

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of June 30, 2018, January 1, 2018,
December 31, 2017 and for the six-month periods ended June 30, 2018 and
2017

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of June 30, 2018, January 1, 2018 and December 31, 2017 (reexpressed)

	Note	30.06.2018 S/(000)	01.01.2018 S/(000) (Note 4.2)	Restated 31.12.2017 S/(000) (Note 4.1)		Note	30.06.2018 S/(000)	01.01.2018 S/(000) (Note 4.2)	Restated 31.12.2017 S/(000) (Note 4.1)
Assets					Liabilities and equity				
Cash and due from banks:	5				Deposits and obligations:	11			
Non-interest bearing		2,324,236	2,963,085	2,963,085	Non-interest bearing		4,471,667	4,791,792	4,791,792
Interest bearing		3,890,831	6,264,339	6,264,339	Interest bearing		26,438,534	27,815,845	27,815,845
Restricted funds		1,494,415	1,977,419	1,977,419			30,910,201	32,607,637	32,607,637
		7,709,482	11,204,843	11,204,843					
Inter-bank funds		231,848	403,526	403,526	Inter-bank funds		311,165	30,008	30,008
Investments at fair value through profit or loss	6	1,613,887	1,348,667	216,008	Due to banks and correspondents	12	4,281,720	4,407,392	4,407,392
Available-for-sale investments	7(b)	-	-	15,459,660	Bonds, notes and other obligations	13	6,306,720	5,602,358	5,602,358
Investments at fair value through other comprehensive income	7(a)	14,296,100	14,327,001	-	Due from customers on acceptances		84,146	41,715	41,715
Held-to-maturity investments	7(g)	-	-	1,248,475	Insurance contract liabilities	14	9,955,299	10,554,926	10,554,926
Investments at amortized cost	7(g)	1,874,353	1,248,475	-	Accounts payable, provisions and other liabilities	10	1,793,662	1,577,156	1,431,478
					Deferred Income Tax liability, net		51	259	11,232
					Total liabilities		53,642,964	54,821,451	54,686,746
Loans, net:	8								
Loans, net of unearned interest		31,596,589	29,406,286	29,406,286	Equity, net	15			
Allowance for loan losses		(1,216,193)	(1,201,002)	(1,202,118)	Equity attributable to IFS's shareholders:				
		30,380,396	28,205,284	28,204,168	Capital stock		963,446	963,446	963,446
Investment property	9	1,012,010	1,118,608	1,118,608	Treasury stock		(208,178)	(467,200)	(467,200)
Property, furniture and equipment, net		597,994	612,639	612,639	Capital surplus		268,077	268,077	268,077
Due from customers on acceptances		84,146	41,715	41,715	Reserves		4,700,000	3,700,000	3,700,000
Accounts receivable and other assets, net	10	2,277,737	1,949,754	1,949,759	Unrealized results, net		133,181	(272,856)	(228,725)
Deferred Income Tax asset, net		65,745	95,925	64,252	Retained earnings		607,572	1,507,869	1,564,945
							6,464,098	5,699,336	5,800,543
Total assets		60,143,698	60,556,437	60,523,653	Non-controlling interest		36,636	35,650	36,364
					Total equity, net		6,500,734	5,734,986	5,836,907
					Total liabilities and equity, net		60,143,698	60,556,437	60,523,653

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the six-month periods ended June 30, 2018 and 2017 (restated)

	Note	30.06.2018 S/(000)	<u>Restated</u> 30.06.2017 S/(000) (Note 4.1)
Interest and similar income	17	2,106,457	1,863,768
Interest and similar expenses	17	(552,922)	(552,387)
Net interest and similar income		1,553,535	1,311,381
Provision for loan losses, net of recoveries	8(c)	(285,458)	(436,994)
Net interest and similar income after provision for loan losses, net of recoveries		1,268,077	874,387
Other income			
Fee income from financial services, net	18	445,768	414,602
Net gain on foreign exchange transactions		107,972	106,383
Net gain on sale of securities		21,754	84,597
Net loss on financial assets at fair value through profit or loss		(5,161)	(2,649)
Rental income on investment property		14,110	12,324
Gain on sale of investment property	9(c)	1,559	-
Fair value gain (loss) on investment property	9(b)	6,432	(14,202)
Others	19	24,290	53,020
Total other income		616,724	654,075
Insurance premiums and claims			
Net premiums earned	20	93,137	112,023
Net claims and benefits incurred for life insurance contracts and others	21	(358,215)	(171,956)
Total net premiums earned less claims and benefits		(265,078)	(59,933)
Other expenses			
Salaries and employee benefits	22	(370,873)	(355,873)
Administrative expenses	23	(377,371)	(367,824)
Depreciation and amortization		(77,724)	(67,997)
Impairment loss on financial instruments		3,558	(5,019)
Expenses related to rental income		(1,054)	(579)
Others	19	(76,325)	(61,817)
Total other expenses		(899,789)	(859,109)
Income before translation result and Income Tax		719,934	609,420
Translation result		(6,945)	20,821
Income Tax		(218,073)	(148,418)
Net profit for the period		494,916	481,823
Attributable to:			
IFS's shareholders		491,313	482,804
Non-controlling interest		3,603	(981)
		494,916	481,823
Earnings per share attributable to IFS's shareholders basic and diluted (stated in Soles)	24	4.46	4.52
Weighted average number of outstanding shares (in thousand)	24	110,190	106,851

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 six-month periods ended June 30, 2018 and 2017 (restated)

	30.06.2018 S/(000)	<u>Restated</u> 30.06.2017 S/(000) (Note 4.1)
Net profit for the period	494,916	481,823
Other comprehensive income		
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:		
Net gain on fair value on financial instruments	396,082	191,656
Net movement on cash flow hedges	3,167	(310)
Translation of foreign operations	5,697	(20,277)
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods, net of Income Tax	<u>404,946</u>	<u>171,069</u>
Total other comprehensive income for the period, net of Income Tax	<u>899,862</u>	<u>652,892</u>
Attributable to:		
IFS's shareholders	897,155	653,674
Non-controlling interest	<u>2,707</u>	<u>(782)</u>
	<u>899,862</u>	<u>652,892</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of changes in equity

For the six-month periods ended June 30, 2018 and 2017 (restated)

	Number of shares		Unrealized results, net										
	Issued	In treasury	Capital stock	Treasury stock	Capital surplus	Reserves	Financial instruments (assets and liabilities) through other comprehensive income	Cash flow hedges reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling - interest	Total
	(in thousands)	(in thousands)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Balances as of January 1, 2017- Reported	113,110	(6,179)	963,446	(522,106)	268,077	2,600,000	(83,807)	1,291	98,874	1,553,336	4,879,111	119,235	4,998,346
Change in accounting policy - Insurance premium reserves (Note 4.1)	-	-	-	-	-	-	(479,476)	-	-	479,476	-	-	-
Balances as of January 1, 2017- Restated	113,110	(6,179)	963,446	(522,106)	268,077	2,600,000	(563,283)	1,291	98,874	2,032,812	4,879,111	119,235	4,998,346
Net profit for the period - Restated (Note 4.1)	-	-	-	-	-	-	-	-	-	482,804	482,804	(981)	481,823
Other comprehensive income – Restated (Note 4.1)	-	-	-	-	-	-	191,455	(308)	(20,277)	-	170,870	199	171,069
Total comprehensive income - Restated (Note 4.1)	-	-	-	-	-	-	191,455	(308)	(20,277)	482,804	653,674	(782)	652,892
Declared and paid dividends, Note 15(a)	-	-	-	-	-	-	-	-	-	(475,773)	(475,773)	-	(475,773)
Net variation of treasury stock held by Subsidiary, Note 15(b)	-	(499)	-	(52,815)	-	-	-	-	-	-	(52,815)	-	(52,815)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,722)	(2,722)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	24,081	24,081	-	24,081
Others	-	-	-	-	-	-	-	-	-	(634)	(634)	(73)	(707)
Balances as of June 30, 2017- Restated	113,110	(6,678)	963,446	(574,921)	268,077	2,600,000	(371,828)	983	78,597	2,063,290	5,027,644	115,658	5,143,302
Balances as of January 1, 2018- Reported	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
Change in accounting policy - Insurance premium reserves (Note 4.1)	-	-	-	-	-	-	(675,095)	-	-	675,095	-	-	-
Balances as of January 1, 2018- Restated	113,110	(5,428)	963,446	(467,200)	268,077	3,700,000	(305,083)	(36)	76,394	1,564,945	5,800,543	36,364	5,836,907
Effect of first adoption of IFRS 9 (Note 4.2)	-	-	-	-	-	-	(43,936)	-	-	(57,271)	(101,207)	(714)	(101,921)
Balances as of January 1, 2018 after IFRS 9	113,110	(5,428)	963,446	(467,200)	268,077	3,700,000	(349,019)	(36)	76,394	1,507,674	5,699,336	35,650	5,734,986
Net profit for the period	-	-	-	-	-	-	-	-	-	491,313	491,313	3,603	494,916
Other comprehensive income	-	-	-	-	-	-	396,999	3,146	5,697	-	405,842	(896)	404,946
Total comprehensive income	-	-	-	-	-	-	396,999	3,146	5,697	491,313	897,155	2,707	899,862
Declared and paid dividends, Note 15(a)	-	-	-	-	-	-	-	-	-	(510,688)	(510,688)	-	(510,688)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,969)	(2,969)
Constitution of reserves, Note 15(e)	-	-	-	-	-	1,000,000	-	-	-	(1,000,000)	-	-	-
Net variation of treasury stock held by Subsidiary, Note 15(b)	-	3,010	-	259,022	-	-	-	-	-	123,705	382,727	862	383,589
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	8,972	8,972	63	9,035
Others	-	-	-	-	-	-	-	-	-	(13,404)	(13,404)	323	(13,081)
Balances as of June 30, 2018	113,110	(2,418)	963,446	(208,178)	268,077	4,700,000	47,980	3,110	82,091	607,572	6,464,098	36,636	6,500,734

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of cash flows

For the six-month periods ended June 30, 2018 and 2017 (restated)

	30.06.2018	<u>Restated</u>
	S/(000)	30.06.2017
		S/(000)
Cash flows from operating activities		
Net profit for the year	494,916	481,823
Plus (minus)		
Provision for loan losses, net of recoveries	285,458	436,994
Depreciation and amortization	77,724	67,997
Provision for sundry risk	2,453	9,459
Deferred Income Tax	37,533	(13,337)
Net gain on sale of securities	(21,754)	(84,597)
Impairment on financial instruments	(3,558)	5,019
Net loss on financial assets at fair value through profit or loss	5,161	2,649
Valuation gain (loss) from investment property	(6,432)	14,202
Translation result	6,945	(20,821)
Gain on sale of investment property	(1,559)	-
(Increase) decrease in accrued interest receivable	(38,729)	2,794
Increase (decrease) in accrued interest payable	9,562	(1,513)
Net changes in assets and liabilities		
Increase in loans	(2,469,672)	(701,573)
Increase in other accounts receivable and other assets	(123,514)	(67,660)
Decrease in restricted funds	483,004	403,413
Decrease in deposits and obligations	(1,691,221)	(1,477,818)
Decrease in due to banks and correspondents	(130,339)	(197,286)
(Decrease) increase in other accounts payable, provisions and other liabilities	(516,779)	221,263
Purchase of trading securities, net	(277,044)	(66,578)
Net cash used in operating activities	<u>(3,877,845)</u>	<u>(985,570)</u>

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

Consolidated statements of cash flows (continued)

	30.06.2018	<u>Restated</u>
	S/(000)	30.06.2017
		S/(000)
Cash flows from investing activities		
(Purchase) sale of investments at fair value through other comprehensive income and investments at amortized cost, net	(139,314)	168,993
Purchase of property, furniture and equipment	(14,737)	(47,221)
Purchase of intangible assets	(46,573)	(74,462)
Purchase of investment property	(97,125)	(51,607)
Sale of investment property	194,080	-
Net cash used in investing activities	<u>(103,669)</u>	<u>(4,297)</u>
Cash flows from financing activities		
Net increase in bonds, notes and other obligations	645,578	17,459
Net decrease (increase) in receivable inter-bank funds	171,678	(15,005)
Net increase in payable inter-bank funds	281,157	115,562
Sale (purchase) of treasury stock, net	383,589	(52,815)
Dividends payed	(510,688)	(475,773)
Dividend payed to non-controlling interest	(2,969)	(2,722)
Net cash provided by (used in) financing activities	<u>968,345</u>	<u>(413,294)</u>
Net decrease in cash and cash equivalents	(3,013,169)	(1,403,161)
Cash and cash equivalents at the beginning of the period	<u>9,225,617</u>	<u>8,497,047</u>
Cash and cash equivalents at the end of the period	<u><u>6,212,448</u></u>	<u><u>7,093,886</u></u>

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

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of June 30, 2018, January 1, 2018 and December 31, 2017 (restated)

1. Business activity and relevant events

1.1 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 June 30, 2018, Intercorp Perú holds 76.46 percent of IFS's capital stock, equivalent 75.94 percent of outstanding capital stock (79.12 percent of capital stock and 78.07 percent of outstanding capital stock as of December 31, 2017).

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

As of June 30, 2018, January 1, 2018 and December 31, 2017, IFS held 99.30 percent of the capital stock of Banco Internacional del Perú S.A.A. – Interbank (henceforth "Interbank" or "the Bank") and approximately 100.00 percent of Interseguro Compañía de Seguros S.A. (henceforth "Interseguro") and Inteligo Group Corp. (henceforth "Inteligo"). In addition, as of June 30, 2018, IFS holds 99.42 percent of the capital stock of Hipotecaria Sura Empresa Administradora Hipotecaria S.A. (henceforth "Hipotecaria Sura"). 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").

