prepaid rights to related entity, Note 27(f)	10,876	14,532
Others	6,216	12,214
	1,363,132	541,199
Total	2,026,917	1,331,174
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	425,135	377,828
Operations in process (c)	148,483	116,273
Accounts payable related to derivative financial instruments (b)	133,921	236,137
Contract liability with investment component, Note 4.4(c)	129,592	-
Workers' profit sharing and salaries payable	114,084	110,549
Accounts payable for acquisitions of investments	96,804	50,528
Accounts payable to reinsurers and coinsurers	58,560	51,468
Allowance for indirect loan losses, Note 7(c)	52,845	23,976
	1,159,424	966,759
Non-financial instruments		
Taxes payable	65,261	52,144
Deferred income	54,161	57,254
Provision for other contingencies	52,914	50,383
Others	21,959	35,524
	194,295	195,305
Total	1,353,719	1,162,064

(b) 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; see Note 18(a):

		2017				2016				2017 and 2016
	Note	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)	Maturity	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)	Maturity	Hedged instruments
Derivatives held for trading										
Forward exchange contracts		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	-
		90,387	129,736	9,101,332		201,242	236,137	8,576,560		
Derivatives held as hedges										
Cash flow hedges:										
Cross currency swaps (CCS)	13(f)	505	-	486,150	October 2027	-	-	-	-	Senior bonds
Interest rate swaps (IRS)	12(f)	217	-	162,050	January 2018	499	-	167,800	January 2018	Due to banks
Interest rate swaps (IRS)	12(g)	1,036	-	162,050	October 2018	967	-	167,800	October 2018	Due to banks
Interest rate swaps (IRS)	12(h)	675	-	129,640	August 2018	381	-	134,240	August 2018	Due to banks
Cross currency swaps (CCS)	13(e)	-	4,185	64,820	October 2020	-	-	-	-	Senior bonds
		2,433	4,185	1,004,710		1,847	-	469,840		
		92,820	133,921	10,106,042		203,089	236,137	9,046,400		

As of December 31, 2017 and 2016, certain derivative financial instruments required the establishment of collateral deposits; see Note 5(d).

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

(ii) The future effect of current cash flow hedges on the consolidated income statements, net of the deferred Income Tax, which will be included in the caption "Net trading (loss) income" when realized, is presented below:

	As of December 31, 2017			As of December 31, 2016		
	Up to 1 year S/(000)	From 1 to 3 years S/(000)	Expected effect S/(000)	Up to 1 year S/(000)	From 1 to 3 years S/(000)	Expected effect S/(000)
Consolidated income statements – Income (expense)	713	(749)	(36)	173	1,128	1,301

The transfer of net unrealized losses on cash flow hedges to the consolidated income statements is presented in Note 16(d).

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

(d) The movement of intangible assets and accumulated amortization for the years ended December 31, 2017, 2016 and 2015, is as follows:

	2017					2016	2015
Description	Software S/(000)	In-transit-software S/(000)	Present value of acquired in-force business (PVIF) S/(000)	Other intangible assets S/(000)	Total S/(000)	Total S/(000)	Total S/(000)
Cost							
Balance as of January 1	463,121	88,746	-	5,462	557,329	425,237	323,782
Acquisition of Seguros Sura and Hipotecaria Sura, note 2	526	-	137,900	-	138,426	-	-
Additions and transfers	40,186	118,785	-	1,544	160,515	132,579	104,561
Disposals and write-offs	(943)	-	-	-	(943)	(487)	(3,106)
Transfers	76,432	(76,432)	-	-	-	-	-
Balance as of December 31	579,322	131,099	137,900	7,006	855,327	557,329	425,237
Accumulated amortization							
Balance as of January 1	285,687	-	-	4,241	289,928	225,876	177,946
Amortization of the year	71,945	-	4,807	233	76,985	64,278	47,930
Disposals and write-offs	(301)	-	-	-	(301)	(226)	-
Balance as of December 31	357,331	-	4,807	4,474	366,612	289,928	225,876
Net book value	221,991	131,099	133,093	2,532	488,715	267,401	199,361

Management assesses periodically the amortization method used with the purpose of ensuring that it is consistent with the economic benefit of the intangible assets. In Management's opinion, there is no evidence of impairment in the Group's intangible assets as of December 31, 2017, 2016 and 2015.

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

11. Deposits and obligations

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Time deposits (d)	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	5,836	5,703
Total	32,607,637	30,097,850

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

(c) As of December 31, 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.

(d) The table below presents the balance of time deposits classified by maturity as of December 31, 2017 and 2016:

	2017 S/(000)	2016 S/(000)
Up to 1 month	4,248,085	3,106,740
From 1 to 3 months	2,908,367	2,541,349
From 3 months to 1 year	3,652,917	3,900,874
From 1 to 5 years	722,699	528,039
Over 5 years	29,956	22,573
Total	11,562,024	10,099,575

12. 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	20,668	1,847
	4,380,799	5,280,953
Interest and commissions payable	26,593	47,650
	4,407,392	5,328,603
By term		
Short term	2,447,091	1,808,495
Long term	1,960,301	3,520,108
Total	4,407,392	5,328,603

(b) As of December 31, 2017 and 2016, correspond 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 5(d). 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/10,762,000 (with maturities between January 2017 and March 2019, and bearing effective interest rates between 3.00 and 6.38 percent. These operations generated interest payable for approximately S/41,531,000, as of December 31, 2016).

Additionaly, as of December 31, 2017 and 2016, it includes repurchase agreements whereby Interbank receive Soles for approximately S/325,223,000 and S/99,912,000, respectively, and delivers securities of its investment portfolio as guarantees.

In relation to such operations, as of December 31, 2017, Interbank delivered Peruvian Sovereign Bonds as guarantees, which are recorded as held-to-maturity investments; see Note 6(i). These operations have maturities between June 2018 and July 2020, and accrue interests at annual effective rates between 4.05 and 4.72 percent. Also, as of December 31, 2016, the Bank delivered Negotiable Certificates of Deposit issued by BCRP as guarantees, which were recorded as available-for-sale investments; see Note 6(d), these operations were settled in January 2017 and accrued interests at an annual rate of 4.58 percent.

(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 annual interest rate that fluctuated between 7.55 and 10.0 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 maturities between January 2019 and November 2031, as of December 31, 2016).

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

Entity	Country	Final maturity	2017 S/(000)	2016 S/(000)
Development Bank of Latin America (e)	Supranational	2018	243,075	-
HSBC Bank PLC (f)	United Kingdom	2018	162,050	167,800
Wells Fargo Bank & Co. (g)	United States of America	2018	162,050	167,800
JP Morgan Chase & Co. (h)	United States of America	2018	129,640	134,240
Foreign Trade Bank of Latin America, Inc.	Supranational	2018	15,962	49,586
Bank J. Safra Sarasin	Switzerland	2017	-	67,120
Sumitomo Bank	United States of America	2017	-	33,560
			712,777	620,106

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

(e) Corresponds to a loan received by Interbank in September 2017 for US$75,000,000, which bears interest at a 4 month Libor rate plus 0.30 percent and with maturity in January 2018.

(f) Corresponds to a loan received by Interbank in December 2015 for US$50,000,000 (equivalent to approximately S/162,050,000) 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 10(b). Through this transaction the loan was economically converted into a fixed rate obligation.

(g) Corresponds to two loans received in September 2016 for US$40,000,000 and US$10,000,000 (equivalent as a whole to approximately S/162,050,000) 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 10(b). Through these operations, the loans were economically converted into fixed rate obligations.

(h) Corresponds to a loan received by Interbank in July 2016 for US$40,000,000 (equivalent to approximately S/129,640,000) 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 10(b). Through this operation the loan was economically converted into a fixed rate obligation.

(i) Some of the loan agreements include standard covenants related to financial ratios, use of funds criteria and other administrative matters. In Management's opinion, the Group has complied with these covenants as of date of the consolidated financial statements.

(j) As of December 31, 2017 and 2016, maturities of due to bank and other financial obligations are the following:

Year	**2017** S/(000)	**2016** S/(000)
2017	-	1,808,495
2018	2,447,091	2,133,937
2019	527,678	130,319
2020	328,482	133,454
2021 onward	1,104,141	1,122,398
Total	4,407,392	5,328,603

13. Bonds, notes and other obligations

(a) This caption is comprised of the following:

Issuance	Issuer	Annual interest rate	Interest payment	Maturity	Amount issued (000)	2017 S/(000)	2016 S/(000)
Local issuances							
Subordinated bonds – first program (b)							
Second (B series)	Interbank	9.50%	Semi-annually	2023	US$30,000	89,977	100,680
Third (A series)	Interbank	3.5% + VAC (*)	Semi-annually	2023	S/110,000	70,000	110,000
Fifth (A series)	Interbank	8.50%	Semi-annually	2019	S/3,300	3,300	3,300
Sixth (A series)	Interbank	8.16%	Semi-annually	2019	US$15,110	48,972	50,709
Eighth (A series)	Interbank	6.91%	Semi-annually	2022	S/137,900	137,125	137,184
Second, first tranch	Interseguro	6.97%	Semi-annually	2024	US$35,000	113,435	117,460
Second, second tranch	Interseguro	6.00%	Semi-annually	2024	US$15,000	48,615	50,340
First	Seguros Sura	6.67%	Quarterly	2018	US$3,000	9,723	-
						521,147	569,673
Subordinated bonds – second program (b)							
Second (A series)	Interbank	5.81%	Semi-annually	2023	S/150,000	149,729	149,684
Third (A series)	Interbank	7.50%	Semi-annually	2023	US$50,000	155,192	167,360
						304,921	317,044
Total local issuances						826,068	886,717
International issuances							
Subordinated bonds (c)	Interbank	6.625%	Semi-annually	2029	US$300,000	966,729	1,000,573
Junior subordinated notes (d)	Interbank	8.50%	Semi-annually	2070	US$200,000	643,314	664,153
Senior bonds – First and second issuance (e)	Interbank	5.75%	Semi-annually	2020	US$650,000	2,109,565	2,116,298
Senior bonds (f)	IFS	4.125%	Semi-annually	2027	US$300,000	957,476	-
Total international issuances						4,677,084	3,781,024
Total local and international issuances						5,503,152	4,667,741
Interest payable						99,206	101,649
Total						5,602,358	4,769,390

(*) The Spanish term "Valor de Actualización Constante" is refereed to an amount subject to adjustments.

(b) Subordinated bonds do not have specific guarantees and in accordance to SBS rules they qualify as second level equity (Tier 2), see Note 16(f).

