Translation of independent auditor's report and consolidated financial statements originally issued in Spanish – Note 35

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of December 31, 2018 and 2017, and as of January 1, 2017, together with Independent Auditor's Report

Translation of independent auditor's report and consolidated financial statements originally issued in Spanish – Note 35

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of December 31, 2018 and 2017, and as of January 1, 2017, together with Independent Auditor's Report

Content

Translation of independent auditor's report originally issued in Spanish – Note 35

Independent Auditor's Report

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

1. We have audited the accompanying consolidated financial statements of Intercorp Financial Services Inc. and Subsidiaries (a holding company incorporated in the Republic of Panama, a Subsidiary of Intercorp Perú Ltd.) which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and of January 1, 2017, and the related consolidated income statements, other comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2018, 2017 and 2016, respectively, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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Translation of independent auditor's report originally issued in Spanish - Note 35

Independent Auditor's Report (continued)

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

Opinion

5. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Intercorp Financial Services Inc. and Subsidiaries as of December 31, 2018 and 2017, and as of January 1, 2017, as well as the consolidated results of their operations and their consolidated cash flows for each of the years ended December 31, 2018, 2017 and 2016, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other issues

6. As mentioned in Note 4.2.1(i) to the consolidated financial statements, during the year 2018, Intercorp Financial Services Inc. and Subsidiaries, modified its accounting policy regarding the impact of change in the value of insurance contracts liabilities that comprise retirement, disability and survival pensions, which was caused by the variation in the market interest rates used to discount these liabilities from the consolidated income statements to the consolidated statements of other comprehensive income (equity). In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", such change was retrospectively recorded, thus modifying previously released consolidated financial statements.

7. As mentioned in Note 4.2.2 to the consolidated financial statements, in 2018 the Group adopted IFRS 9 "Financial Instruments". The accounting effects of the adoption of IFRS 9 are detailed in Note 4.7.

Lima, Peru,
March 18, 2019

Countersigned by:

Paredes, Burga & Asoc.

V. Tanaka

Victor Tanaka
C.P.C.C. Register No.25613

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2018 and 2017, and as of January 1, 2017

	Note	2018 S/(000)	2017 S/(000) Note 4.2.1 Restated	01.01.2017 S/(000) Note 4.2.1 Restated
Assets				
Cash and due from banks	5 (a)			
Non-interest bearing		3,102,250	2,963,085	2,628,115
Interest bearing		3,991,629	6,264,339	5,869,583
Restricted funds		1,286,532	1,977,419	3,264,105
		8,380,411	11,204,843	11,761,803
Inter-bank funds	5(e)	495,037	403,526	5,002
Financial investments	6	17,629,445	16,924,143	10,209,840
Loans, net	7			
Loans, net of unearned interest		34,325,721	29,406,286	28,192,647
Impairment allowance for loans		(1,364,804)	(1,202,118)	(1,166,782)
		32,960,917	28,204,168	27,025,865
Investment property	8	986,538	1,118,608	745,185
Property, furniture and equipment, net	9	622,525	612,639	589,820
Due from customers on acceptances		132,961	41,715	16,392
Intangibles and goodwill, net	10	954,546	921,594	267,401
Accounts receivable and other assets, net	11	1,502,554	909,984	1,063,773
Deferred Income Tax asset, net	16	79,475	53,277	34,278
Total assets		63,744,409	60,394,497	51,719,359

	Note	2018 S/(000)	2017 S/(000) Note 4.2.1 Restated	01.01.2017 S/(000) Note 4.2.1 Restated
Liabilities and equity				
Deposits and obligations	12			
Non-interest bearing		5,321,025	4,791,792	5,081,940
Interest bearing		28,360,925	27,815,845	25,015,910
		33,681,950	32,607,637	30,097,850
Inter-bank funds	5(e)	-	30,008	332,255
Due to banks and correspondents	13	4,293,361	4,407,392	5,328,603
Bonds, notes and other obligations	14	6,496,778	5,602,358	4,769,390
Due from customers on acceptances		132,961	41,715	16,392
Insurance contract liabilities	15	10,300,468	10,514,504	5,010,513
Accounts payable, provisions and other liabilities	11	1,750,363	1,353,719	1,162,064
Deferred Income Tax liability, net	16	52	257	3,946
Total liabilities		56,655,933	54,557,590	46,721,013
Equity, net	17			
Equity attributable to IFS's shareholders:				
Capital stock		963,446	963,446	963,446
Treasury stock		(208,178)	(467,200)	(522,106)
Capital surplus		268,077	268,077	268,077
Reserves		4,700,000	3,700,000	2,600,000
Unrealized results, net		121,686	(228,725)	(463,118)
Retained earnings		1,203,043	1,564,945	2,032,812
		7,048,074	5,800,543	4,879,111
Non-controlling interest		40,402	36,364	119,235
Total equity, net		7,088,476	5,836,907	4,998,346
Total liabilities and equity, net		63,744,409	60,394,497	51,719,359

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the years ended December 31, 2018, 2017 and 2016

	Note	2018 S/(000)	2017 S/(000) Note 4.2.1 Restated	2016 S/(000) Note 4.2.1 Restated
Interest and similar income	20	4,321,282	3,809,020	3,704,812
Interest and similar expenses	20	(1,170,586)	(1,119,889)	(1,081,859)
Net interest and similar income		3,150,696	2,689,131	2,622,953
Impairment loss on loans, net of recoveries	7(d)	(660,072)	(827,935)	(783,645)
Recovery (loss) due to impairment of financial investments	6(c) and 6(i)	13,077	(20,759)	(28,323)
Net interest and similar income after impairment loss		2,503,701	1,840,437	1,810,985
Fee income from financial services, net	21	893,352	864,368	822,771
Net gain on foreign exchange transactions		228,160	201,829	264,183
Net gain on sale of financial investments		14,240	184,847	103,338
Net gains (losses) on financial assets at fair value through profit or loss		11,979	18,443	(47,931)
Net gain on investment property	8(b)	85,298	25,406	23,124
Other income	22	69,043	87,439	64,095
		1,302,072	1,382,332	1,229,580
Insurance premiums and claims				
Net premiums earned	23	328,566	259,349	187,360
Net claims and benefits incurred for life insurance contracts and others	24	(736,032)	(412,276)	(318,200)
		(407,466)	(152,927)	(130,840)
Other expenses				
Salaries and employee benefits	25	(755,914)	(714,582)	(711,358)
Administrative expenses	26	(794,180)	(745,690)	(702,123)
Depreciation and amortization	9(a) and 10(a)	(164,698)	(145,162)	(130,118)
Other expense	22	(141,615)	(120,326)	(102,136)
		(1,856,407)	(1,725,760)	(1,645,735)
Income before translation result and Income Tax		1,541,900	1,344,082	1,263,990
Translation result		(34,991)	15,898	20,062
Income Tax	16(c)	(415,515)	(326,526)	(333,863)
Net profit for the year		1,091,394	1,033,454	950,189
Attributable to:				
IFS's shareholders		1,084,280	1,027,379	944,611
Non-controlling interest		7,114	6,075	5,578
		1,091,394	1,033,454	950,189
Earnings per share attributable to IFS's shareholders basic and diluted (stated in Soles)	27	9.818	9.625	8.715
Weighted average number of outstanding shares (in thousands)	27	110,436	106,736	108,384

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of other comprehensive income

For the years ended December 31, 2018, 2017 and 2016

	Note	2018 S/(000)	2017 S/(000) Note 4.2.1 Restated	2016 S/(000) Note 4.2.1 Restated
Net profit for the year		1,091,394	1,033,454	950,189
Other comprehensive income that will not be reclassified to the income statements in subsequent periods:				
Revaluation of gains on equity instruments at fair value through other comprehensive income	17(e)	41,398	-	-
Income Tax	17(e)	26	-	-
Total gains that will not be reclassified to the consolidated income statements		41,424	-	-
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:				
Net movement of debt instruments at fair value through other comprehensive income	17(e)	(478,005)	-	-
Income Tax	17(e)	6,309	-	-
		(471,696)	-	-
Insurance premiums reserve	4.2.1(i) and 17(e)	750,794	(195,619)	(116,468)
Net movement in available-for-sale investments	17(e)	-	439,828	393,106
Income Tax	17(e)	-	14,471	(4,837)
		-	454,299	388,269
Net movement of cash flow hedges	17(e)	38,453	(2,528)	2,494
Income Tax	17(e)	(10,335)	1,172	(723)
		28,118	(1,356)	1,771
Translation of foreign operations	17(e)	26,589	(22,480)	(11,340)
Total unrealized gain to be reclassified to the consolidated income statements in subsequent periods		333,805	234,844	262,232
Total other comprehensive income for the year, net of Income Tax		1,466,623	1,268,298	1,212,421
Attributable to:				
IFS's shareholders		1,460,736	1,261,772	1,205,896
Non-controlling interest		5,887	6,526	6,525
		1,466,623	1,268,298	1,212,421

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of changes in equity

For the years ended December 31, 2018, 2017 and 2016

	Number of shares						Attributable to IFS's shareholders									
							Unrealized results, net									
							Instruments that will not be reclassified to the consolidated income statements	Instruments that will be reclassified to the consolidated income statements								
	Issued (in thousands)	In treasury (in thousands)	Capital stock S/(000)	Treasury stock S/(000)	Capital surplus S/(000)	Reserves S/(000)	Equity instruments at fair value S/(000)	Debt instruments at fair value S/(000)	Insurance premiums reserves, Note 4.2.1(i) S/(000)	Available-for-sale investments reserve S/(000)	Cash flow hedges reserve S/(000)	Foreign currency translation reserve S/(000)	Retained earnings S/(000)	Total S/(000)	Non-controlling interest S/(000)	Total equity, net S/(000)
Balances as of January 1, 2016 (Note 4.2.1 Restated)	113,110	(4,290)	963,446	(322,214)	268,077	2,000,000	-	-	(363,008)	(471,151)	(458)	110,214	2,160,645	4,345,551	115,380	4,460,931
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	944,611	944,611	5,578	950,189
Other comprehensive income	-	-	-	-	-	-	-	-	(116,468)	387,334	1,759	(11,340)	-	261,285	947	262,232
Total other comprehensive income	-	-	-	-	-	-	-	-	(116,468)	387,334	1,759	(11,340)	944,611	1,205,896	6,525	1,212,421
Declared and paid dividends, Note 17(a)	-	-	-	-	-	-	.	-	-	-	-	-	(496,862)	(496,862)	-	(496,862)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	.	-	-	-	-	-	-	-	(2,623)	(2,623)
Transfer of retained earnings to reserves, Note 17(g)	-	-	-	-	-	600,000	.	-	-	-	-	-	(600,000)	-	-	-
Purchase of treasury stock, Note 17(b)	-	(1,889)	-	(199,892)	-	-	.	-	-	-	-	-	-	(199,892)	-	(199,892)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	.	-	-	-	-	-	18,258	18,258	-	18,258
Others	-	-	-	-	-	-	.	-	-	-	-	-	6,160	6,160	(47)	6,113
Balance as of December 31, 2016 (Note 4.2.1. Restated)	113,110	(6,179)	963,446	(522,106)	268,077	2,600,000	-	-	(479,476)	(83,817)	1,301	98,874	2,032,812	4,879,111	119,235	4,998,346
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	1,027,379	1,027,379	6,075	1,033,454
Other comprehensive income	-	-	-	-	-	-	-	-	(195,619)	453,829	(1,337)	(22,480)	-	234,393	451	234,844
Total other comprehensive income	-	-	-	-	-	-	-	-	(195,619)	453,829	(1,337)	(22,480)	1,027,379	1,261,772	6,526	1,268,298
Declared and paid dividends, Note 17(a)	-	-	-	-	-	-	-	-	-		-	-	(475,773)	(475,773)	-	(475,773)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-		-	-	-	-	(2,722)	(2,722)
Transfer of retained earnings to reserves, Note 17(g)	-	-	-	-	-	1,100,000	-	-	-		-	-	(1,100,000)	-	-	-
Purchase of treasury stock, Note 17(b)	-	(500)	-	(52,774)	-	-	-	-	-		-	-	-	(52,774)	-	(52,774)
Sale of treasury stock, Note 17(b)	-	1,251	-	107,680	-	-	-	-	-		-	-	34,984	142,664	175	142,839
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-		-	-	24,081	24,081	161	24,242
Acquisition of Subsidiary, Note 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,912	1,912
Purchase of non-controlling interest, Note 3(b)	-	-	-	-	-	-	-	-	-	-	-	-	21,462	21,462	(88,039)	(66,577)
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(884)	(884)
Balance as of December 31, 2017 (Note 4.2.1 restated)	113,110	(5,428)	963,446	(467,200)	268,077	3,700,000	-	-	(675,095)	370,012	(36)	76,394	1,564,945	5,800,543	36,364	5,836,907
Changes due to the first adoption of IFRS 9, see Note 4.7	-	-	-	-	-	-	105,619	238,348	-	(370,012)	-	-	(57,271)	(83,316)	(584)	(83,900)
Restated balance as of January 1, 2018, Note 4.2.1	113,110	(5,428)	963,446	(467,200)	268,077	3,700,000	105,619	238,348	(675,095)	-	(36)	76,394	1,507,674	5,717,227	35,780	5,753,007
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	1,084,280	1,084,280	7,114	1,091,394
Other comprehensive income	-	-	-	-	-	-	41,935	(470,685)	750,670	-	27,947	26,589	-	376,456	(1,227)	375,229
Total other comprehensive income	-	-	-	-	-	-	41,935	(470,685)	750,670	-	27,947	26,589	1,084,280	1,460,736	5,887	1,466,623
Declared and paid dividends, Note 17(a)	-	-	-	-	-	-	-	-	-	-	-	-	(510,688)	(510,688)	-	(510,688)
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,969)	(2,969)
Transfer of retained earnings to reserves, Note 17(g)	-	-	-	-	-	1,000,000	-	-	-	-	-	-	(1,000,000)	-	-	-
Sale of treasury stock, Note 17(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
Purchase of non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(161)	(161)
Others	-	-	-	-	-	-	-	-	-	-	-	-	(10,900)	(10,900)	940	(9,960)
Balance as of December 31, 2018	113,110	(2,418)	963,446	(208,178)	268,077	4,700,000	147,554	(232,337)	75,575	-	27,911	102,983	1,203,043	7,048,074	40,402	7,088,476

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2018, 2017 and 2016

	2018 S/(000)	2017 S/(000) Note 4.2.1 Restated	2016 S/(000) Note 4.2.1 Restated
Cash flows from operating activities			
Net profit for the year	1,091,394	1,033,454	950,189
Plus (minus)			
Impairment loss on loans, net of recoveries	660,072	827,935	783,645
Recovery (loss) due to impairment of financial investments	(13,077)	20,759	28,323
Depreciation and amortization	164,698	145,162	130,118
Provision for sundry risks	3,504	9,748	14,685
Provision for asset seized	9,754	-	-
Deferred Income Tax	13,727	(4,376)	1,043
Net gain on sale of financial investments	(14,240)	(184,847)	(103,338)
Net (gains) losses of financial assets at fair value through profit or loss	(11,979)	(18,443)	47,931
Net (gain) loss for the valuation of investment property	(47,765)	1,878	1,380
Translation result	34,991	(15,898)	(20,062)
Gain on sale of investment property	(4,655)	-	(2,655)
Increase in accrued interest receivable	(64,215)	(70,112)	(23,371)
Increase (decrease) in accrued interest payable	24,627	(15,887)	(7,648)
Net changes in assets and liabilities			
Increase in loans	(5,421,176)	(2,035,076)	(1,805,900)
(Increase) decrease in accounts receivable and other assets, net	(350,494)	282,092	(64,292)
Net decrease in restricted funds	673,907	1,307,577	388,523
Increase in deposits and obligations	1,045,762	2,509,351	1,608,560
Decrease in due to banks and correspondents	(124,017)	(900,386)	(842,973)
Increase in accounts payable, provisions and other liabilities	793,616	725,210	604,727
Income Tax paid	(426,356)	(341,650)	(338,586)
(Increase) decrease of investments at fair value through profit or loss	(189,001)	29,381	46,237
Net cash (used in) provided by operating activities	(2,150,923)	3,305,872	1,396,536

Consolidated statements of cash flows (continued)

	2018 S/(000)	2017 S/(000) Note 4.2.1 Restated	2016 S/(000) Note 4.2.1 Restated
Cash flows from investing activities			
Purchase of investments at fair value through other comprehensive income and at amortized cost	(269,847)	(1,275,199)	(1,158,874)
Purchase of property, furniture and equipment	(72,709)	(84,685)	(79,835)
Purchase of intangible assets	(127,928)	(160,515)	(132,579)
Purchase of investment property	(55,795)	(124,089)	(56,833)
Sale of investment property	230,746	-	26,185
Acquisition of Subsidiaries, net of received cash	-	(660,527)	-
Net cash used in investing activities	(295,533)	(2,305,015)	(1,401,936)
Cash flows from financing activities			
Issuance of bonds, notes and other obligations	595,258	956,575	-
Payments of bonds, notes and other obligations	(10,119)	-	(88,375)
Net (decrease) increase in payable inter-bank funds	(30,008)	(300,938)	332,255
Net (increase) decrease in receivable inter-bank funds	(93,821)	(400,537)	240,026
Sale (purchase) of treasury stock, net	383,589	90,065	(199,892)
Payments of cash dividends	(510,688)	(475,773)	(496,862)
Dividend payments to non-controlling interest	(2,969)	(2,722)	(2,623)
Purchase of non-controlling interest	-	(66,577)	-
Net cash provided by (used in) financing activities	331,242	(199,907)	(215,471)
Net (decrease) increase in cash and cash equivalents	(2,115,214)	800,950	(220,871)
Translation loss on cash and cash equivalents	(23,341)	(72,380)	(63,243)
Cash and cash equivalents at the beginning of the year	9,225,617	8,497,047	8,781,161
Cash and cash equivalents at the end of the year	7,087,062	9,225,617	8,497,047
Supplementary cash flow information:			
Cash paid during the year for			
Interest	1,089,114	1,088,261	1,089,507
Cash received during the year from			
Interest	4,191,721	3,720,149	3,681,729

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of December 31, 2018, 2017, and as of January 1, 2017

1. **Business activity**

Intercorp Financial Services Inc. and Subsidiaries (henceforth "IFS", "the Company" or "the Group") is a limited liability holding company incorporated in the Republic of Panama on September 19, 2006 and is a Subsidiary of Intercorp Perú Ltd. (henceforth "Intercorp Perú"), a holding Company incorporated in 1997 in the Commonwealth of the Bahamas. As of December 31, 2018, Intercorp Perú holds directly and indirectly 76.46 percent (79.12 percent as of December 31, 2017), of IFS's capital stock.

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

As of December 31, 2018, IFS holds 99.30 percent of the capital stock of Banco Internacional del Perú S.A.A. – Interbank (henceforth "Interbank"), 99.84 percent of the capital stock of Interseguro Compañía de Seguros S.A. (henceforth "Interseguro"), 100 percent of the capital stock of Inteligo Group Corp. (henceforth "Inteligo") and 99.42 percent of the capital stock of Hipotecaria Sura Empresa Administradora Hipotecaria S.A. (henceforth "Hipotecaria Sura"). As of December 31, 2017, IFS held 99.30 percent, 100 percent, 100 percent and 99.40 percent of the capital stock of such companies, respectively. Also, as of December 31, 2017, IFS held 99.39 percent of the capital stock of Seguros Sura S.A. (henceforth "Seguros Sura"), which was absorbed by Interseguro through a merger; see Note 2.

Interbank, Interseguro and Hipotecaria Sura operate in Peru, while Inteligo and its subsidiaries (Inteligo Sociedad Agente de Bolsa S.A. and Inteligo Bank Ltd.) operate in Peru and Panama.

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

The consolidated financial statements of IFS and Subsidiaries as of December 31, 2017, were approved by the General Shareholders' Meeting held on April 2, 2018. The consolidated financial statements as of December 31, 2018, were approved by Management on March 18, 2019, and will be submitted for approval by the Board of Directors and the General Shareholders' Meeting that will be held within the deadline established by law. In Management's opinion, the accompanying consolidated financial statements will be approved by the Board of Directors and the General Shareholders' Meeting without modifications

2. **Business combinations**

In May 2017, IFS entered into an agreement with Sura Asset Management S.A. (Colombia), Sura Asset Management Perú S.A. (Peru) and Grupo Wiese (Peru) for the purchase of shares, which resulted in the direct and indirect acquisition of up to 100 percent of Seguros Sura (company incorporated in Peru with operations regulated by the Banking and Insurance Act and authorized to sell life insurance and general insurance policies) and up to 100 percent of Hipotecaria Sura (company incorporated in Peru with operations regulated by the Banking and Insurance Act and authorized to grant mortgage loans that, since the year 2015, does not grant new loans). The acquisition was approved by Peru's Superintendence of Banking, Insurance and Private Pension Funds Administrators (henceforth "SBS", by its Spanish acronym) on September 28, 2017.

As a consequence, in November 2017, IFS acquired 99.39 percent of Seguros Sura's capital stock and 99.42 percent of Hipotecaria Sura's capital stock. The aforementioned acquisition, including the purchase of 9.19 percent of Seguros Sura's capital through Interseguro, while 30.10 percent of Seguros Sura's capital stock and 29.40 percent of Hipotecaria Sura's capital stock was acquired through the purchase of the companies Negocios e Inmuebles S.A. and Holding Retail Perú S.A.

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

On the other hand, and in accordance with the legal regulations in force in Peru, the SBS granted a six-month deadline to complete the merger between Interseguro and Seguros Sura as from the date the SBS approved the acquisition. In this sense, and in compliance with the legal regulations in force in Peru, Interseguro merged with Seguro Sura, using the method of absorption. The date of entry into force of the merger was March 31, 2018, date on which Seguros Sura transferred all its assets and liabilities to the absorbing company, extinguishing after completing this merger process without having to liquidate.

The acquisitions were recorded in accordance with the "Acquisition method" established by IFRS 3 "Business Combinations". Under this method, the assets and liabilities were recorded at the fair value estimated on acquisition date, including certain intangible assets that the acquired entities had not previously recognized. The costs related to the acquisition, amounting to S/7,863,000, were registered as an expense and are presented in the caption "Administrative expenses" of the consolidated income statements as of December 31, 2017.

The following are the fair values of the entities acquired at the acquisition date:

	Fair value of the acquired entities S/(000)
Seguros Sura S.A.	
Assets	
Cash and due from banks	230,315
Trading securities and available-for-sale investments	4,656,932
Investment property	251,212
Accounts receivable and other assets, net	
Insurance operations receivables, net	24,725
Present value of acquired in-force business (PVIF), Note 4.4(s)	137,900
Others	242,063
Liabilities	
Bonds, notes and other obligations	(9,823)
Insurance contract liabilities	(5,210,487)
Accounts payable, provisions and other liabilities	(67,340)
Hipotecaria Sura S.A.	
Assets (*)	12,560
Liabilities	(2,452)
Total net assets identified	265,605
Non-controlling interest – proportionate share of the acquired entities' net assets, Note 4.4(u)	(1,912)
Goodwill, Note 4.4(t)	628,218
Consideration transferred	891,911

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

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

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

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

Since the date of the acquisition until December 31, 2017, the acquired companies contributed to the Group with S/18,878,000 of net premiums assumed and S/48,742,000 of net financial income. In this sense, if the business combination had taken place at the beginning of 2017, they would have contributed with S/97,797,000 of net premiums assumed and S/311,508,000 of net financial income in that year. It should be noted that considering that Interseguro and Seguros Sura had to merge within a six-month term, Seguros Sura did not place new premiums and they were taken care of by Interseguro.

The net assets recognized in the consolidated financial statements as of December 31, 2017, are based on a preliminary fair value assessment. During 2018, Management completed the review of the fair value estimate of insurance contracts liabilities as of the acquisition date and, as consequence, the net identifiable assets were modified. These changes are detailed below:

Amendments were therefore made to the net identifiable assets, as detailed below:

	Preliminary balance S/(000)	Amendment S/(000)	Amended balance S/(000)
Insurance contracts liabilities	(5,210,487)	195,339	(5,015,148)
Goodwill	628,218	(195,339)	432,879

As a result, the comparative information of 2017 was modified to show the adjustment of preliminary amounts, see Note 4.2.1 (ii).

3. Subsidiaries

IFS's Subsidiaries are the following:

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

Interbank is incorporated in Peru and is authorized by the SBS to operate as a universal bank in accordance with Peruvian legislation. The Bank's operations are governed by the Banking and Insurance Act, that establishes the requirements, rights, obligations, restrictions and other operating conditions that Peruvian financial and insurance entities must comply with.

As of December 31, 2018 and 2017, Interbank had 269 and 272 offices, respectively, and a branch established in the Republic of Panama. Additionally, it holds 100 percent of the shares of the following Subsidiaries:

Entity	Activity
Interfondos S.A. Sociedad Administradora de Fondos, Note 34	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 December 31, 2018 and 2017, Interseguro controls the following Subsidiaries:

Entity	Activity
Empresa Administradora Hipotecaria S.A.	It was incorporated in February 2014 in Peru. In April 2018, this company was extinguished.
Centro Comercial Estación Central S.A.	Company dedicated to the administration of "Centro Comercial Estación Central". As of December 31, 2017, Interseguro held a 75 percent interest in this Subsidiary. On January 19, 2018, Interseguro sold the entirety of said participation to a related company, Real Plaza, for S/2,086,000, generating a profit of S/1,526,000; which was recorded as "Gain from sale of investment property" in the consolidated income statements.

Patrimonio Fideicometido D.S.093-2002-EF, Interproperties Perú -
Interseguro holds contributions in Patrimonio Fideicometido D.S.093-2002-EF, Interproperties Perú (henceforth "Patrimonio Fideicometido – Interproperties Perú"), that is a structured entity, incorporated in April 2008, and in which several investors (related parties to the

Group) contributed investment properties. Each investor or investors have ownership of and specific control over the contributed investment property. The fair values of the properties contributed by Interseguro, which were included in this structured entity as of December 31, 2018 and 2017, amounted to S/430,030,000 and S/608,689,000, respectively; see Note 8 for further detail. For accounting purposes and under IFRS 10 "Consolidated Financial Statements" the assets included in said structure are considered "silos", because they are ring-fenced parts of the wider structured entity (the Patrimonio Fideicometido - Interproperties Perú). The Group has ownership of and decision-making power over these properties, and the Group has the exposure or rights to their returns; therefore, the Group has consolidated the silos containing the investment properties that it controls.

Regarding the "Patrimonio Fideicometido", until September 2017, Inteligo Real Estate (a related entity, Subsidiary of Intercorp Perú) and Interseguro held 27.17 percent and 72.83 percent, respectively, of an investment property located in San Isidro, Lima; see Note 8(a). On September 26, 2017, Interseguro purchased Inteligo Real Estate's interest, 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 and is reflected as an increase in Interseguro's investment; additionally, S/21,462,000 were recognized as equity transaction because it is a non-controlling interest purchase.

(c) Inteligo Group Corp. and Subsidiaries

Inteligo is an entity incorporated in the Republic of Panama. As of December 31, 2018 and 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 Superintendence of Banks of the Republic of Panama. Its main activity is to provide private and institutional banking services mainly to Peruvian citizens.
Inteligo Sociedad Agente de Bolsa S.A.	Brokerage firm incorporated in Peru.
Inteligo Perú Holding S.A.C	It is incorporated in Peru in December 2018, to engage in investment management activities in financial sectors. As of December 31, 2018, its paid-in capital amounts to S/1,000.

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

(e) 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; see Note 2. As of December 31, 2018 and 2017, these entities maintain collectively 30.0 percent of Hipotecaria Sura's capital stock. Additionally, as a result of the merger between Interseguro and Seguros Sura – see Note 2 – both companies hold 8.50 percent of Interseguro's capital stock.

(f) San Borja Global Opportunities S.A.C.
Its corporate purpose is the marketing of products and services through Internet, telephony or related. As of December 31, 2018 and 2017, maintains a paid-in capital of S/1,461,000 and S/1,000, respectively.

The table below presents a summary of the consolidated financial statements of the main Subsidiaries, before adjustments and eliminations for consolidation, as of December 31, 2018 and 2017, in accordance with the IFRS (see Note 29):

	Interbank and Subsidiaries		Interseguro and Subsidiaries (*)		Inteligo and Subsidiaries	
	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)	2017 S/(000)	2016 S/(000)
Consolidated statements of financial position						
Cash and due from banks	7,726,699	10,655,090	206,659	196,561	465,497	377,486
Financial Investments	5,854,384	6,109,964	10,249,730	10,151,729	1,574,714	1,198,426
Loans, net	31,384,790	26,869,700	-	-	1,576,277	1,334,573
Investment property	-	-	986,538	1,118,608	-	-
Total assets	47,496,321	45,478,588	12,011,764	11,940,640	3,732,178	3,013,892
Deposits and obligations	31,286,749	30,559,299	-	-	2,622,423	2,268,248
Due to banks and correspondents	3,968,790	4,386,724	763	20,568	323,808	100
Bonds, notes and other obligations	5,386,171	4,537,204	172,082	175,308	-	-
Insurance contract liabilities	-	-	10,155,732	10,375,742	-	-
Total liabilities	41,994,455	40,555,067	10,797,239	10,868,269	2,967,308	2,304,094
Equity attributable to IFS's shareholders	5,501,866	4,923,521	1,214,525	1,072,186	764,870	709,798
Non-controlling interest – equity	-	-	-	185	-	-
Consolidated income statements						
Net interest and similar income	2,493,577	2,300,986	599,009	323,389	107,819	96,083
Impairment loss on loans, net of recoveries	(660,858)	(830,474)	-	-	786	2,539
Recovery (loss) due to impairment of financial investments	(72)	-	11,349	(5,496)	1,800	(15,263)
Net gain (loss) from sale and valuation of investment property	-	-	52,420	(1,878)	-	-
Fee income from financial services, net	817,861	789,747	(4,593)	(3,692)	123,626	116,927
Total net premiums earned less claims and benefits	-	-	(407,466)	(152,927)	-	-
Net profit (loss) for the year attributable to IFS's shareholders	1,025,142	904,916	(7,834)	53,115	183,302	187,766
Non-controlling interest	-	-	-	(89)	-	-

(*) Include the balances of Seguros Sura (absorbed by Interseguro in the year 2018) from the date of acquisition; see Note 2.

4. Significant accounting policies

4.1 Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (henceforth "IFRS") as issued by the International Accounting Standards Board (henceforth "IASB") and are presented in Soles, which is the functional currency of the Group. All values are rounded to the nearest thousand (S/(000)), except when otherwise indicated.

The preparation of the consolidated financial statements in conformity with the IFRS requires Management to make estimations and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of significant events in the notes to the consolidated financial statements; see Note 4.6.

4.2 Changes in accounting policies, adoption of new IFRS and disclosures

4.2.1 Changes in accounting policies

Based on an analysis conducted by Management in 2018, and in application of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", IFS modified its corresponding figures as of December 31, 2017, and January 1, 2017, and for the years ended December 31, 2017 and 2016. The Group has submitted the amended balances of the consolidated statements of financial position as of January 1, 2017, but it does not include the Notes for that period, according to what is established by IAS 1. The amended balances of the Group's financial statements as of December 31, 2017, and January 1, 2017, and for the years ended December 31, 2017 and 2016, mainly result from the following:

(i) As of December 31, 2017, the Subsidiary Interseguro recognized in its consolidated income statements the effect of the change in the value of liabilities coming from retirement, disability and survivor's pensions, caused by the variation in the market interest rates used to discount these liabilities. In the first quarter of 2018, Management decided to modify its accounting policy in order to show the effect of the change in market interest rates on the statements of other comprehensive income. This change was made to reduce volatility in the profits or losses associated to the effect of changes in market interest rates, as the financial assets supporting such insurance liabilities are measured at fair value through other comprehensive income.

According to IAS 8, as the aforementioned change constitutes a voluntary change in the accounting policy of the Company and, in compliance with the standard, must be applied retrospectively to previously released balances.

In that sense, the Group calculated the accounting effects of the retrospective application of these changes to the balances as of January 1, 2016. The cumulative effect as of that date amounted to S/363,008,000 (S/479,476,000 as of January 1, 2017, and S/675,095,000 as of December 31, 2017).

In addition, this change in the accounting policy has been made in accordance with IFRS 4 "Insurance Contracts" and, in Management's opinion, provides more accurate and relevant information regarding the Group's insurance contract operations.

(ii) As detailed in Note 2, the net assets recognized in the consolidated financial statements as of December 31, 2017, as part of the acquisition of Seguros Sura, are based in a preliminary fair value assessment. During 2018, the Group completed the review of the fair value estimate of liabilities for insurance contracts as of the acquisition date; and, as result, the identifiable net assets acquired were modified. The value of the modification for both insurance contract liabilities and goodwill amounted to S/195,339,000. The Group applied the changes retrospectively to the balances as of December 31, 2017.