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

The accompanying consolidated financial statements as of June 30, 2018, January 1, 2018, December 31, 2017 (restated) and June 30, 2017 (restated), were approved by Board of Directors held on August 8, 2018. The audited consolidated financial statements of IFS and Subsidiaries as of December 31, 2017, were approved by the General Shareholders' Meeting held on April 2, 2018.

1.2 Relevant events –

1.2.1. Restatement of financial statements for previous periods.-

Until December 31, 2017, the Subsidiaries Interseguro and Seguros Sura recognized in the results of the period the effect of changes in interest rates used to discount the pension liabilities of retirement, disability and survival coverage.

During the first quarter of 2018, with the purpose of adequately reflecting the insurance business performance, said Subsidiaries changed their accounting policy in order to recognize such effect as unrealized results, within the net equity. In application of the accounting standards in force, this accounting policy change had a retroactive effect, thus the financial information of previous periods was modified.

Notes to the consolidated financial statements (continued)

As consequence of the change made by said Subsidiaries, IFS also restated its financial information corresponding to previous periods. See Note 4.1 for further detail on the restatement performed by the Company.

1.2.2. First adoption of the International Financial Reporting Standard 9 – “Financial Instruments” (henceforth IFRS 9).-

Starting on January 1, 2018, the Company and its Subsidiaries have adopted IFRS 9, which replaces IAS 39 “Financial Instruments: Recognition and Measurement”. Likewise, the Company has used the exception established by the standard that allows not restating the information of previous periods.

In this sense, the difference in book value of financial assets and liabilities resulting from the adoption of IFRS 9, amounting to S/101,207,000, has been recognized in the initial balances as of January 1, 2018 (transition period) as a reduction in the retained earnings of the Company. See Note 4.2 for further detail.

1.2.3. Modification of parameters used by Subsidiary for the computation of insurance contract liabilities (technical reserves).-

1.2.3.1 Modification of interest rates

During the second quarter of 2018, Interseguro modified the assumptions for the estimation of interest rates used for the discount of pension reserves. As result, the level of reserves diminished by approximately S/520 million. This amount was recorded as a liability reduction in reserves with a respective increase in unrealized results in the net equity of Interseguro.

In the accompanying consolidated financial statements, said change is also reflected as a liability reduction in reserves and an increase in the caption “Unrealized results” of the equity, net.

In accordance with the accounting standards in force, the change was performed in the second quarter, in a prospective manner, without modifying the reported balances of previous periods.

1.2.3.2 Adoption of new Mortality Tables

In March 2018, through Resolution No. 886-2018, the Superintendence of Banking, Insurance and AFP (SBS), published new mortality tables aimed to reflect the recent changes in mortality or life expectancy of the affiliates and pensioners of the Private System of Pension Funds Administration. According to Peruvian regulation, said regulation will enter into force in January 2019 and its adoption will be gradual throughout a 10-year period.

Notwithstanding the aforementioned, for purposes of estimation of the technical reserves under IFRS, Interseguro has adopted the new mortality tables in the second quarter of 2018, and consequently has determined greater liabilities in reserves for approximately S/145 million, which were recorded as expenses in its income statements.

In the accompanying consolidated financial statements, said change is also reflected as a liability increase in reserves and greater expenses as of June 30, 2018. See further detail in Note 14.

Notes to the consolidated financial statements (continued)

2. Acquisition of subsidiaries

In May 2017, IFS signed a share purchase agreement with Sura Asset Management S.A. (Colombia), Sura Asset Management Perú S.A. (Peru) and Grupo Wiese (Peru), for the direct and indirect acquisition of up to 100 percent of shares of Seguros Sura S.A. and 100 percent of Hipotecaria Sura. The acquisition was approved by the Superintendence of Banking and AFPs (henceforth "SBS") on September 28, 2017.

Consequently, on November 2, 2017, IFS acquired 60.10 percent of the capital stock of Seguros Sura and 70 percent of the capital stock of Hipotecaria Sura. At the same date, Interseguro acquired 9.19 percent of the capital stock of Seguros Sura. Posteriorly, on November 22, IFS acquired 30.10 percent of the capital stock of Seguros Sura and 29.40 percent of the capital stock of Hipotecaria Sura. The acquisition of the latest two percentages was performed through the acquisition of the companies Negocios e Inmuebles S.A. and Holding Retail Perú S.A.

In March 2018, the merging between Interseguro and Seguros Sura has concluded, pursuant to the approvals issued by the SBS and within the legal deadlines.

As of June 30, 2018, IFS holds 99.84 percent of the capital stock of Interseguro and 99.42 percent of the capital stock of Hipotecaria Sura.

In application of current accounting standards, these acquisitions were recorded in accordance with the Acquisition method established by IFRS 3 "Business Combinations". In accordance with this method, the assets and liabilities were recorded at their fair value on acquisition date (November 2, 2017), including certain intangible assets that the acquired entities had not previously recognized.

It is worth mentioning that the net assets recognized in the financial statements as of December 31, 2017, were based on preliminary estimations of the fair value at the purchase date, as detailed below:

Estimate (preliminary)	S/(000)
Total net assets identified	263,693
Goodwill	628,218
Consideration transferred	<u>891,911</u>

As of June 30, 2018, the Company has completed the fair value estimation of the net assets of the acquired entities, at the purchase date, as detailed below:

Estimate (definitive)	S/(000)
Total net assets identified	418,643
Goodwill	473,268
Consideration transferred	<u>891,911</u>

In accordance with IFRS 3, IFS has adjusted retroactively the amounts recognized at the purchase date in order to reflect the new information.

Notes to the consolidated financial statements (continued)

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 June 30, 2018, Interbank had 270 offices and a branch established in the Republic of Panama (272 offices and a branch established in the Republic of Panama as of December 31, 2017). 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”.

(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 June 30, 2018 and December 31, 2017, 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, Interseguro holds 75 percent of its shares. As of June 30, 2018, Interseguro sold its interest to a related company.
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 June 30, 2018 and December 31, 2017, 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 June 30, 2018 and December 31, 2017, amounted to S/421,980,000 and S/608,689,000, respectively; see Note 9. For accounting purposes and under IFRS 10 “Consolidated Financial Statements” the assets included

Notes to the consolidated financial statements (continued)

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. 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).

During 2017, Interseguro launched the product named “Renta Particular Plus” for S/128,200,000. 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.

- (c) Inteligo Group Corp. and Subsidiaries -
Inteligo is an entity incorporated in the Republic of Panama. As of June 30, 2018 and December 31, 2017, it holds 100 percent of the shares of the following Subsidiaries:

Entity	Activity
Inteligo Bank Ltd.	It is incorporated in The Commonwealth of the Bahamas and has a branch established in the Republic of Panama that operates under an international license issued by the Superintendencia of Banks of the Republic of Panama. Its main 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 merged with Interseguro as of March 30, 2018.

Notes to the consolidated financial statements (continued)

- (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. As of June 30, 2018, it is under the process of liquidation.

- (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. As of June 30, 2018 and as a result of the merger of Interseguro with Seguros Sura, these subsidiaries received shares of Interseguro in exchange for its shares in Seguros Sura, becoming a direct and indirect shareholders of 8.5 percent of Interseguro.

- (g) San Borja Global Opportunities S.A.C. -
Its corporate purpose is the acquisition and holding of shares and securities. As of June 30, 2018 and December 31, 2017, it did not have operations and had a paid-in capital of S/1,000.

Notes to the consolidated financial statements (continued)

The table below presents a summary of the main captions of the consolidated financial statements of the main Subsidiaries, before adjustments and eliminations for consolidation, as of June 30, 2018 and December 31, 2017 and for the six-month periods ended as of June 30, 2018 and 2017 (see also segments information in Note 26):

	Interbank and Subsidiaries			Interseguro and Subsidiaries			Inteligo and Subsidiaries			Seguros Sura (*)		
	30.06.2018	01.01.2018	31.12.2017	30.06.2018	01.01.2018	31.12.2017	30.06.2018	01.01.2018	31.12.2017	30.06.2018	01.01.2018	31.12.2017
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Consolidated statements of financial position												
Cash and due from banks	7,409,304	10,655,092	10,655,092	104,562	71,713	71,713	244,063	377,485	377,485	-	124,848	124,848
Trading securities and available-for-sale investments	-	-	4,861,490	-	-	5,216,629	-	-	1,198,427	-	-	4,935,100
Investments at fair value through profit or loss and other comprehensive income	4,392,043	4,861,490	-	9,992,527	5,216,629	-	1,515,884	1,198,427	-	-	4,935,100	-
Held-to-maturity investments	-	-	1,248,474	-	-	-	-	-	-	-	-	-
Debt instruments at amortized cost	1,874,354	1,248,474	-	-	-	-	-	-	-	-	-	-
Loans, net	29,115,707	26,870,816	26,869,700	-	-	-	1,264,767	1,334,573	1,334,573	-	-	-
Investment property	-	-	-	1,012,010	862,774	862,774	-	-	-	-	255,835	255,835
Total assets	44,890,365	45,587,320	45,554,533	11,584,802	6,468,402	6,468,402	3,130,911	3,013,887	3,013,890	-	5,470,294	5,470,294
Deposits and obligations	28,992,775	30,559,296	30,559,296	-	-	-	2,111,803	2,268,248	2,268,248	-	-	-
Due to banks and correspondents	3,961,501	4,386,725	4,386,725	6,105	20,568	20,568	314,112	100	100	-	-	-
Bonds, notes and other obligations	5,226,835	4,537,205	4,537,205	176,745	165,348	165,348	-	-	-	-	9,960	9,960
Insurance contract liabilities	-	-	-	9,776,116	5,466,506	5,466,506	-	-	-	-	4,909,236	4,909,236
Total liabilities	39,938,928	40,765,715	40,631,010	10,319,343	5,884,935	5,884,935	2,489,007	2,304,091	2,304,091	-	4,983,330	4,983,330
Equity attributable to IFS's shareholders	4,951,437	4,821,605	4,923,523	1,265,459	583,282	583,282	641,904	709,796	709,799	-	486,964	486,964
Non-controlling interest – equity	-	-	-	-	185	185	-	-	-	-	-	-

For the six-month periods ended June, 30

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2018	2017	2018	2017	2018	2017
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Consolidated income statements						
Net interest and similar income	1,220,618	1,140,717	309,429	142,189	52,773	50,762
Provision for loan losses, net of recoveries	(286,233)	(439,696)	-	-	775	2,702
Net gain from sale and valuation of investment property	-	-	7,991	(14,202)	-	-
Fee income from financial services, net	395,438	379,252	(2,442)	(1,912)	65,344	57,845
Total net premiums earned less claims and benefits	-	-	(265,078)	(59,933)	-	-
Impairment loss on financial instruments	(18)	-	1,795	(5,019)	1,781	-
Net profit for the period attributable to IFS's shareholders	535,435	403,668	(73,862)	20,860	85,892	104,354
Non-controlling interest	-	-	-	(3,791)	-	-

(*) As of June 30, 2018, the balances of Seguros Sura are presented as part of the balances of Interseguro, as a result of the merger.

Notes to the consolidated financial statements (continued)

4. Main accounting principles and practices

The accompanying separate financial statements have been prepared from the accounting recordings of IFS, in accordance with the IFRS issued by the International Accounting Standards Board (henceforth "IASB"). As of June 30, 2018, the accounting principles and practices are consistent with of standards applied as of December 31, 2017, which are included in the audited financial statements dated March 19, 2018, except for the following:

4.1 Restatement on financial statements of previous periods -

Until December 31, 2017, the Subsidiaries Interseguro and Seguros Sura recognized in their results the effect of changes in market interest rates used to discount the pension liabilities of retirement, disability and survival coverage.

During the first quarter of 2018, with the purpose of adequately reflecting the insurance business performance, said Subsidiaries changed their accounting policy in order to recognize the effect of changes in market interest rates as part of the unrealized results, within the net equity. As consequence of this change in the accounting policy made by said Subsidiaries, the Company's net equity has been restated in the following terms:

Equity, net	Balances as of December 31, 2017		
	Reported	Adjustments ^{1/}	Restated
	S/(000)	S/(000)	S/(000)
Capital stock	963,446	-	963,446
Treasury stock	(467,200)	-	(467,200)
Capital surplus	268,077	-	268,077
Reserves	3,700,000	-	3,700,000
Unrealized results, net	446,370	(675,095)	(228,725)
Retained earnings	889,850	675,095	1,564,945
Total equity, net	5,800,543	-	5,800,543

1/ Correspond to the cumulative effect as of December 31, 2017 (S/675,095,000).