(c) Starting in March 2024, the applicable interest rate will be a floating rate of 3-month Libor for US Dollars deposits plus 576 basis points payable quarterly. Starting on that date and on any interest payment date, Interbank can redeem all the notes without penalties.

In accordance with SBS regulation, this issuance qualifies as second tier equity (Tier 2) in the determination of the effective equity; see Note 16(f).

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 16(f).

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.

As of December 31, 2017, Management does not intend to redeem these bonds before their maturity date; however, in January 2018, a exchange of said liability was made, see Note 33.

In June 2017, Interbank signed cross currency swaps for US$20,000,000 (equivalent to approximately S/64,820,000), which were designated as cash flow hedges, see note 10(b); through these operations part of the amount of these bonds was economically converted to Soles.

(f) From 2018 until July 2027, IFS, on any time, can redeem these bonds, paying a penalty equal to the United States Treasury rate plus 30 basis points. The payment of principal will take place on the maturity date of the notes or when IFS redeems the notes.

In October 2017, IFS signed a cross currency swap for US$150,000,000 (equivalent to approximately S/486,150,000), which were designated as a cash flow hedge, see note 10(b); through these operations part of the amount of these bonds was economically converted to Soles.

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

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

(h) As of December 31, 2017 and 2016, the repayment schedule of these obligations is as follows:

Year	2017 S/(000)	2016 S/(000)
2017	-	70,508
2018	75,608	-
2019	52,272	54,009
2020	2,109,565	2,116,298
2021 onwards	3,364,913	2,528,575
Total	5,602,358	4,769,390

14. Insurance contract liabilities

(a) This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)
Technical reserves (b)	10,469,228	4,838,260
Claims reserves (c)	240,615	172,253
	10,709,843	5,010,513
By term		
Short term	583,692	452,055
Long term	10,126,151	4,558,458
Total	10,709,843	5,010,513

(b) The movement of technical reserves disclosed by type of insurance for the years ended December 31, 2017, 2016 and 2015, is as follows:

	2017					2016					2015				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	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	3,437,762	129,349	98,363	32,546	3,698,020
Insurance subscriptions	294,267	-	3,064	27,941	325,272	425,895	-	3,953	27,631	457,479	642,672	-	4,968	24,823	672,463
Acquisition of Seguros Sura, Note 2	4,170,359	579,235	340,242	-	5,089,836	-	-	-	-	-	-	-	-	-	-
Acquisition of Mapfre portfolio (*)	181,849	855	-	-	182,704	-	-	-	-	-	-	-	-	-	-
Time passage adjustments (**)	92,964	12,753	43,803	(29,402)	120,118	68,318	(935)	30,996	(22,523)	75,856	(242,916)	(6,822)	20,826	(25,538)	(254,450)
Maturities and recoveries	-	-	(9,596)	-	(9,596)	-	-	(10,879)	-	(10,879)	-	-	(7,363)	-	(7,363)
Exchange differences	(67,975)	-	(4,808)	403	(72,380)	(29,734)	-	(2,299)	103	(31,930)	224,174	-	14,392	498	239,064
Others	(4,986)	-	-	-	(4,986)	-	-	-	-	-	-	-	-	-	-
End of year balances	9,192,649	714,435	525,662	36,482	10,469,228	4,526,171	121,592	152,957	37,540	4,838,260	4,061,692	122,527	131,186	32,329	4,347,734

(*) On May 25, 2017, after the approval by the SBS, Interseguro acquired a portfolio of insurance policies from Mapfre Perú Vida Compañía de Seguros y Reaseguros S.A. (henceforth "Mapfre", an unrelated party), through the transfer of assets, liabilities, rights and obligations. The assets and liabilities transferred amounted to S/182,704,000 and comprised cash and technical reserves, respectively.

(**) The table below presents the composition of the adjustments due to time passage as of December 31, 2017, 2016 and 2015:

	2017				2016				2015			
	Annuities (***) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities (***) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	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	(218,096)	-	-	(218,096)
Aging insured population effect	(97,539)	43,803	(29,402)	(83,138)	(78,202)	30,996	(22,523)	(69,729)	(65,240)	20,826	(25,538)	(69,952)
Inflation and other effects	7,637	-	-	7,637	29,117	-	-	29,117	33,598	-	-	33,598
Time passage adjustments	105,717	43,803	(29,402)	120,118	67,383	30,996	(22,523)	75,856	(249,738)	20,826	(25,538)	(254,450)

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

(c) Below is the balance of technical reserves for outstanding claims (according to the type of insurance) as of December 31, 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	1,320	128,991	39,315	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
	1,320	171,574	57,400	10,321	240,615	991	124,062	38,122	9,078	172,253

The movement of technical reserves for claims for the years ended December 31, 2017, 2016 and 2015, 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 of the period	331,888	24,316	33,191	26,834	416,229
Acquisition of Seguros Sura, Note 2	27	105,923	13,720	981	120,651
Adjustments to prior years claims	625	8,804	13,867	(8,351)	14,945
Payments	(332,201)	(91,762)	(41,312)	(18,164)	(483,439)
Exchange difference	(10)	231	(188)	(57)	(24)
End of year balances	1,320	171,574	57,400	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 of the period	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

	2015				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year balances	1,785	11,996	22,299	8,907	44,987
Claims of the period	202,667	128,484	28,004	18,914	378,069
Adjustments to prior years claims	-	1,282	12,881	(5,104)	9,059
Payments	(203,919)	(48,401)	(37,720)	(13,939)	(303,979)
Exchange difference	122	-	872	225	1,219
End of year balances	655	93,361	26,336	9,003	129,355

(d) In Management's opinion, these balances reflect the exposure of life and general insurance contracts as of December 31, 2017, 2016 and 2015, in accordance with IFRS 4.

(e) As of December 31, 2017 and 2016, no additional reserves were needed as a result of the liability adequacy test. The main assumptions used in the estimation of retirement, disability and survival annuities and individual life reserves as of those dates, were the following:

	2017		2016	
Type	Mortality table	Technical rates	Mortality table	Technical rates
Annuities	RV – 2009, B- 2006 and MI – 2006 with improvement factor for mortality	5.51 – 4.66% (*) (**) in US$ 3.92 – 3.64% (*) (**) in S/ VAC 6.44 – 6.43% (*) (**) in adjusted S/	RV – 2009, B - 2006 and MI – 2006 with improvement factor for mortality	6.25% (*) (**) in US$ 4.85% (*) (**) in S/ VAC 7.29% (*) (**) in adjusted S/
Retirement, disability and survival	B – 2006 and MI – 2006 with improvement factor for mortality	3.92 – 3.64% (*) (**) in S/ VAC	B – 2006 and MI – 2006 with improvement factor for mortality	4.85%
Individual life insurance contracts (included linked insurance contracts)	CSO 80 adjusted	4.00 – 6.00 %	CSO 80 adjusted	4.00 – 5.00%

(*) Adjusted by credit risk.

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

The sensitivity of the estimates used by the Group to measure its insurance risks is represented primarily by life insurance risks; the main variables as of December 31, 2017 and 2016 are the interest rates and the mortality tables. The Group has assessed the changes of the reserves related to its most significant life insurance contracts included in the reserves of annuities, retirement, disability and survival of +/- 100 basis points (bps) in the interest rates and of +/- 500 basis points (bps) of the mortality factors, being the results as follows:

	2017			2016		
		Variation of the reserve			Variation of the reserve	
Variables	Reserve S/(000)	Amount S/(000)	Percentage %	Reserve S/(000)	Amount S/(000)	Percentage %
Annuities						
Portfolio in S/ and US Dollars - Basis amount	8,735,367			4,318,040		
Changes in interest rate: + 100 bps	8,278,085	(457,282)	(4.97)	4,114,895	(203,145)	(4.49)
Changes in interest rate: - 100 bps	9,707,500	514,851	5.60	4,749,109	227,923	5.04
Changes in mortality table at 105%	9,083,954	(108,695)	(1.18)	4,466,765	(54,421)	(1.20)
Changes in mortality table at 95%	9,307,683	115,034	1.25	4,578,833	57,647	1.28
Retirements, disability and survival						
Portfolio in S/ – Basis amount						
Changes in interest rate: + 100 bps	681,795	(32,640)	(4.57)	115,960	(5,631)	(4.63)
Changes in interest rate: - 100 bps	750,967	36,532	5.11	127,970	6,378	5.25
Changes in mortality table at 105%	705,980	(8,455)	(1.18)	120,141	(1,451)	(1.19)
Changes in mortality table at 95%	723,290	8,855	1.24	123,110	1,519	1.25

15. Deferred Income Tax asset and liability

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

	2017 S/(000)	2016 S/(000)
Deferred assets		
Provision for loan portfolio and other provisions	142,085	129,623
Unrealized losses from derivatives	2,575	3,992
Others	20,480	15,565
Deferred liabilities		
Deemed cost of fixed assets	(56,178)	(52,066)
Amortization of intangible assets, net	(51,918)	(40,545)
Net unrealized gain from fluctuation in available-for-sale investments	-	(13,050)
Others	(3,767)	(9,241)
Total deferred Income Tax asset, net	53,277	34,278
Deferred liabilities		
Net unrealized gain from fluctuation in available-for-sale investments	586	25
Others	(329)	3,921
Total deferred Income Tax liability, net	257	3,946

As of December 31, 2016, the effect of the change in the Income Tax rate generated an expense amounting to S/1,147,000, recorded in the 2016 consolidated income statements, see (d) and Note 17(c).

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

(c) The table below presents the amounts reported in the consolidated income statements for the years ended December 31, 2017, 2016 and 2015:

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Current – Expense	330,902	332,820	383,729
Deferred – Expense (Income)	(4,376)	1,043	(31,143)
	326,526	333,863	352,586

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

	2017		2016		2015	
	S/(000)	%	S/(000)	%	S/(000)	%
Income before Income Tax	1,164,361	100.0	1,167,584	100.0	1,591,390	100.0
Peruvian theoretical tax	343,486	29.5	326,923	28.0	445,589	28.0
Decrease from the income of Subsidiaries not domiciled in Peru	(32,365)	(2.8)	(55,984)	(4.8)	(22,275)	(1.4)
Non-taxable income, net	(30,183)	(2.6)	(820)	(0.1)	(95,079)	(6.0)
Permanent non-deductible expenses	29,690	2.5	42,535	3.6	49,451	3.1
Translation results permanently not considered for tax purposes	15,898	1.4	20,062	1.7	(25,100)	(1.6)
Change in the Income Tax rate, see Notes 15(a) and 17(c)	-	-	1,147	0.1	-	-
Income Tax	326,526	28.0	333,863	28.5	352,586	22.1

16. Equity

(a) Capital stock -

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 their 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).