The reconciliation of the main items of the consolidated statements of financial position as of December 31, 2017, and January 1, 2017 is presented below:

	December 31, 2017			January 1, 2017		
	Previous balances S/(000)	Modifications S/(000)	Restated balances S/(000)	Previous balances S/(000)	Modifications S/(000)	Restated balances S/(000)
Assets						
Cash and due from banks	11,204,843	-	11,204,843	11,761,803	-	11,761,803
Financial investments	16,924,143	-	16,924,143	10,209,840	-	10,209,840
Loans, net	28,204,168	-	28,204,168	27,025,865	-	27,025,865
Intangibles and goodwill, net	1,116,933	(195,339)	921,594	267,401	-	267,401
Others	3,139,749	-	3,139,749	2,454,450	-	2,454,450
Total assets	60,589,836	(195,339)	60,394,497	51,719,359	-	51,719,359
Liabilities						
Deposits and obligations	32,607,637	-	32,607,637	30,097,850	-	30,097,850
Due to banks and correspondents	4,407,392	-	4,407,392	5,328,603	-	5,328,603
Bonds, notes and other obligations	5,602,358	-	5,602,358	4,769,390	-	4,769,390
Insurance contract liabilities	10,709,843	(195,339)	10,514,504	5,010,513	-	5,010,513
Others	1,425,699	-	1,425,699	1,514,657	-	1,514,657
Total liabilities	54,752,929	(195,339)	54,557,590	46,721,013	-	46,721,013
Equity, net						
Equity attributable to IFS's shareholders:						
Capital stock, net of treasury stock	496,246	-	496,246	441,340	-	441,340
Capital surplus and reserves	3,968,077	-	3,968,077	2,868,077	-	2,868,077
Unrealized results, net	446,370	(675,095)	(228,725)	16,358	(479,476)	(463,118)
Retained earnings	889,850	675,095	1,564,945	1,553,336	479,476	2,032,812
	5,800,543	-	5,800,543	4,879,111	-	4,879,111
Non-controlling interest	36,364	-	36,364	119,235	-	119,235
Total equity, net	5,836,907	-	5,836,907	4,998,346	-	4,998,346
Total liabilities and equity, net	60,589,836	(195,339)	60,394,497	51,719,359	-	51,719,359

The reconciliation of the main items of the consolidated income statements for the year ended December 31, 2017, is presented below:

	Previous balances S/(000)	Modifications S/(000)	Restated balances S/(000)
Interest and similar income, net of impairment loss on loans	1,840,437	-	1,840,437
Total other income	1,382,332	-	1,382,332
Insurance premiums and claims			
Net premiums earned	63,730	195,619	259,349
Net claims and benefits incurred for life insurance contracts and others	(412,276)	-	(412,276)
Total net premiums earned minus claims and benefits	(348,546)	195,619	(152,927)
Total other expenses	(1,725,760)	-	(1,725,760)
Income before translation result and Income Tax	1,148,463	195,619	1,344,082
Translation result	15,898	-	15,898
Income Tax	(326,526)	-	(326,526)
Net profit for the year	837,835	195,619	1,033,454
Attributable to:			
IFS's shareholders	831,760	195,619	1,027,379
Non-controlling interest	6,075	-	6,075
	837,835	195,619	1,033,454
Earnings per share attributable to IFS's shareholders basic and diluted (in Soles)	7.793	-	9.625
Weighted average number of outstanding shares (in thousands)	106,736	-	106,736

The reconciliation of the main items of the consolidated income statements for the year ended December 31, 2016, is presented below:

	Previous balances S/(000)	Modifications S/(000)	Restated balances S/(000)
Interest and similar income, net of Impairment loss on loans	1,810,985	-	1,810,985
Total other income	1,229,580	-	1,229,580
Insurance premiums and claims			
Net premiums earned	70,892	116,468	187,360
Net claims and benefits incurred for life insurance contracts and others	(318,200)	-	(318,200)
Total net premiums earned minus claims and benefits	(247,308)	116,468	(130,840)
Total other expenses	(1,645,735)	-	(1,645,735)
Income before translation result and Income Tax	1,147,522	116,468	1,263,990
Translation result	20,062	-	20,062
Income Tax	(333,863)	-	(333,863)
Net profit for the year	833,721	116,468	950,189
Attributable to:			
IFS's shareholders	828,143	116,468	944,611
Non-controlling interest	5,578	-	5,578
	833,721	116,468	950,189
Earnings per share attributable to IFS's shareholders basic and diluted (in Soles)	7.641	-	8.715
Weighted average number of outstanding shares (in thousands)	108,384	-	108,384

The reconciliation of the main items of the consolidated statements of other comprehensive income for the year ended December 31, 2017, is presented below:

	Previous balances S/(000)	Modifications S/(000)	Restated balances S/(000)
Net profit for the year	837,835	195,619	1,033,454
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods			
Insurance premium reserves	-	(195,619)	(195,619)
Net movement in available-for-sale investments, net of Income Tax	454,299	-	454,299
Net movement of cash flow hedges, net of Income Tax	(1,356)	-	(1,356)
Translation of foreign operations	(22,480)		(22,480)
Total unrealized gain to be reclassified to the consolidated income statements in subsequent periods	430,463	(195,619)	234,844
Total other comprehensive income of the year, net of Income Tax	1,268,298	-	1,268,298
Attributable to:			
IFS's shareholders	1,261,772	-	1,261,772
Non-controlling interest	6,526	-	6,526
	1,268,298	-	1,268,298

The reconciliation of the main items of the consolidated statements of other comprehensive income for the year ended December 31, 2016, is presented below:

	Previous balances S/(000)	Modifications S/(000)	Restated balances S/(000)
Net profit for the year	833,721	116,468	950,189
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods			
Insurance premium reserve	-	(116,468)	(116,468)
Net movement in available-for-sale investments, net of Income Tax	388,269	-	388,269
Net movement of cash flow hedges, net of Income Tax	1,771	-	1,771
Translation of foreign operations	(11,340)	-	(11,340)
Total unrealized gain to be reclassified to the consolidated income statements in subsequent periods	378,700	(116,468)	262,232
Total other comprehensive income of the year, net of Income Tax	1,212,421	-	1,212,421
Attributable to:			
IFS's shareholders	1,205,896	-	1,205,896
Non-controlling interest	6,525	-	6,525
	1,212,421	-	1,212,421

The modifications did not generate changes in the cash flows of operations, investment or financing activities during the years 2017 and 2016.

4.2.2. Adoption of new standards and disclosures

In these financial statements, the Group has adopted for the first time IFRS 9 and IFRS 15, effective for annual periods beginning on or after January 1, 2018. Other standards, interpretations or amendments have also been adopted for the first time in 2018 but, as of December 31, 2018, they have not had a significant impact on the Group's consolidated financial statements. The Group has not adopted any standard, interpretation or amendment that has been issued but is not effective, as explained below.

- First adoption of IFRS 9 "Financial Instruments"
  IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods starting on or after January 1, 2018.

  As permitted by IFRS 9, the Group has not restated the comparative information for 2017 for financial instruments within the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in the retained earnings as of January 1, 2018, and are disclosed in Note 4.7.

  (a) Changes to classification and measurement
  To determine the classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on (i) a combination of the entity's business model for managing financial assets; and (ii) the financial assets contractual cash flow characteristics.

  The IAS 39 measurement categories of financial assets (fair value through profit or loss, available-for-sale, held-to-maturity and loans and receivables) have been replaced by:

  - Debt instruments at amortized cost.
  - Debt instruments at fair value through other comprehensive income.
  - Equity instruments at fair value through other comprehensive income.
  - Financial assets at fair value through profit or loss.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss. Such movements are presented in other comprehensive income with no subsequent reclassification to the income statements. As of December 31, 2018, the Group has no liabilities designated at fair value through profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Conversely, the accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

The Group's classification of its financial assets and liabilities is explained in Note 30. The quantitative impact of applying IFRS 9 as of January 1, 2018, is disclosed in Note 4.7.

(b) Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing the incurred loss approach under IAS 39 with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for expected credit loss for all loans and other debt financial assets not held at fair value through profit or loss, together with financial guarantee contracts. The allowance is based on the expected credit loss associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the expected credit loss over the life of the asset.

Details of the Group's impairment method are disclosed in Note 4.4(h) . The quantitative impact of applying IFRS 9 as of January 1, 2018, is disclosed in Note 4.7.

(c) Disclosures in accordance with IFRS 7
To reflect the differences between IFRS 9 and IAS 39 , IFRS 7 "Financial Instruments: Disclosures" was updated and the Group has adopted it, together with IFRS 9, for the year beginning January 1, 2018. Changes include transition disclosures as shown in Note 4.7. The detailed qualitative and quantitative information about the expected credit loss calculations, such as the assumptions and inputs used, are presented in Notes 4.4(h.1) and 31.1(d).

The reconciliations of the expected credit loss from the date of transition until the closing date of the consolidated financial statements are presented in the respective Notes of the financial assets that apply; see Note 4.4 (h.1).

IFRS 7 also requires additional disclosures referenced to hedge accounting; see Note 11(b).

- IFRS 15 "Revenue from Contracts with Customers"
IFRS 15, which replaced IAS 18 "Revenue" and IAS 11 "Construction Contracts", was adopted by the Group as of January 1, 2018, regarding all contracts with customers, except for lease agreements, financial instruments agrements and insurance contracts.

The standard establishes a more systematic approach to the measurement and recognition of income through the introduction of a five-step model that governs the recognition of income. This model requires the Group (i) to identify the contract with the client, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of the consideration in the contract, (iv) assign the consideration for each of the performance obligations identified; and (v) recognize income as each performance obligation is met.

As a result of the adoption of IFRS 15, there have been no significant impacts, in relation to the date when the Group recognizes income or when revenues must be recognized gross as a principal or net as an agent. Therefore, recognition of income in accordance with IFRS 15 does not differ significantly from recognition in accordance with IAS 18 and the Group recognizes fee income for banking services as those services are rendered (for example, by completing the underlying transaction).

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
  This interpretation clarifies that in determining the exchange rate to be used in the initial recognition of the asset, expense or income (or part thereof), related to the derecognition of a non-monetary asset or liability related to an advance consideration, the date of the transaction is the date at which the entity initially recognizes the non-monetary asset or liability resulting from the advance consideration. If there are several payments or receipts in advance, the entity must determine a transaction date for each payment or receipt of the advance consideration. Management concluded that this interpretation had no effect on its consolidated financial statements.

- IAS 40 "Investment Property" - Amendments to IAS 40
  The amendments clarify when an entity must transfer assets, including properties under construction or development, from or to investment properties. In addition, the amendments stipulate that a change in use occurs when the property meets or fails to meet the definition of investment property and there is evidence of change in use. A change in Management's intentions for the use of a property does not provide evidence of a change in use. Management concluded that these modifications had no significant effects on its consolidated financial statements.

- Classification and measurement of share-based payment transactions Amendments to IFRS 2
  The IASB issued amendments to IFRS 2 "Share-based payments" in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: The effects of acquisition conditions on the measurement of a payment transaction based on shares settled in cash; the classification of a payment transaction based on shares with net settlement characteristics to retain tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from liquidation in cash to liquidation of equity.

  Management concluded that these modifications had no effect on its consolidated financial statements.

- Application of IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – Amendments to IFRS 4
  The amendments address the concerns that arise from the implementation of the new financial instruments standard, IFRS 9, before implementing IFRS 17, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from the application of IFRS 9 and an overlay approach. The requirements raised are not applicable to the Group, because its activities are predominantly related to banking services. Consequently, the Group fully applies IFRS 9.

- Amendments to IAS 28 "Investments in Associates and Joint Ventures"
  These modifications clarify that measuring investments at fair value through profit or loss is an investment for investment decision. Due to the nature of the Group's operations, these modifications do not have any impact.

4.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of IFS and its Subsidiaries; see Note 3.

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

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

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

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

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

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

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

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

4.4 Summary of significant accounting policies

(a) Foreign currency translation -

Functional and presentation currency:

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

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

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

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

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

(b) Interest income -

(b.1) Effective interest rate method -
According to IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. The interest income of financial assets that accrue interests measured at fair value through other comprehensive income according to IFRS 9 and the financial assets that accrue interests classified as available-for-sale or held-to-maturity according to IAS 39 are also recorded using the EIR method. EIR is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

The EIR (and, therefore, the amortized cost of the asset) is calculated considering any discount, premium and cost that is part of the effective interest rate. The Group recognizes interest income using the best estimate of a constant rate of return over the expected life of the financial asset. Therefore, it recognizes the effect of interest rates considering credit risk and other characteristics of the product's lifetime (including advance payments, charges, etc.).

If the prospects related to the financial asset's cash flows are revised for reasons other than credit risk, the modification is recorded as a positive or negative adjustment to the asset's carrying amount in the consolidated statements of financial position with an increase or reduction in the interest income. The adjustment is later amortized through interest in the consolidated income statements.

(b.2) Interest income and similar -
The Group calculates the interest income by applying the EIR to the gross carrying amount of non-impaired financial assets.

When a financial asset becomes impaired, and, therefore, it is classified as Stage 3 (as established in Note 4.4 (h.1)), the Group calculates the interest income by applying the EIR at the amortized cost of the asset. If the financial assets "recover", as detailed in Note 31.1(d), and is no longer impaired, the Group recalculates the interest income in gross figures.

For purchased or originated credit-impaired (POCI) assets, as established in Note 31.1(d), the Group calculates the interest income by determining the credit-adjusted EIR at the amortized cost of the asset. The credit-adjusted EIR is the interest rate that, in the initial recognition, discounts the estimated future cash flows (including credit losses) at the amortized cost of POCI assets.

The interest income for all trading assets, that is, for those that are measured at fair value through profit or loss, are presented under the caption "Net gain (loss) of financial assets at fair value through profit or loss" of the consolidated income statements, within the movements of fair value.

(c) Banking services commissions -

Income from fees and commissions include those that are not part of the EIR; see (b.1) above. The commissions included in "Fee income from financial services, net" in the consolidated income statements include, among others, the commission for the banking service in general such as maintenance of accounts, postages, transfers, fee for loan syndication and fee for contingent credits.

All other income and expenses are recognized in the period in which the performance obligation is satisfied.

(d) Insurance contracts -

Accounting policies for insurance activities:

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

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

- Technical reserves for life annuities and retirement, disability and survival pensions: Until May 31, 2018, to calculate the reserve for insurance contracts, the Group considered the Chilean current mortality and morbidity tables (improved RV – 2009, B – 2006 and MI – 2006). In addition, to discount the future cash flows of these liabilities, for portfolio's debt instruments, the Group set an average rate for matching periods and a 3-percent rate for non-matching periods. From June 30, 2018, the Group uses the Peruvian mortality tables (SPP-S-2017 and SPP-I-2017 (men and women)), published by the SBS through Resolution No. 886-2018 dated March 7, 2018, and set the interest rate through the Matching Adjustment method plus an illiquidity premium to discount all the pension cash flows; see Notes 4.6 and 15(e).

Product classification:
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder for a specified uncertain future event (the insured event) that adversely affects the policyholder. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts may also transfer a financial risk. When the contract has a financial component and transfers no relevant insurance risk as established by IFRS 4, the contract is recorded based on IFRS 9. These contracts are presented in the caption "Accounts payable, provisions and other liabilities" as "Contract liability with investment component" of the consolidated statements of financial position; see Note 11(a).

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

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

Insurance receivables:
Insurance receivables are initially recognized when due and are measured at the fair value of the consideration received or receivable. Consequently, in its initial recognition, insurance receivables are measured at amortized cost. As of December 31, 2018 and 2017, the carrying value of the insurance receivables is similar to their fair value due to their short-term maturity. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated income statements.

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

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

Reinsurance assets are reviewed for impairment at each date of the consolidated statements of financial position or more frequently when necessary. Impairment arises when there is objective evidence the Group cannot receive all of the outstanding amounts receivable under the contract terms and the event has a reliably measurable impact on the amounts that the Group will obtain from the reinsurer. Impairment loss is registered in the consolidated income statements.

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

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

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

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

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

The technical reserves for retirement, disability and survival insurance and annuities are determined as the sum of the discounted value of expected future pensions to be paid during a defined or non-defined period, computed on the basis of current mortality and morbidity tables and current discount interest rates described in Note 15(e).

During 2018, the Company adopted new mortality tables approved and published by the SBS through Resolution No. 886-2018; these tables reflect recent changes in life expectancy. Likewise, it modified the assumptions used to determine the discount rate, in order to reflect the nature of the business in the long term. The changes mentioned above have been considered as changes in the accounting estimates and are described in Notes 4.6(a) and (b).

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

Insurance claims reserves include reserves for reported claims and an estimate of the IBNR. As of December 31, 2018 and 2017, IBNR reserves were determined on the basis of the Chain Ladder methodology, whereby the weighted average of past claims' development is projected into the future. Adjustments to the liabilities at each reporting date are recorded in the consolidated income statements. The liability is derecognized when the obligation expires, is discharged or cancelled.

At each reporting date, an assessment is made on whether the recognized life insurance liabilities are sufficient, by using an existing liability adequacy test as established by IFRS 4. In the case of annuities and retirement, disability and survival insurance, this test was conducted by using current assumptions for mortality and morbidity tables and interest rates. As of December 31, 2018 and 2017, Management determined that liabilities were sufficient and therefore, it has not recorded any additional insurance liability.

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

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

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

Recognition of benefits, claims and expenses:

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

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

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

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

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

(e) Financial instruments: Initial recognition -

(e.1) Date of recognition -
Financial assets and liabilities, with the exception of loans, are initially recognized at the trading date. This includes regular transactions of purchases or sales of financial assets that require the delivery of assets within the time frame generally established by regulation or convention on the marketplace. Loans are recognized when funds are transferred to the customers.

(e.2) Initial measurement of financial instruments -

The classification of financial instruments at initial recognition depends on the characteristics of the business model and contractual flows for managing the instruments, as described in Notes 4.4(f.1.1) and 4.4(f.1.2). Financial instruments are initially measured at their fair value (as defined in Note 4.4(e.4)), plus the transaction costs directly attributable to the acquisition of the asset, in the case of financial assets and financial liabilities that are not recorded at fair value through profit or loss. Accounts receivable are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

(e.3) Day 1 profit or loss -

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique that only uses inputs observable in market transactions, the Group recognizes the difference between the transaction price and fair value in the net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized. It should be noted that during 2018 and 2017, the Group did not originate differences related to these characteristics.

(e.4) Measurement categories of financial assets and liabilities -

From January 1, 2018, the Group classifies all of its financial assets based on the business model and the contractual terms, measured at either:

- Amortized cost, as explained in Note 4.4(f.1)
- Fair value through other comprehensive income (FVOCI), as explained in Notes 4.4(f.4) and (f.5).
- Fair value through profit or loss (FVPL).

The Group classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 4.4(f.2) and (f.3). The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 4.4(f.7).

Before January 1, 2018, the Group classified its financial assets as loans and receivables (amortized cost), FVPL, available-for-sale or held-to-maturity (amortized cost), as explained in Notes 4.4(f.1), 4.4(f.9) and 4.4(f.10).

Financial liabilities, other than financial guarantees, are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied, as explained in Note 4.4(f.6). It should be noted that during 2018 and 2017, the Group only presents derivative financial instruments measured in this way.

(f) Financial assets and liabilities -

Following is the description of the assets and liabilities held by the Group, as well as the criteria for their classification:

(f.1) Assets measured at amortized cost -

Before January 1, 2018, cash and due from banks, inter-bank funds, financial investments, loans and other financial assets, were measured at amortized cost as long as the following was not fulfilled:

- The Group intended to sell immediately or in the near term.
- Upon initial recognition, the Group designated as at fair value through profit or loss or as FVOCI.
- The Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated at fair value with changes in other comprehensive results.

From January 1, 2018, as required by IFRS 9, the Group measure cash and due from banks inter-bank funds, financial investments in debt instruments, loans and other financial assets at amortized cost if the following two conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below:

(f.1.1) Business model assessment -

The Group's business model is assessed at a higher level of aggregated portfolios, and not instrument by instrument, and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are assessed and reported to the entity's key management personnel.

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- The expected frequency, value and timing of sales are also important aspects of the Group’s assessment.

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case”. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the classification of the remaining financial assets that remain in that business model will not be changed, but incorporates such information when assessing newly purchased financial assets going forward.

(f.1.2) The SPPI test (Solely payments of principal and interest) -
As a second step of its classification process, the Group assesses the contractual terms to identify whether they meet the SPPI test.

“Principal”, for the purpose of this test, is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of attention within a lending arrangement are typically the consideration for the time value of money and credit risk. To perform the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(f.2) Derivatives recorded at fair value through profit or loss -
A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; provided that, in the case of a non-financial variable, it is not specific to part of the contract (i.e., the 'underlying').

- It requires no initial net investment or an initial net investment that is smaller than the required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, cross-currency swaps, foreign currency options and foreign currency forward contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 11(b). Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge accounting disclosures are presented in Note 4.4(i).

(f.2.1) Embedded derivatives -

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Under IAS 39, embedded derivatives in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated income statements.

From January 1, 2018, with the adoption of IFRS 9, the Group records in the same way the embedded derivatives in financial liabilities and non-financial host contracts.

In the case of embedded derivatives in financial assets, they are not separated from the financial asset and, therefore, the classification rules are applied to the hybrid instrument in its entirety, as described in Note 4.4(e.4).

(f.3) Financial assets or financial liabilities held for trading -
The Group classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the consolidated statements of financial position at fair value. Changes in fair value are recognized in the income statements. Interest income or expense and dividend are recorded in the income statements according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities, equities and short positions that have been acquired mainly for the purpose of selling them in the near term.

(f.4) Debt instruments at fair value through other comprehensive income (Policy applicable from January 1, 2018) -
The Group applies the new category under IFRS 9 of debt instruments measured at fair value through other comprehensive income when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

These instruments largely comprise assets that had previously been classified as available-for-sale financial investments under IAS 39.

FVOCI debt instruments are subsequently measured at fair value through other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost, as explained in Note 4.4(f.1). The ECL calculation for debt instruments at FVOCI is explained in Note 4.4(h.1)(iii) . When the Group holds more than one investment in the same security, they are deemed to be disposed of on a "first-in first-out" basis. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

(f.5) Equity instruments at fair value through other comprehensive income (Policy applicable from January 1, 2018) -

Upon initial recognition , the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on these equity instruments are never recycled to profit even when the asset is sold. Dividends are recognized in the consolidated income statements as income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

(f.6) Financial liabilities -

After initial measurement, financial liabilities, except those measured at fair value through profit or loss; see (f.7), are measured at amortized cost. Amortized cost Includes all commissions and basic points of interest, transaction lost and any other premium or discount. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

The Group first establishes whether the instrument is a compound instrument and classifies such instrument's components separately as financial liabilities, financial assets, or equity instruments in accordance with IAS 32. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercising the option may appear to have become economically advantageous to some holders. When allocating the initial carrying amount of a compound financial instrument to the equity and liability components, the equity component is assigned as the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component. The value of any derivative features (such as call options) embedded in the compound financial instrument, other than the equity component (such as an equity conversion option), is included in the liability component. Once the Group has determined the split between equity and liability, it further evaluates whether the liability component has embedded derivatives that must be accounted for separately.

(f.7) Financial assets and financial liabilities at fair value through profit or loss -
Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by Management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVPL upon initial recognition when one of the following criteria is met:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities (and assets until January 1, 2018, under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities (and assets until January 1, 2018, under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statements of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Group's own credit risk. Such changes in fair value are recorded in OCI and do not get reclassified to profit or loss. Interest accrued on assets that must be measured at FVPL is recorded using the contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as "Fee income from financial services, net" (see Note 20), when the right to the payment has been established.

(f.8) Financial guarantees and letters of credit -
The Group issues financial guarantees, and letters of credit. Financial guarantees are initially recognized in the consolidated financial statements (within provisions) at fair value, which is equivalent to the commission received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated income statements, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 4.4(h.1)(ii).

The commission received is recognized in the consolidated income statements in the caption "Fee income from financial services, net" on a straight-line basis over the life of the guarantee.

Letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from January 1, 2018, these contracts are within the scope of the ECL requirements.

The nominal contractual value of financial guarantees and letters of credit, where the loan agreed to be provided is on market terms, is not recorded in the consolidated statements of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 7(d).

(f.9) Available-for-sale financial assets (policy applicable before January 1, 2018) - Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading (trading securities) nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

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

The interest and accrued income were recognized in the consolidated income statements in the caption "Interest and similar income". Accrued interest is reported as interest income using the effective interest rate method and is recognized when the collection right has been established.

(f.10) Held-to-maturity financial assets (policy applicable before January 1, 2018) - Held-to-maturity investments are non-derivative financial assets with fixed or variable payments and fixed maturity, for which IFS has the intention and ability to hold them to maturity. After their initial measurement, held-to maturity investments are valued at the amortized cost, using the effective interest rate. The amortized cost is calculated taking into account any discount or premium acquisition and fees that are an integral part of the effective interest. The amortization is included in the caption "Interest and similar income" of the consolidated income statements. Losses arising from the impairment of these investments are recognized in the consolidated income statements.

Until December 31, 2017, the Group did not recognize any impairment loss on held-to-maturity investments.

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

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

(f.11) Reclassification of financial assets and liabilities -

From January 1, 2018, the reclassification of financial assets will take place as long as the business model that manages the financial assets is changed. It is expected that this change is very rare. These changes are determined by Management as a result of external or internal changes, and must be significant for the Group's operations and demonstrable to third parties. Consequently, a change in the Group's business model will take place only when it begins or ceases to carry out an activity that is significant for its operations. As of December 31, 2018, the Group has not reclassified its financial assets after their initial recognition. Financial liabilities are never reclassified.

Until December 31, 2017, reclassifications of available-for-sale investments into held-to-maturity investments were permitted and the fair value of the carrying amount of the asset at the reclassification date was converted to the new amortized cost and any prior unrealized gain or loss from such financial asset that has been recognized in other comprehensive income was amortized over the remaining life of the financial asset using the effective interest rate method. For the years ended December 31, 2017 and 2016, Interbank recorded a net loss of approximately S/2,608,000 and S/2,537,000, respectively, as a result of the aforementioned reclassifications; see Note 6(e).

On the other hand, with respect to held-to-maturity investments, they cannot be reclassified into another category before their maturity for an amount that is not insignificant (in relation to the total amount of held-to-maturity investments). As of December 31, 2017, the Group did not reclassify held-to-maturity instruments.

(f.12) Repurchase agreements -

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

As of December 31, 2018 and 2017, the Group did not keep any repurchase agreements.

(g) Derecognition of financial assets and liabilities -

(g.1) Derecognition due to substantial change in terms and conditions -

The Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

When assessing whether or not to derecognize a loan to a customer, among others, the Group considers the following factors:

- Change in the loan's currency.
- Introduction of an equity feature.
- Change in counterparty.
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

(g.2) Derecognition other than for substantial modification -

(g.2.1) Financial assets -

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired.

The Group has transferred the financial asset if, and only if, either:

- Has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset.
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients.

The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- The Group considers control to be transferred if and only if, the transferee has the ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Group's continuing involvement, in which case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group retains.

(g.2.2) Financial liabilities -

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

(h) Impairment of financial assets -

(h.1) Impairment of financial assets (Policy applicable from January 1, 2018) -

(i) Overview of the ECL principles -

As described in Note 4.2.2(b), the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From January 1, 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss as outlined in (ii). The policies for determining whether there has been a significant increase in credit risk are set out in Note 31.1(d).

Both lifetime ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the portfolio. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 31.1(d).

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. This is further explained in Note 31.1(d).

Based on the above mentioned process, IFS groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12 months ECLs. Stage 1 also includes loans whose credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs. Stage 2 also includes loans whose credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit -impaired (as outlined in Note 31.1(d)). The Group records an allowance for the lifetime ECLs.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses. It should be noted that during the year 2018, the Group has not purchased or originated POCI financial assets.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The Group recognizes a value correction for expected credit losses on the following financial assets:

- Financial assets that are measured at amortized cost.
- Financial assets that are measured at fair value with changes in other comprehensive income if the following two conditions are met:

    (i) The financial asset is maintained within a business model whose objective is achieved by obtaining contractual cash flows and selling financial assets; and
    (ii) The contractual terms of the financial asset give rise, on specified dates, to cash flows that are only payments of the principal and interest on the outstanding principal amount.

- Accounts receivable from leases.
- Assets from contracts.
- Financial guarantee contracts.

In this regard, as of December 31, 2018, the Group's financial assets subject to a correction for expected credit loss are the following:

- Cash and due from banks.
- Inter-bank funds.
- Financial investments; see Notes 4.4(e), 6 and 31.1(f).
- Loans; see Notes 4.4 (f.1), 7 and 31.1(d).
- Due from customers on acceptances.
- Other accounts receivable and other assets.

For those financial assets other than financial investments and the loan portfolio, Management has estimated the expected credit loss, concluding that it is neither significant nor relevant, given that the maximum period considered for measuring expected credit losses is very small or, even if it implies a longer term, the main debtor is the Central Reserve Bank of Peru ("BCRP", by its Spanish acronym) or corresponds to cash in vaults of the Group.

(ii) Calculation of ECL -

The Group calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below, and the key elements are the following:

- PD ("Probability of default") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in Note 31.1(d).

- EAD ("Exposure at default") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 31.1.(d).

- LGD ("Loss Given Default") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 31.1(d).

When estimating the ECLs, the Group considers three scenarios (optimistic, base and pessimistic). Each of these is associated with different PDs, as presented in Note 31.1.(d). When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards, for which the treatment is separately set out in (v), the maximum period for which the credit losses are determined is the contractual life of a financial instrument (considering the prepayments) unless the Group has the legal right to call it earlier.

Impairment losses and reversals are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarized below:

- Stage 1: The provision for credit losses of those financial instruments that do not show a significant increase in risk since the initial recognition will be calculated as the expected credit losses in the following 12 months. The group calculates the expectation that there is a probability of default (PD) in the 12 months after the presentation date. To this probability of default is multiplied and expected loss in case of default (LGD) and exposure on the date of default (EAD) and discounting the original effective interest rate. This calculation is made for each of the three scenarios (base, optimistic and pessimistic) defined by the Group.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument.

- Stage 3: For loans deemed as impaired, the Group recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2, with the PD set at 100 percent.

- Financial guarantee contracts
  The Group's liability under each guarantee is measured at the higher of the amount initially recognized minus cumulative amortization recognized in the consolidated income statements, and the ECL provision. For this purpose, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The deficits are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognized in provisions.

(iii) Debt instruments measured at fair value through other comprehensive income -

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statements of financial position, which remains at fair value. However, the expected losses that arise at each measurement date must be reclassified from other comprehensive income to results of the period.

(iv) Credit cards -

The Group calculates the expected losses in a period that reflects the Group's expectations regarding the client's behavior, probability of default and the Group's future risk mitigation procedures that could include the reduction or cancellation of lines of credit. Based on past experience and the Group's expectations, the period during which the Group calculates the expected lifetime losses of this product is 17 months.

The assessment of whether there has been a significant increase in credit risk for revolving products is similar to other credit products. This is based on changes in the customer's credit rating, as explained in Note 31.1(d).

(v) Forward-looking information

In its ECL models, the Group relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth.
- Unemployment rates.
- Economically active population occupied.
- Economically active population.
- Exchange terms.
- Consumer Price Index.
- Domestic demand.
- Government consumption.
- Exchange rate.

The inputs and models used (see Note 31.1), for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 31.1(d).

(vi) Valuation of guarantees -
To mitigate the credit risks on financial assets, the Group uses three types of guarantees, when possible: physical guarantee, personal guarantees and title guarantees.

The Group's accounting policy for guarantees under IFRS 9 is the same as that established under IAS 39. The guarantee, unless recovered, is not recorded in the Group's consolidated statements of financial position. However, the fair value of the guarantee affects the calculation of the expected losses, and because of that, it is assessed periodically.

The nominal contract value of the guarantees and the letters of credit not used where the loan was agreed to be granted is in market terms, is not recorded in the consolidated statements of financial position. The nominal values of these instruments together with the corresponding expected losses are disclosed in Note 31.1(d).

(vii) Write-offs
The Group’s accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off only when the Group has stopped pursuing the recovery. Any subsequent recoveries are recognized as a recovery due to credit loss.

(viii) Refinanced and modified loans -
The Group may make concessions or modifications to the original terms of loans as a response to the borrower’s financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. Once the terms have been renegotiated, any impairment is measured using the original EIR (as calculated before the modification of terms). It is the Group’s policy to monitor refinance loans to help ensure that future payments continue to be likely to occur.

A refinanced asset is initially classified into Stage 2 and there will be no clean-up period. However, if the financial asset presents a default mark, it will be reclassified from Stage 2 to Stage 3.

(h.2) Impairment of financial assets (Policy applicable before January 1, 2018)

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

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

(i) Financial assets carried at amortized cost -

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

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

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

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

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

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

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

(ii) Available-for-sale financial investments -

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

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

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

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

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

(iii) Rescheduled loans (refinanced) -

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

(i) Hedge derivatives -

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are recognized as assets when the fair value is positive, and they are recorded as "Accounts receivables related to derivative financial instruments" under "Accounts receivable and other assets, net", and as liabilities when they are negative, and they are recorded as "Accounts payable related to derivative financial instruments" under "Accounts payable, provisions and other liabilities" in the consolidated statements of financial position.

Derivatives can be designated as hedging instruments under hedge accounting and in the event they qualify, depending upon the nature of the hedged item, the method for recognizing gains or losses from changes in fair value will be different. These derivatives, which are used to hedge exposures to risk or modify the characteristics of financial assets and liabilities and that meet IFRS 9 criteria, are recognized as hedging accounting.

Derivatives not designated as hedging instruments or that do not qualify for hedging accounting are initially recognized at fair value and are subsequently remeasured at their fair value, which is estimated based on the market exchange rate and interest rate. Gains or losses due to changes in their fair value are recorded in the consolidated income statements (see Note 4.4 (f.2)).

In accordance with IFRS 9, to qualify for hedge accounting, all of the following conditions must be met:

(i) The hedging relationship consists of only hedging instruments and eligible hedged items.

(ii) At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. This documentation will include the identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and the way the entity will assess if the hedging relationship meets the hedge effectiveness requirements.

(iii) The hedging relationship meets all the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of the credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item.

In accordance with IAS 39, to qualify for hedge accounting, the hedging relationship had to meet all the following conditions:

(i) At the inception of the hedge, there was formal designation and documentation of the hedging relationship, as well as the entity's risk management objective and strategy for undertaking the hedge.

(ii) It was expected that the hedge was highly effective in offsetting the changes in fair value or cash flows associated with the hedged risk. A prospective and retrospective effectiveness had to be performed, and the test results had to be within a range of 80 percent to 125 percent.

(iii) For a cash flow hedge, a forecast transaction that is the subject of the hedge had to be highly probable and had to present an exposure to variations in cash flows that could ultimately affect profit or loss.

(iv) The effectiveness of the hedge could be reliably measured.

(v) The hedge was assessed in an ongoing basis and it was really possible to determine that hedge had in fact been highly effective throughout the periods for which the hedge was designated.

Both IFRS 9 and IAS 39 present three hedge accounting categories: fair value hedge, cash flow hedge, and hedge of net investments in a foreign operation. The Group uses derivatives as hedging instruments under cash flow hedges, as detailed in Note 11 (b).

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

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

(j) Financial leases -

Financial leases are recognized as loans at the present value of the installments. The difference between the total value receivable and the present value of the loan is recognized as accrued interest. This income is recognized during the term of the lease using the effective interest rate method, which reflects a constant rate of return.

As of December 31, 2018 and 2017, leasing receivables are subject to the financial asset impairment policy; see Notes 4.2(h.1) and (h.2).

(k) Customer Loyalty Program -

The Group has a customer loyalty program, which allows customers to accumulate points that can be exchanged for products. Loyalty points give rise to a separate performance obligation, since they provide a material right to the customer. A part of the transaction price is allocated to the loyalty points granted to customers on the basis of the relative independent selling price and is recognized as a contractual liability until the points are redeemed and presented as "Other accounts payable" in the item "Other accounts payable, provisions and other liabilities" of the consolidated statements of financial position. Expenses are recognized when the customer redeems the products.

By estimating the selling price independent of the loyalty points, the Group considers the probability of a client redeeming points. The Group updates the estimates of points to be monthly redeemed and any adjustment to the liability balance will be recognized in the caption "Administrative expenses" of the consolidated income statements.

(l) Services of purchase-sale of financial investments "principal versus agent"-
The Group has contracts with customers to buy and sell, on their behalf, financial investments in the stock market and over-the-counter market. The Group acts as an agent in these agreements.

When another party participates in the supply of services to their client, the Group determines whether it is a principal or an agent in these transactions when evaluating the nature of its agreement with the client. The Group is a principal and records the revenue by gross amounts if it controls the committed services before transferring to the customer. However, if the Group's role is only to arrange for another entity to provide the services, then the Group is an agent and records the revenues for the net amount it retains for its services as an agent. As of December 31, 2018, 2017 and 2016, the Group has recognized net income of S/9,158,000, S/7,884,000 and S/10,427,000, respectively, for transactions carried out on behalf of its customers, which have been recorded in the item "Fee income from financial services, net" of the consolidated income statements; see Note 21.

(m) Investments in associates -
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but without having control over those policies. The considerations taken for determining significant influence are similar to those needed to determine control over Subsidiaries.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transfers to or from "Investment property" are made only when there is a change in the use of the asset. In case of assets transferred from "Investment property" to "Property, furniture and equipment", the reclassified amount corresponds to the asset's fair value at the date when the asset's use was changed. If an item of "Property, furniture and equipment" moves to "Investment property", the Group transfers the fixed asset's net cost to "Investment property" and the asset is subsequently measured at fair value according to the policies established by the Group.

