

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of March 31, 2019, December 31, 2018 and for the quarters ended March 31, 2019 and 2018

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InterCorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of March 31, 2019 and December 31, 2018

	Note	31.03.2019 S/(000)	31.12.2018 S/(000)		Note	31.03.2019 S/(000)	31.12.2018 S/(000)
Assets				Liabilities and equity			
Cash and due from banks	4(a)			Deposits and obligations	9		
Non-interest bearing		2,280,873	3,102,250	Non-interest bearing		7,179,404	5,321,025
Interest bearing		6,532,517	3,991,629	Interest bearing		<u>27,610,596</u>	<u>28,360,925</u>
Restricted funds		<u>847,223</u>	<u>1,286,532</u>			34,790,000	33,681,950
		9,660,613	8,380,411				
Inter-bank funds	4(e)	70,017	495,037	Inter-bank funds		106,524	-
Financial investments	5	17,852,773	17,629,445	Due to banks and correspondents	10	3,726,119	4,293,361
Loans, net:	6			Bonds, notes and other obligations	11	6,663,213	6,496,778
Loans, net of unearned interest		35,018,985	34,325,721	Due from customers on acceptances		89,748	132,961
Impairment allowance for loans		<u>(1,396,243)</u>	<u>(1,364,804)</u>	Insurance contract liabilities	12	10,001,253	10,300,468
		33,622,742	32,960,917	Accounts payable, provisions and other liabilities	8	2,246,543	1,750,363
				Deferred Income Tax liability, net		<u>62</u>	<u>52</u>
				Total liabilities		57,623,462	56,655,933
				Equity, net	13		
				Equity attributable to IFS's shareholders:			
Investment property	7	989,595	986,538	Capital stock		963,446	963,446
Property, furniture and equipment, net		948,512	622,525	Treasury stock		(208,178)	(208,178)
Due from customers on acceptances		89,748	132,961	Capital surplus		268,077	268,077
Intangibles and goodwill, net		946,793	954,546	Reserves		4,700,000	4,700,000
Accounts receivable and other assets, net	8	1,493,648	1,502,554	Unrealized results, net		812,562	121,686
Deferred Income Tax asset, net		81,765	79,475	Retained earnings		<u>1,556,198</u>	<u>1,203,043</u>
						8,092,105	7,048,074
				Non-controlling interest		<u>40,639</u>	<u>40,402</u>
						8,132,744	7,088,476
				Total equity, net		<u>8,132,744</u>	<u>7,088,476</u>
Total assets		<u>65,756,206</u>	<u>63,744,409</u>	Total liabilities and equity, net		<u>65,756,206</u>	<u>63,744,409</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of income

For the quarters ended March 31, 2019 and 2018

	Note	31.03.2019 S/(000)	31.03.2018 S/(000)
Interest and similar income	15	1,166,740	1,036,275
Interest and similar expenses	15	(335,785)	(266,895)
Net interest and similar income		830,955	769,380
Impairment loss on loans, net of recoveries	6(d)	(186,414)	(172,885)
Recovery due to impairment of financial investments	5(b.1)	1,887	2,258
Net interest and similar income after impairment loss		646,428	598,753
Other income			
Fee income from financial services, net	16	222,998	216,597
Net gain on foreign exchange transactions		41,306	40,878
Net gain on sale of financial investments		29,917	25,262
Net gain on financial assets at fair value through profit or loss		37,061	13,170
Net gain on investment property	7(b)	11,874	3,175
Other income	17	18,730	14,412
Total other income		361,886	313,494
Insurance premiums and claims			
Net premiums earned	18	97,963	96,271
Net claims and benefits incurred for life insurance contracts and others	19	(172,037)	(175,138)
Total net premiums earned less claims and benefits		(74,074)	(78,867)
Other expenses			
Salaries and employee benefits	20	(195,375)	(182,433)
Administrative expenses	21	(176,719)	(180,440)
Depreciation and amortization		(62,904)	(37,620)
Other expenses	17	(46,718)	(43,371)
Total other expenses		(481,716)	(443,864)
Income before translation result and Income Tax		452,524	389,516
Translation result		10,091	5,987
Income Tax		(109,890)	(105,519)
Net profit for the period		352,725	289,984
Attributable to:			
IFS's shareholders		350,568	288,209
Non-controlling interest		2,157	1,775
		352,725	289,984
Earnings per share attributable to IFS's shareholders basic and diluted (stated in Soles)	22	3.167	2.628
Weighted average number of outstanding shares (in thousands)	22	110,692	109,655