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

(b) Treasury stock held by Subsidiaries -

As of December 31, 2017 and 2016, the Group holds shares issued by IFS, as detailed below:

	2017		2016	
Entity	**Number of shares** (000)	**Cost** S/(000)	**Number of shares** (000)	**Cost** S/(000)
Interbank	4,996	423,317	5,496	450,756
IFS	432	43,883	432	43,883
Inteligo Bank	-	-	250	27,373
Interfondos	-	-	1	94
Total	5,428	467,200	6,179	522,106

In the Shareholders' Meeting of IFS, held on May 25, 2016, the program of acquisition of own issuance shares was approved. Such acquisition, as agreed, may be carried out on one or more occasions, as appropriate to the IFS's interests, according to the market conditions and other legal limits and factors in force at the time of the acquisition. These acquisitions shall be subject to the current legal limit (ten percent limit of the capital stock) established in Article 84 of the Securities Market Act. Likewise, the Shareholders' Meeting set a limit for the acquisitions made under this program, which may not exceed 3,500,000 shares (equivalent to 3.09 percent of the Company's capital stock). In this sense, during 2017, IFS and its Subsidiaries bought treasury shares for 500,000 shares for an amount of approximately S/52,774,000 (1,889,000 shares for an amount of approximately S/199,892,000, during 2016). Also, in said Meeting, it was approved to delegate to Management the termination of this program, when it deems appropriate.

On August 9, 2017, Management, pursuant to said delegation, informed the Board of Directors of IFS its decision to terminate the program of acquisition of own issuance shares.

During 2017, Interbank sold 1,000,000 shares for an amount of US$34,542,000 (equivalent to approximately S/111,287,000) and Inteligo Bank sold 250,000 shares for an amount of US$9,227,000 (equivalent to approximately S/31,282,000). As a result, IFS recorded a gain that is presented in the caption "Retained earnings" for S/34,984,000.

(c) Capital surplus -

Corresponds to the difference between the nominal value of the shares issued and their public offering price, which was performed in 2007. Capital surplus is presented net of the expenses incurred and related to the issuance of such shares.

(d) Unrealized results on financial instruments -

This item is made-up as follows:

	Unrealized gain (loss)			
	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Foreign currency translation reserve S/(000)	Total S/(000)
Balances as of January 1, 2015	100,559	(3,423)	44,571	141,707
Unrealized loss from available-for-sale investments, net of unrealized gain	(548,956)	-	-	(548,956)
Transfer to realized gain from available-for-sale investment, net of realized loss	(102,550)	-	-	(102,550)
Transfer of impairment loss of available-for-sale investments to consolidated income statements, Note 6(c)	78,285	-	-	78,285
Accrual of unrealized loss from held-to-maturity investment to consolidated income statements, Note 6(i)	1,511	-	-	1,511
Variation for net unrealized gain on cash flow hedges	-	3,190	-	3,190
Transfer of realized gain on cash flow hedges to consolidated income statements, net of realized loss	-	(225)	-	(225)
Foreign currency translation	-	-	65,643	65,643
Balances as of December 31, 2015	(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 investment, net of realized loss	(48,875)	-	-	(48,875)
Transfer of impairment loss of available-for-sale investments to consolidated income statements, Note 6(c)	28,323	-	-	28,323
Accrual of unrealized loss from held-to-maturity investment to consolidated income statements, Note 6(i)	2,537	-	-	2,537
Variation for net unrealized gain on cash flow hedges	-	1,111	-	1,111
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	648	-	648
Foreign currency translation	-	-	(11,340)	(11,340)
Balances as of December 31, 2016	(83,817)	1,301	98,874	16,358
Unrealized gain from available-for-sale investments, net of unrealized loss	543,768	-	-	543,768
Transfer to realized gain from available-for-sale investment, net of realized loss	(113,306)	-	-	(113,306)
Transfer of impairment loss of available-for-sale investments to consolidated income statements, Note 6(c)	20,759	-	-	20,759
Accrual of unrealized loss from held-to-maturity investment to consolidated income statements, Note 6(i)	2,608	-	-	2,608
Variation for net unrealized gain on cash flow hedges	-	(1,477)	-	(1,477)
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	140	-	140
Foreign currency translation	-	-	(22,480)	(22,480)
Balances as of December 31, 2017	370,012	(36)	76,394	446,370

(e) Components of other comprehensive income -

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

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Available-for-sale investments:			
Unrealized gain (loss) from available-for-sale investments	543,768	405,349	(548,956)
Transfer to realized gain from available-for-sale investments, net of realized loss	(113,306)	(48,875)	(102,550)
Transfer of impairment loss from available-for-sale investments to consolidated income statements, Note 6(c)	20,759	28,323	78,285
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements, Note 6(i)	2,608	2,537	1,511
Subtotal	453,829	387,334	(571,710)
Non-controlling interest	470	935	(638)
Income Tax	(14,471)	4,837	(2,373)
Total	439,828	393,106	(574,721)
Cash flow hedges:			
Net unrealized gain (loss) from cash flow hedges	(1,477)	1,111	3,190
Transfer of net realized loss (gain) from cash flow hedge to consolidated income statements	140	648	(225)
Subtotal	(1,337)	1,759	2,965
Non-controlling interest	(19)	12	21
Income Tax	(1,172)	723	1,161
Total	(2,528)	2,494	4,147
Foreign currency translation reserve	(22,480)	(11,340)	65,643

(f) Shareholders' equity for legal purposes (regulatory capital) -
IFS and Inteligo Group Corp. are not required to establish a regulatory capital for statutory purposes. As of December 31, 2017 and 2016, the regulatory capital required for Interbank, Interseguro, Seguros Sura e Hipotecaria Sura, is calculated based on the separate financial statements of each subsidiary prepared following the accounting principles and practices stated by the SBS. Also, as of those dates, the regulatory capital required for Inteligo Bank is calculated in accordance with the requirements of the Central Bank of the Bahamas. The regulatory capital required for Interbank, Interseguro, Seguros Sura, Inteligo Bank e Hipotecaris Sura is detailed below:

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

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

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

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

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

As of December 31, 2017 and 2016, the additional regulatory capital estimated by Interbank amounts to approximately S/710,314,000 and S/657,852,000, respectively.

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

The solvency net equity is represented by the greater amount between the solvency margin and the minimal capital. As of December 31, 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 branch in which these companies operate.

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.

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

	Interseguro		Seguros Sura
	2017 S/(000)	2016 S/(000)	2017 S/(000)
Regulatory capital	549,281	584,755	488,262
Less:			
Solvency equity (solvency margin)	301,671	297,661	231,720
Guarantee fund	105,584	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 US$(000)	**2016** US$(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

Hipotecaria Sura's regulatory capital

As of December 31, 2017, Hipotecaria Sura maintained a regulatory capital of S/11,171,000, assets and contingent credits weighted by total risk of S/4,289,000, keeping a ratio of 260.45 percent. Also, the additional regulatory capital estimated by Hipotecaria Sura amounts to approximately S/680,000.

In the Group Management's opinion, its Subsidiaries have complied with the requirements set forth by the SBS.

(g) Reserves -

The Board of Directors of IFS, held on September 18, 2017, agreed to constitute a reserve of up to 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 of up to 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 of up to S/600,000,000 charged to retained earnings as of December 31, 2015.

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

(h) Subsidiaries' legal and special reserves -

The Subsidiaries domiciled in Peru are required to establish a reserve equivalent to a certain percentage of their paid-in capital (20 or 35 percent, depending on their economic activity) through annual transfers of 10 percent of their net income. As of December 31, 2017 and 2016, these reserves amounted to approximately S/892,103,000 and S/708,986,000, respectively.

17. Tax situation

(a) IFS and its Subsidiaries incorporated and domiciled in the Republic of Panama and the Commonwealth of the Bahamas (see Note 3), 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 3) are subject to the Peruvian Tax legislation, see paragraph (c).

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

In this sense, the Income Tax Act establishes that two assumptions of indirect transfer of shares arise when: (i) 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; and (ii) 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 Group has recorded expenses for S/23,677,000 and S/29,375,000, respectively, in the caption "Income Tax" of the consolidated income statements.

As of December 31, 2017, dividends distributed by Peruvian Subsidiaries to IFS are subject to a withholding of 5.0 percent of the profits generated from this year onwards, while as of December 31, 2016 and 2015, dividends distributed by Peruvian Subsidiaries to IFS are subject to a withholding of 6.8 percent.

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

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

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

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

The Value-Added-Tax and Income Tax returns of Interbank, Hipotecaria Sura, Interseguro and Seguro Sura for the years 2012 to 2017 are pending to be audited by SUNAT.

On the other hand, on April 2004, June 2006, February 2007, June 2007, November 2007, October 2008 and December 2010, Interbank was notified with Tax Assessments and Fine Imposing Resolutions regarding mainly the assessments of the Income Tax years 2000 to 2006, for which it filed Tax Claims and Tax Appeals. In March 2009, August 2010 and December 2011, the Tax Authority issued Intendancy Resolutions regarding tax years 2000 to 2006 for which Interbank filed the corresponding appeals. In December 2014, the Tax Authority issued Resolution of Intendency No. 0150140011647 declaring partly accepted the appeal filed by the Bank corresponding to the 2001 Income Tax. On the part not accepted by SUNAT, Interbank filed a new appeal. In February 2016, Interbank obtained the Tax Court Resolution No.00783-3-2016, which declares as partially founded the case concerning to the 2001 Income Tax. In February 2017, the Lima´s Superior Court of Justice declared invalid the judgment in first instance ordering the judge to re-issue a new decision about the case concerning to the 2002 Income Tax. On September 29, 2017, Interbank obtained the Tax Court Resolution No.08225-1-2017, which declares as partially founded the case concerning to the 2004 Income Tax. In the opinion of Management and its legal advisors, any possible additional tax assessment would not have any material consequences on the Bank's financial statements as of December 31, 2017 and 2016.

Regarding the tax litigations followed by the Bank related to the annual Income Tax returns for the years 2000 to 2006, the Bank's Management and its external legal advisors estimate as remote contingency, as of December 31, 2016, that the most relevant matter subject to discrepancy with the Tax Authority corresponds to whether the "interests in suspense" are subject to Income Tax or not. In this sense, the Bank considers that the interests in suspense do not constitute accrued income, in accordance with the SBS and the IFRS, which is also supported by a ruling of the Permanent Constitutional and Social Law Chamber of the Supreme Court issued in August 2009.