In 2018, the Group transferred the "Las Orquídeas" building, located in San Isidro, Lima, from "Investment property" to "Property, furniture and equipment" for S/20,029,000. In addition, the Group transferred part of the "Pardo y Aliaga" building and part of the "Sede Wiese", both located in San Isidro, Lima, from "Property, furniture and equipment" to "Investment property" for S/6,453,000 and S/4,037,000, respectively. As of December 31, 2017, the Group did not make any transfers; see Note 8(c).

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

(q) Property, furniture and equipment -

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

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

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

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

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

(r) Assets seized through legal actions -

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

(s) Intangible assets with finite useful lives -

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

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

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

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

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

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

(t) Goodwill -

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

After initial recognition, goodwill is measured at cost less any cumulative impairment loss, if any. A goodwill impairment testing is performed on a yearly basis. To perform an impairment testing, goodwill acquired in a business combination is allocated, since the acquisition date, to one of the Group's cash-generating units (henceforth "CGU") that are expected to benefit from the business combination. Goodwill impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill, recorded by the Group (see Note 2), arises from the acquisition of Seguros Sura and, considering that this entity was merged with Interseguro, has been allocated to the CGU of the insurance business.

(u) Business combinations -

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

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

Any contingent consideration to be transferred by the acquirer shall be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39, is measured at fair value with the changes in the consolidated income statements or in the consolidated statements of other comprehensive income. If the contingent consideration is not within the scope of IAS 39, this shall be measured according to the applicable IFRS. The contingent consideration that is classified as equity must not be measured again and its subsequent settlement shall be recorded in equity. As of December 31, 2018 and 2017, there have been no contingencies arising from business combinations.

A combination of businesses between entities or businesses under common control is beyond the scope of IFRS 3, because it corresponds to a business combination in which all entities or businesses that are combined are ultimately controlled by the same Part or parts, both before and after the business combination. In these transactions, the Group recognizes the assets acquired under the method of unification of interest, whereby the assets and liabilities of the combined companies are reflected in their book values and no commercial credit is recognized as a result of the combination.

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

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

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

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

(y) Provisions -

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

(z) Contingencies -

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

(aa) Fair value measurement -

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

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

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

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

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

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

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

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

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

All assets and liabilities for which the fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described below:

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

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

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

Fair values of financial instruments measured at amortized cost are disclosed in Note 32(b).

(ab) Income Tax -

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

Deferred Income Tax is accounted for in accordance with IAS 12 "Income Taxes". In this sense, the deferred Income Tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes. Deferred assets and liabilities are measured using the tax rates that are expected to be in force in the years in which such temporary differences are expected to be recovered or settled. Consequently, the deferred Income Tax has been calculated by applying the rates that will be effective since January 1, 2017; see Note 18(c). The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that arise from the manner in which each individual entity of the Group expects, at the consolidated statements of financial position dates, to recover or settle the carrying amount of their assets and liabilities.

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

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

(ac) Segment information -

IFRS 8 "Operating Segments" requires that the information of operating segments be disclosed consistently with information provided by the chief operating decision maker, who allocates resources to the segments and assesses their performance. Segment information is presented in Note 29.

(ad) Fiduciary activities and management of funds -
The Group provides trust management, investment management, advisory and custody services to third parties that result in the holding of assets on their behalf. These assets and the income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group; see Note 33.

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

(ae) Earnings per share -
The amount of basic earnings per share is calculated by dividing the net profit for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. As of December 31, 2018 and 2017, the Group does not have financial instruments with dilutive effect, therefore, basic and diluted earnings per share are identical for the years reported.

(af) Capital surplus -
It is the difference between the nominal value of shares issued and their offering price made in 2007. Capital surplus is presented net of expenses incurred in the issuance of shares.

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

(ah) Cash and cash equivalents -
Cash presented in the consolidated statements of cash flows includes cash and due from banks balances with original maturities lower than three months, excluding the restricted funds, which are subject to an insignificant risk of changes in value. The cash and cash equivalent item does not include accrued interest.

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

(ai) Financial statements as of December 31, 2017 and 2016 -
In 2018, after carrying out a detailed assessment of the nature of operations related to credit cards, Management decided to reclassify certain income and expenses from the captions "Other income" and "Administrative expenses", respectively, to the captions "Fee income from financial services, net"; see Note 21. Said reclassifications allow a better presentation of the transactions based on the nature of operations and were retrospectively performed to compare consolidated financial statements. The reclassified amounts in each comparative period are presented below:

Year 2017	**Before reclassification** S/(000)	**Reclassification** S/(000)	**After reclassification** S/(000)
Fee income from financial services, net	910,770	(46,402)	864,368
Other income	115,845	(28,406)	87,439
Administrative expenses	(820,498)	74,808	(745,690)

Year 2016	**Before reclassification** S/(000)	**Reclassification** S/(000)	**After reclassification** S/(000)
Fee income from financial services, net	862,447	(39,676)	822,771
Other income	98,614	(34,519)	64,095
Administrative expenses	(776,318)	74,195	(702,123)

According to Management, these reclassifications allow a better presentation of financial statements.

4.5 Standards issued but not yet effective
Following is the description of the new and amended standards and interpretations issued, but which are not yet in force at the date of issuance of these consolidated financial statements. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- IFRS 16 "Leases"
IFRS 16 was issued in January 2016 and replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives", and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance exemption for leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

IFRS 16, which is effective for annual periods beginning on or after January 1, 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group plans to adopt IFRS 16 under the modified retrospective method through an adjustment due to the cumulative effect at the beginning of the 2019 period and will not restate amounts from comparative periods. The Group will choose to apply the standard to all contracts entered into before January 1, 2019, that were identified as leases in accordance with IAS 17 and IFRIC 4.

The Group will also use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

Based on the current preliminary estimates made by the Management, the adoption of IFRS16 on January 1, 2019, is expected to result in an increase in the total of assets and liabilities of not more than 1 percent.

- IFRS 17 "Insurance contracts"
  In May 2017, the IASB issued IFRS 17, a new comprehensive accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure; however, in October 2018 the IASB proposed deferring the validity of IFRS 17 to the year 2022. Early adoption is allowed, provided that the entity also adopts IFRS 9 and IFRS 15 on the date that it adopts IFRS 17 for the first time or earlier. Once in force, IFRS 17 will replace IFRS 4 "Insurance Contracts", which was issued in 2005.

  IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects and which additionally includes:

  (i) A specific adaptation for contracts with direct participation features (the variable fee approach).

  (ii) A simplified approach (the premium allocation approach) mainly for short-duration contracts.

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

  The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately.
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities.
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
  - How an entity considers changes in facts and circumstances.

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

Although IFS and its Subsidiaries domiciled in the Republic of Panama and the Bahamas are not subject to any income tax or capital gains tax – see Note 18(a), and Peruvian companies of life insurance are exempted 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 – see Note 18(e), the Group will apply the interpretation from the entry into force; however, as a result of a preliminary evaluation, Management concluded that this interpretation will not affect the consolidated financial statements.

- Amendments to IFRS 9: Prepayment features with negative compensation
Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments must be applied retrospectively and are effective from January 1, 2019, with early adoption permitted. In this sense, the Group has analyzed these modifications, concluding that they will not have a significant impact on its consolidated financial statements.

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. However, any gain or loss resulting from the sale or contribution of assets that do not constitute a business is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

The Group will apply these amendments when they become effective; likewise, the Group does not plan to adopt these modifications in advance.

- Amendments to IAS 19: Plan amendment, curtailment or settlement
  The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine the cost of current services for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

  - Determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, or after that date. Since the Group does not maintain defined benefit plans, these modifications will not have an impact on its consolidated financial statements.

- Amendments to IAS 28: Long-term interests in associates and joint ventures
  The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 "Investments in Associates and Joint Ventures".

  The amendments should be applied retrospectively and are effective from January 1, 2019. Since the Group does not have such long-term interests in its associates and joint ventures, the amendments will not have an impact on its consolidated financial statements.

- Improvements to the IFRS (2015 – 2017 cycle)
  - IFRS 3 "Business Combinations", the amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

    In Management's opinion, these modifications will not have an impact on the Group's financial statements.

  - IFRS 11 "Joint Arrangements", a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined by IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

    In Management's opinion, these modifications will have no impact on the Group's financial statements because they do not perform joint operations.

  - IAS 12 "Income Taxes", the amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. When an entity first adopts those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

Although IFS and its Subsidiaries domiciled in the Republic of Panama and the Bahamas are not subject to any income tax or capital gains tax – see Note 18(a), and Peruvian companies of life insurance are exempted 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 – see Note 18(e); legal entities or natural persons not domiciled in Peru are subject to an additional tax on dividends received from entities domiciled in Peru. In this regard, since the Company controls the Subsidiaries that distribute the dividends, it recognizes the amount of the Income Tax as an expense of the year to which these dividends correspond. In this sense, the application of the interpretation will not affect the consolidated financial statements.

- IAS 23 "Borrowing Costs", the amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first adopts those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

  In Management's opinion, these modifications will not have a significant impact on the Group's financial statements because they do not develop qualified assets or obtain financing for these purposes.

4.6 Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements of the Group requires Management to make judgments, estimates and assumptions that affect the reported amount of income, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. In the process of applying the Group's accounting policies, Management has used judgments and assumptions about the future and other key sources to make its estimates at the reporting date, which have a significant risk that may cause a material adjustment to the value in books of assets and liabilities within the next financial year. The estimates and existing assumptions may change due to circumstances beyond the control of the Group and are reflected in assumptions if they occur. The items with the most impact recognized in the consolidated financial statements with judgements and/or considerable estimates are the following: the calculation of the impairment of the portfolio of loans and financial investments, the measurement of the fair value of the financial investments and investment properties, the assessment of the impairment of the goodwill, the liabilities for insurance contracts and the measurement of the fair value of derivative financial instruments; also, there are other estimates such as the estimated useful life of intangible assets, property, furniture and equipment, and the estimation of assets and liabilities for deferred Income Tax. The accounting criteria used for each of these items are described in Note 4.4.

On the other hand, during 2018, the Group made the following changes in the accounting estimate related to the determination of insurance contracts liabilities, as detailed below:

(a) Adoption of new mortality tables (SPP 2017)
Through SBS Resolution No.886-2018 dated March 7, 2018, the SBS published the new Peruvian mortality and morbidity tables "SPP-S-2017" and "SPP-I-2017" (for men and women) to be used in mathematical reserve calculations of pensions from the Private Pension System ("SPP", by its Spanish acronym) and the Complementary Insurance of Hazardous Work. These tables gather updated information from Peru's SPP and show the recent changes in the life expectancy. The population used for the analysis and study were those affiliated to the SPP.

Considering that, according to international actuarial and accounting standards, mortality tables need to be updated on a regular basis with information reflecting the reality of the insured, from June 1, 2018, the Group decided to use these new tables for its pension reserve calculation, as they show the recent changes in mortality and life expectancy and the improvement factors of mortality rates, see Note 15(e).

The effect of the first application of SPP-S-2017 and SPP-I-2017 tables as of June 1, 2018, amounted to S/144,777,000; which, in accordance with IAS 8, has been recognized prospectively, affecting the results of the year within the caption "Net premiums earned".

(b) Changes in the assumptions used in calculating interest rates to discount pension reserves
Until May 31, 2018, in order to discount claim reserves, Interseguro used the average market rate of its financial assets portfolio for the matching currency pension flows and a reinvestment rate of 3 percent for non-matching currency pension flows. From the second quarter 2018, Interseguro modified the estimation of these assumptions, using the risk-free rate due to the currency of Peruvian government's sovereign yield curves plus an illiquidity premium as a portion of the corporative spread that is not related to loss given default or the cost of credit rating downgrade. This corporative spread is calculated based on the performance of the asset portfolio designated by Interseguro to cover its pension obligations.

The purpose of changing the method to build the interest rate is to show the nature of the insurance business in the long term, therefore preventing changes in liability values in the short term caused by the fluctuation of the interest rate, which occurs due to market volatility, the speculative component and economic cycles.

The effects of the first application of interest rates as of June 1, 2018, amount to S/423,080,000, which, according to IAS 8, has been prospectively recognized and is part of the year's movement in other comprehensive results within the caption "Unrealized results, net".

In accordance with IAS 8, as the changes above result from new information or events and are not error corrections nor related to previous periods, they are considered changes in accounting estimations and the effects shall be recognized prospectively and included in the consolidated income statements for:

(i) The period in which a change occurs, if it affects only such period; or
(ii) The period in which a change occurs and future periods, if it affects all of them.

As a consequence, Management considers that the changes in the mortality and morbidity tables and in the method for determining the discount interest rate reflect a better accounting estimation of insurance contracts liabilities.

4.7. Transition disclosures

This table presents the impact of the adoption of IFRS 9 in the consolidated statements of financial position and the retained earnings. In addition, it presents the reconciliation between the book values according to IAS 39 and the balances reported according to IFRS 9, as of January 1, 2018:

	IAS 39			Adjustments for first adoption of IFRS 9				IFRS 9	
	Category	Balance S/(000)	Reclassifications S/(000)	Expected credit loss S/(000)		Others S/(000)		Balance S/(000)	Category
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
Financial investments									
Trading securities	Fair value through profit or loss	216,008	(216,008)	-		-		-	-
Available-for-sale investments	Available-for-sale	15,459,660	(15,459,660)	-		-		-	-
Held-to-maturity investments	Held-to-maturity	1,248,475	(1,248,475)	-		-		-	-
Investments at fair value through profit or loss	-	-	1,355,638	-		-		1,355,638	Fair value through profit or loss
Debt instruments measured at fair value through other comprehensive income	-	-	13,756,360	-		-		13,756,360	Debt instruments measured at Fair value through other comprehensive income
Equity instruments measured at fair value through other comprehensive income	-	-	563,670	-		-		563,670	Equity instruments measured at Fair value through other comprehensive income
Investments at amortized cost	-	-	1,248,475	-		18,016	A	1,266,491	Amortized cost
Loans, net of non-accrued interest		29,406,286	-	-		-		29,406,286	
Impairment loss on loans, net		(1,202,118)	-	(58,229)	B	-		(1,260,347)	
Loan portfolio, net	Loans and accounts receivable	28,204,168	-	(58,229)		-		28,145,939	Amortized cost
Investment property	-	1,118,608	-	-		-		1,118,608	-
Property, furniture and equipment, net	-	612,639	-	-		-		612,639	-
Due from customers on acceptances	Loans and accounts receivable	41,715	-	-		-		41,715	Amortized cost
Intangibles and goodwill	-	921,594	-	-		-		921,594	-
Accounts receivable and other assets, net									
Financial assets									
Accounts receivable related to derivative financial instruments			-	-		-		-	
Held for trading, Note 11(b)	Fair value through profit or loss	90,387	-	-		-		90,387	Fair value through profit or loss
Held as hedges, Note 11(b)	Fair value through other comprehensive income	2,433	-	-		-		2,433	Fair value through other comprehensive income
Other assets	Loans and accounts receivable	570,965	-	-		-		570,965	Amortized cost
Non-financial assets	-	246,199	-	-		-		246,199	-
Deferred Income Tax assets, net	-	53,277	-	42,646	E	-		95,923	-
Total assets		60,394,497	-	(15,583)		18,016		60,396,930	

	IAS 39		Adjustments for first adoption of IFRS 9					IFRS 9	
	Category	Balance S/(000)	Reclassifications S/(000)	Expected credit loss S/(000)		Others S/(000)		Balance S/(000)	Category
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 contracts liabilities	Amortized cost	10,514,504	-	-		-		10,514,504	Amortized cost
Accounts payable, provisions and other liabilities									
Financial liabilities									
Accounts payable related to derivative financial instruments									
Held for trading, Note 11(b)	Fair value through profit or loss	129,736	-	-		-		129,736	Fair value through profit or loss
Held as hedges, Note 11(b)	Fair value through other comprehensive income	4,185	-	-		-		4,185	Fair value through other comprehensive income
Provision for indirect credits	Amortized cost	52,845	-	86,333	B	-		139,178	Amortized cost
Other liabilities	Amortized cost	972,658	-	-		-		972,658	Amortized cost
Non-financial liabilities	-	194,295	-	-		-		194,295	-
Deferred Income Tax liability, net	-	257	-	-		-		257	-
Total liabilities		54,557,590	-	86,333		-		54,643,923	
Equity, net									
Equity attributable to IFS's shareholders:									
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		(228,725)	-	(43,936)	C,D	17,891	A	(254,770)	
Retained earnings		1,564,945	-	(57,271)	A,B,E	-		1,507,674	
		5,800,543	-	(101,207)		17,891		5,717,227	
Non-controlling interest		36,364	-	(709)		125		35,780	
Total equity, net		5,836,907	-	(101,916)		18,016		5,753,007	
Total liabilities and equity, net		60,394,497	-	(15,583)		18,016		60,396,930	

A In accordance with IAS 39, from 2015 to 2017, sovereign bonds of the Republic of Peru classified as available-for-sale investments were reclassified as held-to-maturity investments. According to IAS 39 requirements, the unrealized net loss of these instruments was transferred to profit or loss in the remaining term of reclassified bonds.

The balance of said cumulative unrealized net loss in the net equity as of January 1, 2018, amounted to S/18,016,000. As a result of the first adoption of IFRS 9, this amount was transferred as "Financial investments" thus increasing investments at amortized cost; see Note 4.4 (f.11) and 6(e).

B It corresponds to the reconciliation of the provisions for credit loss according to IAS 39 and the provisions for contingent credits (letter of guarantee, collaterals, import and export letters of credit) according to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", with the provisions for expected credit loss according to IFRS 9.

C Recognition of expected credit losses under IFRS 9 for debt instruments at fair value through other comprehensive income (FVTOCI).

D Effect of reclassification of available-for-sale investments (IAS 39) to investments at fair value through profit or loss (IFRS 9).

E Corresponds to the impact of the adoption of IFRS 9 on the deferred Income Tax.

The impact of the transition to IFRS 9 on unrealized results and retained earnings is as follows:

	Unrealized results and retained earnings S/(000)
Unrealized results	
Balance according to IAS 39 (as of December 31, 2017)	(228,725)
Impacts of the transition	
Initial adjustment to the book value of investments at amortized cost	18,016
Recognition of expected credit losses under IFRS 9 for debt instruments at fair value through other comprehensive income (FVTOCI)	31,567
Effect of reclassification of available-for-sale investments to investments at fair value through profit or loss	(75,503)
Non-controlling interest	(125)
Total effects on unrealized results (i)	(26,045)
Initial balance under IFRS 9 (as of January 1, 2018)	(254,770)
Retained earnings	
Balance according to IAS 39 (as of December 31, 2017)	1,564,945
Impacts of the transition	
Effect of reclassification of available-for-sale investments at fair value through profit or loss	75,503
Recognition of expected credit losses under IFRS 9 for impairment of credit portfolio (direct and indirect) and debt instruments at fair value through other comprehensive income	(176,129)
Deferred Income Tax and non-controlling interest	43,355
Total effects on retained earnings (ii)	(57,271)
Initial balance under IFRS 9 (as of January 1, 2018)	1,507,674
Changes for the first adoption of IFRS 9 (i) + (ii)	(83,316)

Reconciliation of the provision for expected credit loss

The following table presents the reconciliation of provisions for credit losses under IAS 39 and for contingent loans (letters of guarantee, documentary credits for imports and exports) under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", against provisions for expected credit loss under IFRS 9. Additional details are presented in Notes 6(c) and 7(d).

	As of December 31, 2017 S/(000)	Adjustment S/(000)	As of January 1, 2018 S/(000)
Provision for impairment			
Loans and accounts receivable under IAS 39 (loan portfolio) / financial assets at amortized cost under IFRS 9 (loan portfolio)	1,202,118	58,229	1,260,347
Available-for-sale debt instruments under IAS 39 / Debt instruments at fair value through other comprehensive income under IFRS 9	9,273	31,567	40,840
	1,211,391	89,796	1,301,187
Contingent credits (letters of guarantee, documentary credits of import and export) IAS 37 / IFRS 9, see Note 11(a)	52,845	86,333	139,178
	1,264,236	176,129	1,440,365

5. Cash and due from banks and inter-bank funds

(a) The detail of cash and due from banks is as follows:

	2018 S/(000)	2017 S/(000)
Cash and clearing (b)	1,860,442	2,073,077
Deposits in BCRP (b)	3,639,927	5,878,534
Deposits in banks (c)	1,586,693	1,274,006
Accrued interest	6,817	1,807
	7,093,879	9,227,424
Restricted funds (d)	1,286,532	1,977,419
Total	8,380,411	11,204,843

(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 in the BCRP and is made up as follows:

	2018 S/(000)	2017 S/(000)
Legal reserve		
Deposits in BCRP	3,370,087	5,178,949
Cash in vaults	1,738,690	1,948,711
Subtotal legal reserve	5,108,777	7,127,660
Non-mandatory reserve		
Overnight BCRP deposits	269,840	699,585
Cash and clearing	121,496	124,163
Subtotal non-mandatory reserve	391,336	823,748
Cash and due from banks not subject to legal reserve	256	203
Total	5,500,369	7,951,611

The legal reserve funds maintained in the BCRP are non-interest bearing, except for the part that exceeds the minimum reserve required that accrued interest at an annual rate established by the BCRP. As of December 31, 2018, the excess in foreign currency accrued interest in US Dollars at an annual average rate of 1.95 percent (0.37 percent as of December 31, 2017). During 2018 and 2017, Interbank did not present excess reserves in national currency.

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

(c) Deposits in domestic banks and abroad are mainly in Soles and US Dollars, they are freely available and accrue interests at market rates.

(d) The Group maintains restricted funds related to:

	2018 S/(000)	2017 S/(000)
Repurchase agreements with BCRP (*)	1,189,454	1,882,244
Derivative financial instruments, Note 11(b)	92,456	90,093
Others	4,622	5,082
Total	1,286,532	1,977,419

(*) As of December 31, 2018, correspond to deposits maintained in the BCRP which guarantee repurchase agreements amounting to S/1,156,825,000 including interests (guaranteed repurchase agreements amounting to S/1,890,962,000 including interests as of December 31, 2017); see Note 13(b).

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

(e) Inter-bank funds

These are loans made between financial institutions whose maturity, in general, is less than 30 days. As of December 31, 2018, accrue interest at an annual rate of 2.75 percent in national currency (rates between 3.25 percent and 3.30 percent in national currency, and 1.50 percent in foreign currency, as of December 31, 2017) and do not have specific guarantees.

6. Financial investments

(a) This caption is made up as follows, as of December 31, 2018 and 2017 is as follow:

	2018 S/(000)	2017 S/(000)
Debt instruments measured at fair value through other comprehensive income (b)	13,143,526	-
Investments at fair value through profit or loss (d)	1,571,468	-
Investments at amortized cost / held-to-maturity investments (e)	1,843,944	1,221,250
Equity instruments measured at fair value through other comprehensive income (f)	845,317	-
Available-for-sale financial investments (g)	-	15,289,196
Trading securities	-	216,008
Total financial investments	17,404,255	16,726,454
Accrued income		
Debt instruments measured at fair value through other comprehensive income (b)	185,067	-
Investments at amortized cost / held-to-maturity investments (e)	40,123	27,225
Available-for-sale financial investments (g)	-	170,464
Total	17,629,445	16,924,143

(b) Following is the detail of debt instruments measured at fair value through other comprehensive income:

	Amortized cost S/(000)	Unrealized gross amount: Gains S/(000)	Unrealized gross amount: Losses (c) S/(000)	Estimated fair value S/(000)	Maturity	Annual effective interest rates: S/ Min %	S/ Max %	US$ Min %	US$ Max %
Corporate, leasing and subordinated bonds (*)	7,687,065	80,122	(286,043)	7,481,144	Jan-19 / Jan-114	2.01	9.58	2.80	8.90
Peruvian Sovereign Bonds	2,702,571	46,714	(65,955)	2,683,330	Aug-20 /Feb-55	2.37	8.19	-	-
Negotiable Certificates of Deposit issued by BCRP (**)	1,381,011	179	(711)	1,380,479	Jan-19 / Apr-20	2.73	3.05	-	-
Bonds guaranteed by the Peruvian Government	804,309	5,166	(14,477)	794,998	May-24 / Jul -34	4.10	6.01	4.97	8.81
Global Bonds of the Republic of Peru	332,311	1,439	(14,692)	319,058	Jul-25 / Feb-55	6.39	7.40	3.66	3.71
Global Bonds of the Republic of Colombia	271,482	-	(4,046)	267,436	Mar-19 / Sep-37	-	-	2.29	7.48
Global Bonds of the United Mexican States	105,749	-	(7,133)	98,616	Oct-23 / Sep-34	-	-	4.16	6.28
United States of America Treasury Bonds	83,888	-	(1,039)	82,849	Dec-20 /Oct-23	-	-	2.47	2.53
Global Bonds of the Republic of Chile	36,983	-	(1,367)	35,616	Feb-28	-	-	3.74	3.74
Total	13,405,369	133,620	(395,463)	13,143,526					
Accrued interest				185,067					
Total				13,328,593					

(*) As of December 31, 2018, Inteligo holds corporate bonds from different entities for approximately S/411,047,000, which guarantee loans with Credit Suisse First Boston and J. Safra Sarasin; see Notes 13(e) and (h).

(**) As of December 31, 2018, Interbank holds certificates of deposit issued by the BCRP for approximately S/256,777,000, which guarantee loans with said entity; see Note 13(b).

(c) The Group has determined that the unrealized losses on debt instruments as of December 31, 2018, not related to credit risk, are of temporary nature.

The Group, according to the business model applied to these debt instruments, has the capacity to maintain these investments for a sufficient period that allows the early recovery of the fair value, up to the maximum period for the early recovery or the due date.

On the other hand, the Group has recognized the losses related to the credit risk of the investments in the consolidated income statements as an impairment loss according to the policies on the estimation of the expected credit loss of the investments indicated in Note 4.4 (h).

As of December 31, 2018, the detail of the unrealized losses of the debt instruments classified as at fair value through other comprehensive income is as follows:

	2018				
Issuer	Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)	Maturity as of December 31, 2018	Risk rating as of December 31, 2018 (***)
Peruvian Sovereign Bonds	2,702,571	46,714	(65,955)	2020 - 2055	A- (*)
Global Bonds of the Republic of Peru	332,311	1,439	(14,692)	2025 - 2055	BBB+ (*)
Global Bonds of the Republic of Colombia	271,482	-	(4,046)	2019 -2037	BBB (*)
Global Bonds of the United Mexican States	105,749	-	(7,133)	2023- 2034	BBB+ (*)
Bienes Raíces Uno Trust	183,572	-	(23,301)	2044	BBB (*)
Cencosud S.A.	191,388	-	(20,819)	2045	BBB- (*)
Corporación Financiera de Desarrollo S.A.	386,240	-	(19,238)	2019 - 2046	AA (**)
Mexichem SAB de CV	178,387	-	(18,048)	2042 - 2044	BBB- (*)
Banco de Crédito del Perú	222,072	-	(14,536)	2019 - 2023	AA+ (**)
Celulosa Arauco y Constitución S.A.	163,796	-	(12,295)	2047	BBB- (*)
PA Pacifico Trust	166,049	-	(12,280)	2035	BBB- (*)
Fermaca Enterprises S.R.L.	229,906	-	(11,778)	2038	BBB- (*)
Mexico City Airport Trust	94,948	-	(11,129)	2047	BBB (*)
Electricite de France S.A.	72,431	-	(8,673)	2114	A- (*)
Lima Metro Line 2 Finance Limited	149,512	-	(7,935)	2034	BBB (*)
Southern Perú Copper Coporation	220,634	-	(7,653)	2028 - 2042	BBB+ (*)
Goldman Sachs	63,129	-	(6,572)	2030 – 2042	BBB+ (*)
Falabella Perú S.A.A.	101,341	-	(6,474)	2028 - 2035	AA+ (**)
Celeo Redes Operación CL	94,252	-	(6,014)	2047	BBB (*)
Enel Distribución Perú S.A.A.	85,665	426	(5,864)	2025 – 2038	AAA (**)
México Generadora de Energía	72,009	-	(5,324)	2032	BBB (*)
Línea Amarilla S.A.C.	173,130	1,042	(4,998)	2037	AA (**)
H2Olmos S.A.	230,838	-	(4,793)	2025- 2032	AA (**)
BBVA Continental	199,326	2,039	(4,737)	2022 - 2033	BBB+ (*)
PA Costera Trust	75,046	-	(4,716)	2034	BBB- (*)
Taboada Finance Ltda.	93,010	612	(4,694)	2029-2033	BBB+ (*)
Comisión Federal de Electricidad CFE.	35,007	-	(4,180)	2045	BBB+ (*)
Red de Energia del Perú	109,665	-	(4,111)	2026 - 2031	AAA (**)
Instruments with individual losses less than S/4 million	3,559,022	296	(73,475)		
Total	10,562,488	52,568	(395,463)		

(*) Instrument rated abroad.

(**) Instrument rated in Peru.

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

The analysis of changes in fair value and the corresponding expected credit loss is presented below:

	2018			
Gross carrying amount of debt instruments measured at fair value through other comprehensive income	**Stage 1** S/(000)	**Stage 2** S/(000)	**Stage 3** S/(000)	**Total** S/(000)
Beginning of year balances	13,182,318	444,418	-	13,626,736
New assets originated or purchased	4,629,335	-	-	4,629,335
Assets derecognized or matured (excluding write-offs)	(4,659,757)	(148,240)	-	(4,807,997)
Change in fair value	(508,133)	35,254	-	(472,879)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Write offs	-	-	-	-
Foreign exchange effect	192,964	3,417	-	196,381
End of year balances	12,836,727	334,849	-	13,171,576

	2018			
Movement of the allowance for expected credit losses for debt instruments measured at fair value through other comprehensive income	**Stage 1** S/(000)	**Stage 2** S/(000)	**Stage 3** S/(000)	**Total** S/(000)
Expected credit loss under IFRS 9 at the beginning of the period	5,330	35,510	-	40,840
New assets originated or purchased	1,215	-	-	1,215
Assets derecognized or matured (excluding write-offs)	(324)	(13,139)	-	(13,463)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Effect on the expected credit loss due to the change of the Stage during the year	-	-	-	-
Effect on the expected credit loss different to changes of the stage during the year (*)	181	(1,010)	-	(829)
Write offs	-	-	-	-
Recoveries	-	-	-	-
Foreign exchange effect	44	243	-	287
Expected credit loss under IFRS 9 at the end of the period	6,446	21,604	-	28,050

(*) Corresponds mainly to the variation in the inputs used for calculating the expected credit losses different to changes in the stage during the year.

As a result of the assessment of the impairment of its debt instruments at fair value through other comprehensive income, the Group recorded a reversal of the impairment of S/13,077,000 during the year 2018, which was presented in the caption "Recovery (loss) due to impairment of financial investments" in the consolidated income statements. The movement of unrealized results of investments at fair value through other comprehensive, net of Income Tax and non-controlling interest, is presented in Notes 17(d) and (e).

(d) The composition of financial instruments at fair value through profit or loss is as follows:

	2018 S/(000)
Equity instruments	
Local and foreign mutual funds and investment funds participations	1,144,771
BioPharma Credit PLC (j)	144,157
Royalty Pharma (l)	78,808
LendUp	23,720
ViaSat Inc.	21,705
Ishare Core MSCI Word UCIT	18,195
Other minors	72,046
Debt instruments	
Corporate, leasing and subordinated bonds	42,625
Peruvian Sovereign Bonds	21,927
United States of America Treasury Bonds	3,514
Total	1,571,468

(e) As of December 31, 2018 and 2017, the investments at amortized costs and held-to-maturity investments are totally comprised of Peruvian Sovereign Bonds for an amount of S/1,884,067,000 and S/1,248,475,000, respectively, including accrued interest. These investments present a low credit risk and the expected credit loss is insignificant.

As of December 31, 2018, these investments have maturity dates that range from August 2020 to August 2037, have accrued interests at an effective annual rate ranging from 4.05 percent and 6.33 percent, and its estimated fair value amounts to approximately S/1,856,325,000 (as of December 31, 2017, their maturity dates ranged from August 2020 to August 2037, accrued interests at an effective annual rate between 4.05 percent to 6.33 percent, and its estimated fair value amounts to approximately S/1,303,196,000).

In accordance with IAS 39, in force until December 31, 2017, Interbank reclassified from 2015 to 2017 Peruvian sovereign bonds from available-for-sale investments to held-to-maturity investments for S/487,385,000. Said instruments held an unrealized net loss in the net equity for S/24,690,000. According to IAS 39 requirements, the unrealized net loss of these instruments was transferred to profit and loss in their remaining maturity. Therefore, Interbank recorded in the income statements for the periods 2017 and 2016 a net loss of approximately S/2,608,000 and S/2,537,000, respectively; see Notes 17(d) and (e).

The balance of such cumulative unrealized net loss in the net equity as of December 31, 2017, amounted to S/18,016,000, which as part of the initial adoption of IFRS 9 by the Group was transferred to "Financial investments", thereby increasing investments at amortized cost; see Note 4.7.

As of December 31, 2018 and 2017, Interbank holds loans with the BCRP that are guaranteed through the Peruvian Sovereign Bonds, which are classified as restricted, for approximately S/738,635,000 and S/362,644,000, respectively; see Note 13(b).

(f) As of December 31, 2018, the composition of equity instruments measured at fair value through other comprehensive income is as follows:

	2018 S/(000)
BioPharma Credit PLC (j)	261,484
InRetail Perú Corp (k)	228,122
Ferreycorp S.A.A.	78,528
Engie- Energía Perú S.A.	51,384
Ishares MSCI Chile - ETF	41,763
Ishare CORE S&P 500 ETF	28,723
Vanguard FTSE Emerging Marke	25,702
Luz del Sur S.A.A.	23,727
Ishares MSCI ACW ETF	21,967
Gilead Sciences INC	18,988
Bolsa de Valores de Lima S.A.	15,737
Others below S/10 million	49,192
Total	845,317

(g) The detail of the available-for-sale financial investments, of the debt instruments that form part of the available-for-sale investments as of December 31, 2017, is as follows:

		Unrealized gross amount				Annual effective interest rates			
						S/		US$	
	Amortized cost	Gains	Losses	Estimated fair value	Maturity	Min	Max	Min	Max
	S/(000)	S/(000)	S/(000)	S/(000)		%	%	%	%
Corporate, leasing and subordinated bonds	7,073,038	197,914	(48,087)	7,222,865	Jan 2018 / Jan 2114	1.00	14.00	1.66	15.15
Peruvian Sovereign Bonds	2,439,351	67,811	(16,071)	2,491,091	Feb 2018 / Feb 2055	2.00	8.09	-	-
Negotiable Certificates of Deposit issued by BCRP	1,933,640	2,328	(18)	1,935,950	Jan 2018/ Jun 2019	3.50	3.71	-	-
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	May 2024 / Jul 2034	4.00	6.01	4.00	6.60
Global Bonds of the Republic of Peru	478,144	1,330	(2,274)	477,200	Jul 2025 / Nov 2050	-	-	2.47	4.20
Global Bonds of the Republic of Colombia	212,818	1,304	(1,509)	212,613	Mar 2019 / Sep 2037	-	-	1.99	5.00
Indexed Certificates of Deposit issued by BCRP	169,002	-	(1,598)	167,404	Feb 2018	-	-	0.00	0.00
Global Bonds of the United Mexican States	105,247	224	(375)	105,096	Dec 2019 / Sep 2034	-	-	2.00	4.00
United States of America Treasury Bonds	45,611	-	(355)	45,256	Jan 2018 / Nov 2024	-	-	1.09	2.31
Global Bonds of the Republic of Panama	35,295	120	(210)	35,205	Apr 2034 / Jan 2036	-	-	4.00	5.00
Certificates of deposits payable in US Dollars issued by BCRP	21,446	-	(1)	21,445	Jan 2018	3.30	3.30	-	-
Global Bonds of Canada	4,005	-	(31)	3,974	Jul 2023	-	-	3.00	3.00
Total	14,270,245	369,354	(97,382)	14,542,217					
Listed shares									
BioPharma Credit PLC (j)	280,601	11,359	-	291,960					
InRetail Perú Corp. (k)	75,376	92,830	-	168,206					
Energía del Sur	71,307	-	(7,167)	64,140					
Other Peruvian and foreign entities	152,927	6,075	(6,475)	152,527					
Non-listed shares and participations									
Royalty Pharma (l)	60,766	7,774	-	68,540					
Others	936	670	-	1,606					
	641,913	118,708	(13,642)	746,979					
	14,912,158	488,062	(111,024)	15,289,196					
Accrued interest				170,464					
Total				15,459,660					

(h) The Group determined that the unrealized losses as of December 31, 2017, were of temporary nature. The Group had the intention and capacity to hold each investment for a sufficient period that allows the early recovery of the fair value, up to the maximum period for the early recovery or the due date.