Additionally, as a result of the change in the accounting policy, the net income for the six-month periods ended as of June 30, 2017 has been restated, as shown below:

Notes to the consolidated financial statements (continued)

	<u>For the six-month periods ended June 30, 2017</u>		
Consolidated income statements	Reported	Adjustment ^{2/}	Restated
	S/(000)	S/(000)	S/(000)
Interest and similar income	1,863,768	-	1,863,768
Interest and similar expenses	(552,387)	-	(552,387)
Net interest and similar income	1,311,381	-	1,311,381
Provision for loan losses, net of recoveries	(436,994)	-	(436,994)
Net interest and similar income after provision for loan losses, net of recoveries	874,387	-	874,387
Other income			
Fee income from financial services, net	414,602	-	414,602
Net gain on foreign exchange transactions	106,383	-	106,383
Net gain on sale of securities	84,597	-	84,597
Net trading income	(2,649)	-	(2,649)
Rental income	12,324	-	12,324
Loss on sale of investment property	(14,202)	-	(14,202)
Others	53,020	-	53,020
Total other income	654,075	-	654,075
Insurance premiums and claims			
Net premiums earned	3,191	108,832	112,023
Net claims and benefits incurred for life insurance contracts and others	(171,956)	-	(171,956)
Total net premiums earned less claims and benefits	(168,765)	108,832	(59,933)
Other expenses			
Salaries and employee benefits	(355,873)	-	(355,873)
Administrative expenses	(367,824)	-	(367,824)
Depreciation and amortization	(67,997)	-	(67,997)
Impairment loss on financial instruments	(5,019)	-	(5,019)
Expenses related to rental income	(579)	-	(579)
Others	(61,817)	-	(61,817)
Total other expenses	(859,109)	-	(859,109)
Income before translation result and Income Tax	500,588	108,832	609,420
Translation result	20,821	-	20,821
Income Tax	(148,418)	-	(148,418)
Net profit for the period	372,991	108,832	481,823
Attributable to:			
IFS's shareholders	373,972	108,832	482,804
Non-controlling interest	(981)	-	(981)
	372,991	108,832	481,823
Earnings per share attributable to IFS's shareholders basic and diluted (stated in Soles)	3.50	-	4.52
Weighted average number of outstanding shares (in thousand)	106,851	-	106,851

^{2/} Correspond to the effect of the first semester of 2017 (S/108,832,000).

Notes to the consolidated financial statements (continued)

4.2 First adoption of the International Financial Reporting Standard 9 – “Financial Instruments” (henceforth IFRS 9) -

Starting on January 1, 2018, the Company and its Subsidiaries (the Group) adopted IFRS 9, which replaced IAS 39 “Financial Instruments: Recognition and Measurement”.

The main impacts of said adoption are described below:

(a) Classification and Measurement – Financial Assets

IFRS 9 includes three main classification categories for financial assets: measured at amortized cost; at fair value through profit or 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 is recorded at amortized cost if it meets the following two conditions is not designated at fair value through profit or loss:

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

A financial asset must be measured at fair value through other comprehensive income only if it that meets the following two conditions and is not designated at fair value through profit or loss:

- The objective of the business model is to both obtain contractual cash flows and sell the financial assets; and
- The contractual terms of the assets give rise to cash flows that are SPPI 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 the posterior value changes in other comprehensive income. This decision is made per instrument.

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

(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 new model requires the estimation of expected credit loss adjusted by the future changes in macroeconomic factors (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 or loss, such as:

Notes to the consolidated financial statements (continued)

- Financial assets that are debt instruments;
- Rent receivables;
- Loan commitments and issued 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 credit-impaired financial assets defined by IFRS 9 in a similar way that impaired financial assets are defined by IAS 39.

(b.1) Measurement of the expected credit loss

The parameters for measuring the expected credit loss are the following:

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

PD estimations are performed at a determined date, and are obtained from the Group’s risk rating models.

The LGD is the debt percentage that is estimated as loss in case of default. The Group calculates the LGD parameters with historical information of the recovery rates for the different products. LGD models consider: the guarantee and the recovery costs of the guarantee.

The EAD represents the expected exposure at the default date. The Group calculates the EAD of the counterpart and the possible changes in the current amount according to the contract, including amortization and pre-payments. The EAD of a financial asset shall be the book value at the moment of default. In the case of loan commitments and financial guarantees, the EAD shall consider the used amount, as well as the potential future amounts that can be extracted or reimbursed pursuant to the contract, which shall be estimated in function of the historical records and macroeconomic factors. The EAD includes the direct and indirect (contingent) credit risk, which is determined by the credit conversion factor (CCF).

The Group uses a 12-month PD for financial assets whose credit risk has not increased significantly since their initial recognition. For the rest of financial assets, the Group shall measure the expected loss considering the default risk for the expected remaining period.

At each reporting date, the Company and its Subsidiaries measure the expected credit loss by classifying the financial assets as follows:

- “Stage” 1: A 12-month expected credit loss is recognized in financial assets whose credit risk has not increased significantly since their initial recognition. The interest income is measured based on the gross carrying amount of the financial asset.
- “Stage” 2: A lifetime expected credit loss is recognized in financial assets whose credit risk has increased significantly since their initial recognition. The interest income is measured based on the gross carrying amount of the financial asset.

Notes to the consolidated financial statements (continued)

- “Stage” 3: A lifetime expected credit loss is recognized in credit-impaired financial assets. The interest income is measured based on the net carrying amount of the financial asset.

Forward-looking information

According to IFRS 9, the Group includes prospective information in order to determine its expected credit loss. This process implies the use of economic scenarios and taking into account the probability of occurrence for each scenario. This information can be external and can use economic data and forecasts published by regulatory entities.

(c) Classification – Financial liabilities

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

(d) Contract derecognition and amendment

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

(e) Hedge accounting

IFRS 9 does not change the general principles on how an entity accounts for the effective hedges; therefore, its application has not had significant impact on the financial statement of IFS and its Subsidiaries.

(f) Transition

The Company used the exception established by IFRS 9 that allows not restating information from previous periods. Consequently, the difference in the book value of financial assets and liabilities resulting from the adoption of IFRS 9 has been recognized in the initial balances as of January 1, 2018 (transition period).

The impact of the first adoption of IFRS 9 for the Company and its Subsidiaries amounted to S/101,207,000, has been recorded in retained earnings as of January 1, 2018, and is made up as follows:

	Unrealized results, net	Retained earnings	Total equity (*)
	S/(000)	S/(000)	S/(000)
Higher loan provisions for calculation of expected loss in Subsidiaries	-	(101,207)	(101,207)
Higher impairment on investments at fair value through other comprehensive income	31,567	(31,567)	-
Impact of reclassification of investments (debt and equity) from available-for-sale to fair value through profit or loss	<u>(75,503)</u>	<u>75,503</u>	<u>-</u>
Total	<u>(43,936)</u>	<u>(57,271)</u>	<u>(101,207)</u>

(*) Attributable to IFS's shareholders

The reconciliation of the consolidated statements of financial position of the Company and Subsidiaries as of January 1, 2018, is presented below:

Notes to the consolidated financial statements (continued)

Reconciliation of the consolidated statements of financial position

The reconciliation of the consolidated statements of financial position under IAS 39 and IFRS 9 as of January 1, 2018, is presented below:

	Note	Balances according to IAS 39 as of December 31, 2017		Reclassifications	Adjustments due to first adoption IFRS 9	Balances according to IFRS 9 as of January 1, 2018	
		Classification	S/(000)	S/(000)	S/(000)	S/(000)	Classification
Assets							
Cash and due from banks:		Loans and accounts receivable	11,204,843	-	-	11,204,843	Amortized cost
Inter-bank funds		Loans and accounts receivable	403,526	-	-	403,526	Amortized cost
Investments at fair value through profit or loss	6	Fair value through profit or loss	216,008	1,132,659	-	1,348,667	Fair value through profit or loss
Available-for-sale investments	7(b)	Available-for-sale	15,459,660	(15,459,660)	-	-	-
Held-to-maturity investments	7(g)	To maturity	1,248,475	(1,248,475)	-	-	-
Investments at fair value through other comprehensive income	7(a)	-	-	14,327,001	-	14,327,001	Fair value through other comprehensive income
Investments at amortized cost	7(g)	-	-	1,248,475	-	1,248,475	Amortized cost
Loans, net		Loans and accounts receivable	28,204,168	-	1,116	28,205,284	Amortized cost
Accounts receivable and other assets, net		Loans and accounts receivable	646,909	-	(5)	646,904	Amortized cost
Accounts receivable from operations with derivatives		Fair value through profit or loss	94,668	-	-	94,668	Fair value through profit or loss
Due from customers on acceptances		Loans and accounts receivable	41,715	-	-	41,715	Amortized cost
Non-financial assets		N/A	3,094,379	-	-	3,094,379	N/A
Deferred Income Tax asset, net		N/A	64,252	(10,973)	42,646	95,925	N/A
Total assets			<u>60,678,603</u>	<u>(10,973)</u>	<u>43,757</u>	<u>60,711,387</u>	
Liabilities							
Deposits and obligations		Amortized cost	32,607,637	-	-	32,607,637	Amortized cost
Inter-bank funds		Amortized cost	30,008	-	-	30,008	Amortized cost
Due to banks and correspondents		Amortized cost	4,407,392	-	-	4,407,392	Amortized cost
Bonds, notes and other obligations		Amortized cost	5,602,358	-	-	5,602,358	Amortized cost
Due from customers on acceptances		Amortized cost	41,715	-	-	41,715	Amortized cost
Insurance contract liabilities		Amortized cost	10,709,843	-	-	10,709,843	Amortized cost
Accounts payable and other financial liabilities		Amortized cost	1,103,295	-	145,678	1,248,973	Amortized cost
Accounts payable for operations with derivatives		Fair value through profit or loss	133,921	-	-	133,921	Fair value through profit or loss
Non-financial liabilities		N/A	194,295	-	-	194,295	N/A
Deferred Income Tax liability, net		N/A	11,232	(10,973)	-	259	N/A
Total liabilities			<u>54,841,696</u>	<u>(10,973)</u>	<u>145,678</u>	<u>54,976,401</u>	
Equity attributable to IFS's shareholders:		N/A	5,800,543	-	(101,207)	5,699,336	N/A
Non-controlling interest		N/A	36,364	-	(714)	35,650	N/A
Total equity, net			<u>5,836,907</u>	<u>-</u>	<u>(101,921)</u>	<u>5,734,986</u>	

Notes to the consolidated financial statements (continued)

Reconciliation of the statements of other comprehensive income

The reconciliation of other comprehensive income under IAS 39 and IFRS 9 as of January 1, 2018, is detailed below:

	S(000)
<u>Retained earnings</u>	
Balance under IAS 39 (as of December 31, 2017) – restated	1,564,945
<u>Adjustments or reclassifications related to adoption of IFRS 9</u>	
Recognition of expected losses under IFRS 9 including those measured at fair value through other comprehensive income	(132,774)
Impact of reclassification of available-for-sale investments to fair value through profit or loss	75,503
Balance under IFRS 9 (as of January 1, 2018)	<u>1,507,674</u>
<u>Unrealized results</u>	
Balance under IAS 39 (as of December 31, 2017) – restated	(228,725)
<u>Adjustments or reclassifications related to adoption of IFRS 9</u>	
Impact of reclassification of available-for-sale investments to fair value through profit or loss	(75,503)
Recognition of expected losses under IFRS 9 of investments at fair value through other comprehensive income	31,567
Balance under IFRS 9 (as of January 1, 2018)	<u>(272,661)</u>
Total impact on net Equity due to adoption of IFRS 9 (*)	<u>(101,207)</u>

(*) Attributable to IFS's shareholders

4.3 Modification of parameters used by Subsidiary for the computation of insurance contract liabilities (technical reserves) -

During the second quarter of 2018, Interseguro modified the assumptions for the estimation of interest rates used for the discount of pension reserves; see Note 1.2.3.1 for further detail. In addition, adopted new Mortality Tables; see Note 1.2.3.2 for further detail.

Notes to the consolidated financial statements (continued)

5. Cash and due from banks

(a) This caption is made up as follows:

	30.06.2018	01.01.2018 and 31.12.2017
	S/(000)	S/(000)
Cash and clearing (b)	1,660,128	2,073,078
Deposits in the Central Reserve Bank of Peru – BCRP (b)	3,459,045	5,878,533
Deposits in banks (c)	1,093,275	1,274,006
Accrued interest	2,619	1,807
	<u>6,215,067</u>	<u>9,227,424</u>
Restricted funds (d)	<u>1,494,415</u>	<u>1,977,419</u>
Total	<u><u>7,709,482</u></u>	<u><u>11,204,843</u></u>

(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:

	30.06.2018	01.01.2018 and 31.12.2017
	S/(000)	S/(000)
Legal reserve		
Deposits in BCRP	3,033,683	5,178,949
Cash in vaults	<u>1,651,245</u>	<u>1,948,711</u>
Subtotal legal reserve	4,684,928	7,127,660
Non-mandatory reserve		
Overnight BCRP deposits	425,360	699,584
Cash	<u>8,663</u>	<u>124,163</u>
Subtotal non-mandatory reserve	<u>434,023</u>	<u>823,747</u>
Cash and due from banks not subject to legal reserve	222	204
Total	<u><u>5,119,173</u></u>	<u><u>7,951,611</u></u>

The legal reserve funds maintained at the BCRP are non-interest bearing; except for the part that exceeds the minimum reserve, which accrue interest at an annual rate established by the BCRP. As of June 30, 2018, the excess in foreign currency accrued interest in US Dollars at an annual average rate of 0.52 percent (0.37 percent as of December 31, 2017). As of December 31, 2017, the excess amount in Soles accrued interest in Soles at an annual average rate of 0.05 percent.

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

Notes to the consolidated financial statements (continued)

(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 June 30, 2018 and December 31, 2017, the Group does not have significant deposits in any specific financial institution.