Notwithstanding the foregoing, in February 2018 the Bank was informed that the Third Transitory Chamber of Constitutional and Social Law of the Supreme Court, issued a ruling regarding a third bank that impacts the Bank's original estimation regarding the degree of contingency indicated in the previous paragraph; which, based on this new circumstance and in compliance with the IFRS, the Bank estimates as possible as of the date of this report.

The tax liability requested for this concept and other minors by the Tax Authority as of December 31, 2017, amounts to approximately S/359 million, out of which S/50 million correspond to taxes and the difference to fines and interest arrears.

From the tax and legal analysis carried out, the Bank's Management and its external legal advisors consider that there is sufficient technical support for the prevalence of the Bank's position; as a result, it has not recorded any provision for this contingency as of December 31, 2017 and 2016.

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

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

As of this date, the Bank is under inspection process by the Tax Authority for the years 2012 and 2013. In the opinion of Management and its legal advisors, any additional liquidation of taxes may not be significant for the consolidated financial statements as of December 31, 2017 and 2016.

Since tax regulations are subject to interpretation by SUNAT, it is not possible to determine to date whether such tax audits procedures would result in additional liabilities for the Group's Subsidiaries or not. Therefore, any unpaid tax, penalties or interest that might result from said audit procedures will be recorded as expenses in the year in which they are assessed. Nevertheless, Management and its legal advisors consider that any additional tax assessment would not have a significant impact on the consolidated financial statements as of December 31, 2017, 2016 and 2015.

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

18. Off-balance sheet accounts

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

	2017 S/(000)	2016 S/(000)
Contingent credits - indirect loans (b), Note 7(a)		
Guarantees and stand by letters	4,044,623	4,193,742
Import and export letters of credit	221,881	256,728
	4,266,504	4,450,470
Derivatives		
Held for trading: Note 10(b)		
Forward foreign currency agreements, see Note 30.2(b)(ii):		
Forward currency agreements – purchase	2,317,935	1,742,794
Forward currency agreements – sale	2,776,324	2,013,659
Forward foreign currency agreements in other currencies	379,384	204,630
Interest rate swaps	2,220,102	2,761,079
Foreign currency options	227,647	192,573
Currency swap agreements, see Note 30.2(b)(ii):		
Foreign currency delivery / receipt in Soles	499,816	736,940
Soles delivery / receipt in foreign currency	489,365	727,357
Cross currency swaps	190,759	197,528
Held as hedges: Note 10(b)		
Cash flows:		
Interest rate swaps	453,740	469,840
Cross currency swaps	550,970	-
	10,106,042	9,046,400
Responsibilities for credit lines granted (c)	7,048,951	8,423,434
Responsibilities for credit lines – commercial and others (d)	940,689	577,449
Total	22,362,186	22,497,753

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

The Group applies the same credit policies for granting and evaluating the provisions required for direct loans when performing contingent operations (see Note 7(a)), including obtaining guarantees when deemed necessary. Guarantees vary and include deposits in financial institutions or other assets.

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

(c) Responsibilities under credit lines agreements include consumer credit lines and other consumer loans that are payable when the client receives the notice for that purpose.

(d) Corresponds to commitments of disbursement of future loans that Interbank has committed to carry out; provided that the borrower comply with the obligations under the corresponding loan agreements.

19. Interest and similar income and expenses

This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Interest and similar income			
Interest and fees on loan portfolio	3,201,545	3,184,336	2,906,798
Interest on available-for sale investments	557,997	463,369	389,924
Interest on due from banks and inter-bank funds	30,057	20,537	11,007
Other interest and similar income	19,421	36,570	34,957
Total	3,809,020	3,704,812	3,342,686
Interest and similar expenses			
Interest and fees on deposits and obligations	534,211	461,959	361,693
Interest on bonds, notes and other obligations	315,758	320,986	311,944
Interest and fees on obligations with financial institutions	222,406	255,268	212,106
Deposit insurance fund fees	37,304	35,165	31,096
Other interest and similar expenses	10,210	8,481	4,856
Total	1,119,889	1,081,859	921,695

During the years 2017, 2016 and 2015, the interest and similar income accrued on impaired available-for-sale investments recognized in the consolidated income statement amounted to S/389,000, S/599,000 and S/4,737,000, respectively.

20. Fee income from financial services, net

This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Income			
Maintenance and mailing of accounts, transfer fees and commissions on credit and debit card services	593,154	561,843	508,477
Commissions for banking services	147,336	137,364	144,989
Funds management fees	139,215	131,975	149,304
Fees for indirect loans	60,205	60,249	58,639
Collection services fees	32,792	30,205	26,664
Brokerage and custody services fees	11,638	13,204	7,550
Others	27,207	29,240	31,539
Total	1,011,547	964,080	927,162
Expenses			
Debtor's life insurance premiums	50,777	54,689	57,861
Fees paid to foreign banks	11,054	9,967	9,361
Brokerage and custody services	3,754	2,777	2,027
Others	35,192	34,200	39,547
Total	100,777	101,633	108,796
Net	910,770	862,447	818,366

21. Other income and expenses

(a) This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Other income			
ATM rental income	25,031	23,632	21,109
Income from investments in associates	18,475	14,856	10,606
Gain from sale of written-off-loans (b)	16,956	8,207	20,746
Other technical income from insurance operations	9,273	10,308	9,763
Services rendered to third parties	7,962	7,015	7,236
Incentives for credit cards operations	3,148	11,676	4,502
Insurance recovery	1,122	268	1,686
Other income	33,878	22,652	24,140
Total other income	115,845	98,614	99,788
Other expenses			
Commissions from insurance activities	50,971	31,671	22,040
Sundry technical insurance expenses	16,753	14,999	14,476
Provision for sundry risk	9,748	14,685	12,948
Donations	6,696	5,932	4,519
Administrative and tax penalties	2,185	3,152	2,913
Provision for account receivable	8,699	2,758	3,461
Other expenses	24,615	27,848	54,227
Total other expenses	119,667	101,045	114,584

(b) During the years 2017, 2016 and 2015, Interbank sold in cash to non-related third parties written-off loan portfolios with gross value amounting to S/714,379,000, S/302,248,000 and S/497,334,000, respectively.

22. Net premiums earned

This caption is comprised of the following:

	Premiums assumed			Adjustment of technical reserves			Gross premiums earned (*)			Premiums ceded to reinsurers			Net premiums earned		
	2017 S/(000)	2016 S/(000)	2015 S/(000)	2017 S/(000)	2016 S/(000)	2015 S/(000)	2017 S/(000)	2016 S/(000)	2015 S/(000)	2017 S/(000)	2016 S/(000)	2015 S/(000)	2017 S/(000)	2016 S/(000)	2015 S/(000)
Life insurance															
Annuities (**)	226,564	337,755	548,343	(387,231)	(494,213)	(399,757)	(160,667)	(156,458)	148,586	-	-	-	(160,667)	(156,458)	148,586
Group life	128,259	119,534	107,397	5	(630)	1,485	128,264	118,904	108,882	(3,437)	(3,538)	(3,171)	124,827	115,366	105,711
Individual life	64,467	48,986	42,229	(35,010)	(20,230)	(15,818)	29,457	28,756	26,411	(2,778)	(2,177)	(1,917)	26,679	26,579	24,494
Retirement, disability and survival (***)	36,436	139,633	133,170	(12,753)	935	6,822	23,683	140,568	139,992	(26,189)	(130,536)	(124,425)	(2,506)	10,032	15,567
Others	10	539	2,218	(2,266)	(3,250)	(4,078)	(2,256)	(2,711)	(1,860)	(1)	(131)	(338)	(2,257)	(2,842)	(2,198)
Total life insurance	455,736	646,447	833,357	(437,255)	(517,388)	(411,346)	18,481	129,059	422,011	(32,405)	(136,382)	(129,851)	(13,924)	(7,323)	292,160
Total general insurance	77,894	84,109	71,617	1,461	(3,952)	715	79,355	80,157	72,332	(1,701)	(1,942)	(38)	77,654	78,215	72,294
Total general	533,630	730,556	904,974	(435,794)	(521,340)	(410,631)	97,836	209,216	494,343	(34,106)	(138,324)	(129,889)	63,730	70,892	364,454

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

(**) The variation of the adjustment of technical reserves is due to variation in the rates with which technical reserves are determined, see rate in Note 14(e).

(***) As part of the Private Pension System reform that started in 2013, as regards to the coverage of survival and disability of the pension insurance, the affiliates portfolio was divided into seven parts so that insurance companies manage obligations and rights as a whole. In this way, when an affiliate needs a pension from the pension insurance, the pension will be divided into seven parts and each insurance company will have to assume a corresponding part. This coverage is allocated through a public tender. In December 2016, the call for the "Third Public Tender No. 03/2016" was made to cover the period from January 1, 2017 to December 31, 2018; Interseguro did not win the allocation, but Seguros Sura was awarded a seventh part of this coverage, which is 70 percent reinsured.

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

This caption is comprised of the following:

	Gross claims and benefits			Ceded claims and benefits			Net insurance claims and benefits		
	2017 S/(000)	2016 S/(000)	2015 S/(000)	2017 S/(000)	2016 S/(000)	2015 S/(000)	2017 S/(000)	2016 S/(000)	2015 S/(000)
Life insurance									
Annuities	(332,513)	(251,911)	(202,667)	-	-	-	(332,513)	(251,911)	(202,667)
Group life	(41,110)	(40,164)	(38,826)	2,582	3,649	2,287	(38,528)	(36,515)	(36,539)
Individual life	(2,666)	(3,404)	(1,659)	518	830	302	(2,148)	(2,574)	(1,357)
Retirement, disability and survival	(33,120)	(135,948)	(128,484)	12,262	128,718	122,989	(20,858)	(7,230)	(5,495)
Others	(3,282)	(4,864)	(1,682)	3,386	3,215	2,656	104	(1,649)	974
General insurance	(18,483)	(18,395)	(13,810)	150	74	(17)	(18,333)	(18,321)	(13,827)
	(431,174)	(454,686)	(387,128)	18,898	136,486	128,217	(412,276)	(318,200)	(258,911)

24. Salaries and employee benefits

This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Salaries	515,333	507,691	489,900
Workers' profit sharing	70,267	70,441	79,187
Social security	47,116	45,868	43,330
Severance indemnities	37,655	36,942	36,076
Vacations, health insurance and others	44,211	50,416	43,976
Total	714,582	711,358	692,469

The average number of employees for the years 2017, 2016 and 2015 was 7,817, 7,955 and 7,894, respectively.