The Group, in accordance with IAS 39, considered the following criteria to determine whether a loss was temporary or not for capital investments (shares) and, when applicable, for mutual and investment funds:

- The duration and magnitude at which the fair value was below cost;
- The severity of the impairment;
- The cause of the impairment, the financial condition and the short-term prospects of the issuer; and
- The activity in the issuer's market, which could indicate adverse credit conditions.

The Group, in accordance with IAS 39, considered the following criteria to determine whether a loss was temporary or not for debt instruments (fixed maturity):

- For the assets in which it was probable that the Group would receive all the amounts owed in accordance with the contractual terms of the instrument (principal and interest), the identification of the instruments with credit impairment considered a series of factors, such as the nature of the instrument and the related guarantee, the amount of subordination or credit enhancement that supports the instrument, the credit rating and other evidence analysis of the probable cash flows of the instrument. If the recovery of all the amounts owed was not probable, it was considered that there was a "credit impairment" and the unrealized loss was recorded directly in the consolidated income statements. This unrealized loss recorded in the consolidated income statements represented the decrease in the fair value of the instrument generated as a result of the decrease in projected cash flows and the increase in market interest rates.

- For financial instruments with unrealized losses but not identified as impaired, the Group determined whether it had the intention and ability to maintain each investment for a sufficient period to allow an early recovery of the fair value. The Group estimated the projected recovery period using current estimates of volatility in market interest rates (including liquidity and risk premiums). The Group's assertion regarding its intention and ability to maintain said investments considered a number of factors, including a quantitative estimate of the expected recovery period and the duration of that period (which may be extended to maturity), the severity of the impairment and the strategy of the Group with respect to the identified security or portfolio. If the Group did not have the intention or capacity to hold the security for a sufficient period, the unrealized loss was recorded directly in the consolidated income statements.

(i) As a result of the impairment assessment of its available-for-sale financial investments, the Group recorded an impairment loss of S/20,759,000 and S/28,323,000 during the years 2017 and 2016, respectively, which was presented in the caption "Recovery (loss) due to impairment of financial investments" in the consolidated income statements. The movement of the unrealized results of investments available for sale, net of deferred Income Tax and non-controlling interest, is presented in Notes 17(d) and (e). The following is a detail of the unrealized losses of debt instruments and mutual funds and investment funds participations classified as available-for-sale as of December 31, 2017:

	2017				
Issuer	**Amortized cost** S/(000)	**Unrealized gross gain** S/(000)	**Unrealized gross loss** S/(000)	**Maturity as of December 31, 2017**	**Risk rating as of December 31, 2017 (***)**
Peruvian Sovereign Bonds	2,439,351	67,811	(16,071)	2018 -2055	A- (*)
Bonds guaranteed by the Peruvian Government	857,344	15,883	(5,426)	2024 – 2034	BBB+ (*)
Global Bonds of the Republic of Peru	478,144	1,330	(2,274)	2025 -2050	BBB+ (*)
Banco de Crédito del Perú S.A.	180,064	420	(12,283)	2020 – 2069	BB- (*)
Corporación Financiera de Desarrollo S.A.	376,004	8,416	(8,641)	2019 – 2046	AA+ (*)
H2Olmos S.A.	173,838	35	(3,951)	2018 – 2032	AA+ (**)
Fibra Uno	177,271	2,016	(3,329)	2044	BBB (*)
Instruments with individual losses minor than S/3 million		107,900	(45,407)		
		203,811	(97,382)		

(*) Instrument rated abroad.

(**) Instrument rated in Peru.

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

(j) The Group has investments in BioPharma Credit PLC, a public limited liability company dedicated to the biological sciences industry and which is quoted in the "Specialist Fund Segment" (segment designed for highly specialized investment entities, which focus on highly informed institutional investors or professional investors) of the London Stock Exchange.

As of December 31, 2018, the Group, through IFS and its Subsidiary Inteligo Bank, holds a total of 40,159,328 shares classified as investments at fair value through profit and loss. Additionally, through its Subsidiary Interseguro, the Group holds a total of 72,791,326 shares classified as investment at fair value through other comprehensive income. Combined, it holds 112,950,654 shares that represent 8.22 percent of the capital stock of the entity.

As of December 31, 2017, the Group, through its Subsidiaries Interseguro, Inteligo Bank and Seguros Sura, held a total of 85,957,350 shares, which represented 9.40 percent of the share capital of BioPharma Credit PLC, classified as available-for-sale investments.

(k) As of December 31, 2018, the Group holds 2,396,920 shares, which represent 2.33 percent of the capital stock of InRetail Perú Corp. (a related entity), classified as equity instruments measured at fair value through other comprehensive income (2,473,621 shares, which represented 2.41 percent of the capital stock of InRetail Perú Corp., classified as available-for-sale investments as of December 31, 2017).

(l) Corresponds to participations in RPI International Holding, which invests in a series of subordinated funds whose objective is to invest in Royalty Pharma Investments, an investment fund established under the laws of the Republic of Ireland and authorized by the Central Bank of Ireland. This investment fund is dedicated to buying medical and biotechnology patents. The holdings in RPI International Holding are not liquid and require authorization for trading.

As of December 31, 2018, the Group holds 152,251 participations in RPI International Holding classified as investments at fair value through profit or loss (152,251 participations classified as available-for-sale investments as of December 31, 2017).

During the years 2018, 2017 and 2016, the Group received dividends from these investments for approximately S/9,847,000, S/4,467,000 and S/22,097,000, respectively, which are included in the caption "Interest and similar income" in the consolidated income statements.

(m) The following is the balance of investments at fair value through other comprehensive income (debt and equity instruments) and investments at amortized cost as of December 31, 2018 (available-for-sale and held-to-maturity financial investments as of December 31, 2017), classified by contractual maturity (without considering accrued interest):

	2018		2017	
	Investments at fair value through other comprehensive income S/(000)	Investments at amortized cost S/(000)	Available-for-sale financial investments S/(000)	Held-to-maturity investments S/(000)
Up to 3 months	763,539	-	1,592,653	-
From 3 months to 1 year	966,019	-	749,050	-
From 1 to 3 years	705,687	190,479	749,127	193,998
From 3 to 5 years	706,076	470,976	395,317	-
From 5 years onwards	10,002,205	1,182,489	10,099,753	1,027,252
Equity instruments (without maturity)	845,317	-	1,703,296	-
Total	13,988,843	1,843,944	15,289,196	1,221,250

(n) Below are the debt instruments measured at fair value through other comprehensive income and at amortized cost according to the stages indicated by IFRS 9 as of December 31, 2018:

	2018			
Debt instruments measured at fair value through other comprehensive income and at amortized cost (*)	**Stage 1** S/(000)	**Stage 2** S/(000)	**Stage 3** S/(000)	**Total** S/(000)
Corporate, leasing and subordinated bonds	7,167,899	313,245	-	7,481,144
Peruvian Sovereign Bonds	4,527,274	-	-	4,527,274
Negotiable Certificates of Deposit issued by BCRP	1,380,479	-	-	1,380,479
Bonds guaranteed by the Peruvian Government	794,998	-	-	794,998
Global Bonds of the Republic of Peru	319,058	-	-	319,058
Global Bonds of the Republic of Colombia	267,436	-	-	267,436
Global Bonds of the United Mexican States	98,616	-	-	98,616
United States of America Treasury Bonds	82,849	-	-	82,849
Global Bonds of the Republic of Chile	35,616	-	-	35,616
Total	14,674,225	313,245	-	14,987,470

(*) The amounts presented do not consider impairment.

7. Loans, net

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Direct loans		
Loans	25,569,152	21,833,083
Credit cards	4,881,404	3,798,746
Leasing	1,682,629	1,706,745
Discounted notes	494,953	547,857
Factoring	309,558	162,598
Advances and overdrafts	50,219	57,774
Refinanced loans	210,384	273,448
Past due and under legal collection loans	856,909	794,450
	34,055,208	29,174,701
Plus (minus)		
Accrued interest from performing loans	318,250	286,543
Unearned interest and interest collected in advance	(47,737)	(54,958)
Impairment allowance for loans (d)	(1,364,804)	(1,202,118)
Total direct loans, net	32,960,917	28,204,168
Indirect loans, Note 19(a)	4,071,460	4,266,495

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

	2018 (***) S/(000)	2017 S/(000)
Commercial loans (*)	16,032,068	13,545,195
Consumer loans	10,891,278	9,187,000
Mortgage loans (**)	6,407,479	5,756,403
Small and micro-business loans	724,383	686,103
Total	34,055,208	29,174,701

(*) In 2018, Interbank acquired commercial loans from Bancolombia Panamá S.A., Bancolombia Puerto Rico Internacional Inc. and Itaú Corbanca NY Branch for approximately S/306,168,000, S/90,531,000 and S/198,000,000, respectively.

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

(***) For purposes of estimating the impairment loss in accordance with IFRS 9, the Group's loan portfolio is segmented by homogeneous groups that share similar risk characteristics; the Group determined these 3 types of portfolios: Personal Banking (groups consumer and mortgage loans), Commercial Banking (groups commercial loans) and Small Business Banking (group loans to small and micro-business).

(c) The following table shows the credit quality and maximum exposure to credit risk based on the Group's internal credit rating as of December 31, 2018. The amounts presented do not consider impairment.

	2018			
Direct loans	**Stage 1** S/(000)	**Stage 2** S/(000)	**Stage 3** S/(000)	**Total** S/(000)
Not impaired				
High grade	25,062,456	372,197	-	25,434,653
Standard grade	3,853,640	849,073	-	4,702,713
Sub-standard grade	417,701	845,995	-	1,263,696
Past due but not impaired	1,048,378	791,096	-	1,839,474
Impaired				
Individually impaired	-	-	7,349	7,349
Collectively impaired	-	-	807,323	807,323
Total direct loans	30,382,175	2,858,361	814,672	34,055,208

	2018			
Contingent Credits: Guarantees and stand by letters, import and export letters of credit	**Stage 1** S/(000)	**Stage 2** S/(000)	**Stage 3** S/(000)	**Total** S/(000)
Not impaired				
High grade	3,256,280	223,735	-	3,480,015
Standard grade	211,784	110,420	-	322,204
Sub-standard grade	33,472	192,699	-	226,171
Past due but not impaired	-	-	-	-
Impaired				
Individually impaired	-	-	35,738	35,738
Collectively impaired	-	-	7,332	7,332
Total indirect loans	3,501,536	526,854	43,070	4,071,460

(d) The balances of the direct and indirect loan portfolio and the movement of the respective allowance for expected credit loss, calculated according to IFRS 9, is as follows:

(d.1) Direct loans

	2018			
Gross carrying amount of direct loans	**Stage 1** S/(000)	**Stage 2** S/(000)	**Stage 3** S/(000)	**Total** S/(000)
Beginning of year balances	25,492,417	2,941,897	740,387	29,174,701
New assets originated or purchased	16,526,772	-	-	16,526,772
Assets derecognized or repaid (excluding write offs)	(9,417,223)	(918,338)	(71,826)	(10,407,387)
Transfers to Stage 1	660,625	(659,573)	(1,052)	-
Transfers to Stage 2	(2,142,391)	2,178,029	(35,638)	-
Transfers to Stage 3	(402,281)	(508,498)	910,779	-
Write offs (***)	-	-	(791,107)	(791,107)
Others (*)	(630,465)	(197,590)	50,625	(777,430)
Foreign exchange effect	294,721	22,434	12,504	329,659
End of year balances	30,382,175	2,858,361	814,672	34,055,208

	2018			
Changes in the allowance for expected credit losses for direct loans	**Stage 1** S/(000)	**Stage 2** S/(000)	**Stage 3** S/(000)	**Total** S/(000)
Expected credit loss under IFRS 9 at the beginning of year balances	329,161	477,616	453,570	1,260,347
Impact of the expected credit loss in the consolidated income statements -				
New assets originated or purchased	366,155	-	-	366,155
Assets derecognized or repaid (excluding write offs)	(84,229)	(77,827)	(36,833)	(198,889)
Transfers to Stage 1	86,656	(85,814)	(842)	-
Transfers to Stage 2	(165,351)	181,679	(16,328)	-
Transfers to Stage 3	(62,418)	(155,034)	217,452	-
Impact on the expected credit loss for credits that change stage in the year	(72,574)	147,616	511,285	586,327
Others (**)	(3,598)	(28,858)	18,086	(14,370)
	64,641	(18,238)	692,820	739,223
Write offs (***)	-	-	(791,107)	(791,107)
Recovery of written-off loans	-	-	145,586	145,586
Foreign exchange effect	999	3,371	6,385	10,755
Expected credit loss under IFRS 9 at the end of year balances	394,801	462,749	507,254	1,364,804

(d.2) Indirect loans

Gross carrying amount of contingent credits, guarantees and stand-by letters, import and export letters of credit	2018			
	Stage 1 S/(000)	Stage 2 S/(000)	Stage 3 S/(000)	Total S/(000)
Beginning of year balances	3,763,245	470,231	33,019	4,266,495
New assets originated or purchased	1,599,629	-	-	1,599,629
Assets derecognized or repaid	(1,532,320)	(224,143)	(22,846)	(1,779,309)
Transfers to Stage 1	27,937	(27,937)	-	-
Transfers to Stage 2	(378,387)	382,098	(3,711)	-
Transfers to Stage 3	(34)	(50,348)	50,382	-
Others (*)	(48,421)	(30,765)	(13,993)	(93,179)
Foreign exchange effect	69,887	7,718	219	77,824
End of year balances	3,501,536	526,854	43,070	4,071,460

Changes in the allowance for expected credit losses for contingent credits, guarantees and stand-by letters, import and export letters of credit	2018			
	Stage 1 S(000)	Stage 2 S(000)	Stage 3 S(000)	Total S(000)
Expected credit loss under IFRS 9 at beginning of year balances	46,890	77,299	14,989	139,178
Impact of the expected credit loss in the consolidated income statements -				
New assets originated or purchased	12,138	-	-	12,138
Assets derecognized or repaid	(8,925)	(34,620)	(10,245)	(53,790)
Transfers to Stage 1	1,177	(1,177)	-	-
Transfers to Stage 2	(7,004)	8,753	(1,749)	-
Transfers to Stage 3	(12)	(25,039)	25,051	-
Impact on the expected credit loss for credits that change stage in the year	(838)	3,519	(5,690)	(3,009)
Others (**)	(24,607)	(9,972)	89	(34,490)
	(28,071)	(58,536)	7,456	(79,151)
Foreign exchange effect and others (****)	1,010	990	24	2,024
Expected credit loss under IFRS 9 at the end of year balances, Note 11(b)	19,829	19,753	22,469	62,051

(*) Corresponds mainly to: (i) the variation between the amortized cost of the loan at the beginning of year and its amortized cost at the end of period (partial amortizations that did not represent a reduction or cancellation of the loan), and (ii) the execution of contingent loans (conversion of indirect debt into direct debt).

(**) Corresponds mainly to: (i) the variation between the amortized cost of the loan at the beginning of year and its amortized cost at the end of year (variation in the provision recorded for partial amortizations that did not represent a reduction or cancellation of the loan), (ii) variations in credit risk that did not generate transfers to other stages; and (iii) the execution of contingent loans (conversion of indirect debt into direct debt).

(***) The Group writes off financial assets that are still subject to collection activities. In this regard, the Group seeks to recover the amounts legally owed in full, but have been written off because there is no reasonable expectation of recovery.

(****) Corresponds mainly to the effect of the exchange rate and the variation of the value of money over time.

(e) The movement of the provision for impairment of the loan portfolio (direct and indirect) in accordance with IAS 39 for the years 2017 and 2016, is as follows:

	2017			
	Commercial S/(000)	Consumer and mortgage S/(000)	Small and micro-business S/(000)	Total S/(000)
Beginning of year balances	221,134	912,424	57,200	1,190,758
Provision	47,325	752,629	27,981	827,935
Recovery of written-off loans	187	123,226	4,723	128,136
Written-off portfolio and sales	(19,772)	(811,758)	(26,174)	(857,704)
Translation result and others	(5,759)	(28,104)	(299)	(34,162)
End of year balances (*)	243,115	948,417	63,431	1,254,963

	2016			
	Commercial S/(000)	Consumer and mortgage S/(000)	Small and micro-business S/(000)	Total S/(000)
Beginning of year balances	197,167	817,734	50,291	1,065,192
Provision	46,343	715,882	21,420	783,645
Recovery of written-off loans	527	115,108	3,429	119,064
Written-off portfolio and sales	(14,116)	(734,395)	(23,519)	(772,030)
Translation result and others	(8,787)	(1,905)	5,579	(5,113)
End of year balances (*)	221,134	912,424	57,200	1,190,758

(*) The allowance for loan losses includes the allowance for direct and indirect loans amounting to S/1,202,118,000 and S/52,845,000, respectively, as of December 31, 2017 (S/1,166,782,000 and S/23,976,000, respectively, as of December 31, 2016). 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 11(a).

(f) In Management's opinion, the allowance for loan losses recorded as of December 31, 2018 and 2017, has been established in accordance with IFRS 9 and IAS 39, respectively; and it is sufficient to cover incurred losses on the loan portfolio.

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

(h) Interest income from loans classified in Stage 3 is calculated through the effective interest rate adjusted for credit quality at amortized cost.

(i) The refinanced loans during the 2018 period amounted to approximately S/115,669,000, which had no significant effect on the consolidated income statements.

(j) The table below presents the direct loan portfolio without including accrued interest and interest to be accrued and collected in advance as of December 31, 2018 and 2017, classified by maturity dates:

	2018 S/(000)	2017 S/(000)
Outstanding		
Up to 1 month	3,084,717	2,658,985
From 1 to 3 months	4,092,882	3,584,372
From 3 months to 1 year	7,546,896	6,074,474
From 1 to 5 years	13,950,227	10,707,514
Over 5 years	4,523,577	5,354,906
	33,198,299	28,380,251
Past due loans		
Up to 4 months	184,587	171,189
Over 4 months	297,146	280,238
Under legal collection	375,176	343,023
	34,055,208	29,174,701

See credit risk analysis in Note 31.1.

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

8. Investment property

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)	Acquisition or construction year	Hierarchy level (i)	Valuation methodology (f) 2018/2017
Land					
San Isidro – Lima	249,377	240,715	2009	Level 3	Appraisal
Miraflores – Lima	70,800	72,421	2017	Level 3	Appraisal
San Martín de Porres – Lima	64,501	63,299	2015	Level 3	Appraisal
Piura	50,708	40,142	2008	Level 3	Appraisal
Sullana	16,491	25,419	2012	Level 3	Appraisal
Santa Clara – Lima	10,342	9,937	2017	Level 3	Appraisal
Chimbote	7,421	9,399	2015	Level 3	Appraisal
Lurin (e)	4,032	5,322	2008	Level 3	Appraisal
Yanahuara – Arequipa (e)	-	26,323	2017	Level 3	Appraisal
Others	11,672	10,142	-	Level 3	Appraisal
	485,344	503,119			
Completed investment property - "Real Plaza" Shopping Malls					
Talara	41,337	37,932	2015	Level 3	DCF
Pucallpa (e)	-	190,676	2014	Level 3	DCF (2018) / appraisal (2017)
	41,337	228,608			
Buildings					
Orquídeas - San Isidro - Lima	144,645	116,317	2017	Level 3	DCF
Ate Vitarte – Lima	67,894	57,781	2006	Level 3	DCF
Chorrillos – Lima	51,552	24,798	2017	Level 3	DCF
Maestro – Huancayo	32,901	30,510	2017	Level 3	DCF
Cusco	28,472	23,794	2017	Level 3	DCF
Panorama – Lima	20,437	20,653	2016	Level 3	DCF
Pardo y Aliaga – Lima, Note 4.4(p)	19,164	3,310	2008	Level 3	DCF / appraisal
Trujillo	16,270	15,369	2016	Level 3	DCF
Cercado de Lima – Lima	12,929	11,577	2017	Level 3	DCF
Orquídeas - San Isidro – Lima, Note 4.4(p)	-	16,913	2017	Level 3	DCF
Others, Note 4.4(p)	24,100	26,971	2017	Level 3	DCF / appraisal
	418,364	347,993			
Built on leased land					
San Juan de Lurigancho – Lima	41,493	37,726	2017	Level 3	DCF
Others (e)	-	1,162	-	Level 3	DCF
	41,493	38,888			
Total	986,538	1,118,608			

DCF: Discounted cash flow

(i) During 2018 and 2017, there were no transfers between levels of hierarchy.

(ii) As of December 31, 2018 and 2017, there are no liens on investment property.

(b) The net gain on investment properties as of December 31, 2018, 2017 and 2016, consists of the following:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Gain (loss) on valuation of investment property	47,765	(1,878)	(1,380)
Income for rental of investment property	32,878	27,284	21,849
Gain on sale of investment property (e)	4,655	-	2,655
Total	85,298	25,406	23,124

(c) The movement of investment property for the years ended December 31, 2018, 2017 and 2016, is as follows:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Beginning of year balances	1,118,608	745,185	713,262
Acquisition of Seguros Sura, Note 2	-	251,212	-
Additions (d)	55,795	124,089	56,833
Sales (e)	(226,091)	-	(23,530)
Valuation gain (loss)	47,765	(1,878)	(1,380)
Net transfers, Note 4.4(p)	(9,539)	-	-
End of year balances	986,538	1,118,608	745,185

(d) In 2018, the main additions are outlays related to the construction of the "Orquídeas" (San Isidro – Lima) and "Chorrillos" (Lima) buildings.

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

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

(e) In January 2018, Interseguro sold, in cash and at market value, the Real Plaza Pucallpa shopping center, a parcel located in Lurín and a building through a surface rights agreement to related entities. Likewise, in October 2018, Interseguro sold, in cash and at market value, a parcel located in Arequipa to a related entity. For these sales, Interseguro reported a net profit of about S/4,655,000.

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

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

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

The fair value of land is determined based on the value assigned by an external appraiser. The external appraiser uses the market comparable method; under this method a property's fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter. The following shows the minimum ranges, maximum ranges and the average price for the land:

	Minimum range US$ per m2	**Maximum range** US$ per m2	**Average** US$ per m2
San Isidro – Lima	4,750	7,000	6,288
Miraflores – Lima	2,011	2,960	2,440
San Martin de Porres – Lima	606	748	683
Other minors	-	-	228

Main assumptions
A brief description of the assumptions considered in the determination of cash flows as of December 31, 2018 and 2017, is presented below:

- ERV (Estimated Rental Value)
  Corresponds to the Estimated Rental Value, which is the rent at which the space could be leased under the market conditions prevailing at the date of valuation.

- Long-term inflation
  It is the increase of the general level of prices expected in Peru for the long term.

- Long-term occupancy rate
  It is the expected occupancy level of lessees in the leased properties.

- Average growth rate of rental income
  It is the rate that expresses the rental income growth and includes growth factors of the industry, inflation rates, stable exchange rate, per capita income and increasing expenses.

- Average Net Operating Income (NOI) margin
  It is projected from the rental income from leasable areas, by property and marketing income, minus costs related to administration fees, other administrative expenses, insurance, taxes and other expenses.

- Discount rate
  It reflects the current market risk and the uncertainty associated to obtaining cash flows.

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

	US$ / Percentage	
	2018	2017
Average ERV	US$59.1	US$66.2
Long-term inflation	2.6%	2.5%
Long-term occupancy rate	98.9%	95.0%
Average growth rate of rental income	2.6%	3.3%
Average NOI margin	95.3%	94.2%
Discount rate	9.0%	9.0%

Sensitivity analysis

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

		2018 S/(000)	2017 S/(000)
Average growth rate of rental income (basis)			
Increase	+0.25%	14,836	15,608
Decrease	-0.25%	(13,964)	(14,486)
Long-term inflation (basis)			
Increase	+0.25%	14,081	15,127
Decrease	-0.25%	(12,949)	(14,018)
Discount rate (basis)			
Increase	+0.5%	(36,422)	(41,218)
Decrease	-0.5%	42,485	47,817

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

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

Year	**2018** S/(000)	**2017** S/(000)
Within 1 year	34,753	44,004
After 1 year but not more than 5 years	138,016	230,397
Over 5 years	657,485	1,142,181
Total	830,254	1,416,582

The minimum rental income is computed considering a period between 20 and 25 years, the decrease compared to December 31, 2017, is mainly due to the sale of the "Real Plaza" Shopping Center in Pucallpa.

9. Property, furniture and equipment, net

(a) The movement of property, furniture and equipment and cumulative depreciation for the years ended December 31, 2018, 2017 and 2016, is as follows:

Description	Land S/(000)	Buildings, facilities and leasehold improvements S/(000)	Furniture and equipment S/(000)	Vehicles S/(000)	In-transit equipment and work-in-progress S/(000)	Total 2018 S/(000)	Total 2017 S/(000)	Total 2016 S/(000)
Cost								
Balance as of January 1	179,354	502,546	580,371	1,170	50,113	1,313,554	1,252,023	1,202,180
Acquisition of Seguros Sura and Hipotecaria Sura, Note 2	-	-	-	-	-	-	8,201	-
Additions	-	9,712	38,035	392	24,570	72,709	84,685	79,835
Transfers	-	11,446	18,857	.	(30,303)	-	-	-
Transfer (to) from investment property, Note 4.4(p)	8,739	(6,488)	-	-	-	2,251	-	-
Disposals, write-offs and others (d)	-	(5,308)	(30,460)	(142)	(5)	(35,915)	(31,355)	(29,992)
Balance as of December 31	188,093	511,908	606,803	1,420	44,375	1,352,599	1,313,554	1,252,023
Cumulative depreciation								
Balance as of January 1	-	(276,813)	(423,161)	(941)	-	(700,915)	(662,203)	(623,022)
Depreciation of the year	-	(18,241)	(52,907)	(96)	-	(71,244)	(68,177)	(65,840)
Transfer (to) from investment property, Note 4.4(p)	-	7,288	-	-	-	7,288	-	-
Disposals, write-offs and others (d)	-	4,648	30,015	134	-	34,797	29,465	26,659
Balance as of December 31	-	(283,118)	(446,053)	(903)	-	(730,074)	(700,915)	(662,203)
Net book value	188,093	228,790	160,750	517	44,375	622,525	612,639	589,820

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

(c) Management periodically reviews the residual values, useful life and the depreciation method to ensure they are consistent with the economic benefits and life expectation of property, furniture and equipment. In Management's opinion, there is no evidence of impairment in property, furniture and equipment as of December 31, 2018, and 2017.

(d) During 2018 and 2017, corresponded mainly to write-offs performed on fully depreciated assets.

10. Intangible assets and goodwill, net

(a) Intangible assets

The movement of intangible assets and cumulative amortization for the years ended December 31, 2018, 2017 and 2016, is as follows:

	2018						2017	2016
Description	Software S/(000)	In-transit-software S/(000)	Present value of acquired in-force business (PVIF) S/(000)	Other intangible assets S/(000)	Goodwill S/(000)	Total S/(000)	Total S/(000)	Total S/(000)
Cost								
Balance as of January 1 (Note 4.2.1(ii) Restated)	560,964	131,099	137,900	25,364	432,879	1,288,206	557,329	425,237
Acquisition of Seguros Sura and Hipotecaria Sura, Note 2	-	-	-	-	-	-	571,305	-
Additions and transfers	25,517	96,230	-	6,181	-	127,928	160,515	132,579
Disposals and write-offs	(256)	-	-	(1,266)	-	(1,522)	(943)	(487)
Transfers	95,625	(95,625)	-	-	-	-	-	-
Balance as of December 31	681,850	131,704	137,900	30,279	432,879	1,414,612	1,288,206	557,329
Cumulative amortization								
Balance as of January 1	(352,365)	-	(4,807)	(9,440)	-	(366,612)	(289,928)	(225,876)
Amortization of the year	(79,467)	-	(11,281)	(2,706)	-	(93,454)	(76,985)	(64,278)
Disposals and write-offs	-	-	-	-	-	-	301	226
Balance as of December 31	(431,832)	-	(16,088)	(12,146)	-	(460,066)	(366,612)	(289,928)
Net book value	250,018	131,704	121,812	18,133	432,879	954,546	921,594	267,401

Management assesses periodically the amortization method used with the purpose of ensuring that it is consistent with the economic benefit of the intangible assets. In Management's opinion, there is no evidence of impairment in the Group's intangible assets as of December 31, 2018, 2017 and 2016.

(b) Goodwill

The goodwill recorded by the Group (see Note 2), comes from the purchase of Seguros Sura and, considering that this entity merged with Interseguro, it was allocated to the resulting CGU (Cash-generating units).

The recoverable amount for the CGU was determined based on the income approach, specifically the dividend discount model.

As of December 31, 2018, the key assumptions used for the calculation of fair value are:

- Perpetuity growth rate: 4.5%.
- Discount rate: 12.0%.

10-year cash flows and a perpetuity estimate were included in the dividend discount model. The estimated growth rates are based on the historical performance and the expectations of Management over the development of the market. Long-term perpetuity growth rate was determined based on reports from the sector.

The discount rate represents the assessment of the CGU specific risks. The discount rate was established considering the Company's capital structure, the cost of capital coming from the benefits that the Group's investors expect to obtain, from the specific risk incorporated by applying comparable individual beta factors adapted to the CGU's debt structure and from the country and market specific risk premiums for the CGU. Beta factors are assessed on an annual basis using available market information.

The key assumptions above can change if the market conditions and the economy change. As of December 31, 2018, the Group estimates that the reasonableness of possible changes in these assumptions would not make the recoverable amount of all the CGUs decrease to an amount lower than its book value.

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

(a) These captions are comprised of the following:

	2018 S/(000)	2017 S/(000)
Accounts receivable and other assets		
Financial instruments		
Other accounts receivable, net	440,531	239,671
Accounts receivable from sale of investments (c)	367,902	60,892
Accounts receivable related to derivative financial instruments (b)	185,376	92,820
Assets for technical reserves for claims and premiums by reinsurers	147,891	124,441
Operations in process (d)	54,428	67,783
Insurance operations receivables, net	42,795	27,200
Accounts receivable from reinsurers and coinsurers	39,875	36,427
Credit card commissions receivable	13,237	14,551
Total	1,292,035	663,785
Non-financial instruments		
Deferred charges	80,113	78,114
Investments in associates	63,233	55,993
Public works tax deduction	22,608	4,664
Prepaid Income Tax	19,860	44,429
Prepaid rights to related entity, Note 28(f)	8,856	10,876
Value Added Tax credit (e)	5,517	50,571
Others	10,332	1,552
	210,519	246,199
Total	1,502,554	909,984
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	471,412	425,135
Contract liability with investment component, Note 4.4(d)	298,382	129,592
Accounts payable for acquisitions of investments (c)	228,687	96,804
Accounts payable related to derivative financial instruments (b)	154,116	133,921
Workers' profit sharing and salaries payable	127,516	114,084
Operations in process (d)	116,717	148,483
Accounts payable to reinsurers and coinsurers	62,879	58,560
Allowance for indirect loan losses, Note 7(d)	62,051	52,845
	1,521,760	1,159,424
Non-financial instruments		
Taxes payable	101,085	65,261
Deferred income	59,482	54,161
Provision for other contingencies	46,506	50,815
Others	21,530	24,058
	228,603	194,295
Total	1,750,363	1,353,719

(b) The following table presents, as of December 31, 2018 and 2017, the fair value of derivative financial instruments recorded as assets or liabilities, including their notional amounts. The notional amount is the nominal amount of the derivative's underlying asset and it is the base over which changes in the fair value of derivatives are measured; see Note 19(a):

2018	Note	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)	Effective part recognized in other comprehensive income during the year S/(000)	Maturity	Hedged instruments	Caption of the consolidated statements of financial position where the hedged item has been recognized
Derivatives held for trading								
Forward exchange contracts		20,009	21,529	5,177,208	-	Between January 2019 and February 2020	-	-
Interest rate swaps		19,249	19,854	2,018,220	-	Between November 2020 and December 2029	-	-
Currency swaps		48,452	48,915	909,114	-	Between January 2019 and January 2025	-	-
Cross currency swaps		-	59,683	198,529	-	January 2023	-	-
Options		628	1,956	234,780	-	Between January 2019 and June 2020	-	-
		88,338	151,937	8,537,851	-			
Derivatives held as hedges								
Cash flow hedges:								
Cross currency swaps (CCS)	14(g)	74,144	-	1,349,200	25,775	January 2023	Senior bonds	Bonds, notes and other obligations
Cross currency swaps (CCS)	14(f)	22,675	-	505,950	3,420	October 2027	Senior bonds	Bonds, notes and other obligations
Interest rate swaps (IRS)	13(g)	-	1,002	134,920	(684)	November 2020	Due to banks	Due to banks and correspondents
Interest rate swaps (IRS)	13(i)	-	588	84,325	(393)	December 2020	Due to banks	Due to banks and correspondents
Interest rate swaps (IRS)	13(j)	-	589	84,325	(394)	December 2020	Due to banks	Due to banks and correspondents
Cross currency swaps (CCS)	14(e)	219	-	67,460	2,562	October 2020	Senior bonds	Bonds, notes and other obligations
		97,038	2,179	2,226,180	30,286			
		185,376	154,116	10,764,031	30,286			

2017	Note	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)	Effective part recognized in other comprehensive income during the year S/(000)	Maturity	Hedged instruments	Caption of the consolidated statements of financial position where the hedged item has been recognized
Derivatives held for trading								
Forward exchange contracts		22,221	17,138	5,473,643	-	Between January 2018 and October 2018	-	-
Interest rate swaps		16,463	11,937	2,220,102	-	Between February 2018 and December 2029	-	-
Currency swaps		51,697	47,405	989,181	-	Between January 2018 and January 2025	-	-
Options		6	1,587	227,647	-	Between January 2018 and April 2018	-	
Cross currency swaps		-	51,669	190,759	-	January 2023	-	-
		90,387	129,736	9,101,332	-			
Derivatives held as hedges								
Cash flow hedges:								
Cross currency swaps (CCS)	14(f)	505	-	486,150	1,453	October 2027	Senior bonds	Bonds, notes and other obligations
Interest rate swaps (IRS)	13(i)	217	-	162,050	(335)	January 2018	Due to banks	Due to banks and correspondents
Interest rate swaps (IRS)	13(k)	1,036	-	162,050	48	October 2018	Due to banks	Due to banks and correspondents
Interest rate swaps (IRS)	13(l)	675	-	129,640	72	August 2018	Due to banks	Due to banks and correspondents
Cross currency swaps (CCS)	14(e)	-	4,185	64,820	(2,586)	October 2020	Senior bonds	Bonds, notes and other obligations
		2,433	4,185	1,004,710	(1,348)			
		92,820	133,921	10,106,042	(1,348)			

(i) As of December 31, 2018 and 2017, certain derivative financial instruments required the establishment of collateral deposits; see Note 5(d).