(d) The Group maintains restricted funds related to:

	30.06.2018	01.01.2018 and 31.12.2017
	S/(000)	S/(000)
Repurchase agreements with BCRP (*)	1,412,434	1,882,244
Derivative financial instruments, Note 10(d)	76,442	90,093
Others	<u>5,539</u>	<u>5,082</u>
Total	<u>1,494,415</u>	<u>1,977,419</u>

(*) As of June 30, 2018, correspond to deposits maintained in BCRP which guarantee repurchase agreements amounting to S/1,409,132,000 including interests (guaranteed repurchase agreements amounting to S/1,890,962,000 including interests, as of January 1, 2018 (December 31, 2017)), see Note 12(b).

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

Notes to the consolidated financial statements (continued)

6. Investments at fair value through profit or loss

The detail of caption as of June 30, 2018 and January 1, 2018 under IFRS 9 and December 31, 2017 according IAS 39, is as follows:

	Market value		
	30.06.2018	01.01.2018	31.12.2017
	S/(000)	S/(000)	S/(000)
		(*)	
Shares, mutual funds and investment funds participations	1,563,648	1,321,999	189,339
Corporate and leasing bonds	33,273	26,239	26,239
Global Bonds issued by foreign countries	16,411	-	-
Peruvian Sovereign Bonds	33	-	-
	<u>1,613,365</u>	<u>1,348,238</u>	<u>215,578</u>
Accrued interest	522	429	430
Total	<u>1,613,887</u>	<u>1,348,667</u>	<u>216,008</u>

(*) Until December 31, 2017, the most part of these investments were recorded as available-for-sale investments. As of January 1, 2018, as part of the adoption of IFRS 9, the Group designated these investments as investments at fair value through other comprehensive income.

Notes to the consolidated financial statements (continued)

7. Investments at fair value through other comprehensive income

(a) The detail of item as of June 30, 2018 and January 1, 2018 under IFRS 9, is as follows:

	30.06.2018				01.01.2018			
	Amortized Cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)	Amortized Cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)
		Gains S/(000)	Losses S/(000)			Gains S/(000)	Losses S/(000)	
Debt instruments								
Corporate, leasing and subordinated bonds	7,205,938	96,223	(224,039)	7,078,122	7,073,038	203,199	(53,372)	7,222,865
Peruvian Sovereign Bonds (d)	2,929,697	17,900	(125,432)	2,822,165	2,439,351	81,636	(29,896)	2,491,091
Negotiable Certificates of Deposit issued by BCRP (c)	1,445,772	1,529	(155)	1,447,146	1,933,640	2,328	(18)	1,935,950
Bonds guaranteed by the Peruvian Government	960,901	7,000	(19,691)	948,210	857,344	17,485	(7,028)	867,801
Sovereign and Global Bonds of foreign countries	526,179	325	(14,706)	511,798	402,976	1,648	(2,480)	402,144
Global Bonds of the Republic of Peru	452,649	-	(16,923)	435,726	478,144	1,411	(2,355)	477,200
Indexed Certificates of Deposit issued by BCRP	69,533	-	(436)	69,097	169,002	-	(1,598)	167,404
Certificates of deposits payable in US Dollars issued by BCRP	-	-	-	-	21,446	-	(1)	21,445
Total	13,590,669	122,977	(401,382)	13,312,264	13,374,941	307,707	(96,748)	13,585,900
Listed shares								
Biopharma Credit PLC	237,699	10,001	-	247,700	199,303	7,718	-	207,021
Foreign and peruvian entities	322,943	2,253	(33,312)	291,884	137,781	4,479	(7,378)	134,882
InRetail Perú Corp. (e)	70,653	125,235	-	195,888	70,653	92,333	-	162,986
Energía del Sur	71,307	-	(13,676)	57,631	71,307	-	(7,165)	64,142
Non-listed shares								
Others	945	677	-	1,622	936	670	-	1,606
	703,547	138,166	(46,988)	794,725	479,980	105,200	(14,543)	570,637
	14,294,216	261,143	(448,370)	14,106,989	13,854,921	412,907	(111,291)	14,156,537
Accrued interest				189,111				170,464
Total				14,296,100				14,327,001

Notes to the consolidated financial statements (continued)

(b) The detail of item as of December 31, 2017 under IAS 39, is as follows:

	2017 (*)			
	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)
		Gains S/(000)	Losses S/(000)	
Debt instruments				
Corporate, leasing and subordinated bonds	7,073,038	197,914	(48,087)	7,222,865
Peruvian Sovereign Bonds	2,439,351	67,811	(16,071)	2,491,091
Negotiable Certificates of Deposit issued by BCRP	1,933,640	2,328	(18)	1,935,950
Mutual funds and investment funds participations	895,304	82,440	(21,427)	956,317
Bonds guaranteed by the Peruvian Government	857,344	15,883	(5,426)	867,801
Global Bonds of the Republic of Peru	478,144	1,330	(2,274)	477,200
Indexed Certificates of Deposit issued by BCRP	169,002	-	(1,598)	167,404
Certificates of deposits payable in US Dollars issued by BCRP	21,446	-	(1)	21,445
Global Bonds of Canada	402,976	1,648	(2,480)	402,144
Total	14,270,245	369,354	(97,382)	14,542,217
Listed shares				
Biopharma Credit PLC	280,601	11,359	-	291,960
InRetail Perú Corp.	75,376	92,830	-	168,206
Energía del Sur	71,307	-	(7,167)	64,140
Peruvian and foreign entities	152,927	6,075	(6,475)	152,527
Non-listed shares and participations				
Royalty Pharma	60,766	7,774	-	68,540
Others	936	670	-	1,606
	<u>641,913</u>	<u>118,708</u>	<u>(13,642)</u>	<u>746,979</u>
	<u>14,912,158</u>	<u>488,062</u>	<u>(111,024)</u>	<u>15,289,196</u>
Accrued interest				170,464
Total				<u>15,459,660</u>

(*) Until December 31, 2017, these investments were recorded as available-for-sale investments. As of January 1, 2018, as part of the first adoption of IFRS 9, S/1,132,659,000 were classified as investments at fair value through profit or loss and S/14,327,001,000 as investments at fair value through other comprehensive income.

Notes to the consolidated financial statements (continued)

- (c) As of June 30, 2018, Interbank holds repurchase agreements with BCRP for approximately S/449,406,000, including accrued interests, which are guaranteed with Negotiable Certificates of Deposit issued by BCRP, classified and restricted, for approximately S/455,415,000, see Note 12(b).
- (d) During 2018, Interbank reclassified Peruvian Sovereign Bonds classified as financial instruments through other comprehensive income to debt instruments at amortized cost whose carrying value and cumulative unrealized gain recorded in equity at such date amounted to approximately S/152,134,000 and S/1,160,000, respectively (during 2017, it was reclassified Peruvian Sovereign Bonds whose carrying value and cumulative unrealized gain recorded in equity amounted to approximately S/62,796,000 and S/298,000, 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 in the results of the 2018 and 2017 a net loss of approximately S/1,385,000 and S/1,295,000, respectively.
- (e) As of June 30, 2018 and January 1, 2018, the Group held approximately 2,473,621 shares, which represented 2.41 percent, of InRetail Perú Corp.'s capital stock (a related entity).
- (f) The table below presents the fair value of debt instruments through other comprehensive income as of June 30, 2018:

	S/(000)
Instruments issued and rated in Peru:	
AAA	1,031,118
AA- / AA+	2,071,716
A- / A+	290,077
BBB- / BBB+	590
BB- / BB+	4,742
	<u>3,398,243</u>
Instruments issued in Peru and rated abroad:	
A- / A+	2,858,076
BBB- / BBB+	2,316,094
BB- / BB+	181,226
	<u>5,355,396</u>
Instruments issued and rated abroad:	
AAA	79,816
AA- / AA+	155,538
A- / A+	344,443
BBB- / BBB+	1,951,333
BB- / BB+	138,110
	<u>2,669,240</u>
Unrated	
Certificates of Deposit issued by the BCRP	1,516,243
Others	373,142
	<u>1,889,385</u>
Total debt instruments	<u><u>13,312,264</u></u>

Notes to the consolidated financial statements (continued)

- (g) As of June 30, 2018 and December 31, 2017, debt instruments at amortized cost are entirely comprised of Peruvian Sovereign Bonds amounting to S/1,874,353,000 and S/1,248,475,000, respectively, including accrued interests. The balances as of January 1, 2018 and December 31, 2017 correspond to the same debt instruments.

As of June 30, 2018 and January 1, 2018 (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. The estimated fair value of these instruments amounts to approximately S/1,882,171,000 and S/1,303,196,000, as of June 30, 2018 and January 1, 2018 (December 31, 2017).

As of June 30, 2018 and January 1, 2018 (December 31, 2017), Interbank holds repurchase agreements with BCRP for approximately S/368,370,000 and S/332,850,000, including accrued interests, which are guaranteed with Peruvian Sovereign Bonds, classified and restricted, for approximately S/395,809,000 and S/362,644,000, see Note 12(b).

Notes to the consolidated financial statements (continued)

8. Loans, net

(a) The detail of loan portfolio as of June 30, 2018, January 1, 2018 and December 31, 2017, is as follows:

	30.06.2018	01.01.2018	31.12.2017
	S/(000)	S/(000)	S/(000)
Direct loans			
Loans	23,445,222	21,833,083	21,833,083
Credit cards	4,336,234	3,798,746	3,798,746
Leasing	1,713,023	1,706,745	1,706,745
Discounted notes	475,187	547,857	547,857
Factoring	271,851	162,598	162,598
Advances and overdrafts	69,751	57,774	57,774
Refinanced loans	238,247	273,448	273,448
Past due and under legal collection loans	<u>819,531</u>	<u>794,450</u>	<u>794,450</u>
	31,369,046	29,174,701	29,174,701
Plus (minus)			
Accrued interest from performing loans	278,557	286,543	286,543
Unearned interest and interest collected in advance	(51,014)	(54,958)	(54,958)
Allowance for loan losses (c)	<u>(1,216,193)</u>	<u>(1,201,002)</u>	<u>(1,202,118)</u>
Total direct loans, net	<u>30,380,396</u>	<u>28,205,284</u>	<u>28,204,168</u>
Indirect loans	<u>4,240,208</u>	<u>4,266,504</u>	<u>4,266,504</u>

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

	30.06.2018	01.01.2018 and 31.12.2017
	S/(000)	S/(000)
Commercial loans	14,593,424	13,545,195
Consumer loans	10,026,892	9,187,000
Mortgage loans	6,017,120	5,756,403
Small and micro-business loans	<u>731,610</u>	<u>686,103</u>
Total	<u>31,369,046</u>	<u>29,174,701</u>

Notes to the consolidated financial statements (continued)

(c) The changes in the allowance for loan losses (direct and indirect) as of June 30, 2018 and 2017, January 1, 2018 and December 31, 2017, are as follows:

	30.06.2018				
	Commercial	Mortgage	Consumer	Small and micro-business	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Balance at 31.12.2017	243,115	66,543	881,874	63,431	1,254,963
First adoption of IFRS 9	48,284	38,554	64,768	(7,044)	144,562 (*)
Balance at 01.01.2018	291,399	105,097	946,642	56,387	1,399,525
Provision	(26,839)	1,391	281,527	29,379	285,458
Recovery of written-off loans	592	-	69,620	2,214	72,426
Written-off portfolio	(11,550)	(182)	(362,115)	(17,694)	(391,541)
Sale of loan portfolio	-	-	(1,253)	-	(1,253)
Translation result	1,080	391	1,847	51	3,369
Others	(333)	(380)	(9,032)	-	(9,745)
End of period balances (**)	254,349	106,317	927,236	70,337	1,358,239

(*) Corresponds to higher provisions for indirect exposure for S/145, 678,000, net of lower provisions for direct loans for S/1,116,000. Gross amounts (before Income Tax).

	30.06.2017				
	Commercial	Mortgage	Consumer	Small and micro-business	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Balance at 01.01.2017	221,134	60,497	851,927	57,200	1,190,758
Provision	25,715	7,556	392,209	11,514	436,994
Recovery of written-off loans	137	-	56,253	2,064	58,454
Written-off portfolio	(6,930)	(260)	(393,937)	(14,003)	(415,130)
Sale of loan portfolio	-	-	(1,596)	-	(1,596)
Translation result	(4,982)	(1,945)	(1,232)	(203)	(8,362)
Others	-	(183)	(4,615)	-	(4,798)
End of period balances	235,074	65,665	899,009	56,572	1,256,320
Balance at 31.12.2017	243,115	66,543	881,874	63,431	1,254,963

(**) As of June 30, 2018, the allowance for loan losses includes the allowance for direct and indirect loans amounting to S/1,216,193,000 and S/142,046,000, respectively (S/1,201,002,000 and S/198,523,000, respectively, as of January 1, 2018). 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 June 30, 2018 and January 1, 2018, has been established in accordance with IFRS 9 and it is sufficient to cover incurred losses on the loan portfolio.