25. Administrative expenses

This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Services received from third parties	778,777	735,740	733,364
Taxes and contributions	41,721	40,578	39,548
Total	820,498	776,318	772,912

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

26. Earnings per share

The following table presents the calculation of the weighted average number of shares and the basic and diluted earnings per share, determined and calculated based on the earnings attributable to the Group (described in Note 4.4(aa)):

	Outstanding shares (in thousands)	Shares considered in computation (in thousands)	Effective days in the year	Weighted average number of shares (in thousands)
2015				
Balance as of January 1, 2015	109,360	109,360	365	109,360
Sale of treasury stock	23	23	187	12
Purchase of treasury stock	(563)	(563)	203	(313)
Balance as of December 31, 2015	108,820	108,820		109,059
Net earnings attributable to IFS S/(000)				1,231,766
Basic and diluted earnings per share attributable to IFS (Soles)				11.295
2016				
Balance as of January 1, 2016	108,820	108,820	365	108,820
Sale of treasury stock	8	8	275	6
Purchase of treasury stock	(1,897)	(1,897)	85	(442)
Balance as of December 31, 2016	106,931	106,931		108,384
Net earnings attributable to IFS S/(000)				828,143
Basic and diluted earnings per share attributable to IFS (Soles)				7.641
2017				
Balance as of January 1, 2017	106,931	106,931	365	106,931
Sale of treasury stock	1,251	1,251	28	97
Purchase of treasury stock	(500)	(500)	213	(292)
Balance as of December 31, 2017	107,682	107,682		106,736
Net earnings attributable to IFS S/(000)				831,760
Basic and diluted earnings per share attributable to IFS (Soles)				7.793

27. 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 6(g)	168,206	203,074
Royalty Pharma, Note 6(h)	68,540	68,264
Corporate bonds – InRetail Shopping Mall S.A.	65,334	54,209
Corporate bonds – Colegios Peruanos S.A.C.	64,985	45,177
Corporate bonds – 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 – InRetail Consumer	10,194	-
Corporate bonds – Intercorp Retail Inc.	6,874	19,077
Corporate bonds – San Miguel Industrias PET S.A.	-	24,070
	441,426	451,974
Loan portfolio, net (b)	828,597	784,750
Accounts receivable from UTP (h)	32,713	-
Accounts receivable from Homecenters Peruanos S.A. (g)	23,009	20,861
Accounts receivable related to derivative financial instruments	5,832	11,854
Other assets (f)	15,089	17,931
Liabilities		
Deposits and obligations	311,092	283,564
Other liabilities	2,251	4,444
Accounts payable related to derivative financial instruments	723	-
Off-balance sheet accounts		
Indirect loans (b)	133,571	127,733

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Income (expenses)			
Interest and similar income	67,703	63,506	75,944
Interest and similar expenses	(9,397)	(3,383)	(4,779)
Net gain on sale of securities, Note 6(h)	-	-	60,343
Valuation of financial derivative instruments	520	(229)	-
Rental income	3,318	2,190	1,788
Gain (loss) on sale of investment properties, Note 8(c)	-	2,655	(1,259)
Administrative expenses	(21,780)	(9,583)	(12,963)
Others, net	37,383	31,041	17,692

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

	2017			2016		
	Direct loans S/(000)	Indirect loans S/(000)	Total S/(000)	Direct loans S/(000)	Indirect loans S/(000)	Total S/(000)
Supermercados Peruanos S.A.	198,843	6,753	205,596	116,153	-	116,153
GTP Inversionistas S.A.C.	105,527	-	105,527	-	-	-
Nessus Hoteles Perú S.A.	67,767	-	67,767	80,415	625	81,040
Homecenters Peruanos S.A.	59,508	2,053	61,561	75,216	10,689	85,905
Agrícola Don Ricardo S.A.C.	57,933	-	57,933	9,924	15	9,939
Cineplex S.A.	44,317	12,594	56,911	3,093	16,193	19,286
Colegios Peruanos S.A.C.	50,006	810	50,816	50,033	839	50,872
Intercorp Perú Ltd.	45,004	-	45,004	121,656	-	121,656
San Miguel Industrias PET S.A.	9,750	31,173	40,923	9,750	11,342	21,092
San Miguel Industrias Ecuador	32,500	-	32,500	32,500	-	32,500
Procesos de Medios de Pago S.A.	10,357	19,770	30,127	13,638	20,472	34,110
Bembos S.A.C.	26,802	855	27,657	29,796	1,065	30,861
Eckerd Perú S.A.	19,926	4,862	24,788	26,725	5,034	31,759
Tiendas Peruanas S.A.	20,249	4,032	24,281	26,618	11,019	37,637
PF Interproperties Perú	-	21,291	21,291	-	21,423	21,423
Servicio de Transferencia Electrónica de Beneficios y Pagos S.A.	569	13,522	14,091	806	11,014	11,820
EP de Franquicias S.A.C.	12,971	257	13,228	13,667	311	13,978
EP de Restaurantes S.A.C.	12,311	186	12,497	13,761	264	14,025
Corporación Peruana de Restaurantes S.A.	11,322	299	11,621	11,970	682	12,652
Alameda Colonial S.A.	-	9,451	9,451	-	9,718	9,718
Alert Perú S.A.	8,784	418	9,202	9,981	948	10,929
Nessus Hoteles Perú Selva S.A.	8,690	-	8,690	9,614	-	9,614
Homecenters Peruanos Oriente S.A.	8,448	-	8,448	11,723	-	11,723
Urbi Propiedades S.A.	5,304	657	5,961	10,624	1,467	12,091
Domus Hogares del Norte S.A.	-	1,811	1,811	19,267	-	19,267
Financiera Oh! S.A.	28	321	349	73,811	338	74,149
Others	11,681	2,456	14,137	14,009	4,275	18,284
	828,597	133,571	962,168	784,750	127,733	912,483

(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 years ended December 31, 2017, 2016 and 2015, are presented below:

	2017 S/(000)	2016 S/(000)	2015 S/(000)
Salaries	18,880	16,583	16,710
Board of Directors' compensations	1,940	1,706	1,741
Total	20,820	18,289	18,451

(e) As of December 31, 2017 and 2016, the Group holds participations in different mutual funds managed by Interfondos that are classified as investment at fair value through profit or loss and amounts to S/324,000 and S/161,000, respectively.

(f) It corresponds mainly to prepaid expenses for spaces ceded to Interbank in the stores of Supermercados Peruanos S.A. for the operation of financial agencies until the year 2030, and for an amount of approximately S/10,876,000 and S/14,532,000 as of December 31, 2017 and 2016, respectively; see Note 10(a). Interbank may renew the term of the agreement for an additional term of 15 years.

(g) It corresponds to a loan with maturity in 2046 and bears interest at market value.

(h) As of December 31, 2017, corresponds to a financial lease for the construction of an educational facility in San Juan de Lurigancho district.

(i) In Management's opinion, transactions with related companies have been performed under standard market conditions and within the limits permitted by the 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.

28. Business segments

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

Banking
Mainly loans, credit facilities, deposits and current accounts.

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

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

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

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

No revenue from transactions with a single external customer or counterparty exceeded 10 percent of the Group's total revenues in the years 2017 and 2016.

The following table presents the Group's financial information by business segments for the years ended December 31, 2017, 2016 and 2015:

	2017				
	Banking S/(000)	Insurance (**) S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Total income (*)					
Third party	4,575,130	505,703	340,265	(91,208)	5,329,890
Inter-segment	(93,242)	(46)	(672)	93,960	-
Total income	4,481,888	505,657	339,593	2,752	5,329,890
Extracts of results					
Interest and similar income	3,347,981	334,753	149,935	(23,649)	3,809,020
Interest and similar expenses	(1,046,995)	(18,151)	(53,852)	(891)	(1,119,889)
Net interest and similar income	2,300,986	316,602	96,083	(24,540)	2,689,131
Provision for loan losses, net of recoveries	(830,474)	-	2,539	-	(827,935)
Net interests and similar income after provision for loan losses	1,470,512	316,602	98,622	(24,540)	1,861,196
Fee income from financial services, net	836,149	(3,692)	116,927	(38,614)	910,770
Net gain on sale of securities	40,912	65,009	72,850	6,076	184,847
Gain on sale of IFS shares	25,220	-	9,764	(34,984)	-
Other income	324,868	45,904	(9,211)	(38)	361,523
Total net premiums earned minus claims and benefits	-	(348,546)	-	-	(348,546)
Depreciation and amortization	(127,629)	(9,656)	(7,870)	(7)	(145,162)
Impairment loss of available-for-sale investments	-	(5,496)	(15,263)	-	(20,759)
Other expenses	(1,375,250)	(217,164)	(80,123)	17,131	(1,655,406)
Income before translation result and Income Tax	1,194,782	(157,039)	185,696	(74,976)	1,148,463
Translation result	13,618	873	1,523	(116)	15,898
Income Tax	(303,484)	41	547	(23,630)	(326,526)
Net profit for the year	904,916	(156,125)	187,766	(98,722)	837,835
Attributable to:					
IFS's shareholders	904,916	(156,036)	187,766	(104,886)	831,760
Non-controlling interest	-	(89)	-	6,164	6,075
	904,916	(156,125)	187,766	(98,722)	837,835

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

(**) For the year 2017, includes Interseguro and Seguros Sura.

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

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

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

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

	2017				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Capital expenditures (*)	231,412	131,117	5,508	1,252	369,289
Total assets	45,478,588	12,078,163	3,013,892	19,193	60,589,836
Total liabilities	40,555,067	12,020,868	2,304,094	(127,100)	54,752,929

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

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

(i) The distribution of the Group's total income based on the location of the customer and its assets, for the year ended December 31, 2017, is S/4,990,296,000 in Peru and S/339,593,000 in Panama (for the year ended December 31, 2016, it is S/4,760,973,000 in Peru and S/318,506,000 in Panama and for the year ended December 31, 2015, it is S/4,961,421,000 in Peru and S/251,620,000 in Panama). The distribution of the Group's total assets based on the location of the customer and its assets, as of December 31, 2017, is S/57,575,944,000 in Peru and S/3,013,892,000 in Panama (for the year ended December 31, 2016, it is S/47,704,726,000, in Peru and S/4,014,633,000, in Panama). It should be noted that both income and assets located in Panama correspond mainly to Peruvian citizens.