(ii) For the designated hedging derivatives mentioned in the chart above, changes in fair values of hedging instruments completely offset the changes in fair values of hedged items; therefore, there has been no hedge ineffectiveness in the fiscal years 2018 and 2017. Likewise, in 2018 and 2017, no hedge was discontinued.

(iii) 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, since January 1, 2018, and with IAS 39, until December 31, 2017.

(iv) The future effect of current cash flow hedges on the consolidated income statements, net of the deferred Income Tax, which will be included in the caption "Net (gains) losses of financial assets at fair value through profit or loss" when realized, is presented below:

	As of December 31, 2018				As of December 31, 2017			
	Up to 1 year S/(000)	From 1 to 3 years S/(000)	Over 3 years S/(000)	Expected effect S/(000)	Up to 1 year S/(000)	From 1 to 3 years S/(000)	Over 3 years S/(000)	Expected effect S/(000)
Consolidated income statements – Income (expense)	571	4,608	22,732	27,911	713	(749)	-	(36)

The transfer of net unrealized losses on cash flow hedges to the consolidated income statements is presented in Note 17(d).

(v) The gain (loss) for cash flow hedges reclassified to the consolidated income statements as of December 31, 2018, is as follows:

December 31, 2018	S/(000)
Interest expenses from cash flow hedges	(58,792)
Interest income from cash flow hedges	44,795
Expenses for exchange differences from cash flow hedges	(7,893)
Income for exchange differences from cash flow hedges	35,094
	13,204

The following table shows the hedging instruments that the Group uses in its cash flow hedges due to maturities:

December 31, 2018	1 to 5 years	Over 5 years	Total
Cross currency swaps (CCS)			
Notional	1,416,660	505,950	1,922,610
Average interest rate in US Dollars	3.49%	-	-
Average interest rate in Soles	5.06%	1.88%	-
Average exchange rate Soles / US Dollars	3.26	3.24	-
Interest rate swaps (IRS)			
Notional	303,570	-	303,570
Average interest rate in US Dollars	3.96%	-	-

(c) As of December 31, 2018 and 2017, correspond to accounts receivable and payable for the sale and purchase of financial investments in the last days of the month, which have been settled during the first days of the following month, the balance corresponds mainly to the purchase and sale of Sovereign Bonds issued by the Peruvian Government.

(d) Operations in process include transactions made during the last days of the month and other types of similar transactions that are reclassified to their corresponding accounting accounts in the following month. These transactions do not affect the consolidated income statements.

(e) Corresponds mainly 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.

12. Deposits and obligations

(a) This caption is made up as follows:

	2018 S/(000)	2017 S/(000)
Time deposits (d)	11,074,316	11,562,024
Saving deposits	10,728,257	9,092,846
Demand deposits	10,109,492	10,364,653
Compensation for service time	1,763,826	1,582,278
Other obligations	6,059	5,836
Total	33,681,950	32,607,637

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

(c) As of December 31, 2018 and 2017, approximately S/9,734,215,000 and S/8,689,589,000, respectively, of deposits and obligations are covered by the Peruvian Deposit Insurance Fund.

(d) The table below presents the balance of time deposits classified by maturity as of December 31, 2018 and 2017:

	2018 S/(000)	2017 S/(000)
Up to 1 month	3,779,198	4,248,085
From 1 to 3 months	2,219,826	2,908,367
From 3 months to 1 year	4,176,935	3,652,917
From 1 to 5 years	783,575	722,699
Over 5 years	114,782	29,956
Total	11,074,316	11,562,024

13. Due to banks and correspondents

(a) This caption is comprised of the following:

	2018 S/(000)	2017 S/(000)
By type		
BCRP (b)	2,073,919	2,205,423
Promotional credit lines (c)	1,386,603	1,441,931
Loans received from foreign entities (d)	796,028	712,777
Loans received from Peruvian entities	763	20,668
	4,257,313	4,380,799
Interest and commissions payable	36,048	26,593
	4,293,361	4,407,392
By term		
Short term	2,507,623	2,447,091
Long term	1,785,738	1,960,301
Total	4,293,361	4,407,392

(b) As of December 31, 2018 and 2017, correspond to currency repurchase operations according to which Interbank receives Soles for approximately S/1,154,500,000 and S/1,880,200,000, respectively, and delivers US Dollars to the BCRP (for an amount equivalent to the one received). The US Dollars delivered are recorded as restricted funds; see Note 5(d). As of December 31, 2018, these obligations have maturities between February and June 2019 and bear an effective interest rate between 0.28 and 1.22 percent; these operations accrued interest payable for approximately S/2,325,000 (with maturities between April 2018 and June 2019, and bearing effective interest rates between 3.00 and 6.38 percent; these operations generated interest payable for approximately S/10,762,000, as of December 31, 2017).

Additionally, as of December 31, 2018 and 2017, it includes repurchase agreements whereby Interbank receives Soles for approximately S/919,419,000 and S/325,223,000, respectively, and delivers securities of its investment portfolio as guarantees. In relation to such operations, as of December 31, 2018, Interbank delivered Peruvian Sovereign Bonds and certificates of deposit issued by BCRP as guarantee, which are recorded as investments at amortized cost and investments at fair value through other comprehensive income, see Note 6(e) and 6(b), respectively. These operations mature from January 2019 to July 2020 and accrue interests at effective annual interest rates between 3.22 percent to 4.72 percent. In addition, as of December 31, 2017, Interbank delivered Peruvian Sovereign Bonds, which were recorded as held-to-maturity investments, see Note 6(e) with maturities from June 2018 to July 2020 and effective annual interest rates between 4.05 percent and 4.72 percent.

(c) Promotional credit lines are loans in Soles and US Dollars from the Corporación Financiera de Desarrollo (COFIDE) and Fondo Mivivienda (FMV) whose purpose is to promote development in Peru. These liabilities are guaranteed by a loan portfolio up to the amount of the line and include specific agreements on the use of funds, the financial conditions to be met and other management issues. In Management's opinion, Interbank is meeting these requirements.

COFIDE's loans earned, in local currency, an effective annual interest rate between 7.55 percent to 10.00 percent and maturities from January 2027 to November 2031, and in foreign currency from 6.67 percent and 8.84 percent and maturities from April 2028 to December 2029 (as of December 31, 2017, they generated, in local currency, an effective annual rate that between 7.55 percent to 10.00 percent and maturities from December 2018 to November 2031, and, in foreign currency, between 4.62 percent to 8.55 percent and maturities from December 2021 to March 2030).

FMV's loans earned, in local currency, an effective annual interest rate between 5.00 percent and 8.30 percent and maturities from January 2019 and December 2038 and in foreign currency of 7.75 percent and maturities from January 2019 and November 2028 (as of December 31 2017, these generated, in local currency, the effective annual between 6.00 percent to 8.30 percent and maturities from January 2018 to December 2037 and in foreign currency of 7.75 percent and maturities from January 2018 to November 2028).

(d) As of December 31, 2018 and 2017, corresponds to the following funding in foreign currency:

Entity	**Country**	**Final maturity**	**2018** S/(000)	**2017** S/(000)
Credit Suisse First Boston (e)	Switzerland	2019	229,364	-
Sumitomo Bank – U.S. (f)	United States of America	2019	168,650	-
Development Bank of Latin America – CAF (g)	Supranational	2020	134,920	-
Bank J. Safra Sarasin (h)	Switzerland	2019	94,444	-
Wells Fargo Bank & Co. (i)	United States of America	2020	84,325	-
Citibank N.A. (j)	United States of America	2020	84,325	-
Development Bank of Latin America – CAF (g)	Supranational	2018	-	243,075
HSBC Bank PLC (k)	United States of America	2018	-	162,050
Wells Fargo Bank & Co. (i)	United States of America	2018	-	162,050
JP Morgan Chase & Co. (l)	United States of America	2018	-	129,640
Foreign Trade Bank of Latin America, Inc.	Supranational	2018	-	15,962
			796,028	712,777

As of December 31, 2018, the operations with foreign entities accrue interests at effective annual rates between 2.51 percent to 3.65 percent (in 2017, effective annual rates between 1.45 percent to 4.55 percent).

(e) It corresponds to a loan received by Inteligo Bank in February 2018 for US$68,000,000 (equivalent to approximately S/229,364,000), which accrues interest at an effective annual rate of 2.56 percent, and is guaranteed by corporate bonds, see Note 6(b).

(f) It corresponds to a loan received by Interbank in October 2018 for US$50,000,000 (equivalent to approximately S/168,650,000) which accrues interest at a 3-month Libor rate plus 0.30 percent.

(g) As of December 31, 2018, it corresponds to a loan received by Interbank in October 2018 for US$40,000,000 (equivalent to approximately S/134,920,000), which accrues interests at a 6-month Libor rate plus 0.85 percent. Regarding this loan, in November 2018, Interbank signed an interest rate swap for US$40,000,000 (equivalent to approximately S/134,920,000), which was designated as cash flow hedge – see Note 11(b); through this operation, the loan was converted economically at a fixed rate of 4.00 percent.

As of December 31,2017, it corresponded to a loan received by Interbank in September 2017 for US$75,000,000 (equivalent to approximately S/243,075,000) which accrued interests at a 4-month Libor rate plus 0.30 percent and with maturity in January 2018.

(h) It corresponds to a loan received by Inteligo Bank in February 2018 for US$28,000,000 (equivalent to approximately S/94,444,000), which accrues interests at an effective annual rate of 2.64 percent and is guaranteed by corporate bonds; see Note 6(b).

(i) As of December 31, 2018, it corresponds to a loan received by Interbank in November 2018 for US$25,000,000 (equivalent to approximately S/84,325,000), which accrues interests at a 3-month Libor rate plus 0.90 percent. Regarding this loan, in December 2018, Interbank signed an interest rate swap for US$25,000,000 (equivalent to approximately S/84,325,000), which was designated as cash flow hedge, see Note 11(b); through this operation, the loan was converted economically at a fixed rate of 3.93 percent.

As of December 31, 2017, it corresponds to two loans received by Interbank in September 2016 for US$40,000,000 and US$10,000,000 (equivalent to approximately S/162,050,000), which accrued interests at a 3-month Libor rate plus 1.20 percent and a 3-month Libor rate plus 1.10 percent respectively. Regarding these loans, in October 2016, Interbank signed two interest rate swaps for US$50,000,000 (equivalent to approximately S/162,050,000), which were designated as cash flow hedges, see Note

11(b); through these operations, the loans were converted economically at fixed rates of 2.20 percent and 2.30 percent.

(j) It corresponds to a loan received by Interbank in November 2018 for US$25,000,000 (equivalent to approximately S/84,325,000), which accrues interests at a 3-month Libor rate plus 0.90 percent. Regarding this loan, in December 2018, Interbank signed an interest rate swap for US$25,000,000 (equivalent to approximately S/84,325,000), which was designated as cash flow hedge, see Note 11(b); through this operation, the loan was converted economically at a fixed rate of 3.93 percent.

(k) It corresponded 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 for US$50,000,000 (equivalent to approximately S/162,050,000), which was designated as cash flow hedge, see Note 11(b); through this operation, the loan was converted economically at a fixed rate of 1.80 percent and matured in December 2018.

(l) It corresponded to a loan received by Interbank in July 2016 for US$40,000,000 (equivalent to approximately S/129,640,000) which accrued interests at a 6-month Libor rate plus 1.15 percent. In July 2016, Interbank signed an interest rate swap for US$40,000,000 (equivalent to approximately S/129,640,000), which was designated as a cash flow hedge, see Note 11(b); through this operation, the loan was economically converted at a fixed rate of 2.34 percent and matured in July 2018.

(m) As of December 31, 2018 and 2017, some of the Bank loans agreements include standard clauses regarding the compliance of financial ratios, the use of funds and other management issues, such as:

- (i) Submit audited financial statements on an annual basis and unaudited financial statements on a quarterly basis (both in Spanish and English).
- (ii) Maintain a determined global capital ratio.
- (iii) Maintain a determined coverage margin of non-performing loan portfolio.
- (iv) Maintain a determined past due loans rate.

In the opinion of Management and its legal advisers, these clauses have been met by Interbank as of December 31, 2018 and 2017.

(n) As of December 31, 2018 and 2017, maturities of due to bank and other financial obligations are the following:

Year	2018 S/(000)	2017 S/(000)
2018	-	2,447,091
2019	2,507,623	527,678
2020	633,572	328,482
2021 onwards	1,152,166	1,104,141
Total	4,293,361	4,407,392

14. Bonds, notes and other obligations

(a) This caption is comprised of the following:

Issuance	Issuer	Annual interest rate	Interest payment	Maturity	Amount issued (000)	2018 S/(000)	2017 S/(000)
Local issuances							
Subordinated bonds – first program (b)							
Second (B series)	Interbank	9.50%	Semi-annually	2023	US$30,000	94,086	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	50,966	48,972
Eighth (A series)	Interbank	6.91%	Semi-annually	2022	S/137,900	137,130	137,125
Second, first tranch	Interseguro	6.97%	Semi-annually	2024	US$35,000	118,055	113,435
Second, second tranch	Interseguro	6.00%	Semi-annually	2024	US$15,000	50,594	48,615
First - Interseguro	Interseguro	6.67%	Quarterly	2018	US$3,000	-	9,723
						524,131	521,147
Subordinated bonds – second program (b)							
Second (A series)	Interbank	5.81%	Semi-annually	2023	S/150,000	149,776	149,729
Third (A series)	Interbank	7.50%	Semi-annually	2023	US$50,000	168,312	155,192
						318,088	304,921
Total local issuances						842,219	826,068
International issuances							
Subordinated bonds (c)	Interbank	6.625%	Semi-annually	2029	US$300,000	1,006,875	966,729
Junior subordinated notes (d)	Interbank	8.50%	Semi-annually	2070	US$200,000	671,546	643,314
Senior bonds – First and second issuance (e)	Interbank	5.75%	Semi-annually	2020	US$650,000	1,309,248	2,109,565
Senior bonds (f)	IFS	4.125%	Semi-annually	2027	US$300,000	993,241	957,476
Senior bonds (g)	Interbank	3.375%	Semi-annually	2023	US$484,895	1,558,979	-
Total international issuances						5,539,889	4,677,084
Total local and international issuances						6,382,108	5,503,152
Interest payable						114,670	99,206
Total						6,496,778	5,602,358

(*) The Spanish term "Valor de actualización constante" is referred to an amount subject to adjustments.

(b) Subordinated bonds do not have specific guarantees and in accordance with SBS rules, qualify as second level equity (Tier 2) in the determination of the effective equity; see Note 17(f).

(c) Starting in March 2024, the applicable interest rate will be a floating rate of 3-month Libor for US Dollar 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 level equity (Tier 2) in the determination of the effective equity; see Note 17(f).

As of December 31, 2018, 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 at that date, Interbank can redeem all the notes, without penalties. In accordance with the issuance conditions, the payment of principal will take place at the maturity date of the notes or when Interbank redeems the notes. Interest payments are non-cumulative if they cease to be made. Interest can stop being paid by mandatory prohibitions established by the SBS, or if it is determined that Interbank is in non-compliance with applicable minimum regulatory capital requirements. Interbank may not declare, pay or distribute any dividend for the period in which interest payments are not made.

This issuance qualifies as first level equity (Tier 1), nevertheless, the SBS establishes a 17.65 percent limit, which is computed over the capital, reserves and retained earnings with capitalization agreement of Interbank in the determination of its effective equity; any excess qualifies as second level equity (Tier 2); see Note 17(f).

As of December 31, 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 at the maturity date of the bonds or when Interbank redeems them.

As of December 31, 2018, Management does not intend to redeem these bonds before their maturity date; however, in the first quarter of the year, an exchange of part of these bonds was made; see (g) below.

In June 2017, Interbank entered into cross currency swaps for US$20,000,000 (as of December 31, 2018 and 2017, equivalents to approximately S/67,460,000 and S/64,820,000, respectively), which were designated as cash flow hedges – see Note 11(b); through these operations part of the issued amount of these bonds was economically converted into Soles at a fix rate of 4.61 percent.

(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 entered into a cross currency swap for US$150,000,000 (As of December 31, 2018 and 2017, equivalents to approximately S/505,950,000 and S/486,150,000, respectively), which was designated as a cash flow hedge, see Note 11(b); through this operation part of the issued amount of these bonds was economically converted to Soles at a fix rate of 5.063 percent.

As of December 31, 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 144A and Regulation S of the U.S. Securities Act of 1993 of the United States of America.

Likewise, as part of that program, Interbank made an exchange offer addressed to the holders of the corporate bonds denominated "5.750% Senior Notes due 2020" issued by the Panama Branch (see (e) above), managing to exchange bonds for an amount to US$263,322,000, which generated an exchange premium of approximately US$21,573,000 that are presented together in the caption "Bonds, notes and other obligations" for an amount of US$284,895,000.

In this regard, considering the issuance of bonds in January 2018 and the exchange of bonds made, the total balance of the "3.375 Senior Unsecured Notes" amounted to US$484,895,000.

The Group concluded that the aforementioned exchange did not generate any substantial modification in the terms and conditions of the financial liability; therefore, it did not recognize a new financial liability. Additionally, according to IFRS 9, the Group reported a gain of approximately US$4,672,000 (equivalent to S/15,286,000), caused by the difference between the present values of both obligations, which were discounted at the effective interest rate of the original financial liability and included in caption "Interest and similar expenses" of the consolidated income statements, thus decreasing the interest expenses generated by these issuances.

In 2018, Interbank entered into seven cross-currency swaps for a total of US$400,000,000 (equivalent to approximately S/1,349,200,000), which were designated as cash flow hedges; see Note 11(b). Through these operations, part of the issued amount by these bonds was economically converted into Soles at a fixed rate of 4.86 percent.

As of December 31, 2018, Management has no intention of redeeming these bonds before their maturity date.

(h) The international issuances are listed at the Luxembourg Stock Exchange. On the other hand, the local and international issuances include standard clauses of compliance with financial ratios, the use of funds and other administrative matters.

As of December 31, 2018 and 2017, the international issuances maintain mainly this clause: Submit audited financial statements on an annual basis and unaudited financial statements on a quarterly basis (both in Spanish and English).

In the opinion of Management and its legal advisers, this clause has been met by the Group as of December 31, 2018 and 2017.

(i) As of December 31, 2018 and 2017, the repayment schedule of these obligations is as follows:

Year	2018 S/(000)	2017 S/(000)
2018	-	75,608
2019	132,512	52,272
2020	1,309,248	2,109,565
2021 onwards	5,055,018	3,364,913
Total	6,496,778	5,602,358

15. Insurance contract liabilities

(a) This caption is comprised of the following:

	2018 S/(000)	2017 S/(000)
Technical reserves for insurance premiums (b)	10,006,960	10,273,889
Technical reserves for claims (c)	293,508	240,615
	10,300,468	10,514,504
By term		
Short term	935,182	583,692
Long term	9,365,286	9,930,812
Total	10,300,468	10,514,504

(b) The movement of technical reserves for insurance premiums disclosed by type of insurance for the years ended December 31, 2018, 2017 and 2016, is as follows:

	2018					2017					2016				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year balances	9,034,796	676,949	525,662	36,482	10,273,889	4,526,171	121,592	152,957	37,540	4,838,260	4,061,692	122,527	131,186	32,329	4,347,734
Insurance subscriptions	287,869	-	6,383	30,301	324,553	294,267	-	3,064	27,941	325,272	425,895	-	3,953	27,631	457,479
Acquisition of Seguros Sura, Note 2	-	-	-	-	-	4,012,506	541,749	340,242	-	4,894,497	-	-	-	-	-
Acquisition of Mapfre portfolio (*)	-	-	-	-	-	181,849	855	-	-	182,704	-	-	-	-	-
Time passage adjustments (**)	(798,978)	32,015	69,978	(26,269)	(723,254)	92,964	12,753	43,803	(29,402)	120,118	68,318	(935)	30,996	(22,523)	75,856
Maturities and recoveries	-	-	(35,289)	-	(35,289)	-	-	(9,596)	-	(9,596)	-	-	(10,879)	-	(10,879)
Exchange differences	142,207	-	19,710	(829)	161,088	(67,975)	-	(4,808)	403	(72,380)	(29,734)	-	(2,299)	103	(31,930)
Others	-	6,253	(278)	(2)	5,973	(4,986)	-	-	-	(4,986)	-	-	-	-	-
End of year balances	8,665,894	715,217	586,166	39,683	10,006,960	9,034,796	676,949	525,662	36,482	10,273,889	4,526,171	121,592	152,957	37,540	4,838,260

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

(**) The table below presents the composition of the adjustments due to time passage as of December 31, 2018, 2017 and 2016:

	2018				2017				2016			
	Annuities (***) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities (***) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities (***) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Interest rate effect (****)	(750,794)	-	-	(750,794)	195,619	-	-	195,619	116,468	-	-	116,468
Aging insured population effect	(232,828)	69,978	(26,269)	(189,119)	(97,539)	43,803	(29,402)	(83,138)	(78,202)	30,996	(22,523)	(69,729)
Effect by table change, Note 4.6(a)	144,777	-	-	144,777	-	-	-	-	-	-	-	-
Inflation and other effects	71,882	-	-	71,882	7,637	-	-	7,637	29,117	-	-	29,117
Time passage adjustments	(766,963)	69,978	(26,269)	(723,254)	105,717	43,803	(29,402)	120,118	67,383	30,996	(22,523)	75,856

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

(****) From March 31, 2018, the Group records interest rate effects in the caption "Unrealized results, net". This change has been made retrospectively; see Note 4.2.1. Additionally, it includes the effect of changing the interest rate methodology for approximately S/423,080,000, which was registered prospectively; see Note 4.6 (b).

(c) Below is the balance of technical reserves for outstanding claims (according to the type of insurance) as of December 31, 2018 and 2017:

	2018					2017				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Reported claims	1,812	157,065	36,886	11,338	207,101	1,320	128,991	39,315	10,047	179,673
IBNR	-	56,996	29,133	278	86,407	-	42,583	18,085	274	60,942
	1,812	214,061	66,019	11,616	293,508	1,320	171,574	57,400	10,321	240,615

The movement of technical reserves for claims for the years ended December 31, 2018, 2017 and 2016, is as follows:

	2018				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year balances	1,320	171,574	57,400	10,321	240,615
Claims of the period	573,883	(25,568)	34,106	12,981	595,402
Adjustments to prior years claims	-	240,784	23,355	3,848	267,987
Payments	(573,785)	(172,728)	(45,794)	(15,564)	(807,871)
Exchange difference	394	(1)	(3,048)	30	(2,625)
End of year balances	1,812	214,061	66,019	11,616	293,508

	2017				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year balances	991	124,062	38,122	9,078	172,253
Claims of the period	331,888	24,316	33,191	26,834	416,229
Acquisition of Seguros Sura, Note 2	27	105,923	13,720	981	120,651
Adjustments to prior years claims	625	8,804	13,867	(8,351)	14,945
Payments	(332,201)	(91,762)	(41,312)	(18,164)	(483,439)
Exchange difference	(10)	231	(188)	(57)	(24)
End of year balances	1,320	171,574	57,400	10,321	240,615

	2016				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning of year balances	655	93,361	26,336	9,003	129,355
Claims of the period	251,911	75,342	35,441	12,710	375,404
Adjustments to prior years claims	-	60,606	12,991	5,685	79,282
Payments	(251,568)	(105,246)	(36,602)	(18,287)	(411,703)
Exchange difference	(7)	(1)	(44)	(33)	(85)
End of year balances	991	124,062	38,122	9,078	172,253

(d) In Management's opinion, these balances reflect the exposure of life and general insurance contracts as of December 31, 2018, 2017 and 2016, in accordance with IFRS 4.

(e) The main assumptions used in the estimation of retirement, disability and survival annuities and individual life reserves as of December 31, 2018 and 2017, were the following:

	2018 (***)		2017	
Type	Mortality table	Technical rates	Mortality table	Technical rates
Annuities	SPP-S-2017, SPP-I-2017 with improvement factor for mortality	5.63% in US$ 2.74% in S/ VAC 5.84% in adjusted S/	RV – 2009, B- 2006 and MI – 2006 with improvement factor for mortality	5.51 – 4.66% (*) (**) in US$ 3.92 – 3.64% (*) (**) in S/ VAC 6.44 – 6.43% (*) (**) in adjusted S/
Retirement, disability and survival	SPP-S-2017, SPP-I-2017 with improvement factor for mortality	2.74% in S/ VAC	B – 2006 and MI – 2006 with improvement factor for mortality	3.92 – 3.64% (*) (**) in S/ VAC
Individual life insurance contracts (included linked insurance contracts)	CSO 80 adjusted	4.00 - 6.00%	CSO 80 adjusted	4.00 – 6.00 %

(*) Adjusted by credit risk.

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

(***) As explained in Notes 4.6(a) and (b), Interseguro adopted new mortality tables and modified the assumptions used to determine the discount rate to discount the pension reserves.

The sensitivity of the estimates used by the Group to measure its insurance risks is represented primarily by life insurance risks; the main variables as of December 31, 2018 and 2017, are the interest rates and the mortality tables. The Group has assessed the changes of the reserves related to its most significant life insurance contracts included in the reserves of annuities, retirement, disability and survival of +/- 100 basis points (bps) in the interest rates and of +/- 500 basis points (bps) of the mortality factors, being the results as follows:

	2018			2017		
		Variation of the reserve			Variation of the reserve	
Variables	Reserve S/(000)	Amount S/(000)	Percentage %	Reserve S/(000)	Amount S/(000)	Percentage %
Annuities						
Portfolio in S/ and US Dollars - Basis amount						
Changes in interest rate: + 100 bps	7,816,973	(848,921)	(9.80)	8,735,367	(457,282)	(4.97)
Changes in interest rate: - 100 bps	9,696,893	1,030,999	11.90	9,707,500	514,851	5.60
Changes in mortality table at 105%	8,587,633	(78,261)	(0.90)	9,083,954	(108,695)	(1.18)
Changes in mortality table at 95%	8,747,817	81,923	0.95	9,307,683	115,034	1.25
Retirements, disability and survival						
Portfolio in S/ – Basis amount						
Changes in interest rate: + 100 bps	635,838	(79,379)	(11.10)	681,795	(32,640)	(4.57)
Changes in interest rate: - 100 bps	813,614	98,397	13.76	750,967	36,532	5.11
Changes in mortality table at 105%	706,495	(8,722)	(1.22)	705,980	(8,455)	(1.18)
Changes in mortality table at 95%	724,366	9,149	1.28	723,290	8,855	1.24

16. Deferred Income Tax asset and liability

(a) As indicated in Note 4.4(ab), the net tax position has been met based on the financial statements of each Subsidiary domiciled in Peru. The following table presents a summary of the items comprising the Subsidiaries' deferred Income Tax:

	2018 S/(000)	2017 S/(000)
Deferred assets		
Provision for loan portfolio and other provisions	184,014	142,085
Deferred income by stand-by letters	9,072	8,426
Net unrealized losses from fluctuation in investments through other comprehensive income	6,449	45
Unrealized losses from derivatives	-	628
Others	14,737	14,001
Deferred liabilities		
Deemed cost of fixed assets	(58,859)	(56,178)
Amortization of intangible assets, net	(57,265)	(51,918)
Unrealized gain from derivatives	(9,707)	-
Unrealized gain from fluctuation in investments through other comprehensive income	(424)	-
Others	(8,542)	(3,812)
Total deferred Income Tax asset, net	79,475	53,277
Deferred liabilities		
Net unrealized gain from fluctuation in investments through other comprehensive income	259	586
Others	(207)	(329)
Total deferred Income Tax liability, net	52	257

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

(c) The table below presents the amounts reported in the consolidated income statements for the years ended December 31, 2018, 2017 and 2016:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Current – Expense	401,788	330,902	332,820
Deferred – Expense (Income)	13,727	(4,376)	1,043
	415,515	326,526	333,863

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

	2018		2017		2016	
	S/(000)	%	S/(000)	%	S/(000)	%
Income before Income Tax	1,506,909	100.0	1,359,980	100.0	1,284,052	100.0
Peruvian theoretical tax	444,538	29.5	401,194	29.5	359,535	28.0
Decrease from the income of Subsidiaries not domiciled in Peru	(37,681)	(2.5)	(32,365)	(2.4)	(55,984)	(4.4)
Non-taxable income, net	(49,484)	(3.3)	(87,891)	(6.5)	(33,432)	(2.6)
Permanent non-deductible expenses	80,555	5.3	43,571	3.2	42,226	3.3
Translation results non-taxable	(22,413)	(1.4)	2,017	0.2	20,371	1.6
Change in the Income Tax rate, see Note 18(c)	-	-	-	-	1,147	0.1
Income Tax	415,515	27.6	326,526	24.0	333,863	26.0

As of December 31, 2016, the effect of the change in the Income Tax rate generated an expense amounting to S/1,147,000, recorded in the 2016 consolidated income statements; see Note 18(c).

17. Equity

(a) Capital stock -

As of December 31, 2018 and 2017, IFS's capital stock is represented by 113,110,864 common shares subscribed and paid in. IFS's shares are quoted at 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 2, 2018, agreed to distribute dividends from the year 2017 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 from the year 2016 for approximately US$146,482,000 (equivalent to approximately S/475,773,000).

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

(b) Treasury stock held by Subsidiaries -
As of December 31, 2018 and 2017, the Group holds shares issued by IFS, as detailed below:

	2018		2017	
Entity	**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

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 IFS's interests, according to 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 (10-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). Without taking into account the shares acquired prior to this program. In this sense, during 2017, IFS and its Subsidiaries bought treasury stock for 500,000 shares for an amount of approximately S/52,774,000 (1,889,000 shares for an amount of approximately S/199,892,000, during 2016). Also, in said Meeting, it was approved to delegate to Management the termination of this program, when it deems appropriate.

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

On the other land, in December 2017, Interbank sold 1,000,000 shares of IFS at their market price for US$34,542,000 (equivalent to approximately S/111,287,000) and Inteligo and Interfondos sold 251,000 shares of IFS at their market price for US$9,227,000 (equivalent to approximately S/31,377,000). Said sales were recorded as a decrease in "Treasury stock" by S/107,680,000; the aforementioned amount was determined by using the average cost of unit of treasury stock the Group held at the date of the transactions; and the highest value charged for the sale amounting to S/34,984,000 was recorded in "Retained earnings".

In 2018, Interbank sold 3,009,490 shares of IFS at their market price for approximately US$ 121,133,000 (equivalent to approximately S/382,727,000) through the Lima Stock Exchange. Said sale was recorded as a decrease in "Treasury stock" by S/259,022,000 and the difference amounting to S/123,705,000 was recorded in "Retained earnings".