Notes to the consolidated financial statements (continued)

9. Investment property

(a) The detail of caption as of June 30, 2018, January 1, 2018 and December 31, 2017, is as follows:

	30.06.2018 S/(000)	01.01.2018 and 31.12.2017 S/(000)	Acquisition or construction year	Hierarchy level (i)	Valuation methodology	
					30.06.2018	01.01.2018 and 31.12.2017
Land -						
San Isidro – Lima	242,749	240,715	2009	Level 3	Appraisal	Appraisal
Miraflores – Lima	73,114	72,421	2017	Level 3	Appraisal	Appraisal
San Martín de Porres – Lima	63,905	63,299	2015	Level 3	Appraisal	Appraisal
Piura	40,526	40,142	2008	Level 3	Appraisal	Appraisal
Yanahuara - Arequipa	26,574	26,323	2017	Level 3	Appraisal	Appraisal
Sullana	25,662	25,419	2012	Level 3	Appraisal	Appraisal
Santa Clara - Lima	10,032	9,937	2017	Level 3	Appraisal	Appraisal
Chimbote	9,489	9,399	2015	Level 3	Appraisal	Appraisal
Others	14,308	15,464	-	Level 3	Appraisal	Appraisal
	<u>506,359</u>	<u>503,119</u>				
Completed investment property						
Shopping Malls "Real Plaza" -						
Talara	38,493	37,932	2015	Level 3	DCF	DCF
Pucallpa (c)	-	190,676	2014	Level 3	Appraisal + DCF	Appraisal + DCF
	<u>38,493</u>	<u>228,608</u>				
Buildings -						
Orquideas - San Isidro - Lima	136,021	133,230	2017	Level 3	DCF	DCF
Ate Vitarte - Lima	59,720	57,781	2006	Level 3	DCF	DCF
Ate Vitarte (UTP Headquarters) - Lima	53,108	-	2018	Level 3	DCF	DCF
Maestro - Huancayo	30,898	30,510	2017	Level 3	DCF	DCF
Cusco	25,435	23,794	2017	Level 3	DCF	DCF
Chorrillos - Lima	25,290	24,798	2017	Level 3	DCF	DCF
Panorama - Lima	20,871	20,653	2016	Level 3	DCF	DCF
Trujillo	14,629	15,369	2016	Level 3	DCF	DCF
Cercado de Lima	12,116	11,577	2017	Level 3	DCF	DCF
Others	51,131	30,281	-	Level 3	Appraisal + DCF	Appraisal + DCF
	<u>429,219</u>	<u>347,993</u>				
Built on leased land -						
San Juan de Lurigancho - Lima	37,939	37,726	2017	Level 3	DCF	DCF
Others	-	1,162	-	Level 3	DCF	DCF
	<u>37,939</u>	<u>38,888</u>				
Total	<u>1,012,010</u>	<u>1,118,608</u>				

DCF: Discounted cash flow

(i) As of June 30, 2018, January 1, 2018 and December 31, 2017, there were no transfers between levels of hierarchy.

(ii) As of June 30, 2018, January 1, 2018 and December 31, 2017, there are no liens on investment properties.

Notes to the consolidated financial statements (continued)

(b) The movement of investment property for the six month-periods ended June 30, 2018 and 2017, is as follows:

	2018 S/(000)	2017 S/(000)
Beginning balance	1,118,608	745,185
Additions	97,125	51,607
Sales (c)	(192,521)	-
Transfers	(17,634)	-
Valuation gain (loss)	<u>6,432</u>	<u>(14,202)</u>
Ending balance	<u>1,012,010</u>	<u>782,590</u>
Balance as of December 31, 2017 and January 1, 2018		<u>1,118,608</u>

(c) In January 2018, Interseguro sold, in cash and at fair value, the Real Plaza Pucallpa Shopping Mall, a lot located in Lurín (Lot A) and the building of Estación Central, to related entities, recognizing a net gain amounting to approximately S/1,559,000. The results of the sale of investment properties are presented as “Gain on sale of investment property” in the consolidated income statements.

Notes to the consolidated financial statements (continued)

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

(a) These captions are comprised of the following:

	30.06.2018	01.01.2018	31.12.2017
	S/(000)	S/(000)	S/(000)
Accounts receivable and other assets			
Financial instruments			
Other accounts receivable, net	368,342	315,610	315,615
Accounts receivable from sale of investments	287,101	60,892	60,892
Assets for technical reserves for claims and premiums by reinsurers	133,381	124,441	124,441
Accounts receivable related to derivative financial instruments (d)	93,729	94,668	94,668
Operations in process (c)	61,684	67,783	67,783
Accounts receivable from reinsurers and coinsurers	38,297	36,427	36,427
Insurance operations receivables, net	28,405	27,200	27,200
Credit card commissions receivable	14,983	14,551	14,551
Total	1,025,922	741,572	741,577
Non-financial instruments			
Intangible assets, net	490,058	488,715	488,715
Goodwill, acquisition of Subsidiaries, Note 2	473,268	473,268	473,268
Deferred charges	97,445	78,114	78,114
Investments in associates	53,575	55,993	55,993
Prepaid Income Tax	52,443	44,429	44,429
Value Added Tax credit (b)	24,013	50,571	50,571
Prepaid rights to related entity, Note 25(f)	9,796	10,876	10,876
Others	51,217	6,216	6,216
	<u>1,251,815</u>	<u>1,208,182</u>	<u>1,208,182</u>
Total	2,277,737	1,949,754	1,949,759
Accounts payable, provisions and other liabilities			
Financial instruments			
Other accounts payable	469,863	502,894	502,894
Accounts payable for acquisitions of investments	310,462	96,804	96,804
Obligations for insurance contract, Note 3(b)	202,775	129,592	129,592
Operations in process (c)	171,424	148,483	148,483
Allowance for indirect loan losses, Note 8(c)	142,046	198,523	52,845
Accounts payable related to derivative financial instruments (d)	119,713	133,921	133,921
Workers' profit sharing and salaries payable	107,898	114,084	114,084
Accounts payable to reinsurers and coinsurers	59,166	58,560	58,560
	<u>1,583,347</u>	<u>1,382,861</u>	<u>1,237,183</u>
Non-financial instruments			
Taxes payable	83,802	65,261	65,261
Deferred income	56,216	54,161	54,161
Provision for other contingencies	43,730	52,914	52,914
Others	26,567	21,959	21,959
	<u>210,315</u>	<u>194,295</u>	<u>194,295</u>
Total	1,793,662	1,577,156	1,431,478

Notes to the consolidated financial statements (continued)

- (b) Corresponds to the Value-Added Tax resulting from the purchase of goods devoted mostly to grant financial leasing loans, which is recovered through the collection of the loans.
- (c) Operations in process include transactions performed in the last days of the month and other similar types of transactions which are reclassified to their final balance sheets accounts in the following month. These transactions do not affect the consolidated results.
- (d) The following table presents, as of June 30, 2018, January 1, 2018, 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:

	Note	30.06.2018				01.01.2018 and 31.12.2017			
		Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)	Maturity	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)	Maturity
Derivatives held for trading (i) -									
Forward exchange contracts		12,937	10,079	3,069,445	Between July 2018 and February 2020	22,221	17,138	5,473,643	Between January 2018 and October 2018
Interest rate swaps		22,692	14,399	2,275,025	Between November 2020 and December 2029	16,463	11,937	2,220,102	Between February 2018 and December 2029
Currency swaps		40,095	39,450	912,551	Between July 2018 and January 2025	51,697	47,405	989,181	Between January 2018 and January 2025
Options		1,897	2,820	283,444	Between July 2018 and September 2019	6	1,587	227,647	Between January 2018 and April 2018
Cross currency swaps		-	49,600	192,582	January 2023	-	51,669	190,759	January 2023
		<u>77,621</u>	<u>116,348</u>	<u>6,733,047</u>		<u>90,387</u>	<u>129,736</u>	<u>9,101,332</u>	
Derivatives held as hedges									
Cash flow hedges:									
Cross currency swaps (CCS)	13(g)	9,756	-	981,600	January 2023	-	-	-	-
Cross currency swaps (CCS)	13(e)	-	3,365	65,440	October 2020	-	4,185	64,820	October 2020
Cross currency swaps (CCS)	13(f)	5,031	-	490,800	October 2027	2,353	-	486,150	October 2027
Interest rate swaps (IRS)	12d(i)	728	-	163,600	October 2018	1,036	-	162,050	October 2018
Interest rate swaps (IRS)	12d(ii)	593	-	130,880	August 2018	675	-	129,640	August 2018
Interest rate swaps (IRS)	12d(iii)	-	-	-	-	217	-	162,050	January 2018
		<u>16,108</u>	<u>3,365</u>	<u>1,832,320</u>		<u>4,281</u>	<u>4,185</u>	<u>1,004,710</u>	
		<u>93,729</u>	<u>119,713</u>	<u>8,565,367</u>		<u>94,668</u>	<u>133,921</u>	<u>10,106,042</u>	

As of June 30, 2018, January 1, 2018 and December 31, 2017, certain derivative financial instruments required 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 IFRS 9 hedging accounting requirements.

Notes to the consolidated financial statements (continued)

11. Deposits and obligations

(a) The detail of caption as of June 30, 2018, January 1, 2018 and December 31, 2017 is made up as follows:

	30.06.2018	01.01.2018 and 31.12.2017
	S/(000)	S/(000)
Time deposits	9,907,354	11,562,024
Demand deposits	9,846,467	10,364,653
Saving deposits	9,492,564	9,092,846
Compensation for service time	1,658,234	1,582,278
Other obligations	<u>5,582</u>	<u>5,836</u>
Total	<u>30,910,201</u>	<u>32,607,637</u>

(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 June 30, 2018 and January 1, 2018 (December 31, 2017), of the total of deposits and obligations, approximately S/8,931,240,000 and S/8,689,589,000, respectively, of deposits and obligations are covered by the Peruvian Deposit Insurance Fund.

12. Due to banks and correspondents

(a) The detail of caption as of June 30, 2018, January 1, 2018 and December 31, 2017 is made up as follows:

	30.06.2018	01.01.2018 and 31.12.2017
	S/(000)	S/(000)
By type -		
Central Reserve Bank of Peru (b)	2,204,996	2,205,423
Promotional credit lines (c)	1,430,715	1,441,931
Loans received from foreign entities (d)	608,592	712,777
Loans received from Peruvian entities	<u>6,157</u>	<u>20,668</u>
	4,250,460	4,380,799
Interest and commissions payable	<u>31,260</u>	<u>26,593</u>
	<u>4,281,720</u>	<u>4,407,392</u>
By term -		
Short term	2,603,357	2,447,091
Long term	<u>1,678,363</u>	<u>1,960,301</u>
Total	<u>4,281,720</u>	<u>4,407,392</u>

(b) As of June 30, 2018 and January 1, 2018 (December 31, 2017), correspond to currency repurchase operations according to which Interbank receives Soles for approximately S/1,400,500,000 and S/1,880,200,000, respectively, and delivers US Dollars to the BCRP (for an amount equivalent to the one received). The US

Notes to the consolidated financial statements (continued)

Dollars delivered are recorded as restricted funds; see Note 5(d). As of June 30, 2018, these obligations have maturities between July 2018 and June 2019 and bear an effective interest rate of 3.15 and 6.38 percent; these operations accrued interest payable for approximately S/8,632,000 (with 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, as of January 1, 2018 (December 31, 2017)).

Additionally, as of June 30, 2018 and January 1, 2018 (December 31, 2017), it includes repurchase agreements whereby Interbank receive Soles for approximately S/804,496,000 and S/325,223,000, respectively, and delivers securities of its investment portfolio as guarantees (Negotiable Certificates of Deposit issued by BCRP and Peruvian Sovereign Bonds), recorded as investments at fair value through other comprehensive income and investments at amortized cost; see Note 7(c) and 7(g). As of June 30, 2018, these operations have maturities between July 2018 and July 2020, and accrue interests at annual effective rates between 2.83 and 4.72 percent (maturities between June 2018 and July 2020 and accrue interests at annual effective rates between 4.05 and 4.72 percent, as of January 1, 2018 and December 31, 2017).

- (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 June 30, 2018, these loans accrued an effective annual interest rate that fluctuated between 7.55 and 10.0 percent in Soles and between 7.00 and 8.26 percent in foreign currency and have maturities between July 2018 and November 2031 (7.55 and 10.00 percent in Soles and 4.62 and 8.55 percent in foreign currency and maturities between December 2018 and November 2031, as of January 1, 2018 and December 31, 2017).
- (d) As of June 30, 2018, January 1, 2018 and December 31, 2017, includes the following:

Bank	Country	Final maturity	30.06.2018 S/(000)	01.01.2018 and 31.12.2017 S/(000)
Credit Suisse First Boston	Luxemburgo	July 2018	222,496	-
Wells Fargo Bank & Co. (i)	United States of America	October 2018	163,600	162,050
JP Morgan Chase & Co. (ii)	United States of America	August 2018	130,880	129,640
Bank J. Safra Sarasin	Switzerland	July 2018	91,616	-
Development Bank of Latin America	Supranational	January 2018	-	243,075
HSBC Bank PLC (iii)	United Kingdom	January 2018	-	162,050
Foreign Trade Bank of Latin America, Inc.	Supranational	January 2018	-	15,962
			<u>608,592</u>	<u>712,777</u>

Transactions with foreign entities bore an effective annual average interest rate of 3.16 percent during 2018 (2.23 percent during 2017).

Notes to the consolidated financial statements (continued)

- (i) 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/163,600,000) 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(d). Through these operations, the loans were economically converted into fixed rate obligations.
- (ii) Corresponds to a loan received by Interbank in July 2016 for US\$40,000,000 (equivalent to approximately S/130,880,000) 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(d). Through this operation the loan was economically converted into a fixed rate obligation.
- (iii) Corresponds to a loan received by Interbank in December 2015 for US\$50,000,000 (equivalent to approximately S/162,050,000) which accrued interests 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(d). Through this transaction the loan was economically converted into a fixed rate obligation.