29. 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 and liabilities designated at fair value						Financial assets and liabilities designated at fair value					
	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	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	92,820	570,965	-	-	-	663,785	203,089	586,886	-	-	-	789,975
	308,828	40,425,217	15,459,660	1,248,475	-	57,442,180	283,238	39,395,948	9,518,398	611,293	-	49,808,877
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	-	-	-	-	5,602,358	5,602,358	-	-	-	-	4,769,390	4,769,390
Due from customers on acceptances	-	-	-	-	41,715	41,715	-	-	-	-	16,392	16,392
Insurance contract liabilities	-	-	-	-	10,709,843	10,709,843	-	-	-	-	5,010,513	5,010,513
Accounts payable, provisions and other liabilities	133,921	-	-	-	1,025,503	1,159,424	236,137	-	-	-	730,622	966,759
	133,921	-	-	-	54,424,456	54,558,377	236,137	-	-	-	46,285,625	46,521,762

30. Financial risk management

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

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

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

(a) Structure and organization of risk management -

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

(i) Interbank -

Board of Directors

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

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

Audit Committee

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

Comprehensive Risk Management Committee

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

Assets and Liabilities Committee

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

Internal Audit Division

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

(ii) Interseguro and Seguros Sura -

Board of Directors

The Board of Directors is responsible for the overall approach to risk management and it is responsible for the approval of the policies and strategies currently used. The Board of Directors provides the principles for overall risk management, as well as the policies prepared for specific areas, such as foreign exchange risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments.

Risk Committee -

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

Investment Committee -

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

Internal Audit Division

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

(iii) Inteligo Bank

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

(b) Risk measurement and reporting systems -

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

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

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

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

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

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

30.1 Credit risk

(a) The Group opts for a credit risk policy that ensures sustained and profitable growth in all its products. In doing so, it applies assessment procedures for the adequate decision-making, and uses tools and methodologies that allow the identification, measurement, mitigation and control of the different risks in the most efficient manner. Likewise, the Group incorporates, develops and reviews regularly management models that allow an adequate measurement, quantification and monitoring of the loans granted by each business unit and also encouraging the continuous improvement of its policies, tools, methodologies and processes.

(b) The Group is exposed to credit risk, which is the risk that a counterparty causes a financial loss by failing to comply with an obligation. Credit risk is the most important risk for the Group’s business; therefore, Management carefully manages its exposure to credit risk. Credit exposures arise mainly in lending activities that lead to loans and investment activities that contribute with securities and other financial instruments to the Group’s asset portfolio. There is also credit risk in the financial instruments of the consolidated statements of financial position, such as contingent credits (indirect loans), which expose the Group to risks similar to those of direct loans; they are mitigated with the same control processes and policies. Likewise, credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statements of financial position.

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

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

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

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

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

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

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

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

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

The long-term loans and fundings to corporate entities are generally guaranteed. Consumer loans to small companies are not generally guaranteed.

Management monitors the fair value of collateral and with the purpose of mitigating credit losses requests additional collateral to the counterparty as soon as impairment evidence exists. The proceeds from the settlement of the collateral obtained are used to reduce or repay the outstanding claim. In general, the Group does not use repossessed properties for its own business.

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

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

(c) Maximum exposure to credit risk -

As of December 31, 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;
- 95.1 percent and 95.0 percent, respectively, of the loan portfolio are classified into the two lower credit risk categories defined by the Group;
- 92.1 percent and 92.3 percent, respectively, of the loan portfolio is deemed non-past-due and non-impaired; and
- 85.4 percent and 75.1 percent, respectively, of available-for-sale-investments are and held-to-maturity investments have at least an investment grade (BBB- or higher) or are debt instruments issued by the BCRP or the Peruvian Government; and

- 98.0 percent and 98.7 percent of the accounts receivable from insurance premiums and leases of the investment properties is considered as non-past due and non-impaired.
- In addition, as of December 31, 2017, the Group holds loans (direct and indirect) and investments in fixed income instruments issued by entities related to the infrastructure sector that, in recent months, have been exposed to local and international events, for an amount of approximately S/1,166,218,000 (S/102,298,000 in direct loans and S/1,063,920,000 in indirect loans) and S/844,593,000, respectively (S/1,347,063,000 (S/128,343,000 in direct loans and S/1,218,720,000 in indirect loans) and S/629,213,000, respectively, as of December 31, 2016). The performance of these instruments will depend on the future development of the aforementioned events, which are out of the Group control. However, it is important to mention that none of the instruments had a significant negative change in the credit category at the date of this report and have guarantees and coverage that significantly reduce the credit risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

	Al 31 de diciembre de 2017						Al 31 de diciembre de 2016					
Loan portfolio classification	Commercial loans	Consumer loans	Mortgage loans	Small and micro-business loans	Total	%	Commercial loans	Consumer loans	Mortgage loans	Small and micro-business loans	Total	%
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)		S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	
Neither past due nor impaired												
Normal	12,785,862	8,039,450	5,184,083	595,972	26,605,367	95	12,826,825	7,661,369	4,457,937	472,228	25,418,359	95
With potential problems	186,748	51,597	23,858	5,945	268,148	1	231,309	82,691	30,182	4,153	348,335	1
	12,972,610	8,091,047	5,207,941	601,917	26,873,515		13,058,134	7,744,060	4,488,119	476,381	25,766,694	
Past due but not impaired												
Normal	316,370	15,669	155,523	14,657	502,219	2	126,428	1,359	190,099	32,474	350,360	2
With potential problems	48,854	243,489	56,967	11,935	361,245	1	39,359	281,047	56,682	8,279	385,367	1
	365,224	259,158	212,490	26,592	863,464		165,787	282,406	246,781	40,753	735,727	
Impaired												
Substandard	68,334	208,946	69,958	9,858	357,096	1	35,951	237,686	75,138	6,629	355,404	1
Doubtful	26,148	353,943	80,450	11,103	471,644	2	52,257	370,107	75,807	8,876	507,047	2
Loss	112,879	273,906	185,564	36,633	608,982	2	95,784	254,302	155,262	37,240	542,588	2
	207,361	836,795	335,972	57,594	1,437,722		183,992	862,095	306,207	52,745	1,405,039	
Total loan portfolio, gross	13,545,195	9,187,000	5,756,403	686,103	29,174,701	104	13,407,913	8,888,561	5,041,107	569,879	27,907,460	104
Minus: Allowance for loan losses	190,753	881,874	66,543	62,948	1,202,118	4	197,293	851,927	60,497	57,065	1,166,782	4
Total, net	13,354,442	8,305,126	5,689,860	623,155	27,972,583	100	13,210,620	8,036,634	4,980,610	512,814	26,740,678	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/807,969,000 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/59,195,000, as impaired, respectively.

In accordance with rules issued by the SBS, the Group modified the contractual conditions of loans granted in areas affected by the weather phenomenon ("El Niño Costero Event") that occurred in Peru during the first quarter of 2017, without the modification resulting in a "refinanced loan". The balance of the rescheduled loans amounted to approximately S/388,000,000, which are not considered as "refinanced loans". As of December 31, 2017, the balance of the reprogrammed credits not considered as "refinanced credits" amounts to approximately S/274,300,000 and its cumulative allowance for loan losses to approximately S/46,577,000.

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

	As of December 31, 2017				
Impaired loans	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro-business loans S/(000)	Total S/(000)
Impaired loans	207,361	836,795	335,972	57,594	1,437,722
Fair value of collateral	174,894	38,734	319,173	47,266	580,067
Allowance for loan losses	123,419	463,428	60,316	44,076	691,239

	As of December 31, 2016				
Impaired loans	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro-business loans S/(000)	Total S/(000)
Impaired loans	183,992	862,095	306,207	52,745	1,405,039
Fair value of collateral	122,894	41,206	290,896	60,403	515,399
Allowance for loan losses	123,746	445,870	53,279	41,459	664,354

(e) Credit risk management for investments -

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

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

	As of December 31, 2017		As of December 31, 2016	
	S/(000)	%	S/(000)	%
Instruments issued and rated in Peru:				
AAA	1,176,330	7.0	836,864	8.3
AA- / AA+	1,951,211	11.7	795,096	7.8
A- / A+	345,453	2.1	22,313	0.2
BBB- / BBB+	890	-	1,233	-
BB- / BB+	60,311	0.4	-	-
	3,534,195	21.2	1,655,506	16.3
Instruments issued in Peru and rated abroad:				
A- / A+	3,811,757	22.8	1,788,996	17.7
BBB- / BBB+	2,425,908	14.5	1,282,168	12.7
BB- / BB+	159,829	1.0	368,840	3.6
B- / B+	9,211	0.1	46,922	0.5
	6,406,705	38.3	3,486,926	34.5
Instruments issued and rated abroad:				
AAA	89,852	0.5	66,086	0.7
AA- / AA+	199,760	1.2	186,137	1.8
A- / A+	283,906	1.7	21,393	0.2
BBB- / BBB+	1,856,650	11.1	860,075	8.5
BB- / BB+	148,574	0.9	99,296	1.0
B- / B+	-	-	31,866	0.3
	2,578,742	15.4	1,264,853	12.5
Unrated				
Certificates of Deposit issued by the BCRP	2,124,799	12.7	1,751,749	17.3
Mutual funds and investment funds participations (*)	956,317	5.7	1,073,188	10.6
Others	162,709	1.0	206,040	2.0
Listed shares				
Peruvian and foreign entities	216,667	1.3	314,977	3.1
BioPharma Credit PLC	291,960	1.7	-	-
InRetail Perú Corp.	168,206	1.0	203,074	2.0
Non-listed shares and participations				
Royalty Pharma	68,540	0.4	68,264	0.7
Others	1,606	-	1,533	-
Total	16,510,446	98.8	10,026,110	99.0
Accrued interest	197,689	1.2	103,581	1.0
Total	16,708,135	100.0	10,129,691	100