(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, net -

This item is made up as follows:

	Unrealized gain (loss)						
	Instruments that will not be reclassified to consolidated income statements	Instruments to be reclassified to the consolidated income statements					
	Equity instruments at fair value S/(000)	Debt instruments at fair value S/(000)	Insurance premiums reserve, Note 4.2.1(i) S/(000)	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Foreign currency translation reserve S/(000)	Total S/(000)
Balances as of January 1, 2016 (Restated, Note 4.2.1)	-	-	(363,008)	(471,151)	(458)	110,214	(724,403)
Effect of changes in the discount rates of pension reserves, Note 4.2.1(i)	-	-	(116,468)	-	-	-	(116,468)
Unrealized gain from available-for-sale investments, net of unrealized loss	-	-	-	405,349	-	-	405,349
Transfer to realized gain from available-for-sale investments, net of realized loss	-	-	-	(48,875)	-	-	(48,875)
Transfer of impairment loss of available-for-sale investments to consolidated income statements, Note 6(i)	-	-	-	28,323	-	-	28,323
Accrual of unrealized loss from held-to-maturity investment to consolidated income statements, Note 6(e)	-	-	-	2,537	-	-	2,537
Variation for net unrealized gain on cash flow hedges	-	-	-	-	1,111	-	1,111
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	-	-	-	648	-	648
Foreign currency translation	-	-	-	-	-	(11,340)	(11,340)
Balances as of December 31, 2016 (Restated, Note 4.2.1)	-	-	(479,476)	(83,817)	1,301	98,874	(463,118)
Effect of changes in the discount rates of pension reserves, Note 4.2.1(i)	-	-	(195,619)	-	-	-	(195,619)
Unrealized gain from available-for-sale investments, net of unrealized loss	-	-	-	543,768	-	-	543,768
Transfer to realized gain from available-for-sale investments, net of realized loss	-	-	-	(113,306)	-	-	(113,306)
Transfer of impairment loss of available-for-sale investments to consolidated income statements, Note 6(i)	-	-	-	20,759	-	-	20,759
Accrual of unrealized loss from held-to-maturity investment to consolidated income statements, Note 6(e)	-	-	-	2,608		-	2,608
Variation for net unrealized loss on cash flow hedges	-	-	-	-	(1,477)	-	(1,477)
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	-	-	-	140	-	140
Foreign currency translation	-	-	-	-	-	(22,480)	(22,480)
Balances as of December 31, 2017 (Restated, Note 4.2.1)	-	-	(675,095)	370,012	(36)	76,394	(228,725)
Changes due to the first adoption of IFRS 9, Note 4.7	105,619	238,348	-	(370,012)	-	-	(26,045)
Balances as of January 1, 2018 (Restated, Note 4.2.1)	105,619	238,348	(675,095)	-	(36)	76,394	(254,770)

	Unrealized gain (loss)						
	Instruments that will not be reclassified to consolidated income statements	Instruments to be reclassified to the consolidated income statements					
	Equity instruments at fair value S/(000)	Debt instruments at fair value S/(000)	Insurance premiums reserve, Note 4.2.1(i) S/(000)	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Foreign currency translation reserve S/(000)	Total S/(000)
Balances as of January 1, 2018 (Restated, Note 4.2.1)	105,619	238,348	(675,095)	-	(36)	76,394	(254,770)
Effect of changes in the discount rates of pension reserves, Note 4.2(a)(i)	-	-	750,670	-	-	-	750,670
Unrealized gain from equity instruments at fair value through other comprehensive income, net of unrealized loss	41,935	-	-	-	-	-	41,935
Unrealized loss from debt instruments at fair value through other comprehensive income, net of unrealized gain	-	(471,940)	-	-	-	-	(471,940)
Transfer to realized loss from debt instruments at fair value through other comprehensive income, net of unrealized gain	-	14,315	-	-	-	-	14,315
Transfer of reversal of impairment loss on debt instruments at fair value through other comprehensive income, Note 6(c)	-	(13,060)	-	-	-	-	(13,060)
Variation for net unrealized gain on cash flow hedges	-	-	-	-	32,798	-	32,798
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain.	-	-	-	-	(4,851)	-	(4,851)
Foreign currency translation	-	-	-	-	-	26,589	26,589
Balances as of December 31, 2018	147,554	(232,337)	75,575	-	27,911	102,983	121,686

(e) Components of other comprehensive income -

The consolidated statements of comprehensive income include: (i) Other comprehensive income that will not be reclassified to the consolidated income statements in future periods, such as the revaluation of gain (loss) in equity instruments at fair value through other comprehensive income and; (ii) Other comprehensive income to be reclassified to the consolidated income statements in future periods, such as the comprehensive income of premium reserves, available-for-sales investments (until December 31, 2017), derivatives used as cash flow hedges, debt instruments at fair value through other comprehensive income (from January 1, 2018) and translation for foreign operations. Below is the movement of the caption:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Other comprehensive income that will not be reclassified to the consolidated income statements in future periods:			
Equity instruments at fair value through other comprehensive income			
Revaluation of gain in equity instruments at fair value through other comprehensive income	41,935	-	-
Subtotal	41,935	-	-
Non-controlling interest	(511)	-	-
Income Tax	(26)	-	-
Total	41,398	-	-
Other comprehensive income to be reclassified to the consolidated income statements in future periods:			
Debt instruments at fair value through other comprehensive income			
Net unrealized loss from debt instruments at fair value through other comprehensive income	(471,940)	-	-
Transfer of net realized loss from debt instruments at fair value through other comprehensive income	14,315	-	-
Transfer of reversal of impairment loss of debt instruments at fair value through other comprehensive income	(13,060)	-	-
Subtotal	(470,685)	-	-
Non-controlling interest	(1,011)	-	-
Income Tax	(6,309)	-	-
Total	(478,005)	-	-

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Insurance premiums reserve, Note 4.2.1 (i)	750,670	(195,619)	(116,468)
Non-controlling interest	124	-	-
Total	750,794	(195,619)	(116,468)
Available-for-sale investments:			
Unrealized gain from available-for-sale investments	-	543,768	405,349
Transfer to realized gain from available-for-sale investments, net of realized loss	-	(113,306)	(48,875)
Transfer of impairment loss from available-for-sale investments to consolidated income statements, Note 6(i)	-	20,759	28,323
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements, Note 6(e)	-	2,608	2,537
Subtotal	-	453,829	387,334
Non-controlling interest	-	470	935
Income Tax	-	(14,471)	4,837
Total	-	439,828	393,106
Cash flow hedges:			
Net unrealized gain (loss) from cash flow hedges	32,798	(1,477)	1,111
Transfer of net realized loss (gain) from cash flow hedge to consolidated income statements	(4,851)	140	648
Subtotal	27,947	(1,337)	1,759
Non-controlling interest	171	(19)	12
Income Tax	10,335	(1,172)	723
Total	38,453	(2,528)	2,494
Foreign currency translation reserve	26,589	(22,480)	(11,340)

(f) Shareholders' equity for legal purposes (regulatory capital) -
IFS and Inteligo Group Corp. are not required to establish a regulatory capital for statutory purposes. As of December 31, 2018 and 2017, the regulatory capital required for Interbank, Interseguro and 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, Inteligo Bank and Hipotecaria Sura is detailed below:

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

In application of Legislative Decree No. 1028, as amended, as of December 31, 2018 and 2017, Interbank maintains the following amounts related to its assets and contingent credits weighted by risk and regulatory capital (basic and supplementary):

	2018 S/(000)	2017 S/(000)
Total risk weighted assets and credits	44,390,985	37,745,504
Total regulatory capital	7,007,381	6,066,349
Basic regulatory capital (Level 1)	5,042,037	4,250,426
Supplementary regulatory capital (Level 2)	1,965,344	1,815,923
Global capital to regulatory capital ratio	**15.79%**	**16.07%**

As of December 31, 2018 and 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 additional regulatory capital requirement shall be equivalent to the amount of regulatory capital requirements calculated for each of the following components: economic cycle, concentration risk, market concentration risk and interest rate risk in the bank book, among others.

As of December 31, 2018 and 2017, the additional regulatory capital estimated by Interbank amounts to approximately S/735,483,000 and S/710,314,000, respectively.

Interseguro's regulatory capital

In accordance with SBS Resolution No. 1124-2006, and its amendments, Interseguro is required to maintain 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 higher 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 higher amount between the solvency margin and the minimal capital. As of December 31, 2018 and 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 Interseguro operates.

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

As of December 31, 2018 and 2017, Interseguro's surplus equity is as follows:

	Interseguro		Seguros Sura
	2018 (*) S/(000)	2017 S/(000)	2017 S/(000)
Regulatory capital	1,042,699	549,281	488,262
Less:			
Solvency equity (solvency margin)	559,930	301,671	231,720
Guarantee fund	195,975	105,584	81,102
Surplus	286,794	142,026	175,440

(*) As of December 31, 2018, Seguros Sura's balances are part of Interseguro's balances, as a result of the business combination carried out on March 31, 2018; see Note 2.

Inteligo Bank's regulatory capital

The Central Bank of the Bahamas requires Inteligo Bank to maintain a regulatory capital of not less than 8 percent of its risk weighted assets. Inteligo Bank's capital ratio as of December 31, 2018 and 2017 is the following:

	2018 US$(000)	2017 US$(000)
Total eligible capital	216,977	212,459
Total risk weighted assets	850,069	652,229
Capital adequacy ratio (in percentage)	25.52	32.57

Hipotecaria Sura's regulatory capital

As of December 31, 2017, Hipotecaria Sura maintained a regulatory capital of S/11,171,000, assets and contingent credits weighted by total risk of S/4,289,000, keeping a ratio of 260.45 percent. Also, the additional regulatory capital estimated by Hipotecaria Sura amounts to approximately S/680,000. As of December 31, 2018, Hipotecaria Sura is in liquidation process, therefore it is not subject to these requirements.

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

(g) Reserves -

The Board of Directors of IFS sessions held on June 25, 2018, and May 9, 2018, agreed to constitute a reserve of up to S/1,000,000,000 charged to retained earnings.

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

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

(h) Subsidiaries' legal and special reserves

The Subsidiaries domiciled in Peru are required to establish a reserve equivalent to a certain percentage of their paid-in capital (20 or 35 percent, depending on their economic activity) through annual transfers of 10 percent of their net income. As of December 31, 2018 and 2017, these reserves amounted to approximately S/1,000,764,000 and S/892,103,000, respectively.

18. 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).

(b) Legal entities or individuals not domiciled in Peru are subject to an additional tax on dividends received from entities domiciled in Peru. The corresponding tax is withheld by the entity that distributes the dividends. In this regard, since IFS controls the entities that distribute the dividends, it recognizes the amount of the additional Income Tax as expense of the financial year of the dividends. In this sense, as of December 31, 2018 and 2017, the Company has recorded expenses for S/37,880,000 and S/23,677,000, respectively, in the caption "Income Tax" of the consolidated income statements.

As of December 31, 2018 and 2017, dividends distributed by Peruvian Subsidiaries to IFS were subject to a withholding of 5.0 percent of the profits generated in those years, whereas as of December 31, 2016, dividends distributed by Peruvian Subsidiaries to IFS were subject to a withholding of 6.8 percent.

(c) IFS'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. The Income Tax rate as of December 31, 2018 and 2017, was 29.5 percent, over the taxable income.

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

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

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.

(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 at which the tax return regarding a taxable period must be filed. The Income Tax and the Value-Added-Tax returns subject to inspection by the Tax Authority in each of the Subsidiaries, are the following:

- Interbank, Hipotecaria Sura and Seguros Sura: Income Tax returns of the years 2012 and from 2014 to 2018, and Value-Added-Tax returns of the years 2014 to 2018, are pending reviewing by SUNAT.
- Interseguro: Income Tax returns of the years 2013, 2015, 2017 and 2018, and Value-Added-Tax returns of the years 2014 to 2018, are pending reviewing by SUNAT.

Given the possible interpretations that SUNAT may give to the legislation in effect, up to date it is not possible to determine whether or not any review to be conducted would result in liabilities for the Subsidiaries; any increased tax or surcharge that could arise from possible tax reviews would be applied to the results of the period in which such tax increase or surcharge may be determined.

In the case of Interbank, in April 2004, June 2006, February 2007, June 2007, November 2007, October 2008 and December 2010, it received a number of Tax Determination and Tax Penalty notices corresponding mainly to the Income Tax determination for the fiscal years 2000 to 2006. As a result, claims and appeals were filed and subsequent contentious administrative proceedings were started, with the exception of Income Tax 2006, which is still pending in the Tax Court.

Regarding the tax litigations followed by the Bank related to the annual Income Tax returns for the years 2000 to 2006, the most relevant matter subject to discrepancy with SUNAT 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 SUNAT as of December 31, 2018, amounts to approximately S/393 million, out of which S/50 million correspond to taxes and the difference to fines and interest arrears.

From the tax and legal analysis carried out, the Bank's Management and its external legal advisors consider that there is sufficient technical support for the prevalence of the Bank's position; as a result, it has not recorded any provision for this contingency as of December 31, 2018 and 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 the fiscal years 2007, 2008 and 2009, respectively, thus issuing a series of Assessment Resolutions without any additional settlement of said tax.

On January 11, 2016, SUNAT closed the partial audit 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.

On February 3, 2017, SUNAT closed the inspection corresponding to the fiscal year 2010 related to Income Tax. The Bank paid the debt under protest and filed a complaint, which was declared void by SUNAT.

On February 14, 2018, SUNAT, through Letter N°180011585680-01-SUNAT notified Interbank of the beginning of the partial inspection process for the Income Tax for the year 2014.

On September 7, 2018, SUNAT closed the partial inspection process for the fifth category tax for the year 2014; without additional settlement of the mentioned tax.

On January 14, 2019, Interbank was notified of the Determination and Penalty Resolutions corresponding to the audit of the Income Tax for the fiscal year 2013. The tax debt sought by SUNAT amounts to approximately S/50 million. To date, Interbank Management has submitted the respective complaint resource to the resolutions indicated above. In Management opinion and its legal advisors, any eventual additional tax settlement would not be significant for the financial statements as of December 31, 2018 and 2017.

On January 4, 2019, Interseguro was notified through a Tax Determination notice about the partial auditing of the Income Tax for non-domiciled entities for Sura corresponding to January 2015; see Note 2. The tax debt claimed by SUNAT amounts to approximately S/19 million. Considering that this debt corresponds to a period prior to the acquisition of Seguros Sura by the Group (see Note 2), and according to the conditions of the purchase and sale agreement of this entity, this debt, if confirmed after the legal actions that Management is to file, would be assumed by the sellers. To date, Management and its legal advisors are evaluating the measures to be followed.

Finally, as of the date of this report, SUNAT is reviewing the 2012 tax return of Interbank. In the opinion of Management and its legal advisors, any eventual additional tax settlement would not be significant for the consolidated financial statements as of December 31, 2018 and 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.

(f) For the purpose of determining the Income Tax, the transfer prices of transactions with related companies and with companies domiciled in countries or territories that are non-cooperating or low or zero tax countries or territories, or with entities or permanent establishments whose income, revenues or gains from said contracts are subject to a preferential tax regime, must be supported by documented information on the valuation methods used and the criteria considered for their determination. On the basis of the analysis of the operations of the Group's Subsidiaries, Management and its internal legal advisors believe that, as a consequence of the application of these standards, contingencies of importance to the Subsidiaries domiciled in Peru will not arise as of December 31, 2018 and 2017.

Through Legislative Decree No. 1312, published on December 31, 2016, the formal obligations for entities included within the scope of application of transfer pricing are modified, thus incorporating three new informative affidavits: (i) Local Report; (ii) Master Report; and (iii) Country Report. The first validity is as of 2017 for the operations that occurred during 2016 and the last two as of 2018 for the operations that have occurred since the fiscal year 2017.

(g) Through Legislative Decree No.1381, published on August 24, 2018, incorporated in the Income Tax Act the concept of "non-cooperating" countries or territories and preferential tax regimes to which are imposed the defensive measures already existing for countries and territories with low or zero taxation.

In this regard, it is important to emphasize that, at present, Interbank maintains a branch in Panama, a country that is considered "non-cooperating", in accordance with the provisions of Legislative Decree No. 1381.

(h) In July 2018, Act No. 30823 was published, whereby the Congress delegated power to the Executive Branch to legislate on various issues, including tax and financial matters. In this sense, the main tax regulations issued are the following:

(i) Beginning on January 1, 2019, the treatment applicable to royalties and remuneration for services rendered by non-domiciled persons was modified, eliminating the obligation to pay the amount equivalent to the withholding due to the accounting record of the cost or expense. Now the Income Tax is withheld at the payment or accreditation of the compensation. In order for said cost or expense to be deductible for the local company, the remuneration must have been paid or credited up to the filing date of the annual tax return for the Income Tax (Legislative Decree No. 1369).

(ii) The rules that regulate the obligation of legal persons and/or legal entities to inform the identification of their final beneficiaries (Legislative Decree No. 1372) were established. These rules are applicable to legal entities domiciled in the country, in accordance with the provisions of Article 7 of the Income Tax Act, and legal entities established in the country. The obligation covers non-domiciled legal entities and legal entities established abroad, provided that: a) they have a branch, agency or other permanent establishment in the country; b) the natural or juridical person who manages the autonomous patrimony or the investment funds from abroad, or the natural or juridical person who has the status of protector or administrator, is domiciled in the country; c) any of the parts of a consortium is domiciled in the country. This obligation will be fulfilled through the presentation to SUNAT of an informative Sworn Statement, which must contain the information of the final beneficiary and be submitted, in accordance with the regulations and within the deadlines established by Superintendence Resolution issued by SUNAT.

(iii) The Tax Code was amended regarding the application of the general anti-avoidance rule (Rule XVI of the Preliminary Title of the Tax Code - Legislative Decree No. 1422).

As part of this amendment, a new assumption of joint and several liability is envisaged, when the tax debtor is subject to the application of the measures provided by Rule XVI in the event that tax evasion cases are detected; in such case, the joint and several liability shall be attributed to the legal representatives provided that they have collaborated with the design or approval or execution of acts or situations or economic relations foreseen as elusive in Rule XVI. In the case of companies that have a Board of Directors, it is up to this corporate body to define the tax strategy of the entity, having to decide on the approval or not of acts, situations or economic relations to be carried out within the framework of tax planning, this power being non-delegable. The acts, situations and economic relations carried out within the framework of fiscal planning and implemented on the date of entry into force of Legislative Decree No. 1422 (September 14, 2018) and which continue to have effect, must be evaluated by the Board of Directors of the legal entity for the purpose of ratification or modification until March 29, 2019, without prejudice to the fact that the management or other administrators of the company have approved the aforementioned acts, situations and economic relations.

Likewise, it has been established that the application of Rule XVI, regarding the re-characterization of tax evasion cases, will take place in the final inspection procedures in which acts, events or situations produced since July 19, 2012, are reviewed.

(iv) Amendments to the Income Tax Act were included, effective as of January 1, 2019, to improve the tax treatment applicable to the following (Legislative Decree No. 1424):

- Income obtained from the indirect transfer of shares of stock or capital representing participations of legal persons domiciled in the country. Among the most relevant changes is the inclusion of a new indirect sale assumption, which is configured when the total amount of the shares of the domiciled legal entity whose indirect disposal is made is equal to or higher than 40,000 Tax Units.

- Permanent establishments of sole proprietorships, companies and entities of any nature incorporated abroad. For this purpose, new cases of permanent establishment have been included, among them, when the rendering of services in the country occurs, with respect to the same project, service or related one, for a period that exceeds 183 calendar days in total within any period of twelve months.

- The system of credits against Income Tax for taxes paid abroad, to be included in the indirect credit (corporate tax paid by foreign subsidiaries) as credit applicable against the Income Tax of domiciled legal persons, in order to avoid the double economic imposition.

- The deduction of interest expenses for the determination of corporate Income Tax. In the years 2019 and 2020, it shall be applicable the debt limit set at up to three times the net equity as of December 31 of the previous year will be applicable, both to loans with related parties, and to loans with third parties contracted as of September 14, 2018. Beginning in 2021, the limit for the deduction of financial expenses shall be equivalent to 30 percent of the entity's EBITDA.

(v) Regulations have been established for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree No. 1425). Until 2018, there was no normative definition of this concept, so in many cases accounting rules were used for its interpretation. In general terms, with the new criterion, for the purpose of determining the Income Tax, it shall be considered whether the substantial events for the generation of the income or expense agreed upon by the parties have occurred, provided they are not subject to a suspensory condition, in which case the recognition shall be granted when it is fulfilled; the opportunity for collection or payment established shall not be taken into account; and, if the determination of the consideration depends on a future act or event, the total or part of the corresponding income or expense will be deferred until that act or event occurs.

19. Off-balance sheet accounts

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

	2018 S/(000)	2017 S/(000)
Contingent credits - indirect loans (b), Note 7(a)		
Guarantees and stand-by letters	3,763,591	4,044,614
Import and export letters of credit	307,869	221,881
	4,071,460	4,266,495
Derivatives		
Held for trading: Note 11(b)		
Forward foreign currency agreements, see Note 31.2(b)(ii):		
Forward currency agreements – purchase	2,023,812	2,317,935
Forward currency agreements – sale	2,709,626	2,776,324
Forward foreign currency agreements in other currencies	443,770	379,384
Interest rate swaps	2,018,220	2,220,102
Foreign currency options	234,780	227,647
Currency swap agreements, see Note 31.2(b)(ii):		
Foreign currency delivery / receipt in Soles	484,553	499,816
Soles delivery / receipt in foreign currency	424,561	489,365
Cross currency swaps	198,529	190,759
Held as hedges: Note 11(b)		
Cash flows:		
Interest rate swaps	303,570	453,740
Cross currency swaps	1,922,610	550,970
	10,764,031	10,106,042
Responsibilities for credit lines granted (cancellables) (c)	7,916,890	7,048,951
Responsibilities for credit lines – commercial and others (d)	1,255,713	940,689
Total	24,008,094	22,362,177

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

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

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

(c) Responsibilities under credit lines agreements include consumer credit lines and other consumer loans that are cancellable by the Bank.

(d) Corresponds to commitments of disbursement of future loans that Interbank has committed to carry out; provided that the borrower complies with the obligations under the corresponding loan agreements, however, they may be cancelled by Interbank.

20. Interest and similar income and expenses

(a) This caption is comprised of the following:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Interest and similar income			
Interest on loan portfolio	3,356,718	3,201,545	3,184,336
Interest on investments at fair value through other comprehensive income	761,411	-	-
Interest on available-for sale investments	-	513,545	436,534
Interest on investments at amortized cost	86,215	-	-
Interest on held-to-maturity investments	-	44,452	26,835
Interest on due from banks and inter-bank funds	51,592	30,057	20,537
Dividends on financial instruments through other comprehensive income	61,725	16,659	33,022
Other interest and similar income	3,621	2,762	3,548
Total	4,321,282	3,809,020	3,704,812
Interest and similar expenses			
Interest and fees on deposits and obligations	(562,495)	(534,211)	(461,959)
Interest on bonds, notes and other obligations	(377,506)	(315,758)	(320,986)
Interest and fees on obligations with financial institutions	(173,740)	(222,406)	(255,268)
Deposit insurance fund fees	(40,697)	(37,304)	(35,165)
Result from hedging transactions	(9,241)	(1,848)	-
Other interest and similar expenses	(6,907)	(8,362)	(8,481)
Total	(1,170,586)	(1,119,889)	(1,081,859)

(b) The amounts shown in 20(a) include interest income and expenses calculated using the effective interest rate (EIR), which are related to the following items:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Financial assets measured at amortized cost	3,494,525	3,276,054	3,231,708
Financial assets measured at fair value through other comprehensive income	761,411	513,545	436,534
Total interest from financial assets not measured at fair value	4,255,936	3,789,599	3,668,242
Financial liabilities measured at amortized cost	1,113,741	1,072,375	1,038,213

21. Fee income from financial services, net

This caption is comprised of the following:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Income			
Maintenance and mailing of accounts, transfer fees and commissions on credit and debit card	623,480	601,091	575,914
Commissions for banking services	186,783	167,805	157,812
Funds management fees	148,048	139,215	131,975
Fees from indirect loans	61,766	60,205	60,249
Collection services fees	37,068	32,792	30,205
Brokerage and custody services fees	11,035	11,638	13,204
Others	33,758	27,207	29,240
Total	1,101,938	1,039,953	998,599
Expenses			
Credit cards	(84,719)	(66,333)	(67,034)
Debtor's life insurance premiums	(58,931)	(50,777)	(54,689)
Fees paid to foreign banks	(15,324)	(12,937)	(10,749)
Brokerage and custody services	(1,877)	(3,754)	(2,777)
Others	(47,735)	(41,784)	(40,579)
Total	(208,586)	(175,585)	(175,828)
Net	893,352	864,368	822,771

22. Other income (and expenses)

(a) This caption is comprised of the following:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Other income			
Income from investments in associates	17,454	18,475	14,856
Gain from sale of written-off-loans (b)	13,615	16,956	8,207
Other technical income from insurance operations	10,908	9,273	10,308
Income from ATM rentals	4,606	4,562	3,184
Services rendered to third parties	2,779	5,160	4,827
Insurance recovery	940	1,122	268
Other income	18,741	31,891	22,445
Total other income	69,043	87,439	64,095
Other expenses			
Sundry technical insurance expenses	(40,593)	(16,753)	(14,999)
Commissions from insurance activities	(38,650)	(50,971)	(31,671)
Provision for assets seized	(9,754)	-	-
Donations	(5,068)	(6,696)	(5,932)
Provision for sundry risk	(3,504)	(9,748)	(14,685)
Administrative and tax penalties	(2,963)	(2,185)	(3,152)
Provision for accounts receivable	(2,134)	(8,699)	(2,758)
Expenses related to rental income	(3,901)	(659)	(1,091)
Other expenses	(35,048)	(24,615)	(27,848)
Total other expenses	(141,615)	(120,326)	(102,136)

(b) During the years 2018, 2017 and 2016, Interbank sold in cash to non-related third parties written-off loan portfolios with gross value amounting to S/466,264,000, S/714,379,000 and S/302,248,000, respectively.

23. Net premiums earned

This caption is comprised of the following:

	Premiums assumed			Adjustment of technical reserves			Gross premiums earned (*)			Premiums ceded to reinsurers			Net premiums earned		
	2018 S/(000)	2017 S/(000)	2016 S/(000)	2018 S/(000)	2017 S/(000)	2016 S/(000)	2018 S/(000)	2017 S/(000)	2016 S/(000)	2018 S/(000)	2017 S/(000)	2016 S/(000)	2018 S/(000)	2017 S/(000)	2016 S/(000)
Life insurance															
Annuities (**)	264,305	226,564	337,755	(229,097)	(191,612)	(377,745)	35,208	34,952	(39,990)	-	-	-	35,208	34,952	(39,990)
Group life	110,049	128,259	119,534	1,351	5	(630)	111,400	128,264	118,904	(4,232)	(3,437)	(3,538)	107,168	124,827	115,366
Individual life	130,419	64,467	48,986	(40,861)	(35,010)	(20,230)	89,558	29,457	28,756	(3,678)	(2,778)	(2,177)	85,880	26,679	26,579
Retirement, disability and survival (***) and (****)	160,388	36,436	139,633	(42,603)	(12,753)	935	117,785	23,683	140,568	(107,296)	(26,189)	(130,536)	10,489	(2,506)	10,032
Others	3	10	539	(1,562)	(2,266)	(3,250)	(1,559)	(2,256)	(2,711)	-	(1)	(131)	(1,559)	(2,257)	(2,842)
Total life insurance	665,164	455,736	646,447	(312,772)	(241,636)	(400,920)	352,392	214,100	245,527	(115,206)	(32,405)	(136,382)	237,186	181,695	109,145
Total general insurance	96,921	77,894	84,109	(4,032)	1,461	(3,952)	92,889	79,355	80,157	(1,509)	(1,701)	(1,942)	91,380	77,654	78,215
Total general	762,085	533,630	730,556	(316,804)	(240,175)	(404,872)	445,281	293,455	325,684	(116,715)	(34,106)	(138,324)	328,566	259,349	187,360

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

(**) The variation of the adjustment of technical reserves is due to variation in the rates with which technical reserves are determined; see rates in Note 15(e).

(***) As part of the SPP 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.

(****) In April 2016, the Congress of the Republic of Peru approved the amendment of the SPP Act, through which the affiliates of the Pension Fund Administrators (AFPs) who turn 65 and retire, can choose, among other existing retirement modalities, the return of 95.5 percent of the total fund available from their Individual Capitalization Account ("CIC", by its Spanish acronym). During 2017, in order to offset the contraction of retirement income as a result of the aforementioned amendment to the SPP Act, Interseguro launched the "Renta Particular Plus" product and raised funds from said product as of December 31, 2018 and 2017, for S/ 174,632,000 and S/128,200,000, respectively; see Note 11 (a). This allowed to maintain the product portfolio level and the long-term cash fundraising. As of December 31, 2018, retirement premiums amounted to S/10,469,000 (in 2017 and 2016, amounted to S/24,786,000 and S/137,119,000, respectively).

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

This caption is comprised of the following:

	Gross claims and benefits			Ceded claims and benefits			Net insurance claims and benefits		
	2018 S/(000)	2017 S/(000)	2016 S/(000)	2018 S/(000)	2017 S/(000)	2016 S/(000)	2018 S/(000)	2017 S/(000)	2016 S/(000)
Life insurance									
Annuities	(573,884)	(332,513)	(251,911)	-	-	-	(573,884)	(332,513)	(251,911)
Group life	(48,213)	(41,110)	(40,164)	2,864	2,582	3,649	(45,349)	(38,528)	(36,515)
Individual life	(7,539)	(2,666)	(3,404)	1,410	518	830	(6,129)	(2,148)	(2,574)
Retirement, disability and survival	(215,217)	(33,120)	(135,948)	122,976	12,262	128,718	(92,241)	(20,858)	(7,230)
Others	(1,710)	(3,282)	(4,864)	85	3,386	3,215	(1,625)	104	(1,649)
General insurance	(16,829)	(18,483)	(18,395)	25	150	74	(16,804)	(18,333)	(18,321)
	(863,392)	(431,174)	(454,686)	127,360	18,898	136,486	(736,032)	(412,276)	(318,200)

25. Salaries and employee benefits

This caption is comprised of the following:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Salaries	538,190	515,333	507,691
Workers' profit sharing	81,837	70,267	70,441
Social security	50,244	47,116	45,868
Severance indemnities	39,862	37,655	36,942
Vacations, health insurance and others	45,781	44,211	50,416
Total	755,914	714,582	711,358

The average number of employees for the years 2018, 2017 and 2016 was 7,742, 7,817 and 7,955 respectively.

26. Administrative expenses

This caption is comprised of the following:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Services received from third parties	759,187	714,747	672,047
Taxes and contributions	34,993	30,943	30,076
Total	794,180	745,690	702,123

Services received from third parties correspond mainly to computer equipments maintenance services, credit cards associated expenses, securities transportation services, rental of premises (agencies), telecommunications, advertising, among others.

27. 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, as described in Note 4.4(ae):

	Outstanding shares (in thousands)	Shares considered in computation (in thousands)	Effective days in the year	Weighted average number of shares (in thousands)
2016				
Balance as of January 1, 2016	108,820	108,820	365	108,820
Sale of treasury stock	8	8	275	6
Purchase of treasury stock	(1,897)	(1,897)	85	(442)
Balance as of December 31, 2016	106,931	106,931		108,384
Net earnings attributable to IFS S/(000) modified, Note 4.2.1				944,611
Basic and diluted earnings per share attributable to IFS (Soles), modified, Note 4.2.1				8.715
2017				
Balance as of January 1, 2017	106,931	106,931	365	106,931
Purchase of treasury stock	(500)	(500)	213	(292)
Sale of treasury stock	1,251	1,251	28	97
Balance as of December 31, 2017	107,682	107,682		106,736
Net earnings attributable to IFS S/(000), modified, Note 4.2.1				1,027,379
Basic and diluted earnings per share attributable to IFS (Soles), modified, Note 4.2.1				9.625
2018				
Balance as of January 1, 2018	107,682	107,682	365	107,682
Sale of treasury stock	3,010	3,010	334	2,754
Balance as of December 31, 2018	110,692	110,692		110,436
Net earnings attributable to IFS S/(000)				1,084,280
Basic and diluted earnings per share attributable to IFS (Soles)				9.818

28. Transactions with shareholders, related parties and affiliated entities

(a) The table below presents the main transactions with shareholders, related parties and affiliated companies as of December 31, 2018 and 2017:

	2018 S/(000)	2017 S/(000)
Assets		
Instruments at fair value through profit or loss		
Participations - Royalty Pharma, Note 6(l)	78,808	-
Negotiable certificates of deposit – Financiera Oh! S.A.	20,809	-
Shares - InRetail Perú Corp.	7,322	-
Investment funds participations – NGCP	2,890	-
Other minors	205	-
	110,034	-
Investments at fair value through other comprehensive income		
Shares - InRetail Perú Corp, Note 6(k)	228,122	-
Corporate bonds - InRetail Shopping Malls S.A.	59,131	-
Corporate bonds - Colegios Peruanos S.A.	58,913	-
Corporate bonds - Intercorp Perú Ltd.	15,766	-
Corporate bonds - Cineplex S.A.	7,317	-
	369,249	-
Trading securities	-	7,808
Available-for-sale investments		
Shares - InRetail Perú Corp. Note 6(k)	-	168,206
Participations - Royalty Pharma, Note 6(l)	-	68,540
Corporate bonds - InRetail Shopping Malls S.A.	-	65,334
Corporate bonds - Colegios Peruanos S.A.	-	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
	-	441,426

	2018 S/(000)	2017 S/(000)
Loans, net (b)	1,157,158	828,597
Accounts receivable from UTP (h)	58,968	32,713
Accounts receivable from Homecenters Peruanos S.A. (g)	20,877	23,009
Accounts receivable from Supermercados Peruanos S.A	18,264	-
Accounts receivable related to derivative financial instruments	3,908	5,832
Other assets (f)	10,183	15,089
Liabilities		
Deposits and obligations	571,032	311,092
Other liabilities	214	2,251
Accounts payable related to derivative financial instruments	-	723
Off-balance sheet accounts		
Indirect loans (b)	139,702	133,571

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Income (expenses)			
Interest and similar income	90,703	67,703	63,506
Interest and similar expenses	(17,747)	(9,397)	(3,383)
Valuation of financial derivative instruments	(201)	520	(229)
Rental income	13,461	3,318	2,190
Gain on sale of investment property	4,655	-	2,655
Administrative expenses	(40,279)	(42,743)	(33,982)
Others, net	17,114	37,383	31,041

(b) As of December 31, 2018 and 2017, the detail of loans is the following:

	2018			2017		
	Direct loans S/(000)	Indirect loans S/(000)	Total S/(000)	Direct loans S/(000)	Indirect loans S/(000)	Total S/(000)
Supermercados Peruanos S.A.	236,826	701	237,527	198,843	6,753	205,596
Inretail Pharma S.A.	163,596	5,060	168,656	19,926	4,862	24,788
Nessus Hoteles Perú S.A.	102,851	169	103,020	67,767	-	67,767
GTP Inversionistas S.A.C.	102,027	-	102,027	105,527	-	105,527
Colegios Peruanos S.A.C.	80,379	1,843	82,222	50,006	810	50,816
Universidad Tecnológica del Perú	80,000	-	80,000	-	-	-
Financiera Oh! S.A.	65,009	291	65,300	28	321	349
Intercorp Perú Ltd.	65,046	-	65,046	45,004	-	45,004
Homecenters Peruanos S.A.	55,995	6,327	62,322	59,508	2,053	61,561
San Miguel Industrias PET S.A.	9,873	36,366	46,239	9,750	31,173	40,923
Cineplex S.A.	33,844	8,996	42,840	44,317	12,594	56,911
San Miguel Industrias Ecuador	32,910	-	32,910	32,500	-	32,500
Bembos S.A.C.	26,747	6,130	32,877	26,802	855	27,657
Procesos de Medios de Pago S.A.	7,704	20,575	28,279	10,357	19,770	30,127
PF Interproperties Perú	-	21,126	21,126	-	21,291	21,291
Centro de Salud Peruanos	20,701	-	20,701	-	-	-
Servicio de Transferencia Electrónica de Beneficios y Pagos S.A.	-	14,439	14,439	569	13,522	14,091
Tiendas Peruanas S.A.	12,388	9	12,397	20,249	4,032	24,281
EP de Franquicias S.A.C.	11,791	539	12,330	12,971	257	13,228
EP de Restaurantes S.A.C.	11,962	265	12,227	12,311	186	12,497
Corporación Peruana de Restaurantes S.A.	10,988	995	11,983	11,322	299	11,621
Agrícola Don Ricardo S.A.C.	-	-	-	57,933	-	57,933
Others	26,521	15,871	42,392	42,907	14,793	57,700
	1,157,158	139,702	1,296,860	828,597	133,571	962,168

(c) As of December 31, 2018 and 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 Peruvian law, which regulates and limits on certain transactions with employees, directors and officers of financial entities. As of December 31, 2018 and 2017, direct loans to employees, directors and officers amounted to S/223,381,000 and S/183,550,000, respectively; said loans are repaid monthly and bear interest at market rates.

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

(d) The Group's key personnel compensations, including the Income Tax assumed for the years ended December 31, 2018, 2017 and 2016, are presented below:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Salaries	22,295	18,880	16,583
Board of Directors' compensations	1,925	1,940	1,706
Total	24,220	20,820	18,289

(e) As of December 31, 2018 and 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 amount to S/9,934,000 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/8,856,000 and S/10,876,000 as of December 31, 2018 and 2017, respectively (see Note 11(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 interests at market value.

(h) As of December 31, 2018, corresponds to a financial lease for the construction of educational facilities in San Juan de Lurigancho and Ate Vitarte districts.

(i) In Management's opinion, transactions with related companies have been performed under standard market conditions and within the limits permitted by the SBS. Taxes generated by these transactions and the taxable base used for computing them are those customarily used in the industry and they are determined according to the tax rules in force.

29. Business segments

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

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

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

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

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

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

No revenue from transactions with a single external customer or counterparty exceeded 10 percent of the Group's total revenues in the years 2018 and 2017.