Notes to the consolidated financial statements (continued)

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)	30.06.2018 S/(000)	01.01.2018 and 31.12.2017 S/(000)
Local issuances							
Subordinated bonds – first program (b)							
Second (B series)	Interbank	9.50%	Semi-annually	2023	US\$30,000	91,242	89,977
Third (A series)	Interbank	3.5% + VAC (*)	Semi-annually	2023	S/110,000	70,000	70,000
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	49,440	48,972
Eighth (A series)	Interbank	6.91%	Semi-annually	2022	S/137,900	137,107	137,125
Second, first tranche	Interseguro	6.97%	Semi-annually	2024	US\$35,000	114,520	113,435
Second, second tranche	Interseguro	6.00%	Semi-annually	2024	US\$15,000	49,080	48,615
First	Interseguro	6.67%	Quarterly	December 2018	US\$3,000	9,816	9,723
						<u>524,505</u>	<u>521,147</u>
Subordinated bonds – second program (b)							
Second (A series)	Interbank	5.81%	Semi-annually	2023	S/150,000	149,753	149,729
Third (A series)	Interbank	7.50%	Semi-annually	2023	US\$50,000	155,838	155,192
						<u>305,591</u>	<u>304,921</u>
Total local issuances						<u>815,559</u>	<u>826,068</u>
International issuances							
Subordinated bonds (c)	Interbank	6.625%	Semi-annually	2029	US\$300,000	976,346	966,729
Junior subordinated notes (d)	Interbank	8.50%	Semi-annually	2070	US\$200,000	650,404	643,314
Senior bonds – First and second issuance (e)	Interbank	5.75%	Semi-annually	2020	US\$650,000	1,271,404	2,109,565
Senior bonds (f)	IFS	4.125%	Semi-annually	2027	US\$300,000	964,913	957,476
Senior bonds (g)	Interbank	3.375%	Semi-annually	2023	US\$484,895	1,503,242	-
Total international issuances						<u>5,366,309</u>	<u>4,677,084</u>
Total local and international issuances						<u>6,181,868</u>	<u>5,503,152</u>
Interest payable						<u>110,315</u>	<u>99,206</u>
Total						<u>6,306,720</u>	<u>5,602,358</u>

(*) The Spanish term “VAC - Valor de Actualización Constante” is referred to an amount subject to adjustments.

Notes to the consolidated financial statements (continued)

- (b) Subordinated bonds do not have specific guarantees and in accordance to SBS rules they qualify as second level equity (Tier 2), see Note 15(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 15(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 15(f).

As of June 30, 2018, Management does not intend to redeem these bonds before their maturity date.

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

In January 2018, Interbank exchanged of said liability was made, see Note 13(g).

In June 2017, Interbank signed cross currency swaps for US\$20,000,000 (equivalent to approximately S/65,440,000), which were designated as cash flow hedges, see Note 10(d); 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/490,800,000), which were designated as a cash flow hedge, see Note 10(d); through these operations part of the amount of these bonds was economically converted to Soles.

Notes to the consolidated financial statements (continued)

As of June 30, 2018, Management does not intend to redeem these bonds before their maturity date.

- (g) In January 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 and February 9, 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 bonds “3.375% Senior Notes”. The exchange corporate bonds amounted to US\$263,322,000, while the new corporate bonds issued amounted to US\$284,895,000.

During 2018, Interbank signed five cross currency swap contracts for US\$300,000,000, which were designated as cash flow hedges, see Note 10(d); through these operations part of the amount of these bonds was economically converted to Soles.

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

Notes to the consolidated financial statements (continued)

14. Insurance contract liabilities

(a) This caption is comprised of the following:

	30.06.2018	01.01.2018 and 31.12.2017
	(Note 1.2.3)	
	S/(000)	S/(000)
Technical reserves (b)	9,692,057	10,314,311
Claims reserves (c)	<u>263,242</u>	<u>240,615</u>
	<u>9,955,299</u>	<u>10,554,926</u>
By term		
Short term	778,646	583,692
Long term	<u>9,176,653</u>	<u>9,971,234</u>
Total	<u>9,955,299</u>	<u>10,554,926</u>

Notes to the consolidated financial statements (continued)

(b) The movement of technical reserves disclosed by type of insurance for the periods ended June 30, 2018 and 2017, is as follows:

	30.06.2018 (see Note 1.2.3.1)					30.06.2017 (Restated; see Note 4.1)				
	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Beginning balances	9,075,517	676,928	525,384	36,482	10,314,311	4,526,171	121,592	152,957	37,540	4,838,260
Insurance subscriptions	116,569	1	5,973	23,403	145,946	364,638	935	1,774	20,847	388,194
Interest rate effect	(869,253)	(149)	-	-	(869,402)	108,832	-	-	-	108,832
Time passage adjustments (*)	49,482	19,616	16,109	(19,676)	65,531	(36,533)	5,718	20,024	(21,485)	(32,276)
Maturities and recoveries	-	-	-	-	-	-	-	(3,934)	-	(3,934)
Exchange differences	31,106	119	5,143	(697)	35,671	(56,533)	-	(4,253)	(11)	(60,797)
Ending balances	8,403,421	696,515	552,609	39,512	9,692,057	4,906,575	128,245	166,568	36,891	5,238,279

(*) The table below presents the composition of the adjustments due to time passage as of June 30, 2018 and 2017:

	30.06.2018 (see Note 1.2.3.2)				30.06.2017 (Restated)			
	Annuities (**)	Life insurance	General insurance	Total	Annuities (**)	Life insurance	General insurance	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Aging insured population effect	(103,190)	16,109	(19,676)	(106,757)	(41,510)	20,024	(21,485)	(42,971)
Inflation and other effects	172,288	-	-	172,288	10,695	-	-	10,695
Time passage adjustments	69,098	16,109	(19,676)	65,531	(30,815)	20,024	(21,485)	(32,276)

(**) 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 June 30, 2018, January 1, 2018 and December 31, 2017:

	30.06.2018					01.01.2018 and 31.12.2017				
	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Reported claims	883	142,654	37,552	12,626	193,715	1,320	128,991	39,315	10,047	179,673
IBNR	-	48,049	21,153	325	69,527	-	42,583	18,085	274	60,942
	883	190,703	58,705	12,951	263,242	1,320	171,574	57,400	10,321	240,615

Notes to the consolidated financial statements (continued)

The movement of technical reserves for claims for the six-month periods ended June 30, 2018 and 2017, is as follows:

30.06.2018					
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning balances	1,320	171,574	57,400	10,321	240,615
Claims	277,640	(12,897)	22,362	11,028	298,133
Adjustments to prior years claims	-	114,723	6,104	(2,816)	118,011
Payments	(278,078)	(82,696)	(23,872)	(5,605)	(390,251)
Exchange difference	1	(1)	(3,289)	23	(3,266)
Ending balances	883	190,703	58,705	12,951	263,242
30.06.2017					
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning balances	991	124,062	38,122	9,078	172,253
Claims	139,921	(23,085)	14,207	7,568	138,611
Adjustments to prior years claims	-	23,253	6,647	1,206	31,106
Payments	(139,749)	(43,723)	(19,958)	(8,990)	(212,420)
Exchange difference	(8)	(1)	(155)	(49)	(213)
Ending balances	1,155	80,506	38,863	8,813	129,337

(d) In Management's opinion, these balances reflect the exposure of life and general insurance contracts as of June 30, 2018 and 2017, in accordance with IFRS 4.

Notes to the consolidated financial statements (continued)

15. Net equity

(a) Capital stock -

As of June 30, 2018 and December 31, 2017, 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 02, 2018, agreed to distribute dividends charged to 2017 earnings for approximately US\$157,750,000 (equivalent to approximately S/510,688,000).

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

(b) Treasury stock held by Subsidiaries -

As of June 30, 2018, January 1, 2018 and December 31, 2017, the Group holds shares issued by IFS, as detailed below:

Entity	30.06.2018		01.01.2018 and 31.12.2017	
	Number of shares (000)	Cost S/(000)	Number of shares (000)	Cost S/(000)
Interbank	1,986	164,295	4,996	423,317
IFS	432	43,883	432	43,883
Total	2,418	208,178	5,428	467,200

During the first quarter of 2018, Interbank sold through the Lima Stock Exchange 3,009,490 IFS's shares at its market value, for an amount of US\$121,133,000 (equivalent to approximately S/389,565,000). The profit generated in the sale amounted to S/123,705,000 and is presented in the caption "Retained earnings" of IFS.

In December 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.

Stock buyback program

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). In said Meeting, it was approved to delegate to Management the termination of this program, when it deems appropriate.

Notes to the consolidated financial statements (continued)

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.

- (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 (assets and liabilities) -
This caption is made up as follows as of June 30, 2018 and 2017:

	30.06.2018	(Restated)
	S/(000)	30.06.2017
		S/(000)
		(Note 4.1)
Net gain on financial instruments through other comprehensive income	47,980	(371,828)
Cash flow hedge reserves	3,110	983
Exchange differences on translation of foreign operations	<u>82,091</u>	<u>78,597</u>
Total	<u>133,181</u>	<u>(292,248)</u>

Notes to the consolidated financial statements (continued)

(e) Reserves

The Board of Directors of IFS, held on June 25, 2018 and May 09, 2018, agreed to constitute a reserve of up to S/1,000,000,000 charged to retained earnings.

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.

(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 June 30, 2018 and December 31, 2017, 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 e Inteligo Bank 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 June 30, 2018, January 1, 2018 and December 31, 2017, Interbank maintains the following amounts related to its assets and contingent credits weighted by risk and regulatory capital (basic and supplementary):

	30.06.2018	01.01.2018 and 31.12.2017
	S/(000)	S/(000)
Total risk weighted assets and credits	41,432,300	37,745,504
Total regulatory capital	6,909,235	6,066,349
Basic regulatory capital (Level 1)	4,912,418	4,250,426
Supplementary regulatory capital (Level 2)	1,996,817	1,815,923
Global capital to regulatory capital ratio	16.68%	16.07%

As of June 30, 2018 and January 1, 2018 (December 31, 2017), 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

Notes to the consolidated financial statements (continued)

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 June 30, 2018 and January, 2018 (December 31, 2017), the additional regulatory capital estimated by Interbank amounts to approximately S/685,855,000 and S/710,314,000, respectively.

Interseguro's regulatory capital

In accordance with SBS Resolution No. 1124-2006, amended by SBS Resolutions No. 8243-2008, No. 2574-2008, No. 12687-2008, No. 2742-2011, No. 2842-2012, No. 6271-2013, No. 2904-2014 and No. 1601-2015, Interseguro 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 June 30, 2018, January 1, 2018 and December 31, 2017, 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 June 30, 2018 and January 1, 2018 (December 31, 2017), is as follows:

	Interseguro		Seguros Sura	
	30.06.2018 S/(000) (*)	01.01.2018 and 31.12.2017 S/(000)	30.06.2018 S/(000) (*)	01.01.2018 and 31.12.2017 S/(000)
Regulatory capital	1,037,649	549,281	-	488,262
Less:				
Solvency equity (solvency margin)	542,191	301,671	-	231,720
Guarantee fund	189,767	105,584	-	81,102
Surplus	305,691	142,026	-	175,440

(*) As of June 30, 2018, the balances of Seguros Sura are presented as part of the balances of Interseguro, as a result of the merger culminated as of March 30, 2018.

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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 June 30, 2018, January 1, 2018 and December 31, 2017 is the following:

	30.06.2018 US\$(000)	01.01.2018 and 31.12.2017 US\$(000)
Total eligible capital	<u>163,102</u>	<u>212,459</u>
Total risk weighted assets	<u>782,893</u>	<u>652,229</u>
Capital adequacy ratio (in percentage)	<u>20.83</u>	<u>32.57</u>

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

Notes to the consolidated financial statements (continued)

16. 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) Shareholders not domiciled or individuals entities 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 June 30, 2018 and 2017, the Group has recorded expenses for S/17,864,000 and S/12,267,000, respectively, included in the caption “Income Tax” of the consolidated income statements.

As of June 30, 2018 and January 1, 2018 (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.

- (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.

- (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 and Interseguro for the years 2012 to 2017 are pending to be audited by SUNAT.

Notes to the consolidated financial statements (continued)

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 June 30, 2018 and January 1, 2018 (December 31, 2017).

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 June 30, 2018 and January 1, 2018 (December 31, 2017).

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.

Notes to the consolidated financial statements (continued)

In February 2018, SUNAT notified Interbank of the start of the partial audit/inspection proceeding corresponding to the assessment of the Income Tax of tax year 2014.

As of this date, the Bank is under inspection process by the Tax Authority for the years 2012, 2013 and 2014. 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 June 30, 2018 and January 1, 2018 (December 31, 2017).

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 June 30, 2018 and January 1, 2018 (December 31, 2017).