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

(f) Concentration of financial instruments exposed to credit risk -

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

	As of December 31, 2017					As of December 31, 2016				
	Financial assets and liabilities designated at fair value					Financial assets and liabilities designated at fair value				
	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)
Central Reserve Bank of Peru	-	7,761,975	2,124,798	-	9,886,773	-	8,375,767	1,751,749	-	10,127,516
Consumer loans	-	9,681,178	-	-	9,681,178	-	9,508,265	-	-	9,508,265
Financial services	224,687	4,677,612 (*)	2,789,881	-	7,692,180	82,288	4,206,974 (*)	2,419,580	-	6,708,842
Mortgage loans	-	5,764,054	70,541	-	5,834,595	-	5,046,014	110,632	-	5,156,646
Manufacturing	13,010	3,072,624	651,585	-	3,737,219	33,831	3,141,710	350,645	-	3,526,186
Commerce	8,689	2,354,948	464,844	-	2,828,481	8,005	2,151,566	331,860	-	2,491,431
Construction	2,430	716,179	2,391,384	-	3,109,993	23,656	789,950	1,252,434	-	2,066,040
Government of Peru	-	-	2,968,289	1,221,250	4,189,539	10,643	-	1,295,546	598,188	1,904,377
Electricity, gas, water and oil	11,008	999,245	1,468,043	-	2,478,296	12,708	1,203,553	705,938	-	1,922,199
Agriculture	-	989,184	30,154	-	1,019,338	49,616	1,015,388	3,166	-	1,068,170
Leaseholds and real estate activities	6,989	883,547	326,258	-	1,216,794	14,283	974,348	104,426	-	1,093,057
Communications, storage and transportation	1,129	769,748	436,474	-	1,207,351	4,773	747,157	142,810	-	894,740
Mining	22,120	551,202	669,218	-	1,242,540	1,159	388,083	366,468	-	755,710
Community services	3,885	305,563	14,302	-	323,750	10,512	309,441	22,052	-	342,005
Insurance	1,337	288,363	333	-	290,033	211	285,219	-	-	285,430
Fishing	-	189,128	2,102	-	191,230	10,793	248,699	7,353	-	266,845
Foreign governments	-	-	402,144	-	402,144	-	-	246,204	-	246,204
Education, health and other services	1,221	114,721	197,606	-	313,548	3,275	121,179	102,724	-	227,178
Medical and biotechnology	-	-	163,165	-	163,165	-	-	183,972	-	183,972
Public administration and defense	8,043	222,725	113,651	-	344,419	7,551	10,681	25,791	-	44,023
Others	4,280	2,053,754	4,424	-	2,062,458	9,934	1,753,549	4,572	-	1,768,055
Total	308,828	41,395,750	15,289,196	1,221,250	58,215,024	283,238	40,277,543	9,427,922	598,188	50,586,891
Allowance for loan losses					(1,202,118)					(1,166,782)
Accrued interest					429,274					388,768
Total					57,442,180					49,808,877

(*) It includes mainly the available funds deposited in the vaults of Interbank and in foreign banks, see Note 5.

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

	As of December 31, 2017					As of December 31, 2016				
	Financial assets and liabilities designated at fair value					Financial assets and liabilities designated at fair value				
	Held for trading or hedging S/(000)	Loans and accounts Receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)	Held for trading or hedging S/(000)	Loans and accounts Receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)
Peru	196,555	39,645,712	11,229,972	1,221,250	52,293,489	214,821	37,966,894	6,723,049	598,188	45,502,952
United States of America	48,454	746,025	1,146,596	-	1,941,075	45,908	1,366,357	913,669	-	2,325,934
Mexico	10,013	2,475	875,016	-	887,504	9,189	444	493,274	-	502,907
Colombia	6,913	26,811	414,534	-	448,258	675	283	179,643	-	180,601
Chile	-	35,199	377,380	-	412,579	25	25,176	278,218	-	303,419
Panama	-	273,183 (*)	35,206	-	308,389	-	345,962 (*)	-	-	345,962
Brazil	102	113,240	243,149	-	356,491	-	2,576	211,148	-	213,724
United Kingdom	6,030	11,423	315,028	-	332,481	4,315	10,898	5,186	-	20,399
Germany	2,268	119,256	-	-	121,524	2,180	25,373	335	-	27,888
Ireland	19,303	-	99,234	-	118,537	-	-	68,264	-	68,264
Supranational	-	-	106,268	-	106,268	-	-	120,425	-	120,425
Ecuador	10	97,928	-	-	97,938	858	32,825	-	-	33,683
Belgium	-	12,858	133	-	12,991	-	179,612	8	-	179,620
Others	19,180	311,640	446,680	-	777,500	5,267	321,143	434,703	-	761,113
Total	308,828	41,395,750	15,289,196	1,221,250	58,215,024	283,238	40,277,543	9,427,922	598,188	50,586,891
Allowance for loan losses					(1,202,118)					(1,166,782)
Accrued interest					429,274					388,768
Total					57,442,180					49,808,877

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

(g) Offsetting of financial assets and liabilities -

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

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

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

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

The Group receives and grants collateral in cash with respect to derivatives transactions; see Note 5.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2017 and 2016:

				Related amounts not offset in the consolidated statements of financial position		
2017 Description	Gross amounts of recognized financial assets S/(000)	Gross amounts of recognized financial liabilities and offset in the consolidated statements of financial position S/(000)	Net amounts of financial assets presented in the consolidated statements of financial position S/(000)	Financial instruments (including non-cash collateral) S/(000)	Cash collateral received S/(000)	Net amount S/(000)
Derivatives, Note 10(b)	92,820	-	92,820	(20,010)	-	72,810
Total	92,820	-	92,820	(20,010)	-	72,810
2016 Description						
Derivatives, Note 10(b)	203,089	-	203,089	(21,585)	-	181,504
Total	203,089	-	203,089	(21,585)	-	181,504

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2017 and 2016:

				Related amounts not offset in the consolidated statements of financial position		
2017 Description	Gross amounts of recognized financial liabilities S/(000)	Gross amounts of recognized financial assets and offset in the consolidated statements of financial position S/(000)	Net amounts of financial liabilities presented in the consolidated statements of financial position S/(000)	Financial instruments (including non-cash collateral) S/(000)	Cash collateral pledged S/(000)	Net amount S/(000)
Derivatives, Note 10(b)	133,921	-	133,921	(20,010)	(90,093)	23,818
Total	133,921	-	133,921	(20,010)	(90,093)	23,818
2016 Description						
Derivatives, Note 10(b)	236,137	-	236,137	(21,585)	(192,137)	22,415
Total	236,137	-	236,137	(21,585)	(192,137)	22,415

30.2 Market risk management

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

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

(a) Trading Book

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

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

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

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

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

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

	2017 S/(000)	**2016** S/(000)
Equity investments	18,844	40,699
Debt investments	13,970	5,975
Derivatives	15,708	2,299
Diversification effect	(27,038)	(4,522)
Consolidated VaR by type of asset (*)	21,484	44,451

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

	2017 S/(000)	**2016** S/(000)
Exchange rate risk	2,285	2,901
Interest rate risk	6,525	6,363
Price risk	18,839	40,064
Diversification effect	(6,165)	(4,877)
Consolidated VaR by type of risk (*)	21,484	44,451

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

(b) Banking Book -

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

(i) Interest rate risk

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

Repricing gap

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

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

	As of December 31, 2017						
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	More than 5 years S/(000)	Non-interest bearing S/(000)	Total S/(000)
Financial Assets							
Cash and due from banks	6,545,400	1,485,381	112,435	94,983	-	2,966,644	11,204,843
Inter-bank funds	403,526	-	-	-	-	-	403,526
Trading securities	3,503	4,115	7,334	4,066	11,157	185,833	216,008
Available-for-sale investments	434,120	1,375,908	1,233,907	3,827,066	6,885,360	1,703,299	15,459,660
Held-to-maturity investments	-	27,223	-	193,998	1,027,254	-	1,248,475
Loan portfolio, net	3,535,143	3,303,450	5,819,851	10,623,770	5,366,713	(444,759)	28,204,168
Other assets	32,849	163,463	60,270	45,212	104,323	3,447,039	3,853,156
Total assets	10,954,541	6,359,540	7,233,797	14,789,095	13,394,807	7,858,056	60,589,836
Financial liabilities							
Deposits and obligations	20,871,598	2,585,304	3,592,924	736,067	29,954	4,791,790	32,607,637
Inter-bank funds	30,008	-	-	-	-	-	30,008
Due to banks and correspondents	592,017	16,070	1,839,099	1,089,558	870,648	-	4,407,392
Bonds, notes and other obligations	152,722	19,783	49,733	2,943,835	2,436,285	-	5,602,358
Insurance contract liabilities	74,098	147,504	657,369	3,008,814	6,822,058	-	10,709,843
Other liabilities	83,631	133,057	59,196	63,051	191,459	865,297	1,395,691
Equity	-	-	-	-	-	5,836,907	5,836,907
Total liabilities and equity	21,804,074	2,901,718	6,198,321	7,841,325	10,350,404	11,493,994	60,589,836
Off- balance sheet accounts							
Derivatives held as hedge assets	291,690	162,050	-	64,820	-	-	518,560
Derivatives held as hedge liabilities	162,050	-	291,690	64,820	-	-	518,560
	129,640	162,050	(291,690)	-	-	-	-
Marginal gap	(10,719,893)	3,619,872	743,786	6,947,770	3,044,403	(3,635,938)	-
Accumulated gap	(10,719,893)	(7,100,021)	(6,356,235)	591,535	3,635,938	-	-

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

Sensitivity to changes in interest rates

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

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

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

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

	As of December 31, 2017				
Currency	**Changes in basis points**	**Sensitivity of net income** S/(000)		**Sensitivity of other net comprehensive income** S/(000)	
US Dollar	+/-25	+/-	4,435	+/-	62,091
US Dollar	+/-50	+/-	8,869	+/-	127,389
US Dollar	+75	+	13,304	+	196,026
US Dollar	+100	+	17,739	+	268,142
Sol	+/-50	-/+	22,361	-/+	238,883
Sol	+/-75	-/+	33,541	-/+	366,080
Sol	+/-100	-/+	44,721	-/+	499,962
Sol	+/-150	-/+	67,082	-/+	760,362

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

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

Sensitivity to price variation

Available-for-sale investments in shares and in mutual and investment funds are not considered as part of the investments for interest rate sensitivity calculation purposes; however, a calculation of sensitivity in market prices and the effect on expected unrealized gain or loss in the consolidated statements of other comprehensive income, before Income Tax and non-controlling interest, as of December 31, 2017 and 2016, is presented below:

	Changes in market price %	**2017** S/(000)	**2016** S/(000)
Shares	+/-10	74,698	58,785
Shares	+/-25	186,745	146,962
Shares	+/-30	224,094	176,354
Mutual funds and investment funds participations	+/-10	95,632	107,319
Mutual funds and investment funds participations	+/-25	239,079	268,297
Mutual funds and investment funds participations	+/-30	286,895	321,956

(ii) Foreign exchange risk

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

As of December 31, 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 bid and S/3.245 per US$1 ask (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 position:

	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	5,594,848	8,161,516	-	13,756,364	3,217,243	4,640,119	-	7,857,362
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	166,001	497,043	741	663,785	151,058	635,086	3,831	789,975
	24,061,270	31,334,007	343,607	55,738,884	22,580,778	25,289,972	277,091	48,147,841
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	387,347	-	5,602,358	4,332,219	437,171	-	4,769,390
Due from customers on acceptances	21,138	-	20,577	41,715	16,392	-	-	16,392
Insurance contract liabilities	4,142,822	6,567,021	-	10,709,843	1,957,701	3,052,812	-	5,010,513
Accounts payable, provision and other liabilities	145,774	932,020	81,630	1,159,424	167,582	781,773	17,404	966,759
	25,026,088	29,169,448	362,841	54,558,377	23,274,902	23,121,137	125,723	46,521,762
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	295,391	(295,391)	-	-	(197,528)	197,528	-	-
Options position, net	(388)	388	-	-	(10,629)	10,629	-	-
Monetary position, net	(1,021,671)	2,273,577	(71,399)	1,180,507	(1,143,068)	2,657,439	111,708	1,626,079

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, 2015); see Note 18.