The following table presents the Group's financial information by business segments for the years ended December 31, 2018, 2017 and 2016:

	2018				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and consolidation adjustments S/(000)	Total consolidated S/(000)
Total income (*)					
Third party	4,681,742	1,002,607	307,154	(39,583)	5,951,920
Inter-segment	(55,824)	-	12,226	43,598	-
Total income	4,625,918	1,002,607	319,380	4,015	5,951,920
Extracts of results					
Interest and similar income	3,560,976	610,990	151,915	(2,599)	4,321,282
Interest and similar expenses	(1,067,399)	(54,343)	(44,096)	(4,748)	(1,170,586)
Net interest and similar income	2,493,577	556,647	107,819	(7,347)	3,150,696
Impairment loss on loans, net of recoveries	(660,858)	-	786	-	(660,072)
Recovery (loss) due to impairment of financial investments	(72)	11,349	1,800	-	13,077
Net interest and similar income after impairment loss on loans	1,832,647	567,996	110,405	(7,347)	2,503,701
Fee income from financial services, net	817,861	(4,593)	123,626	(43,542)	893,352
Net gain on sale of financial investments	(106,468)	(30,684)	27,687	123,705	14,240
Gain on sale of IFS shares	123,705	-	-	(123,705)	-
Other income	285,668	98,328	3,926	6,558	394,480
Total net premiums earned minus claims and benefits	-	(407,466)	-	-	(407,466)
Depreciation and amortization	(138,712)	(16,982)	(8,978)	(26)	(164,698)
Other expenses	(1,397,217)	(256,670)	(73,635)	35,813	(1,691,709)
Income before translation result and Income Tax	1,417,484	(50,071)	183,031	(8,544)	1,541,900
Translation result	(9,778)	(11,405)	(657)	(13,151)	(34,991)
Income Tax	(382,564)	-	928	(33,879)	(415,515)
Net profit for the year	1,025,142	(61,476)	183,302	(55,574)	1,091,394
Attributable to:					
IFS's shareholders	1,025,142	(61,476)	183,302	(62,688)	1,084,280
Non-controlling interest	-	-	-	7,114	7,114
	1,025,142	(61,476)	183,302	(55,574)	1,091,394

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

	2017				
	Banking S/(000)	Insurance (**) S/(000)	Wealth management S/(000)	Holding and consolidation adjustments S/(000)	Total consolidated S/(000)
Total income (*)					
Third party	4,500,322	703,261	340,265	(93,148)	5,450,700
Inter-segment	(93,242)	(46)	2,196	91,092	-
Total income	4,407,080	703,215	342,461	(2,056)	5,450,700
Extracts of results					
Interest and similar income	3,347,981	334,753	149,935	(23,649)	3,809,020
Interest and similar expenses	(1,046,995)	(19,713)	(53,852)	671	(1,119,889)
Net interest and similar income	2,300,986	315,040	96,083	(22,978)	2,689,131
Impairment loss on loans, net of recoveries	(830,474)	-	2,539	-	(827,935)
Loss due to impairment of financial investments	-	(5,496)	(15,263)	-	(20,759)
Net interest and similar income after impairment loss on loans	1,470,512	309,544	83,359	(22,978)	1,840,437
Fee income from financial services, net	789,747	(3,692)	116,927	(38,614)	864,368
Net gain on sale of financial investments	40,912	65,009	72,850	6,076	184,847
Gain on sale of IFS shares	25,220	-	9,764	(34,984)	-
Other income	296,462	47,843	(9,211)	(1,977)	333,117
Total net premiums earned minus claims and benefits	-	(152,927)	-	-	(152,927)
Depreciation and amortization	(127,629)	(9,656)	(7,870)	(7)	(145,162)
Other expenses	(1,300,442)	(217,164)	(80,123)	17,131	(1,580,598)
Income before translation result and Income Tax	1,194,782	38,957	185,696	(75,353)	1,344,082
Translation result	13,618	873	1,523	(116)	15,898
Income Tax	(303,484)	41	547	(23,630)	(326,526)
Net profit for the year	904,916	39,871	187,766	(99,099)	1,033,454
Attributable to:					
IFS's shareholders	904,916	39,960	187,766	(105,263)	1,027,379
Non-controlling interest	-	(89)	-	6,164	6,075
	904,916	39,871	187,766	(99,099)	1,033,454

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

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

	2016				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and consolidation adjustments S/(000)	Total consolidated S/(000)
Total income (*)					
Third party	4,338,632	555,309	316,424	(88,613)	5,121,752
Inter-segment	(60,916)	(44)	2,090	58,870	-
Total income	4,277,716	555,265	318,514	(29,743)	5,121,752
Extracts of results					
Interest and similar income	3,279,405	292,960	152,125	(19,678)	3,704,812
Interest and similar expenses	(1,009,829)	(14,420)	(59,396)	1,786	(1,081,859)
Net interest and similar income	2,269,576	278,540	92,729	(17,892)	2,622,953
Impairment loss on loan losses, net of recoveries	(783,645)	-	-	-	(783,645)
Loss due to impairment of financial investments	-	(28,323)	-	-	(28,323)
Net interest and similar income after impairment loss on loans	1,485,931	250,217	92,729	(17,892)	1,810,985
Fee income from financial services, net	749,943	(2,994)	116,862	(41,040)	822,771
Net gain on sale of financial investments	16,273	46,406	37,652	3,007	103,338
Other income	293,011	31,577	9,785	(30,902)	303,471
Total net premiums earned minus claims and benefits	-	(130,840)	-	-	(130,840)
Depreciation and amortization	(118,401)	(4,457)	(7,260)	-	(130,118)
Other expenses	(1,276,609)	(196,019)	(78,540)	35,551	(1,515,617)
Income before translation result and Income Tax	1,150,148	(6,110)	171,228	(51,276)	1,263,990
Translation result	859	8,137	(908)	11,974	20,062
Income Tax	(304,246)	(662)	658	(29,613)	(333,863)
Net profit of the year	846,761	1,365	170,978	(68,915)	950,189
Attributable to:					
IFS's shareholders	846,761	1,680	170,978	(74,808)	944,611
Non-controlling interest	-	(315)	-	5,893	5,578
	846,761	1,365	170,978	(68,915)	950,189

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

	2018				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Capital expenditures (*)	176,082	70,333	9,718	41	256,174
Total assets	47,496,321	12,572,396	3,732,178	(56,486)	63,744,409
Total liabilities	41,994,455	11,795,308	2,967,308	(101,138)	56,655,933

	2017				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Capital expenditures (*)	231,412	131,117	5,508	1,252	369,289
Total assets	45,478,588	12,512,548	3,013,892	(610,531)	60,394,497
Total liabilities	40,555,067	11,833,032	2,304,094	(134,603)	54,557,590

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

(i) The distribution of the Group's total income based on the location of the customer and its assets, for the year ended December 31, 2018, is S/5,632,540,000 in Peru and S/319,383,000 in Panama (for the year ended December 31, 2017, it is S/5,108,239,000 in Peru and S/342,461,000 in Panama and for the year ended December 31, 2016, it is S/4,760,973,000 in Peru and S/3,013,892,000 in Panama). The distribution of the Group's total assets based on the location of the customer and its assets, as of December 31, 2018 is S/60,012,231,000 in Peru S/3,732,178,000 in Panama (for the year ended December 31, 2017, it is S/57,380,605,000 in Peru and S/3,013,892,000 in Panama). It should be noted that both income and assets located in Panama correspond mainly to Peruvian citizens.

30. Financial instruments classification

The financial assets and liabilities of the consolidated statements of financial position as of December 31, 2018 and 2017, are presented below. As detailed in Note 4.2, the Group did not reformulate the comparative information for the year 2017, for those financial instruments within the scope of IFRS 9. Therefore, the comparative information for the year 2017 is presented according to IAS 39 and is not comparable with the information presented in the 2018 year. The differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018, and are disclosed in Note 4.7.

	As of December 31, 2018				
	At fair value through profit or loss S/(000)	Debt instruments measured at fair value through other comprehensive income S/(000)	Equity instruments measured at fair value through other comprehensive income S/(000)	Amortized cost S/(000)	Total S/(000)
Financial assets					
Cash and due from banks	-	-	-	8,380,411	8,380,411
Inter-bank funds	-	-	-	495,037	495,037
Financial investments	1,571,468	13,328,593	845,317	1,884,067	17,629,445
Loans, net	-	-	-	32,960,917	32,960,917
Due from customers on acceptances	-	-	-	132,961	132,961
Accounts receivable and other assets, net	185,376	-	-	1,106,659	1,292,035
	1,756,844	13,328,593	845,317	44,960,052	60,890,806
Financial liabilities					
Deposits and obligations	-	-	-	33,681,950	33,681,950
Due to banks and correspondents	-	-	-	4,293,361	4,293,361
Bonds, notes and other obligations	-	-	-	6,496,778	6,496,778
Due from customers on acceptances	-	-	-	132,961	132,961
Insurance contract liabilities	-	-	-	10,300,468	10,300,468
Accounts payable, provisions and other liabilities	154,116	-	-	1,367,644	1,521,760
	154,116	-	-	56,273,162	56,427,278

	As of December 31, 2017					
	Financial assets and liabilities designated at fair value					
	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)
Financial assets						
Cash and due from banks	-	11,204,843	-	-	-	11,204,843
Inter-bank funds	-	403,526	-	-	-	403,526
Trading securities	216,008	-	-	-	-	216,008
Available-for-sale investments	-	-	15,459,660	-	-	15,459,660
Held-to-maturity investments	-	-	-	1,248,475	-	1,248,475
Loans, net	-	28,204,168	-	-	-	28,204,168
Due from customers on acceptances	-	41,715	-	-	-	41,715
Accounts receivable and other assets, net	92,820	570,965	-	-	-	663,785
	308,828	40,425,217	15,459,660	1,248,475	-	57,442,180
Financial liabilities						
Deposits and obligations	-	-	-	-	32,607,637	32,607,637
Inter-bank funds	-	-	-	-	30,008	30,008
Due to banks and correspondents	-	-	-	-	4,407,392	4,407,392
Bonds, notes and other obligations	-	-	-	-	5,602,358	5,602,358
Due from customers on acceptances	-	-	-	-	41,715	41,715
Insurance contract liabilities	-	-	-	-	10,514,504	10,514,504
Accounts payable, provisions and other liabilities	133,921	-	-	-	1,025,503	1,159,424
	133,921	-	-	-	54,229,117	54,363,038

31. 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 loss 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 interest rate, 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.

- Real estate risk: possibility of significant loss in rental income due to the insolvency of the lessee or, a decrease in the market price of real estate investments, due to economic slowdown and supply and demand distortions.

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

(a) Structure and organization of risk management -

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

(i) Interbank

Board of Directors

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

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

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

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

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

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

(ii) Interseguro

Board of Directors

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

Investment Risk Unit

The Investment Risk Unit establishes the general principles, policies and limits for different types of financial and real estate risks; as well as their monitoring and mitigation. Also, Interseguro follows the guidelines related to the comprehensive risk management under the scope of the various standards issued by the SBS, which do not overlap with the criteria exposed in the disclosures included in this section.

Internal Audit Division

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

(iii) Inteligo Bank

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

(b) Risk measurement and reporting systems -

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

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

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

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

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

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

31.1 Credit risk

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

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

Until December 31, 2017, the Impairment allowances were established for losses that have been incurred as of the date of the consolidated statements of financial position under IAS 39; and from January 1, 2018, impairment allowances are established for expected credit losses at the date of the consolidated statements of financial position under IFRS 9. Significant changes in the economy or in the particular situation of an economic sector that represents a concentration in the Group's portfolio could result in losses that are different from those provisioned for as of the date of the consolidated statements of financial position.

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

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

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

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

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

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

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

- Easy convertibility into cash.
- Proper legal documentation, duly registered with the corresponding public registry.

- Do not present previous obligations that could reduce their value.
- Their fair value must be updated.

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

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

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

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

(c) Maximum exposure to credit risk -

As of December 31, 2018 and 2017, Management estimates that the maximum credit risk to which the Group is exposed is represented by the book value of the financial assets which show a potential credit risk and consist mostly of deposits in banks, inter-bank funds, investments, loans (direct and indirect), without considering the fair value of the collateral or guarantees, derivative financial instruments transactions, receivables from insurance transactions and other monetary assets. In this sense, as of December 31, 2018 and 2017:

- 79.8 percent and 87.8 percent, respectively, of the cash and due from banks represent amounts deposited in the Group's vaults or in the BCRP;
- 89.0 percent, of the loan portfolio are classified into the two lower credit risk categories defined by the Group under IFRS 9 (high and standard grade) and 95.1 percent of the loan portfolio is classified in the two lowest-risk categories under IAS 39;

- 92.2 percent and 92.1 percent, respectively, of the loan portfolio is deemed non-past-due and non-impaired;
- 90.0 percent and 85.4 percent, respectively, of investments at fair value through other comprehensive income (before available-for-sale investments) and investments at amortized cost (before held-to-maturity investments) have at least an investment grade (BBB- or higher) or are debt instruments issued by the BCRP or the Peruvian Government; and
- 98.2 percent and 98.0 percent of the accounts receivable from insurance premiums and leases of the investment properties is considered as non-past due and non-impaired.
- In addition, as of December 31, 2018, the Group holds loans (direct and indirect) and investments in fixed income instruments issued by entities related to the infrastructure sector that, in recent months, have been exposed to local and international events, for an amount of approximately S/861,544,000 (S/50,434,000 in direct loans and S/811,110,000 in indirect loans) and S/874,618,000, respectively (S/1,166,218,000 (S/102,298,000 in direct loans and S/1,063,920,000 in indirect loans) and S/844,593,000, respectively, as of December 31, 2017). The performance of these instruments will depend on the future development of the aforementioned events, which are out of the Group control. However, it is important to mention that none of the instruments had a significant negative change in the credit category at the date of this report and have guarantees and coverage that significantly reduce the credit risk.

(d) Impairment assessment for loan portfolios (Policy applicable from January 1, 2018) -
The main objective of the impairment requirements is to recognize expected credit losses during the average life of financial instruments when there has been a significant increase in credit risk after the initial recognition -as evaluated on a collective or individual basis - considering all reasonable and sustainable information, including that which refers to the future. If the instrument does not show a significant increase in credit risk after the initial recognition, the provision for credit losses shall be calculated as 12-month expected credit losses (Stage 1).

Under some circumstances, entities may not have reasonable and sustainable information available without disproportionate effort or cost to measure the expected credit losses during the lifetime of the asset on an individual instrument basis. In that case, expected credit losses during the asset's lifetime shall be recognized on a collective basis considering information about the overall credit risk. The financial assets for which the Group calculates the expected loss under a collective assessment include:

- All direct and indirect (contingent) credits related to stand-by letters, guarantees, bank guarantees and letters of credit. Except for short-term reasons, certain clients that belong to the infrastructure sector.
- Debt instruments measured at amortized cost or at fair value through other comprehensive income.

Expected credit losses are estimated collectively for each loan portfolio with shared credit risk characteristics. Not only default indicators, but all information such as macroeconomic projections, type of instrument, credit risk ratings, types of guarantees, date of initial recognition, remaining time to maturity, among others.

For the collective impairment assessment, the financial assets are grouped together based on the Group's internal credit rating system, which considers credit risk characteristics such as type of asset, economic sector, geographical location, type of guarantee, among other relevant factors.

Expected losses are calculated under the identification and multiplication of the following risk parameters:

- Probability of Default (PD): It is the likelihood of a default over a particular time horizon that a counterpart will be unable to meet its debt obligations and with it is cataloged as default.
- Loss Given Default (LGD): Measures the loss in percentage terms on total exposure at default (see Exposure at default).
- Exposure at Default (EAD): It represents the total value that the Group can lose upon default of a counterpart.

Definition of default:
Credit-impaired financial assets are defined by IFRS 9 in a manner similar to credit-impaired financial assets according to IAS 39.

In accordance with IFRS 9, the Group determines that there is default on a financial asset when:

- The borrower is unlikely to pay their credit obligations to the Group in full, without recourse by the Group to actions such as realizing guarantee (if applicable); or
- The borrower is past due by more than 90 days on any material credit obligation to the Group.

In assessing whether a borrower presents default, the Group considers the following indicators:

- Qualitative: contracts in judicial and prejudicial proceedings.
- Quantitative: contracts in default for more than 90 days.
- Data elaborated internally and obtained from external sources such as:

  - Significant changes in indicators of credit risk;
  - Significant changes in external market indicators;
  - Actual or expected significant change in the external and/or internal credit rating;
  - Existing or forecast adverse changes in the business, economic or financial conditions that are expected to cause a significant change in the borrower's ability to meet their debt obligations;
  - Actual or expected significant change in the operating results of the borrower; or
  - Existing or future adverse changes in the regulatory, economic or technological environment of the borrower that results in a significant change in their ability to meet their debt obligations.

Likewise, losses recognized in the period are affected by several factors, as described below:

- Financial assets moving from Stage 1 to Stage 2 or Stage 3 because there has been a significant increase in credit risk since initial recognition or they have shown impairment when analyzed, respectively. As a result, lifetime expected losses are calculated.
- Impact on the measurement of expected losses due to changes in PD, EAD and LGD resulting from the update of the inputs used.
- Impact on the measurement of expected losses due to changes in the models and assumptions used.

- Additional provisions for new financial instruments reported during the period.
- Periodic reversion of the discount of expected losses due to the passage of time, as they are measured based on the present value.
- Financial assets written off during the period.
- Exchange difference arising from financial assets denominated in foreign currency (US Dollars).

Internal rating and PD:
Interbank's loan portfolio is segmented into homogeneous groups with shared similar credit risk characteristics as detailed below:

- Personal Banking (credit card, mortgage, payroll loan, consumer loan and vehicular loan)
- Small Business Banking (segments S1, S2 and S3)
- Commercial Banking (corporate, institutional, companies and real estate)

Interbank's Credit Risk Department determines its internal credit rating models in the following manner:

Banking	**Segment**	**High grade PD less than or equal to:**	**Standard grade PD Range**	**Grade lower than standard PD equal or higher**
Personal Banking	Credit card	9.48%	9.49% - 20.77%	20.78%
	Mortgage	2.17%	2.18% - 7.38%	7.39%
	Payroll loan	3.61%	3.62% - 8.27%	8.28%
	Consumer	8.26%	8.27% - 19.63%	19.64%
	Vehicular	3.56%	3.57% - 10.90%	10.91%
Small Business Banking	Segments S1 and S2	6.01%	6.02% - 16.11%	16.12%
	Segments S3	3.26%	3.27% - 7.91%	7.92%
Commercial Banking	Corporate	1.80%	1.81% - 4.56%	4.57%
	Institutional	0.50%	0.50%	0.50%
	Companies	2.23%	2.24% - 5.34%	5.35%
	Real estate	4.46%	4.47% - 7.11%	7.12%
		9.48%	9.49% - 20.77%	20.78%

The main objective is to generate statistical models that allow forecasting the applicant's level of credit risk. The development of these models incorporates both qualitative and quantitative information, as well as client specific information that may affect their performance.

These qualification models shall be monitored on a regular basis because some factors may have a negative impact on the model's discriminating power and stability due to changes in the population or its characteristics. Monitoring shall be done for all the qualification tools (Personal Banking and Commercial Banking).

Each rating has an associated PD, which is adjusted to incorporate prospective information. This is replicated for each macroeconomic scenario, as appropriate.

To calculate the PD, two differentiated methodologies have been developed, which are described below:

- Transition matrix
  Its objective is to determine the probability of default over a 12-month horizon based on the maturity of the operation, by analyzing the conditional probability of transition from one credit rating state to another. This method is suitable for loans with high exposure and wide data availability. The intention is to calculate the PD based on the maturity of the operation.

- Default ratio
  Its objective is to determine the probability of default over a 12-month horizon based on the level of risk with which the operation begins, based on a counting analysis and the percentage of cases that report a default mark. This method is suitable for loans with poor data availability by type of maturity.

  Given the nature of the portfolios and the availability of historical information, the method to estimate the PD for each portfolio is presented below:

Banking / Segments	Transition matrix	Default ratio
Personal banking:		
Credit cards	X	
Mortgage		
With cure		X
Without cure	X	
Payroll loan	X	
Consumer		X
Vehicular		X
Small business banking		X
Commercial banking		
With cure and without rating		X
Without cure and with rating	X	

Likewise, Interbank has implemented a system to monitor its commercial sector clients in a more personalized way, based on warnings, changes in rating, reputation problems, among others.

Additionally, as happens for direct credits, the expected loss for indirect loans (contingent loans) is calculated at each reporting date, depending on the stage in which each operation is found; that is, if it is in Stage 1, the expected loss is calculated with a 12-month view. If it is in Stage 2 (if the operation shows a significant risk increase since the initial recognition) or Stage 3 (if the operation has a default), the expected loss is calculated for the remaining life of the asset.

The Group considers the changes in credit risk based on the probability that the obligor will fail to comply with the loan agreement.

Likewise, as of December 31, 2018, the Group holds stand-by letters and guarantees with entities related to the infrastructure sector that, in recent months, has been exposed to national and international events. To determine the expected losses of these entities, the Group, in a complementary manner, has performed an individual assessment to determine if the operation is in Stage 1, Stage 2 or Stage 3.

The criteria established to assign the risk to each one of the operations that are evaluated under an individual evaluation use the following combination of factors: quantitative, qualitative and financial.

At Inteligo Bank, both for Personal Banking and Commercial Banking, the internal model developed (scorecard) assigns 5 levels of credit risk: low risk, medium low risk, medium risk, medium high risk, and high risk.

This methodology follows a three-phase approach to assess the scoring, increase or decrease of risks, taking into consideration the loan structure and the type of client. Therefore, there is one scorecard for Personal Banking and another for Commercial Banking.

To estimate the PD for the lifetime of a financial asset, a transformation of the PD to 12-months is made according to the year of remaining life. That is, the PD is determined for a lifetime by an exponentiation of the PD at 12 months.

LGD:
It is an estimated loss in case of default. It is the difference between contractual cash flows due and those expected to be received, including guarantees. Generally, it is expressed as an EAD percentage.

In the case of Interbank, the calculation of the LGD has been developed under three differentiated methods, which are described below:

- Closed recoveries
  Closed recovery processes are those in which a client entered and left default (due to debt settlement, application of penalty or refinancing) over a course of up to 24 months.

- Open recoveries
  Open recovery processes are those in which a client entered and did not manage to exit default over a course of up to 24 months. This method identifies the adjustment factor that allows to simulate the effect of a closed recovery process. Thus, a recovery curve is built from the information of closed recovery processes and a recovery rate curve is estimated based on the number of months of each process.

  These two methodologies are applied to all portfolios with the exception of Commercial Banking.

- Recoveries with coverage of guarantees
  LGD is estimated based on the coverage rate of the guarantees associated with each client.

  This methodology is applied to the Mortgage and Commercial Banking portfolios.

  In the case of Inteligo Bank, for those credits that are classified in Stage 1 or Stage 2 at the reporting date, the regulatory recoveries of the Central Bank of the Bahamas and the Superintendency of Banks of Panama are used, using stressed scenarios for each type of guarantee.

  EAD:
  Exposure at default represents the gross carrying amount of financial instruments subject to impairment, which involves both the client's ability to increase exposure as default approaches and possible early repayments. To calculate the EAD of a loan in Stage 1, potential default events are evaluated over a 12- month horizon. For financial assets in Stage 2 and Stage 3, exposure at default is determined over the life of the instrument.

A calculation methodology has been developed for those portfolios that present a defined schedule, differentiating those transactions that consider prepayment and those that do not consider prepayment; and another methodology that is based on building the credit risk factor for those portfolios that allow the client the ability to use a line of credit (revolving products) and, therefore, the percentage of additional use of the credit line that the client could use in the event of a default must be calculated.

Significant increase in credit risk:
The Group has established a framework that incorporates quantitative and qualitative information to determine whether the credit risk on a financial instrument has significantly increased since initial recognition, both for loans and investments. The framework is aligned with the Group's internal credit risk management process.

In certain cases, using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has experienced a significant increase in credit risk when certain qualitative indicators that may not be captured by a timely quantitative analysis point to it.

At each reporting date, expected losses are calculated depending on the stage of each loan, as each one is evaluated with a different life period.

- Stage 1
  12-month expected losses are calculated. For this, the following risk parameters are multiplied: the 12-month forward-looking PD for year 1 of the remaining life, the client's LGD, and the EAD for year 1 of the remaining life for operations with payment schedule or the balance as of the reporting date for operations without payment schedule.

- Stage 2
  Lifetime expected losses are calculated for the entire remaining life of the asset. For operations with payment schedule, they are calculated in each year of remaining life by multiplying the following risk parameters: 12-month forward-looking PD, the client's LGD, and the EAD of the corresponding year of remaining life, and then the summation is done. For operations without payment schedule, they are calculated by multiplying the lifetime forward-looking PD, the client's LGD, and the balance as of the reporting date.

- Stage 3
  Expected losses are calculated by multiplying the PD (equal to 100 percent) by the client's LGD and the balance as of the reporting date.

The Group classifies the operations with a significant increase in the risk of each portfolio such as marked refinanced operations, operations with arrears longer than 30 days (for all portfolios except Mortgages that considers arrears longer than 60 days), or operations marked "Leave" or "Reduce" in the surveillance system for the Commercial Banking portfolio.

Likewise, the evaluation of the significant risk increase is made by comparing the PD to 12 months to the date of origin and the PD to 12 months to the date of the report adjusted by the forward-looking factor, according to the quantitative criteria of absolute variation and relative variation. The Group has established a range of absolute variation between 1 and 7 percent and a relative variation between 20 and 110 percent, depending on the type of portfolio.

The Group periodically evaluates the following warning signs and criteria to assess whether the placement presents a significant increase in credit risk (stage 2):

- Infraction to the covenants.
- Forced interventions by governments in the primary and secondary markets of obligors.
- Involvement of the borrower in illicit, political and fraud business.
- Impairment of collaterals (underlying assets).
- Arrears or short and frequent failures to pay installments.
- Significantly adverse macroeconomic, regulatory, social, technological and environmental changes.
- Other assessments and/or warnings (financial statements, EBIT evaluation, financial indicators by industry, regulatory criteria, others).

On the other hand, the Group will monitor the effectiveness of the criteria used to identify significant increases in credit risk through periodic reviews to confirm that:

- Criteria are able to identify significant increases in credit risk before an exposure is in default;
- Criteria do not align with point in time (PiT) when an asset is more than 30 days past due;
- The average time between the identification of a significant increase in credit risk and default is reasonable;
- Exposures usually do not transfer directly from the measurement of 12-month expected losses to impaired loans; and

- There is no unjustified volatility in the allocation of expected credit losses between the measurement of 12-month expected credit losses and lifetime expected credit losses.

Subsequently, the expected loss of each scenario (optimistic, base and pessimistic) is calculated as the sum of the expected loss of each Stage. Finally, the expected loss of the portfolio is calculated by assigning weights to each scenario based on their respective probability of occurrence.

An operation transition from Stage 2 to Stage 1 will depend on whether or not it meets the aforementioned classification assignment requirements. That is, if the operation fails to meet the requirements that were the reason for its classification in Stage 2, the operation will be reclassified to Stage 1, except in Mortgage, Corporate and Company portfolios. For these portfolios, there is a mandatory period of permanence due to the volatility that may be caused given the nature of these loans. Therefore, in addition to failing to comply with the requirements to be reclassified to Stage 2, the operation must not have a mark of default in the last twelve months, otherwise it would stay in Stage 2.

Prospective information
Expected credit losses consider information about the overall credit risk. Information about the overall credit risk must incorporate not only information on delinquency, but also all relevant credit information, including forward-looking macroeconomic information.

In order to comply with the regulatory requirement, it has been determined that the methodology includes the aforementioned effects within the expected loss.

The estimation of expected credit losses will always reflect the possibility of a credit loss, even if the most likely result is not credit loss. Therefore, estimates of expected credit losses are required to reflect a weighted, unbiased amount that is determined by evaluating a range of possible outcomes.

To capture these effects, the Group uses internally developed stress models that seek to stress the probability of default based on different macroeconomic variable projection scenarios. The Group has defined three possible scenarios for each portfolio: base, optimistic and pessimistic, assigning the following weights to each of them:

- Base – 40%
- Optimistic – 30%
- Pessimistic – 30%

Within the analysis carried out for the projection of probability of default, the projection period determined is 36 months (3 years). For projections after that period, the same information of that last year is considered, because it is deemed that projections beyond this period lose statistical significance, as evidenced by observing thresholds of confidence levels.

Macroeconomic variables used as of January 1, 2018

	Scenario	2018	2019	2020
Gross domestic product	Base	2.4%	3.3%	3.3%
	Optimistic	4.2%	3.9%	3.6%
	Pessimistic	(3.4%)	(1.2%)	2.6%
Economically active population	Base	2.2%	1.4%	1.5%
	Optimistic	3.0%	1.7%	1.6%
	Pessimistic	(0.4%)	0.6%	2.0%
Economically active population occupied	Base	1.6%	1.7%	1.7%
	Optimistic	4.7%	2.0%	1.9%
	Pessimistic	0.9%	0.6%	2.3%
Inflation	Base	3.9%	2.3%	2.0%
	Optimistic	4.3%	2.0%	2.0%
	Pessimistic	6.1%	0.8%	1.8%
Terms of exchange	Base	(0.5%)	(0.7%)	(0.4%)
	Optimistic	(2.9%)	1.6%	0.5%
	Pessimistic	11.1%	(7.3%)	(5.4%)

Macroeconomic variables used as of December 31, 2018

	Scenario	2019	2020	2021
Gross domestic product	Base	4.6%	2.6%	3.1%
	Optimistic	6.5%	3.1%	3.2%
	Pessimistic	(1.0%)	1.8%	1.9%
Unemployment rate	Base	4.7%	(1.6%)	(1.1%)
	Optimistic	3.1%	(1.0%)	(0.6%)
	Pessimistic	25.3%	34.1%	(12.0%)
Public consumption	Base	3.8%	3.7%	3.6%
	Optimistic	10.4%	10.2%	10.2%
	Pessimistic	(2.7%)	(2.9%)	2.9%
Inflation	Base	1.9%	1.7%	2.0%
	Optimistic	0.8%	1.7%	1.1%
	Pessimistic	4.1%	2.8%	3.1%
Domestic demand	Base	4.9%	2.5%	3.1%
	Optimistic	6.8%	2.6%	5.1%
	Pessimistic	(1.3%)	0.2%	0.9%
Exchange rate	Base	(2.8%)	(1.3%)	(0.4%)
	Optimistic	(2.8%)	(1.3%)	(0.4%)
	Pessimistic	3.4%	(2.8%)	(3.2%)

The percentages presented correspond to the annual variations of the macroeconomic variables indicated above. Likewise, for the calculation of these variables, have been considered different external sources of recognized prestige.

The impact of these macroeconomic variables on the expected loss differs for each portfolio depending on the sensitivity of each of them.

As part of the review and calibration of the expected loss model, Management has estimated the expected loss of the loan portfolio as of December 31, 2018, using forward-looking information of certain economic variables other than the economic variables used at the date of adoption of IFRS 9. Management has assessed the impact that these new economic variables would have on the expected loss of the loan portfolio estimated at the adoption date, determining that said impact is not significant in the Group's consolidated financial statements.

Guarantees:

The fair value of the loan guarantees as of December 31, 2018 is presented below:

As of December 31, 2018		Fair value of the credit guarantee under the base scenario									
	Maximum exposure to credit risk S/(000)	Cash S/(000)	Investments S/(000)	Guarantees from third parties or governments S/(000)	Properties S/(000)	Others S/(000)	Compensation agreements S/(000)	Surplus of guarantee S/(000)	Total guarantee (*) S/(000)	Net exposure S/(000)	Expected loss associated S/(000)
Type of guarantee or credit improvement											
Commercial loans	16,032,068	892,911	792,218	-	10,139,704	2,609,190	-	-	14,434,023	1,598,045	194,214
Small and micro-business loans	724,383	-	-	-	-	-	-	-	-	724,383	69,030
Consumer and mortgage loans	17,298,757	-	-	-	11,100,975	-	-	-	11,100,975	6,197,782	1,099,560
	34,055,208	892,911	792,218	-	21,240,679	2,609,190	-	-	25,534,998	8,520,210	1,364,804
Indirect loans	4,071,460	25,829	122,837	-	925,802	732,831	-	-	1,807,299	2,264,161	62,051

The following table shows the analysis of the fair values of the guarantees classified in Stage 3 (2018) or impaired (2017).

		Fair value of the credit guarantee under the base scenario									
As of December 31, 2018	Maximum exposure to credit risk S/(000)	Cash S/(000)	Investments S/(000)	Guarantees from third parties or governments S/(000)	Properties S/(000)	Others S/(000)	Compensation agreements S/(000)	Surplus of guarantee S/(000)	Total guarantee (*) S/(000)	Net exposure S/(000)	Expected loss associated S/(000)
Type of guarantee or credit improvement											
Commercial loans	206,481	1	166	-	343,062	3,061	-	-	346,290	(139,809)	98,110
Small and micro-business loans	44,552	-	-	-	-	-	-	-	-	44,552	38,459
Consumer and mortgage loans	563,639	-	-	-	465,144	-	-	-	465,144	98,495	370,685
	814,672	1	166	-	808,206	3,061	-	-	811,434	3,238	507,254
Indirect loans	43,070	-	-	-	-	-	-	-	-	43,070	22,469

(*) Only for presentation purposes, corresponds to the realization value of the guarantees held by the Group as of December 31, 2018.

The following is the detail of the gross amount of credits impaired by type of credit, together with the fair value of the related guarantee and the amounts of their allowances for loan losses:

As of December 31, 2017

Impaired loans	**Commercial loans** S/(000)	**Consumer and mortgage loans** S/(000)	**Small and micro-business loans** S/(000)	**Total** S/(000)
Impaired loans	207,361	1,172,767	57,594	1,437,722
Fair value of the guarantee	174,894	357,907	47,266	580,067
Allowances for loan losses	123,419	523,744	44,076	691,239

(e) Assessment of impairment for the loan portfolio (policy applicable until December 31, 2017) -

The Group classified each client that is part of its credit portfolio in one of the following five risk categories, depending on the degree of risk of default in the payment of each debtor: (i) Normal – A, (ii) with potential problems – B, (iii) deficient – C, (iv) doubtful-D, and (v) loss-E, which had the following characteristics:

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

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

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

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

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

The Group evaluated and reviewed the classification of the debtors of its credit portfolio permanently in order to maintain an adequate risk identification, assigning the corresponding risk category.

All loans deemed impaired (those classified as deficient, doubtful or loss) were analyzed by Management, which assesses the deterioration of its portfolio at two levels: individual provision and collective provision, as follows:

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

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

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

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

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

Impairment loss was assessed at each reporting date as to whether there is any objective evidence that an asset or group of financial assets were impaired.

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

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

In accordance with the provisions of IFRS 7, the total balance of the loan was considered past due when the debtor stopped making a payment at its contractual maturity. As of December 31, 2017, loans with a value of approximately S / 807,969,000 were not impaired and had a maturity of less than 30 days.

As of December 31, 2017, refinanced loans in effect amounted to approximately S/273,448,000. The refinanced loans matured at such date amounted to S/41,724,000, of which S/4,022,000 were classified as past due but not impaired and S/37,702,000 as impaired.

In accordance with the requirements of the SBS regulations, the Group modified the contractual terms of the loans granted in areas affected by the weather phenomenon called "El Niño Costero" during the first quarter of 2017, without this modification resulting in "refinanced loans". The balance of the rescheduled loans amounted to approximately S/388,000,000, which are not considered as refinanced loans. As of December 31, 2018 and 2017, the balance of the credits reprogrammed and not considered as "refinanced loans" amounts to approximately S/109,300,000 and S/274,300,000, respectively.

(f) Credit risk management for investments -

Scoring or internal rating and PD:

For this type of financial instruments, the Group analyzes the public information available from international risk rating agencies such as: Fitch, Moody's and Standard & Poor's, and assigns a rating to each instrument.