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

Notes to the consolidated financial statements (continued)

17. Interest and similar income and expenses

This caption is comprised of the following:

	For the six-month periods ended June 30	
	2018	2017
	S/(000)	S/(000)
Interest and similar income		
Interest and fees on loan portfolio	1,622,169	1,584,212
Interest on investments	431,165	259,272
Dividends on investments	30,031	7,420
Interest on due from banks and inter-bank funds	21,267	11,553
Other interest and similar income	<u>1,825</u>	<u>1,311</u>
Total	<u>2,106,457</u>	<u>1,863,768</u>
Interest and similar expenses		
Interest and fees on deposits and obligations	259,246	265,391
Interest on bonds, notes and other obligations	176,513	153,331
Interest and fees on obligations with financial institutions	89,362	111,115
Deposit insurance fund fees	19,766	18,420
Other interest and similar expenses	<u>8,035</u>	<u>4,130</u>
Total	<u>552,922</u>	<u>552,387</u>

Notes to the consolidated financial statements (continued)

18. Fee income from financial services, net

This caption is comprised of the following:

	For the six-month periods ended	
	June 30	
	2018	2017
	S/(000)	S/(000)
Income		
Maintenance and mailing of accounts, transfer fees and commissions on credit and debit card services	303,727	291,045
Commissions for banking services	97,933	81,992
Funds management fees	77,216	68,010
Fees for indirect loans	31,538	28,120
Collection services fees	18,204	16,040
Brokerage and custody services fees	5,333	5,216
Others	18,076	12,654
Total	552,027	503,077
Expenses		
Commissions to Brands by credit cards's use	40,734	34,106
Debtor's life insurance premiums	30,050	24,789
Fees paid to foreign banks	7,365	5,859
Brokerage and custody services fees	1,409	1,596
Others	26,701	22,125
Total	106,259	88,475
Net	445,768	414,602

Notes to the consolidated financial statements (continued)

19. Other income and expenses

(a) This caption is comprised of the following:

	For the six-month periods ended June 30	
	2018	2017
	S/(000)	S/(000)
Other income		
Equity in income of investments in associates	8,434	7,908
Other technical income for insurance operations	4,919	5,391
Services rendered to third parties	1,865	1,823
ATM rental income	1,510	1,943
Gain from sale of written-off-loans	56	4,399
Other income	<u>7,506</u>	<u>31,556</u>
Total other income	<u>24,290</u>	<u>53,020</u>
Other expenses		
Commissions from insurance activities	29,804	23,350
Sundry technical insurance expenses	19,576	7,076
Donations	2,789	3,673
Provision for sundry risk	2,453	9,459
Administrative and tax penalties	1,093	1,441
Other expenses	<u>20,610</u>	<u>16,818</u>
Total other expenses	<u>76,325</u>	<u>61,817</u>

Notes to the consolidated financial statements (continued)

20. Net premiums earned

This caption is comprised of the following for the six-month periods ended June 30, 2018 and 2017:

	Premiums assumed		Adjustment of technical reserves		Gross premium earned (*)		Premiums ceded to reinsurers		Net premiums earned	
	(1)		(2)		(3) = (1) - (2)		(4)		(5) = (3) - (4)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance										
Annuities (**)	111,206	104,081	(161,341)	(98,645)	(50,135)	5,436	-	-	(50,135)	5,436
Group life	53,102	66,714	880	(597)	53,982	66,117	(2,413)	(1,714)	51,569	64,403
Individual life	64,424	26,092	(21,733)	(15,742)	42,691	10,350	(2,870)	(1,051)	39,821	9,299
Retirement, disability and survival (***)	79,071	10,091	(19,616)	(5,797)	59,455	4,294	(50,211)	(9,423)	9,244	(5,129)
Others	1	5	(1,006)	(1,345)	(1,005)	(1,340)	-	(1)	(1,005)	(1,341)
Total life insurance	307,804	206,983	(202,816)	(122,126)	104,988	84,857	(55,494)	(12,189)	49,494	72,668
Total general insurance	48,073	39,274	(3,452)	943	44,621	40,217	(978)	(862)	43,643	39,355
Total	355,877	246,257	(206,268)	(121,183)	149,609	125,074	(56,472)	(13,051)	93,137	112,023

(*) 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.

(***) 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.

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

This caption is comprised of the following for the six-month periods ended June 30, 2018 and 2017:

	Gross claims and benefits		Ceded claims and benefits		Net insurance claims and benefits	
	2018	2017	2018	2017	2018	2017
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance						
Annuities	(277,640)	(139,921)	-	-	(277,640)	(139,921)
Group life	(22,490)	(19,954)	155	711	(22,335)	(19,243)
Individual life	(3,392)	(407)	882	220	(2,510)	(187)
Retirement, disability and survival	(101,826)	(167)	55,707	(3,893)	(46,119)	(4,060)
Others	(2,585)	(492)	1,186	704	(1,399)	212
General Insurance	(8,212)	(8,775)	-	18	(8,212)	(8,757)
	(416,145)	(169,716)	57,930	(2,240)	(358,215)	(171,956)

Notes to the consolidated financial statements (continued)

22. Salaries and employee benefits

This caption is comprised of the following:

	For the six-month periods ended June 30	
	2018	2017
	S/(000)	S/(000)
Salaries	266,277	255,305
Workers' profit sharing	36,723	33,789
Social security	24,521	22,723
Vacations, health insurance and others	23,881	26,182
Severance indemnities	<u>19,471</u>	<u>17,874</u>
Total	<u>370,873</u>	<u>355,873</u>

23. Administrative expenses

This caption is comprised of the following:

	For the six-month periods ended June 30	
	2018	2017
	S/(000)	S/(000)
Services received from third parties	359,848	352,167
Taxes and contributions	<u>17,523</u>	<u>15,657</u>
Total	<u>377,371</u>	<u>367,824</u>

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

Notes to the consolidated financial statements (continued)

24. Earnings per share

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

	Outstanding shares (in thousands)	Shares considered (in thousands)	Effective days in the year	Weighted average (in thousands)
Period 2017				
Balance as of January 1, 2017	106,931	106,931	180	106,931
Sale of treasury stock	1	1	9	0
Purchase of treasury stock, Note 15(b)	<u>(500)</u>	<u>(500)</u>	29	<u>(81)</u>
Balance as of June 30, 2017	<u>106,432</u>	<u>106,432</u>		<u>106,851</u>
Net profit for the period S/(000) - restated				<u>482,804</u>
Basic and diluted earnings per share (Soles)				<u>4.52</u>
Period 2018				
Balance as of January 1, 2018	107,682	107,682	180	107,682
Sale of treasury stock, Note 15(b)	<u>3,009</u>	<u>3,009</u>	150	<u>2,508</u>
Balance as of June 30, 2018	<u>110,692</u>	<u>110,692</u>		<u>110,190</u>
Net profit for the period S/(000)				<u>491,313</u>
Basic and diluted earnings per share (Soles)				<u>4.46</u>

Notes to the consolidated financial statements (continued)

25. 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 June 30, 2018, January 1, 2018 and December 31, 2017:

	30.06.2018 S/(000)	01.01.2018 S/(000) (Note 4.2)	31.12.2017 S/(000)
Assets			
Fair value through profit or loss			
Participations - Royalty Pharma	172,070	68,540	-
Negotiable Certificates of Deposit - Financiera Oh! S.A.	20,312	3,817	3,817
Shares - InRetail Perú Corp	6,276	5,220	-
Participation in investment funds - NGCP	2,798	2,342	2,342
Corporate bonds - InRetail Shopping Malls S.A.	134	-	-
Corporate bonds - San Miguel Industrias PET S.A	-	1,649	1,649
Fair value through other comprehensive income			
Shares - InRetail Perú Corp, Note 7(e)	195,888	162,986	-
Corporate bonds - InRetail Shopping Malls S.A.	97,477	65,334	-
Corporate bonds - Colegios Peruanos S.A.C.	63,798	64,985	-
Corporate bonds - Financiera Oh! S.A.	3,418	27,843	-
Corporate bonds - Intercorp Perú Ltd.	15,930	16,051	-
Corporate bonds - Cineplex S.A.	11,538	13,399	-
Corporate bonds - Inretail Consumer	-	10,194	-
Corporate bonds - Intercorp Retail Inc.	-	6,874	-
Available-for-sale investments			
Shares - InRetail Perú Corp, Note 7(b)	-	-	168,206
Corporate bonds - InRetail Shopping Malls S.A.	-	-	65,334
Corporate bonds - Colegios Peruanos S.A.C.	-	-	64,985
Corporate bonds - Financiera Oh! S.A.	-	-	27,843
Corporate bonds - Intercorp Perú Ltd.	-	-	16,051
Corporate bonds - Cineplex S.A.	-	-	13,399
Corporate bonds - Inretail Consumer	-	-	10,194
Corporate bonds - Intercorp Retail Inc.	-	-	6,874
Participations - Royalty Pharma, Note 7(b)	-	-	68,540
	<u>589,639</u>	<u>449,234</u>	<u>449,234</u>
Loan portfolio, net (b)	991,925	828,597	828,597
Accounts receivable from Homecenters Peruanos S.A. (g)	20,876	23,009	23,009
Accounts receivable related to derivative financial instruments	4,716	5,832	5,832
Other assets (f)	3,170	15,089	15,089
Liabilities			
Deposits and obligations	403,170	311,092	311,092
Other liabilities	835	2,251	2,251
Accounts payable related to derivative financial instruments	65	723	723
Off-balance sheet accounts			
Indirect loans (b)	142,218	133,571	133,571

Notes to the consolidated financial statements (continued)

	For the six-month periods ended June 30	
	2018	2017
	S/(000)	S/(000)
Income (expenses)		
Interest and similar income	44,887	32,654
Interest and similar expenses	(5,147)	(4,814)
Valuation of financial derivative instruments	(3,549)	434
Rental income	5,198	1,648
Gain on sale of investment properties	1,559	-
Administrative expenses	(13,725)	(13,413)
Others, net	15,405	25,909

- (b) As of June 30, 2018, January 1, 2018 and December 31, 2017, the detail of loans (direct and indirect) is the following:

	30.06.2018	01.01.2018 and 31.12.2017
	S/(000)	S/(000)
Supermercados Peruanos S.A.	198,223	205,596
Inretail Pharma	181,167	24,788
GTP Inversionistas S.A.C.	104,139	105,527
Nessus Hoteles Perú S.A.	64,143	67,767
Agrícola Don Ricardo S.A.C.	56,587	57,933
San Miguel Industrias PET S.A.	53,986	40,923
Cineplex S.A.	53,363	56,911
Colegios Peruanos S.A.	51,822	50,816
Homecenters Peruanos S.A.	45,113	61,561
Tiendas Peruanas S.A.	35,644	24,281
San Miguel Industrias Ecuador	32,500	32,500
Procesos de Medios de Pago S.A.	28,947	30,127
Bembos S.A.C.	27,980	27,657
PF Interproperties Perú	20,756	21,291
Other less than 20 millions	179,773	154,490
	1,134,143	962,168

- (c) As of June 30, 2018 and January 1, 2018 (December 31, 2017), 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 June 30, 2018, January 1, 2018 (December 31, 2017), direct loans to employees, directors and officers amounted to S/206,048,000 and S/183,550,000, respectively; said loans are repaid monthly and bear interest at market rates.

Notes to the consolidated financial statements (continued)

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 as of June 30, 2018 and 2017, are presented below:

	For the six-month periods ended June 30	
	2018 S/(000)	2017 S/(000)
Salaries	13,244	10,382
Board of Directors' compensation	732	626
	<hr/>	<hr/>
Total	13,976	11,008

- (e) As of June 30, 2018 and January 1, 2018 (December 31, 2017), 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/10,297,000 and S/324,000, 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/9,796,000 and S/10,876,000 as of June 30, 2018 and January 1, 2018 (December 31, 2017), 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) 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.

Notes to the consolidated financial statements (continued)

26. 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 for the periods as of June 30, 2018 and 2017.

Notes to the consolidated financial statements (continued)

The following table presents the Group's financial information by business segments for the six-month periods ended June 30, 2018 and 2017:

	2018					2017				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total S/(000)	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total S/(000)
Total income (*)		(**)								
Third party	2,270,178	406,286	142,308	(18,317)	2,800,455	2,211,459	295,475	168,291	(45,364)	2,629,861
Inter-segment	(22,671)	6,382	(480)	16,769	-	(45,552)	(21)	(217)	45,790	-
Total income	2,247,507	412,668	141,828	(1,548)	2,800,455	2,165,907	295,454	168,074	426	2,629,861
Extracts of results										
Interest and similar income	1,723,909	315,148	72,723	(5,323)	2,106,457	1,660,108	148,078	78,903	(23,321)	1,863,768
Interest and similar expenses	(503,291)	(26,649)	(19,950)	(3,032)	(552,922)	(519,391)	(5,889)	(28,141)	1,034	(552,387)
Net interest and similar income	1,220,618	288,499	52,773	(8,355)	1,553,535	1,140,717	142,189	50,762	(22,287)	1,311,381
Provision for loan losses, net of recoveries	(286,233)	-	775	-	(285,458)	(439,696)	-	2,702	-	(436,994)
Net interests and similar income after provision for loan losses	934,385	288,499	53,548	(8,355)	1,268,077	701,021	142,189	53,464	(22,287)	874,387
Fee income from financial services, net	395,438	(2,442)	65,344	(12,572)	445,768	379,252	(1,912)	57,845	(20,583)	414,602
Net gain on sale of securities	(111,504)	(1,633)	11,184	123,707	21,754	22,977	28,414	33,206	-	84,597
Gain on sale of IFS shares	123,705	-	-	(123,705)	-	-	-	-	-	-
Other income	142,559	14,006	(6,945)	(418)	149,202	149,123	8,872	(1,663)	(1,456)	154,876
Total net premiums earned minus claims and benefits	-	(265,078)	-	-	(265,078)	-	(59,933)	-	-	(59,933)
Depreciation and amortization	(66,460)	(6,927)	(4,317)	(20)	(77,724)	(62,195)	(2,101)	(3,701)	-	(67,997)
Impairment loss on financial instruments	(18)	1,795	1,781	-	3,558	-	(5,019)	-	-	(5,019)
Other expenses	(676,540)	(124,522)	(34,647)	10,086	(825,623)	(662,296)	(101,377)	(35,384)	12,964	(786,093)
Income before translation result and Income Tax	741,565	(96,302)	85,948	(11,277)	719,934	527,882	9,133	103,767	(31,362)	609,420
Translation result	(1,631)	(2,877)	(399)	(2,038)	(6,945)	13,614	6,327	518	362	20,821
Income Tax	(204,499)	-	343	(13,917)	(218,073)	(137,828)	1,609	69	(12,268)	(148,418)
Net profit for the period	535,435	(99,179)	85,892	(27,232)	494,916	403,668	17,069	104,354	(43,268)	481,823
Attributable to:										
IFS's shareholders	535,435	(99,179)	85,892	(30,835)	491,313	403,668	20,860	104,354	(46,078)	482,804
Non-controlling interest	-	-	-	3,603	3,603	-	(3,791)	-	2,810	(981)
	535,435	(99,179)	85,892	(27,232)	494,916	403,668	17,069	104,354	(43,268)	481,823

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

(**) Insurance segment includes certain attributable concepts related with the acquisition of Sura (interest expense S/20,929,500, amortization S/4,386,800, among other expenses of the period).