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. Any increase or decrease of the foreign currency's value would affect the consolidated income statements. A mismatch of the monetary position would make the Group's consolidated statements of financial position vulnerable to the foreign currency fluctuation (exchange rate shock).

The table below shows the analysis of variations of the US Dollar, the main currency to which the Group has exposure as of December 31, 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 currency rates**	**2017**	**2016**
	%	S/(000)	S/(000)
Devaluation (*)			
US Dollar	5	51,084	57,154
US Dollar	10	102,168	114,307
US Dollar	15	153,251	171,461
Revaluation			
US Dollar	5	(51,084)	(57,154)
US Dollar	10	(102,168)	(114,307)
US Dollar	15	(153,251)	(171,461)

30.3 Liquidity risk

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

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

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

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

In the case of Interseguro and Seguros Sura, they are exposed to requirements other than their cash resources, mainly claims resulting from their short-term insurance contracts. The Board of Directors of both companies establish limits on the minimum proportion of the maturity funds available to meet these requirements and in an minimum level of lines of credit that must be available to cover claims at unexpected claim levels.

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

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

Inteligo Bank's financial assets include unlisted equity investments, which generally are not liquid. In addition, Inteligo Bank holds investments in closed (unlisted) and open-ended investment funds, which may be subject to redemption restrictions such as "side pockets" and redemption limits. As a result, Inteligo Bank may not be able to settle some of its investments in these instruments in due time in order to meet its liquidity requirements.

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

	As of December 31, 2017					
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	Over 5 years S/(000)	Total S/(000)
Financial liabilities by type -						
Deposits and obligations	24,083,530	2,779,048	3,834,095	2,111,523	57,858	32,866,054
Inter-bank funds	30,008	-	-	-	-	30,008
Due to banks and correspondents	526,306	31,744	2,089,969	1,462,291	1,088,029	5,198,339
Bonds, notes and other obligations	9,873	34,889	321,999	3,939,848	2,965,502	7,272,111
Due from customers on acceptances	3,608	28,526	9,581	-	-	41,715
Insurance contract liabilities	61,989	122,234	550,055	2,658,734	13,671,744	17,064,756
Other accounts payable, provisions and other liabilities	478,317	158,614	87,067	119,058	182,447	1,025,503
Total non-derivative financial liabilities	25,193,631	3,155,055	6,892,766	10,291,454	17,965,580	63,498,486
Derivatives held for trading (*) -						
Contractual amounts receivable (inflow)	875,269	1,073,104	1,006,013	1,320,374	739,406	5,014,166
Contractual amounts payable (outflow)	678,260	1,032,535	1,134,853	1,319,377	893,574	5,058,599
Total	197,009	40,569	(128,840)	997	(154,168)	(44,433)
Derivatives held as hedges (**) -						
Contractual amounts receivable (inflow)	426	233	1,211	-	-	1,870
Contractual amounts payable (outflow)	-	-	11,524	51,148	36,690	99,362
Total	426	233	(10,313)	(51,148)	(36,690)	(97,492)

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

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

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

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

	2017 S/(000)	2016 S/(000)
Contingent credits (indirect loans)		
Up to 1 month	1,000,114	936,846
From 1 to 3 months	951,336	1,181,865
From 3 to 12 months	2,195,620	2,130,600
From 1 to 5 years	118,650	200,738
Over 5 years	784	421
Total	4,266,504	4,450,470

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

The following table shows the changes in liabilities arising from financing activities according to IAS 7:

	2017					
	Balance as of January 1, 2017 S/(000)	Dividends payable S/(000)	Cash flow S/(000)	Effect of movement in Exchange rate S/(000)	Others S/(000)	Balance as of December 31, 2017 S/(000)
Payable inter-bank funds	332,255	-	(300,938)	(1,309)	-	30,008
Bonds, notes and other obligations	4,769,390	-	956,575	(145,068)	21,461	5,602,358
Dividends payable	161	475,799	(475,773)	-	-	187
Total liabilities for financing activities	5,101,806	475,799	179,864	(146,377)	21,461	5,632,553

30.4 Operational risk

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

30.5 Insurance risk management

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

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

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

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

(a) Life insurance contracts -

Interseguro and Seguros Sura have developed their insurance underwriting strategy in order to diversify the type of insurance risks accepted. Factors that aggravate the insurance risk include lack of risk diversification in terms of type and amount of risk and geographic location. The underwriting strategy aims to ensure that underwriting risks are well diversified in terms of type and amount of risk. Underwriting limits serve to implement the selection criteria for appropriate risk. As of December 31, 2017 and 2016, most of the insurance contracts entered into by Interseguro and Seguros Sura are located in the city of Lima.

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

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

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

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

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

(b) Real estate risk management -

Real estate risk is defined as the possibility of losses due to changes or volatility of market prices of properties; see Note 8. Investment properties are held by Interseguro and Seguros Sura in order to manage their long term inflows and match their technical reserves. SBS Resolution No. 2840-2012, dated May 11, 2012, "Regulations on Real Estate Risk Management in Insurance Companies", requires that insurance companies adequately identify, measure, control and report the real estate risk level they face.

Additionally, Interseguro and Seguros Sura have identified the following risks associated to their real estate portfolios:

- The cost to develop a project may increase if there are delays in the planning process; however, they receive services from advisors in order to reduce the risks that may arise in the planning process.

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

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

30.6 Capital management

The Group manages in an active manner a capital base in order to cover the risks inherent to its activities. Capital adequacy of the Group is monitored by using regulations and ratios established by the different regulators; see Note 16(f).

31. 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	9,271,323	4,314,577	-	13,585,900	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	216,666	1,607	-	218,273	314,772	1,738	-	316,510
BioPharma Credit PLC	291,960	-	-	291,960	-	-	-	-
Royalty Pharma	-	-	68,540	68,540	-	-	68,264	68,264
InRetail Perú Corp.	168,206	-	-	168,206	203,074	-	-	203,074
Derivatives receivable	-	92,820	-	92,820	-	203,089	-	203,089
	10,334,196	5,002,091	261,737	15,598,024	5,442,596	3,936,835	331,729	9,711,160
Accrued interest				170,464				90,476
Total financial assets				15,768,488				9,801,636
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 on 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 based on 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.

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

	Valuation technique	Significant unobservable inputs	Valuation	Sensitivity of inputs to fair value
Royalty Pharma	DCF Method	Sales forecast	Average sector analysis, estimates	10 percent increase (decrease) in the sales forecast would result in increase (decrease) in fair value by S/9,195,000.
		WACC	8.0%	500 basis points increase in the WACC would result in decrease in fair value by S/16,234,000. 500 basis points decrease in the WACC would result in increase in fair value by S/23,679,000.
Mutual funds and investment funds participations	DCF Method	Discount rate	Depends on the credit risk	500 basis points increase in the discount rate would result in decrease in fair value by S/5,630,000. 500 basis points decrease in the discount rate would result in increase in fair value by S/7,519,000.
		WACC	9.0%	500 basis points increase in the WACC would result in decrease in fair value by S/1,481,000. 500 basis points decrease in the WACC would result in increase in fair value by S/1,805,000.
	Comparable multiples	Price-to-sales ratio	Depends on industry's entity	10 percent increase (decrease) in the price-to-sales ratio would result in increase (decrease) in fair value by S/1,079,000.
	Equity value		Depends on the credit risk	500 basis points increase (decrease) in the equity value would result in increase (decrease) in fair value by S/543,000.

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

	Available-for-sale investments	
	2017 S/(000)	2016 S/(000)
Initial balance as of January 1	331,729	480,082
Purchases	110,816	117,188
Sales	(169,305)	(219,629)
Valuation recognized in the consolidated statements of other comprehensive income	(11,503)	(45,912)
Balance as of December 31	261,737	331,729

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/945,000 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.

(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	-	570,965	-	570,965	570,965	-	586,886	-	586,886	586,886
Total	879,559	41,664,103	-	42,543,662	41,673,692	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	5,602,358	4,113,938	950,632	-	5,064,570	4,769,390
Due from customers on acceptances	-	41,715	-	41,715	41,715	-	16,392	-	16,392	16,392
Insurance contract liabilities	-	10,709,843	-	10,709,843	10,709,843	-	5,010,513	-	5,010,513	5,010,513
Accounts payable and other liabilities	-	1,025,503	-	1,025,503	1,025,503	-	730,622	-	730,622	730,622
Total	5,244,757	49,606,895	-	54,851,652	54,424,456	4,113,938	42,480,018	-	46,593,956	46,285,625

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

(i) Long-term fixed-rate and variable-rate loans are assessed by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these loans. As of December 31, 2017 and 2016, the book value of loans, net of allowances, were not significantly different from their calculated fair values.

(ii) Instruments whose fair value approximates their book value - For financial assets and financial liabilities that are liquid or have short-term maturity (less than 3 months) it is assumed that 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.

32. Fiduciary activities and management of funds

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

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

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

33. Subsequent events

Since December 31, 2017, and as of the date of this report, no significant event that could impact the consolidated financial statements has occurred; except for:

On January 18, 2018, Interbank issued corporate bonds called "3.375% Senior Unsecured Notes" for US$200,000,000, under Rule 114A and Regulation S of the U.S. Securities Act of 1993 of the United States of America. These bonds expire in January 2023 and the annual effective interest rate agreed was 3.375 percent.

Also, on January 24, 2018, the Bank made an exchange offer addressed to the holders of the corporate bonds denominated "5.750% Senior Notes due 2020" issued by the Panama Branch, for the purpose of exchanging these bonds for new corporate bonds to be issued by a reopening of the corporate bonds denominated "3.375% Senior Unsecured Notes" for US$284,213,000. The premium for the exchange of these bonds was 8.219 percent. This issuance has maturity in January 2023 and the annual coupon rate was 3.375 percent.

On January 31, 2018, Interbank sold through the Lima Stock Exchange 3,009,490 shares of IFS at market value, for approximately US$121,133,000 (equivalent to approximately S/ 389,565,000). As of December 31, 2017, these shares correspond to "Treasury stock".

34. 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.