For each rating agency, the ratings associated with higher to lower credit quality are shown:

Fitch	Moody's	Standard & Poor's
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-
CCC+	Caa1	CCC+

Finally, each instrument is assigned a PD according to the transition matrices published by Fitch.

LGD:
For those issuers that are classified in Stage 1 or Stage 2 at the reporting date, the Group uses the recovery matrix published by Moody's.

For those investments in Stage 3, an evaluation must be made to determine the severity of the expected loss according to the progress of the recovery process initiated.

EAD:
EAD represents the gross book value of the financial instruments subject to impairment. To calculate the EAD of an investment in Stage 1, possible non-compliance events are evaluated within 12 months. For financial assets in Stage 2 and Stage 3, exposure at default is determined for events throughout the life of the instrument.

Significant increase in credit risk:
The Group has assumed that the credit risk of a financial instrument has not increased significantly since the initial recognition if it is determined that the investment has a low credit risk at the reporting date, which occurs when the issuer has a strong ability to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the long term may reduce, but not necessarily, the ability of the issuer to meet its cash flow obligations contractual cash.

In accordance with the assignment of ratings to each debt instrument, the Group determines whether there is a significant increase in credit risk by comparing the rating at the date of acquisition with the rating at the reporting date, and designates the Stage in which each debt instrument is classified according to the quantitative and qualitative criteria, defined as follows:

(i) Quantitative criteria

The Group holds an investment that does not present a significant increase in risk if there is a movement of its credit risk rating within the investment grade. In case there is a movement of its credit risk rating outside the investment grade, it is deemed that the instrument presents a significant increase in risk.

(ii) Qualitative criteria

The Group periodically evaluates the following warning signs and criteria to assess whether the financial instrument presents a significant risk increase (stage 2) at the reporting date:

- Significant decrease (30 percent of its original value) and prolonged (12 months) of the market value of the investment.
- Infringements of covenants without exemption from the bondholders committee.
- Forced interventions by governments in the primary and secondary markets of the issuers.
- Linkage of the issuer in illicit, political and fraud activities.
- Impairment of collateral (underlying assets) in the case of securitized instruments (project finance).
- Delays or short and frequent breaches in the payment of coupons.
- Macroeconomic, regulatory, social, technological and environmental changes are significantly adverse.
- Other evaluations and / or alerts made by each Subsidiary (financial statements, evaluation of EBIT, Financial indicators by industry, regulatory criteria, others).

Until December 31, 2017, the Group controlled the credit risk of its available-for-sale investments and held-to-maturity investments based on the risk assessment of the issuers. In the case of foreign investments, the assessment considers the risk classifications issued by international risk rating agencies, as well as the country risk of the issuer, which is evaluated considering its main macroeconomic variables.

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

	As of December 31, 2018		As of December 31, 2017	
	S/(000)	%	S/(000)	%
Instruments issued and rated in Peru:				
AAA	874,261	5.0	1,176,330	7.0
AA- / AA+	2,308,698	13.1	1,951,211	11.5
A- / A+	321,128	1.8	345,453	2.0
BBB- / BBB+	-	-	890	0.0
BB- / BB+	4,884	0.0	60,311	0.4
	3,508,971	19.9	3,534,195	20.9
Instruments issued in Peru and rated abroad:				
A- / A+	4,619,911	26.2	3,811,758	22.5
BBB- / BBB+	2,193,074	12.4	2,428,728	14.4
BB- / BB+	139,849	0.8	173,146	1.0
B- / B+	-	-	9,211	0.1
	6,952,834	39.4	6,422,843	38.0
Instruments issued and rated abroad:				
AAA	86,364	0.5	89,852	0.5
AA- / AA+	129,972	0.7	199,760	1.2
A- / A+	334,708	1.9	283,906	1.7
BBB- / BBB+	2,246,423	12.7	1,861,354	11.0
BB- / BB+	97,925	0.6	141,736	0.8
B- / B+	3,436	0.0	-	-
Less than B-	65	0.0	-	-
	2,898,893	16.4	2,576,608	15.2
Unrated				
Certificates of deposits issued by the BCRP	1,380,479	7.8	2,124,799	12.6
Mutual funds and investment funds participations (*)	1,144,771	6.5	1,120,845	6.6
Securitized bonds	4,456	0.0	8,744	0.1
Other	309,905	1.8	166,630	1.0
Listed shares				
Peruvian and foreign entities	458,663	2.6	241,478	1.4
BioPharma Credit PLC	405,641	2.3	291,960	1.7
InRetail Perú Corp.	235,443	1.3	168,206	1.0
Non-listed shares and participations				
Royalty Pharma	78,808	0.4	68,540	0.4
LendUP	23,720	0.1	-	-
Other	1,671	0.0	1,606	-
Total	17,404,255	98.7	16,726,454	98.8
Accrued interest	225,190	1.3	197,689	1.2
Total	17,629,445	100.0	16,924,143	100.0

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

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

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

	As of December 31, 2018				
	Designated at fair value through profit or loss S/(000)	Debt instruments measured at fair value through other comprehensive income S/(000)	Equity instruments measured at fair value through other comprehensive income S/(000)	Amortized cost S/(000)	Total S/(000)
BCRP	-	1,380,479	-	4,834,307	6,214,786
Consumer loans	-	-	-	11,747,061	11,747,061
Financial services	1,294,850	1,914,500	434,870	5,212,356 (*)	8,856,576
Mortgage loans	47,842	-	-	6,416,037	6,463,879
Manufacturing	85,105	681,104	97,516	3,622,652	4,486,377
Commerce	36,352	121,758	228,122	2,875,503	3,261,735
Construction and infrastructure	6,666	2,824,885	-	668,035	3,499,586
Government of Peru	21,397	3,002,388	-	1,843,944	4,867,729
Electricity, gas, water and oil	19,102	1,091,042	75,111	894,156	2,079,411
Agriculture	8,307	27,678	3,059	1,001,789	1,040,833
Leaseholds and real estate activities	22,618	79,596	4,336	1,144,567	1,251,117
Communications, storage and transportation	11,801	221,661	-	946,585	1,180,047
Mining	5,793	376,511	-	601,893	984,197
Community services	16,440	486,304	-	2,715,245	3,217,989
Insurance	1,089	-	-	239,092	240,181
Fishing	4,588	-	2,303	253,663	260,554
Commercial and small and micro-business loans	-	-	-	171,707	171,707
Activities of foreign organizations and bodies	-	-	-	39,879	39,879
Foreign governments	-	484,516	-	-	484,516
Education, health and other services	10,877	154,037	-	241,235	406,149
Medicine and biotechnology	92,746	156,326	-	-	249,072
Public administration and defense	68,800	133,516	-	227,438	429,754
Others	2,471	7,225	-	317,076	326,772
Total	1,756,844	13,143,526	845,317	46,014,220	61,759,907
Impairment allowance for loans					(1,364,804)
Accrued interest					495,703
Total					60,890,806

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

	As of December 31, 2017				
	Financial assets designated at fair value				
	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale Investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)
BCRP	-	7,761,975	2,124,798	-	9,886,773
Consumer loans	-	9,681,178	-	-	9,681,178
Financial services	224,687	4,677,612 (*)	2,789,881	-	7,692,180
Mortgage loans	-	5,764,054	70,541	-	5,834,595
Manufacturing	13,010	3,072,624	651,585	-	3,737,219
Commerce	8,689	2,354,948	464,844	-	2,828,481
Construction and infrastructure	2,430	716,179	2,391,384	-	3,109,993
Government of Peru	-	-	2,968,289	1,221,250	4,189,539
Electricity, gas, water and oil	11,008	999,245	1,468,043	-	2,478,296
Agriculture	-	989,184	30,154	-	1,019,338
Leaseholds and real estate activities	6,989	883,547	326,258	-	1,216,794
Communications, storage and transportation	1,129	769,748	436,474	-	1,207,351
Mining	22,120	551,202	669,218	-	1,242,540
Community services	3,885	305,563	14,302	-	323,750
Insurance	1,337	288,363	333	-	290,033
Fishing	-	189,128	2,102	-	191,230
Foreign governments	-	-	402,144	-	402,144
Education, health and other services	1,221	114,721	197,606	-	313,548
Medicine and biotechnology	-	-	163,165	-	163,165
Public administration and defense	8,043	222,725	113,651	-	344,419
Others	4,280	2,053,754	4,424	-	2,062,458
Total	308,828	41,395,750	15,289,196	1,221,250	58,215,024
Impairment allowance for loans					(1,202,118)
Accrued interest					429,274
Total					57,442,180

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

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

	As of December 31, 2018				
	Designated at fair value through profit or loss S/(000)	Debt instruments measured at fair value through other comprehensive income S/(000)	Equity instruments measured at fair value through other comprehensive income S/(000)	Amortized cost S/(000)	Total S/(000)
Peru	175,400	10,308,648	410,282	43,514,628	54,408,958
United States of America	647,378	543,091	171,759	1,121,268	2,483,496
United Mexican States	10,341	909,462	-	1,349	921,152
Cayman Islands	258,394	3,333	-	84,325	346,052
Canada	9,994	-	-	183,712	193,706
Luxembourg	282,816	3,110	-	29,687	315,613
Colombia	932	500,018	-	24,685	525,635
Chile	69,336	528,708	-	49,636	647,680
Panama	-	1,421	-	310,393 (*)	311,814
Brazil	103	107,940	-	40,636	148,679
United Kingdom	184,937	37,008	261,484	21,955	505,384
Germany	382	-	-	95,141	95,523
Ireland	79,636	-	-	-	79,636
Ecuador	2,028	-	-	95,000	97,028
Belgium	-	-	138	67,343	67,481
Others	35,167	200,787	1,654	374,462	612,070
Total	1,756,844	13,143,526	845,317	46,014,220	61,759,907
Impairment allowance for loans					(1,364,804)
Accrued interest					495,703
Total					60,890,806

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

	As of December 31, 2017				
	Financial assets designated at fair value				
	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale Investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)
Peru	196,555	39,645,712	11,229,972	1,221,250	52,293,489
United States of America	48,454	746,025	1,146,596	-	1,941,075
United Mexican States	10,013	2,475	875,016	-	887,504
Colombia	6,913	26,811	414,534	-	448,258
Chile	-	35,199	377,380	-	412,579
Panama	-	273,183 (*)	35,206	-	308,389
Brazil	102	113,240	243,149	-	356,491
United Kingdom	6,030	11,423	315,028	-	332,481
Germany	2,268	119,256	-	-	121,524
Ireland	19,303	-	99,234	-	118,537
Supranational	-	-	106,268	-	106,268
Ecuador	10	97,928	-	-	97,938
Belgium	-	12,858	133	.	12,991
Others	19,180	311,640	446,680	-	777,500
Total	308,828	41,395,750	15,289,196	1,221,250	58,215,024
Impairment allowance for loans					(1,202,118)
Accrued interest					429,274
Total					57,442,180

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

(h) Offsetting of financial assets and liabilities -

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

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

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

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

The Group receives and delivers guarantees in the form of cash with respect to transactions with derivatives; see Note 5.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2018 and 2017:

	Gross amounts of recognized financial assets S/(000)	Gross amounts of recognized financial liabilities and offset in the consolidated statements of financial position S/(000)	Net amounts of financial assets presented in the consolidated statements of financial position S/(000)	Related amounts not offset in the consolidated statements of financial position: Financial instruments (including non-cash collateral) S/(000)	Related amounts not offset in the consolidated statements of financial position: Cash collateral received S/(000)	Net amount S/(000)
2018						
Description						
Derivatives, Note 11(b)	185,376	-	185,376	(41)	-	185,335
Total	185,376	-	185,376	(41)	-	185,335
2017						
Description						
Derivatives, Note 11(b)	92,820	-	92,820	(20,010)	-	72,810
Total	92,820	-	92,820	(20,010)	-	72,810

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2018 and 2017:

	Gross amounts of recognized financial liabilities S/(000)	Gross amounts of recognized financial assets and offset in the consolidated statements of financial position S/(000)	Net amounts of financial liabilities presented in the consolidated statements of financial position S/(000)	Related amounts not offset in the consolidated statements of financial position: Financial instruments (including non-cash collateral) S/(000)	Related amounts not offset in the consolidated statements of financial position: Cash collateral pledged S/(000)	Net amount S/(000)
2018						
Description						
Derivatives, Note 11(b)	154,116	-	154,116	(41)	(92,456)	61,619
Total	154,116	-	154,116	(41)	(92,456)	61,619
2017						
Description						
Derivatives, Note 11(b)	133,921	-	133,921	(20,010)	(90,093)	23,818
Total	133,921	-	133,921	(20,010)	(90,093)	23,818

31.2 Market risk management

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

The Group separates its exposure to market risk into two blocks: (i) the one that arises from the fluctuation of the value of the trading investment portfolios, due to movements of market rates or prices ("Trading Book") and; (ii) the one that arises from the changes in the structural positions ("Banking Book") due to movements in interest rates, prices and exchange rates.

(a) Trading Book -

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

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

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

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

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

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

	2018 S/(000)	2017 S/(000)
Equity investments	(41,075)	18,844
Debt investments	4,955	13,970
Derivatives	30,291	15,708
Diversification effect	(25,853)	(27,038)
Consolidated VaR by type of asset (*)	(31,682)	21,484

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

	2018 S/(000)	2017 S/(000)
Exchange rate risk	682	2,285
Interest rate risk	13,138	6,525
Price risk	(40,857)	18,839
Diversification effect	(4,645)	(6,165)
Consolidated VaR by type of risk (*)	(31,682)	21,484

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

(b) Banking Book -

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

(i) Interest rate risk

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

Repricing gap

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

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

	As of December 31, 2018						
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	More than 5 years S/(000)	Non-interest bearing S/(000)	Total S/(000)
Financial assets							
Cash and due from banks	3,906,236	825,326	510,512	36,087	-	3,102,250	8,380,411
Inter-bank funds	495,037	-	-	-	-	-	495,037
Investments at fair value through other comprehensive income	455,279	681,102	1,628,586	5,174,381	5,785,617	448,945	14,173,910
Investments at amortized cost	-	40,125	-	661,455	1,182,487	-	1,884,067
Loans, net	4,068,510	3,711,803	6,712,551	14,466,596	4,552,542	(551,085)	32,960,917
Accounts receivable and other assets, net	144,800	243,632	119,893	76,334	82,789	3,522,813	4,190,261
Total assets	9,069,862	5,501,988	8,971,542	20,414,853	11,603,435	6,522,923	62,084,603
Financial liabilities							
Deposits and obligations	21,343,198	1,865,574	3,541,866	1,495,507	114,780	5,321,025	33,681,950
Due to banks and correspondents	710,945	1,194,249	894,641	685,258	808,268	-	4,293,361
Bonds, notes and other obligations	177,602	192,641	935,070	4,034,094	1,157,371	-	6,496,778
Insurance contract liabilities	79,169	156,334	699,678	3,125,961	6,239,326	-	10,300,468
Accounts payable, provisions and other liabilities	129,763	111,198	84,968	31,786	6,172	1,367,552	1,731,439
Equity	16,117	-	-	1,030	-	7,071,329	7,088,476
Total liabilities and equity	22,456,794	3,519,996	6,156,223	9,373,636	8,325,917	13,759,906	63,592,472
Off- balance sheet accounts							
Derivatives held as hedge assets	-	168,650	134,920	1,416,660	-	-	1,720,230
Derivatives held as hedge liabilities	-	-	-	1,720,230	-	-	1,720,230
	-	168,650	134,920	(303,570)	-	-	-
Marginal gap	(13,386,932)	2,150,642	2,950,239	10,737,647	3,277,518	(7,236,983)	(1,507,869)
Cumulative gap	(13,386,932)	(11,236,290)	(8,286,051)	2,451,596	5,729,114	(1,507,869)	-

	As of December 31, 2017						
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	More than 5 years S/(000)	Non-interest bearing S/(000)	Total S/(000)
Financial Assets							
Cash and due from banks	6,548,959	1,485,381	112,435	94,983	-	2,963,085	11,204,843
Inter-bank funds	403,526	-	-	-	-	-	403,526
Available-for-sale investments	434,120	1,375,908	1,233,907	3,827,066	6,885,360	1,703,299	15,459,660
Held-to-maturity investments	-	27,223	-	193,998	1,027,254	-	1,248,475
Loans, net	3,535,147	3,303,452	5,819,868	10,623,790	5,351,888	(429,977)	28,204,168
Accounts receivable and other assets, net	21,172	152,662	51,476	-	92,267	3,249,853	3,567,430
Total assets	10,942,924	6,344,626	7,217,686	14,739,837	13,356,769	7,486,260	60,088,102
Financial liabilities							
Deposits and obligations	20,871,597	2,585,304	3,592,924	736,067	29,953	4,791,792	32,607,637
Inter-bank funds	592,017	16,070	1,839,099	1,089,558	870,648	-	4,407,392
Due to banks and correspondents	30,008	-	-	-	-	-	30,008
Bonds, notes and other obligations	152,722	19,783	49,733	2,943,835	2,436,285	-	5,602,358
Insurance contract liabilities	74,098	147,504	657,369	3,008,814	6,822,058	(195,339)	10,514,504
Accounts payable, provisions and other liabilities	70,630	122,290	51,931	22,464	133,342	865,298	1,265,955
Equity	-	-	-	-	-	5,836,907	5,836,907
Total liabilities and equity	21,791,072	2,890,951	6,191,056	7,800,738	10,292,286	11,298,658	60,264,761
Off- balance sheet accounts							
Derivatives held as hedge assets	291,690	162,050	-	64,820	-	-	518,560
Derivatives held as hedge liabilities	162,050	-	291,690	64,820	-	-	518,560
	129,640	162,050	(291,690)	-	-	-	-
Marginal gap	(10,718,508)	3,615,725	734,940	6,939,099	3,064,483	(3,812,398)	(176,659)
Cumulative gap	(10,718,508)	(7,102,783)	(6,367,843)	571,256	3,635,739	(176,659)	-

Sensitivity to changes in interest rates

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

In the case of Interbank, the exposure to the interest rate is supervised by the ALCO Committee, which analyzes and monitors the results of the asset and liability management strategies and decisions implemented. Likewise, it defines the strategies and analyzes the sources of financing, as well as the coverage of the balance executed by the Bank. In particular, the latter could be considered to cover the exposure due to the variation in cash flows attributed to changes in variable market rates, to fix the cost of funds considering the global context of future movement of rates in the currencies under evaluation, to transform the cost of funds from foreign currency to the functional currency, among other casuistic as reviewed and approved by the Committee, considering the risk limits.

In this regard, the effect of movements in interest rates is analyzed on the basis of the Regulatory Model and takes into account: (i) the financial margin for the next 12 months or Earning at Risk (EaR) and (ii) the Equity Value at Risk (EVaR), as detailed below:

- Earning at risk, calculated as a percentage of the effective equity, establishes the legal limit of 5 percent and an early warning of 4 percent.
- Value at Risk, calculated as a percentage of the effective equity, establishes the internal limit of 15 percent and an early warning of 13 percent.

Thus, interest rate risk is managed and controlled by monitoring the aforementioned indicators, which allows Management to assess the potential effect of interest rates movements on the Group's financial margin and thus manage the terms and the fixed and/or variable yields generated by the financial instruments held by the Group, including strategies on the derivative financial instruments designated as hedge accounting; see Note 31.2(b)(i).

For its part, the GIR Committee is in charge of approving levels of structural interest-rate risk capacity and appetite, which are detailed in the Bank's Risk Appetite Framework.

In the case of Interseguro and Inteligo Bank, their Boards establish limits, which are controlled by their respective Investment Risk Unit.

The effects of the estimated changes in interest rates are as follows:

	As of December 31, 2018				
Currency	Changes in basis points	Sensitivity of net income S/(000)		Sensitivity of other net comprehensive income S/(000)	
US Dollar	+/-25	+/-	5,331	+/-	14,381
US Dollar	+/-50	+/-	10,662	+/-	34,822
US Dollar	+75	+	15,994	+	61,365
US Dollar	+100	+	21,325	+	94,077
Sol	+/-50	-/+	19,032	-/+	115,524
Sol	+/-75	-/+	28,549	-/+	191,921
Sol	+/-100	-/+	38,065	-/+	280,145
Sol	+/-150	-/+	57,097	-/+	493,870

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

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

Sensitivity to price variation

Shares classified as investments at fair value through other comprehensive income, for the year 2018, and available-for-sale investments in shares and in mutual funds, for the year 2017, are not considered as part of the investments for interest rate sensitivity calculation purposes. However, a calculation of sensitivity in market prices and the effect on expected unrealized gain or loss in the consolidated statements of other comprehensive income, before Income Tax and non-controlling interest, as of December 31, 2018 and 2017, is presented below:

	Changes in market price %	**2018** S/(000)	**2017** S/(000)
Shares	+/-10	84,532	74,698
Shares	+/-25	211,329	186,745
Shares	+/-30	253,595	224,094
Mutual funds and investment funds participations	+/-10	-	95,632
Mutual funds and investment funds participations	+/-25	-	239,079
Mutual funds and investment funds participations	+/-30	-	286,895

(ii) Foreign exchange risk

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

As of December 31, 2018, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.369 per US$1 bid and S/3.379 per US$1 ask (S/3.238 and S/3.245 as of December 31, 2017, respectively). As of December 31, 2018, the exchange rate for the accounting of asset and liability accounts in foreign currency set by the SBS was S/3.373 per US$1 (S/3.241 as of December 31, 2017).

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

	As of December 31, 2018			
	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Assets				
Cash and due from banks	6,802,749	1,224,791	352,871	8,380,411
Inter-bank funds	-	495,037	-	495,037
Financial investments	7,670,084	9,941,459	17,902	17,629,445
Loans, net	10,048,173	22,912,744	-	32,960,917
Due from customers on acceptances	112,653	-	20,308	132,961
Accounts receivable and other assets, net	154,643	1,102,800	34,592	1,292,035
	24,788,302	35,676,831	425,673	60,890,806
Liabilities				
Deposits and obligations	13,584,983	19,807,644	289,323	33,681,950
Due to banks and correspondents	1,046,545	3,246,816	-	4,293,361
Bonds, notes and other obligations	6,110,077	386,701	-	6,496,778
Due from customers on acceptances	112,653	-	20,308	132,961
Insurance contract liabilities	4,072,811	6,227,657	-	10,300,468
Accounts payable, provisions and other liabilities	215,093	1,297,074	9,593	1,521,760
	25,142,162	30,965,892	319,224	56,427,278
Forwards position, net	(629,147)	685,813	(56,666)	-
Currency swaps position, net	(59,991)	59,991	-	-
Cross currency swaps position, net	1,724,081	(1,724,081)	-	-
Options position, net	81	(81)	-	-
Monetary position, net	681,164	3,732,581	49,783	4,463,528

	As of December 31, 2017			
	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Assets				
Cash and due from banks	9,497,021	1,385,533	322,289	11,204,843
Inter-bank funds	113,449	290,077	-	403,526
Financial investments	7,131,951	9,691,509	100,683	16,924,143
Loans, net	8,566,434	19,637,734	-	28,204,168
Due from customers on acceptances	21,138	-	20,577	41,715
Accounts receivable and other assets, net	166,001	497,043	741	663,785
	25,495,994	31,501,896	444,290	57,442,180
Liabilities				
Deposits and obligations	14,469,686	17,877,317	260,634	32,607,637
Inter-bank funds	-	30,008	-	30,008
Due to banks and correspondents	1,031,657	3,375,735	-	4,407,392
Bonds, notes and other obligations	5,215,011	387,347	-	5,602,358
Due from customers on acceptances	21,138	-	20,577	41,715
Insurance contract liabilities	4,142,822	6,371,682	-	10,514,504
Accounts payable, provisions and other liabilities	145,774	932,020	81,630	1,159,424
	25,026,088	28,974,109	362,841	54,363,038
Forwards position, net	(406,225)	458,390	(52,165)	-
Currency swaps position, net	54,369	(54,369)	-	-
Cross currency swaps position, net	295,391	(295,391)	-	-
Options position, net	(388)	388	-	-
Monetary position, net	413,053	2,636,805	29,284	3,079,142

As of December 31, 2018, the Group granted indirect loans (contingent operations) in foreign currency for approximately US$696,510,000, equivalent to S/2,349,328,000 (US$673,040,000, equivalent to S/2,181,322,000 as of December 31, 2017); see Note 19.

The Group manages the exchange rate risk through the matching of its active and passive operations, supervising its global exchange position on a daily basis. The global exchange position of the Group is equivalent to long positions minus short positions in currencies other than the Sol. The global exchange position includes balance positions (spot) and also the positions in derivatives, including the positions of derivatives that have been designated as accounting hedges with the purpose of covering the exposure due to the variation of the exchange rate; see Note11(b). Any depreciation/appreciation of the foreign currency would affect the consolidated income statements. An imbalance in the monetary position would make the Group's consolidated statements of financial position vulnerable to the fluctuation of the foreign currency (exchange rate shock).

The table below shows the analysis of variations of the US Dollar, the main currency to which the Group has exposure as of December 31, 2018 and 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 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, while a positive amount reflects a net potential increase:

Sensitivity analysis	**Changes in currency rates**	**2018**	**2017**
	%	S/(000)	S/(000)
Devaluation			
US Dollar	5	(746)	51,084
US Dollar	10	(1,492)	102,168
US Dollar	15	(2,238)	153,252
Revaluation			
US Dollar	5	746	(51,084)
US Dollar	10	1,492	(102,168)
US Dollar	15	2,238	(153,252)

31.3 Liquidity risk

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

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

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

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

In the case of Interseguro, it is exposed to requirements other than their cash resources, mainly claims resulting from their short-term insurance contracts. The Board of Directors of the company establishes limits on the minimum proportion of the maturity funds available to meet these requirements and in a minimum level of lines of credit that must be available to cover claims at unexpected claim levels.

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

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

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

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

	As of December 31, 2018					
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	Over 5 years S/(000)	Total S/(000)
Financial liabilities by type						
Deposits and obligations	24,873,630	1,984,220	3,808,988	3,061,274	154,111	33,882,223
Inter-bank funds	-	-	-	-	-	-
Due to banks and correspondents	712,677	1,059,913	880,594	1,318,561	1,067,524	5,039,269
Bonds, notes and other obligations	34,249	208,164	330,916	5,239,468	2,113,760	7,926,557
Due from customers on acceptances	59,576	16,715	56,670	-	-	132,961
Insurance contract liabilities	79,169	156,334	699,678	3,125,961	14,620,567	18,681,709
Accounts payable, provisions and other liabilities	588,655	228,554	92,484	92,790	365,161	1,367,644
Total non-derivative financial liabilities	26,347,956	3,653,900	5,869,330	12,838,054	18,321,123	67,030,363
Derivatives held for trading (*)						
Contractual amounts receivable (inflow)	595,238	290,639	527,875	1,807,669	1,105,214	4,326,635
Contractual amounts payable (outflow)	599,834	285,191	534,057	1,884,932	1,115,125	4,419,139
Total	(4,596)	5,448	(6,182)	(77,263)	(9,911)	(92,504)
Derivatives held as hedge (**)						
Contractual amounts receivable (inflow)	20,697	1,445	30,454	1,886,368	-	1,938,964
Contractual amounts payable (outflow)	29,208	1,567	38,478	1,869,967	7,623	1,946,843
Total	(8,511)	(122)	(8,024)	16,401	(7,623)	(7,879)

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

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

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

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

	2018 S/(000)	2017 S/(000)
Contingent credits (indirect loans)		
Up to 1 month	1,027,549	1,000,114
From 1 to 3 months	928,192	951,336
From 3 to 12 months	1,987,444	2,195,620
From 1 to 5 years	127,890	118,650
Over 5 years	385	775
Total	4,071,460	4,266,495

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

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

	2018					
	Balance as of January 1 S/(000)	Dividends payable S/(000)	Cash flow S/(000)	Effect of movement in exchange rate S/(000)	Others S/(000)	Balance as of December 31 S/(000)
Payable inter-bank funds	30,008	-	(30,008)	-	-	-
Bonds, notes and other obligations	5,602,358	-	585,139	274,957	34,324	6,496,778
Dividends payable	187	510,784	(510,688)	-	-	283
Total liabilities for financing activities	5,632,553	510,784	44,443	274,957	34,324	6,497,061

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

31.4 Operational risk

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

31.5 Insurance risk management

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

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

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

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

(a) Life insurance contracts -

Interseguro has developed its insurance underwriting strategy in order to diversify the type of insurance risks accepted. Factors that aggravate the insurance risk include lack of risk diversification in terms of type and amount of risk and geographic location. The underwriting strategy aims to ensure that underwriting risks are well diversified in terms of type and amount of risk. Underwriting limits serve to implement the selection criteria for appropriate risk. As of December 31, 2018 and 2017, most of the insurance contracts entered into by Interseguro are located in the city of Lima.

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

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

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

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

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

(b) Real estate risk management -

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

Additionally, Interseguro has identified the following risks associated to its real estate portfolios:

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

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

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

31.6 Capital management

The Group manages in an active manner a capital base in order to cover the risks inherent to its activities. Capital adequacy of the Group is monitored by using regulations and ratios established by the different regulators; see Note 17(f).

32. Fair value

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

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

	As of December 31, 2018			
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Financial assets				
Financial investments				
At fair value through profit or loss	811,238	352,273	407,957	1,571,468
Debt instruments measured at fair value through other comprehensive income	9,822,970	3,320,556	-	13,143,526
Equity instruments measured at fair value through other comprehensive income	843,646	1,671	-	845,317
Derivatives receivable	-	185,376	-	185,376
	11,477,854	3,859,876	407,957	15,745,687
Accrued interest				185,066
Total financial assets				15,930,753
Financial liabilities				
Accounts payable by derivatives	-	154,116	-	154,116

	As of December 31, 2017			
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Financial asset				
Financial investment				
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 investments funds participations	185,079	580,383	190,855	956,317
Shares of the private sector, foreign entities and others	676,832	1,607	68,540	746,979
Derivatives receivable	-	92,820	-	92,820
	10,334,196	5,002,091	261,737	15,598,024
Accrued interest				170,464
Total financial assets				15,768,488
Financial liabilities				
Derivatives payable	-	133,921	-	133,921

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 on the market. Fair value is estimated using a discounted cash flow (DCF) model. The valuation requires Management to make certain assumptions about the model variables and data, including the forecast of cash flow, discount rate, credit risk and volatility.

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

	Valuation technique	Significant unobservable inputs	Valuation	Sensitivity of inputs to fair value
Royalty Pharma	DCF Method	Sales forecast	Average sector analysis, estimates	10 percent increase (decrease) in the sales forecast would result in increase (decrease) in fair value by S/9,282,000.
		WACC	8.0%	500 basis points increase in the WACC would result in decrease in fair value by S/16,453,000. 500 basis points decrease in the WACC would result in increase in fair value by S/23,884,000.
Mutual funds and investment funds participations	DCF Method	Discount rate	Depends on the credit risk	500 basis points increase in the discount rate would result in decrease in fair value by S/6,102,000. 500 basis points decrease in the discount rate would result in increase in fair value by S/7,967,000.
		WACC	9.0%	500 basis points increase in the WACC would result in decrease in fair value by S/2,574,000. 500 basis points decrease in the WACC would result in increase in fair value by S/3,245,000.
	Comparable multiples	Price-to-sales ratio	Depends on industry's entity	10 percent increase (decrease) in the price-to-sales ratio would result in increase (decrease) in fair value by S/2,557,000.
	Equity value		Depends on the credit risk	500 basis points increase (decrease) in the equity value would result in increase (decrease) in fair value by S/462,000.

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

	2018 S/(000)	2017 S/(000)
Initial balance as of January 1	261,737	331,729
Purchases	151,231	110,816
Sales	(61,328)	(169,305)
Total gain recognized on the consolidated income statements	56,317	-
Valuation recognized in the consolidated statements of other comprehensive income	-	(11,503)
Balance as of December 31	407,957	261,737

As of December 31, 2017, the unrealized gain on Level 3 financial instruments amounts to S/26,562,000 and the unrealized loss amounts to S/945,000. During 2017, there were no transfers of financial instruments from Level 3 to Level 1 or to Level 2.

(b) Financial instruments not measured at their fair value -

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

	As of December 31, 2018					As of December 31, 2017				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	8,380,411	-	8,380,411	8,380,411	-	11,204,843	-	11,204,843	11,204,843
Inter-bank funds	-	495,037	-	495,037	495,037	-	403,526	-	403,526	403,526
Held-to-maturity investments	-	-	-	-	-	879,559	423,637	-	1,303,196	1,248,475
Investments at amortized cost	700,177	1,156,148	-	1,856,325	1,884,067	-	-	-	-	-
Loans, net	-	33,276,930	-	33,276,930	32,960,917	-	29,019,417	-	29,019,417	28,204,168
Due from customers on acceptances	-	132,961	-	132,961	132,961	-	41,715	-	41,715	41,715
Accounts receivable and other assets, net	-	1,106,659	-	1,106,659	1,106,659	-	570,965	-	570,965	570,965
Total	700,177	44,548,146	-	45,248,323	44,960,052	879,559	41,664,103	-	42,543,662	41,673,692
Liabilities										
Deposits and obligations	-	33,699,626	-	33,699,626	33,681,950	-	32,629,914	-	32,629,914	32,607,637
Inter-bank funds	-	-	-	-	-	-	30,008	-	30,008	30,008
Due to banks and correspondents	-	4,291,346	-	4,291,346	4,293,361	-	4,434,484	-	4,434,484	4,407,392
Bonds, notes and notes issued	5,569,970	895,427	-	6,465,397	6,496,778	5,244,757	735,428	-	5,980,185	5,602,358
Due from customers on acceptances	-	132,961	-	132,961	132,961	-	41,715	-	41,715	41,715
Insurance contract liabilities	-	10,300,468	-	10,300,468	10,300,468	-	10,709,843	-	10,709,843	10,709,843
Accounts payable and other liabilities	-	1,367,644	-	1,367,644	1,367,644	-	1,025,303	-	1,025,503	1,025,503
Total	5,569,970	50,687,472	-	56,257,442	56,273,162	5,244,757	49,606,895	-	54,851,652	54,424,456

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

(i) Long-term fixed-rate and variable-rate loans are assessed by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these loans. As of December 31, 2018 and 2017, the book value of loans, net of allowances, was not significantly different from the 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 appropriate interest rate for the remaining term to maturity.

33. Fiduciary activities and management of funds

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

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

	2018 S/(000)	2017 S/(000)
Investment funds	12,924,575	11,982,512
Mutual funds	4,668,076	4,247,369
Total	17,592,651	16,229,881

34. Subsequent events

- On December 18, 2018, the Board of Directors of Interbank approved the sale of 100 percent of the shares representing the capital stock of Interfondos S.A., Sociedad Administradora de Fondos in favor of Inteligo Perú Holding S.A.C., a subsidiary of Inteligo Group Corp. The transaction was performed through the signing of a purchase and sale contract dated January 8, 2019, between the Bank and Inteligo Perú Holding S.A.C. for 100 percent of the shares of Interfondos S.A. The purchase value amounted to US$30,000,000. This transaction was considered as a transaction under common control and did not generate effects in the consolidated financial statements of the Group.

- On January 28, 2019, Interseguro made the First Issuance, Single Series, of the Third Program of subordinated bonds on the local market for US$20,000,000 (equivalent to S/67,060,000). This bond expires in January 2029, and the agreed annual interest rate was 6 percent.

35. 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.