Notes to the consolidated financial statements (continued)

27. 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 IFRS 9 “Financial Instruments” as of June 30, 2018 and January 1, 2018:

	As of June 30, 2018						As of January 1, 2018					
	Financial assets at fair value		Investments at fair value through other comprehensive income S/(000)	Investments at amortized cost S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)	Financial assets at fair value		Investments at fair value through other comprehensive income S/(000)	Investments at amortized cost S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)
For trading or hedging purposes S/(000)	Loans and receivable accounts at amortized cost S/(000)	For trading or hedging purposes S/(000)					Loans and receivable accounts at amortized cost S/(000)					
Financial Assets												
Cash and due from banks	-	7,709,482	-	-	-	7,709,482	-	11,204,843	-	-	-	11,204,843
Inter-bank funds	-	231,848	-	-	-	231,848	-	403,526	-	-	-	403,526
Investments at fair value through profit or loss	1,613,887	-	-	-	-	1,613,887	1,348,667	-	-	-	-	1,348,667
Investments at fair value through other comprehensive income	-	-	14,296,100	-	-	14,296,100	-	-	14,327,001	-	-	14,327,001
Investments at amortized cost	-	-	-	1,874,353	-	1,874,353	-	-	-	1,248,475	-	1,248,475
Loan portfolio, net	-	30,380,396	-	-	-	30,380,396	-	28,205,284	-	-	-	28,205,284
Due from customers on acceptances	-	84,146	-	-	-	84,146	-	41,715	-	-	-	41,715
Accounts receivable and other assets, net	93,729	932,193	-	-	-	1,025,922	94,668	646,904	-	-	-	741,572
	<u>1,707,616</u>	<u>39,338,065</u>	<u>14,296,100</u>	<u>1,874,353</u>	<u>-</u>	<u>57,216,134</u>	<u>1,443,335</u>	<u>40,502,272</u>	<u>14,327,001</u>	<u>1,248,475</u>	<u>-</u>	<u>57,521,083</u>
Financial liabilities												
Deposits and obligations	-	-	-	-	30,910,201	30,910,201	-	-	-	-	32,607,637	32,607,637
Inter-bank funds	-	-	-	-	311,165	311,165	-	-	-	-	30,008	30,008
Due to banks and correspondents	-	-	-	-	4,281,720	4,281,720	-	-	-	-	4,407,392	4,407,392
Bonds, notes and other obligations	-	-	-	-	6,306,720	6,306,720	-	-	-	-	5,602,358	5,602,358
Due from customers on acceptances	-	-	-	-	84,146	84,146	-	-	-	-	41,715	41,715
Insurance contract liabilities	-	-	-	-	9,955,299	9,955,299	-	-	-	-	10,554,926	10,554,926
Accounts payable, provision and other liabilities	119,713	-	-	-	1,463,634	1,583,347	133,921	-	-	-	1,248,940	1,382,861
	<u>119,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,312,885</u>	<u>53,432,598</u>	<u>133,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,492,976</u>	<u>54,626,897</u>

Notes to the consolidated financial statements (continued)

28. 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.

Notes to the consolidated financial statements (continued)

(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 June 30, 2018, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.269 per US\$1 bid and S/3.274 per US\$1 ask (S/3.238 and S/3.245 as of December 31, 2017, respectively). As of June 30, 2018, the exchange rate for the accounting of asset and liability accounts in foreign currency set by the SBS was S/3.272 per US\$1 (S/3.241 as of December 31, 2017).

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

	As of June 30, 2018				As of December 31, 2017			
	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	6,392,337	1,000,661	316,484	7,709,482	9,497,021	1,385,533	322,289	11,204,843
Inter-bank funds	81,814	150,034	-	231,848	113,449	290,077	-	403,526
Investments at fair value through profit or loss	1,552,586	33,541	27,760	1,613,887	102,379	113,629	-	216,008
Available-for-sale investments (*)	-	-	-	-	5,594,848	8,161,516	-	13,756,364
Investments at fair value through other comprehensive income	5,573,919	7,927,459	-	13,501,378	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	1,248,475	-	1,248,475
Investments at amortized cost	-	1,874,353	-	1,874,353	-	-	-	-
Loan portfolio, net	9,254,560	21,125,836	-	30,380,396	8,566,434	19,637,734	-	28,204,168
Due from customers on acceptances	57,770	-	26,376	84,146	21,138	-	20,577	41,715
Accounts receivable and other assets	294,594	712,969	18,359	1,025,922	163,677	577,159	741	741,577
	<u>23,207,580</u>	<u>32,824,853</u>	<u>388,979</u>	<u>56,421,412</u>	<u>24,058,946</u>	<u>31,414,123</u>	<u>343,607</u>	<u>55,816,676</u>
Liabilities								
Deposits and obligations	12,865,111	17,794,088	251,002	30,910,201	14,469,686	17,877,317	260,634	32,607,637
Inter-bank funds	81,813	229,352	-	311,165	-	30,008	-	30,008
Due to banks and correspondents	909,392	3,372,328	-	4,281,720	1,031,657	3,375,735	-	4,407,392
Bonds, notes and other obligations	5,921,127	385,593	-	6,306,720	5,215,011	387,347	-	5,602,358
Due from customers on acceptances	57,770	-	26,376	84,146	21,138	-	20,577	41,715
Insurance contract liabilities	4,083,026	5,872,273	-	9,955,299	4,142,822	6,412,104	-	10,554,926
Accounts payable, provision and other liabilities	391,724	1,106,757	84,866	1,583,347	223,567	931,986	81,630	1,237,183
	<u>24,309,963</u>	<u>28,760,391</u>	<u>362,244</u>	<u>53,432,598</u>	<u>25,103,881</u>	<u>29,014,497</u>	<u>362,841</u>	<u>54,481,219</u>
Assets (Liabilities) net								
Forwards position, net	(521,723)	584,593	(62,870)	-	(406,225)	458,390	(52,165)	-
Currency swaps position, net	23,882	(23,882)	-	-	54,369	(54,369)	-	-
Cross currency swaps position, net	1,345,256	(1,345,256)	-	-	295,391	(295,391)	-	-
Options position, net	(581)	581	-	-	(388)	388	-	-
Monetary position, net	<u>(255,549)</u>	<u>3,280,498</u>	<u>(36,135)</u>	<u>2,988,814</u>	<u>(1,101,788)</u>	<u>2,508,644</u>	<u>(71,399)</u>	<u>1,335,457</u>

(*) Until December 31, 2017, mutual funds and investment funds participations and shares for approximately S/1,150,000,000, recorded as available-for-sale investments, were not part of the Group's monetary position.

Notes to the consolidated financial statements (continued)

As of June 30, 2018, the Group granted indirect loans (contingent operations) in foreign currency for approximately US\$685,952,000, equivalent to S/2,244,434,000 (US\$673,040,000, equivalent to S/2,181,322,000 as of January 1, 2018 and December 31, 2017).

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 June 30, 2018 and January 1, 2018 (December 31, 2017). 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 %	30.06.2018 S/(000)	01.01.2018 and 31.12.2017 S/(000)
Devaluation			
US Dollar	5	12,777	55,089
US Dollar	10	25,555	110,179
US Dollar	15	38,332	165,268
Revaluation			
US Dollar	5	(12,777)	(55,089)
US Dollar	10	(25,555)	(110,179)
US Dollar	15	(38,332)	(165,268)

Notes to the consolidated financial statements (continued)

29. 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 June 30, 2018				As of January 1, 2018			
	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								
Fair value through profit or loss								
Debt instruments	47,232	3,007	-	50,239	17,924	8,744	-	26,668
Shares and mutual funds and investment funds participations	701,597	407,062	454,989	1,563,648	475,918	584,344	261,737	1,321,999
Investments at fair value through other comprehensive income								
Debt instruments	7,190,030	6,122,234	-	13,312,264	9,271,323	4,314,577	-	13,585,900
Shares of the private sector, foreign entities and others	597,216	1,621	-	598,837	406,045	1,606	-	407,651
InRetail Peru Corp.	195,888	-	-	195,888	162,986	-	-	162,986
Derivatives receivable	-	93,729	-	93,729	-	94,668	-	94,668
	<u>8,731,963</u>	<u>6,627,653</u>	<u>454,989</u>	<u>15,814,605</u>	<u>10,334,196</u>	<u>5,003,939</u>	<u>261,737</u>	<u>15,599,872</u>
Accrued interest				<u>189,111</u>				<u>170,464</u>
Total financial assets				<u>16,003,716</u>				<u>15,770,336</u>
Financial liabilities								
Derivatives payable	-	119,713	-	119,713	-	133,921	-	133,921

Notes to the consolidated financial statements (continued)

	As of December 31, 2017 (IAS 39)			
	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
Available-for-sale investments				
Debt instruments	9,271,323	4,314,577	-	13,585,900
Mutual funds and investment funds participations	185,079	580,383	190,855	956,317
Shares of the private sector, foreign entities and others	216,666	1,607	-	218,273
BioPharma Credit PLC	291,960	-	-	291,960
Royalty Pharma	-	-	68,540	68,540
InRetail Perú Corp.	168,206	-	-	168,206
Derivatives receivable	-	92,820	-	92,820
	<u>10,334,196</u>	<u>5,002,091</u>	<u>261,737</u>	<u>15,598,024</u>
Accrued interest				<u>170,464</u>
Total financial assets				<u>15,768,488</u>
Financial liabilities				
Derivatives payable	<u>-</u>	<u>133,921</u>	<u>-</u>	<u>133,921</u>

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.

As of June 30, 2018 and January 1, 2018, the unrealized gain on Level 3 financial instruments amounts to S/30,469,000 and S/26,562,000, respectively, and the unrealized loss amounts to S/8,059,000 and S/945,000, respectively. During 2018 and 2017, there were no transfers of financial instruments from Level 3 to Level 1 or to Level 2.

Notes to the consolidated financial statements (continued)

(b) Financial instruments not measured at their fair value

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

	As of June 30, 2018					As of January 1, 2018				
	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	-	7,709,482	-	7,709,482	7,709,482	-	11,204,843	-	11,204,843	11,204,843
Inter-bank funds	-	231,848	-	231,848	231,848	-	403,526	-	403,526	403,526
Investments at amortized cost	1,874,983	-	-	1,874,983	1,874,353	879,559	423,637	-	1,303,196	1,248,475
Loan portfolio, net	-	31,162,053	-	31,162,053	30,380,396	-	29,019,417	-	29,019,417	28,205,284
Due from customers on acceptances	-	84,146	-	84,146	84,146	-	41,715	-	41,715	41,715
Other accounts receivable and other assets, net	-	931,156	-	931,156	932,193	-	646,904	-	646,904	646,904
Total	1,874,983	40,118,685	-	41,993,668	41,212,418	879,559	41,740,042	-	42,619,600	41,750,747
Liabilities										
Deposits and obligations	-	30,955,544	-	30,955,544	30,910,201	-	32,629,914	-	32,629,914	32,607,637
Inter-bank funds	-	311,165	-	311,165	311,165	-	30,008	-	30,008	30,008
Due to banks and correspondents	-	4,303,368	-	4,303,368	4,281,720	-	4,434,484	-	4,434,484	4,407,392
Bonds, notes and notes issued	5,423,051	894,168	-	6,317,219	6,306,720	5,244,757	735,428	-	5,980,185	5,602,358
Due from customers on acceptances	-	84,146	-	84,146	84,146	-	41,715	-	41,715	41,715
Insurance contract liabilities	-	9,955,299	-	9,955,299	9,955,299	-	10,554,893	-	10,554,893	10,554,893
Accounts payable and other liabilities	-	1,463,634	-	1,463,634	1,463,634	-	1,248,973	-	1,248,973	1,248,973
Total	5,423,051	47,967,324	-	53,390,375	53,312,885	5,244,757	49,675,415	-	54,920,172	54,492,976

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 June 30, 2018 and January 1, 2018 (December 31, 2017), 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.

Notes to the consolidated financial statements (continued)

30. Fiduciary activities and management of funds

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

As of June 30, 2018, January 1, 2018 and December 31, 2017, the value of the managed off-balance sheet financial assets is as follows:

	30.06.2018 S/(000)	01.01.2018 and 31.12.2017 S/(000)
Assets under managment	12,483,648	11,982,512
Mutual funds	<u>4,485,157</u>	<u>4,247,369</u>
Total	<u>16,968,805</u>	<u>16,229,881</u>

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.