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 quarters ended March 31, 2019 and 2018

	31.03.2019	31.03.2018
	S/(000)	S/(000)
Net profit for the period	352,725	289,984
Other comprehensive income that will not be reclassified to the consolidated statements of income in subsequent periods		
Revaluation of gains (loss) on equity instruments at fair value through other comprehensive income	<u>57,378</u>	<u>(9,039)</u>
Total gain (loss) that will not be reclassified to the consolidated statements of income	<u>57,378</u>	<u>(9,039)</u>
Other comprehensive income to be reclassified to the consolidated statements of income in subsequent periods		
Net movement of debt instruments at fair value through other comprehensive income	<u>394,719</u>	<u>21,392</u>
Insurance premiums reserve	<u>257,884</u>	<u>20,793</u>
Net movement of cash flow hedges	<u>(5,507)</u>	<u>410</u>
Translation of foreign operations	<u>(12,254)</u>	<u>(2,871)</u>
Total unrealized gain to be reclassified to the consolidated statements of income in subsequent periods	<u>634,842</u>	<u>39,724</u>
Total other comprehensive income for the period, net of Income Tax	<u>1,044,945</u>	<u>320,669</u>
Attributable to:		
IFS's shareholders	1,041,444	318,224
Non-controlling interest	<u>3,501</u>	<u>2,445</u>
	<u>1,044,945</u>	<u>320,669</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of changes in equity

For the quarters ended March 31, 2019 and 2018

	Number of shares		Attributable to IFS's shareholders												Non-controlling interest	Total equity, net
			Unrealized results, net										Total			
	Issued	In treasury	Capital stock	Treasury stock	Capital surplus	Reserves	Instruments that will not be reclassified to the consolidated statements of income	Instruments that will be reclassified to the consolidated statements of income				Retained earnings				
(in thousands)	(in thousands)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	Equity instruments at fair value	Debt instruments at fair value	Insurance premiums reserves	Cash flow hedges reserve	Foreign currency translation reserve	S/(000)	S/(000)	S/(000)		
Balances as of January 1, 2018	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 period	-	-	-	-	-	-	-	-	-	-	-	288,209	288,209	1,775	289,984	
Other comprehensive income	-	-	-	-	-	-	(9,039)	20,769	20,759	397	(2,871)	-	30,015	670	30,685	
Total other comprehensive income	-	-	-	-	-	-	(9,039)	20,769	20,759	397	(2,871)	288,209	318,224	2,445	320,669	
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,825)	(2,825)	
Sale of treasury stock, Note 13(b)	-	3,010	-	259,022	-	-	-	-	-	-	-	123,705	382,727	862	383,589	
Others	-	-	-	-	-	-	-	-	-	-	-	(40,445)	(40,445)	(1,568)	(42,013)	
Balance as of March 31, 2018	113,110	(2,418)	963,446	(208,178)	268,077	3,700,000	96,580	259,117	(654,336)	361	73,523	1,879,143	6,377,733	34,694	6,412,427	
Balances as of January 1, 2019	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	
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	350,568	350,568	2,157	352,725	
Other comprehensive income	-	-	-	-	-	-	57,378	393,740	257,460	(5,447)	(12,254)	-	690,876	1,344	692,220	
Total other comprehensive income	-	-	-	-	-	-	57,378	393,740	257,460	(5,447)	(12,254)	350,568	1,041,444	3,501	1,044,945	
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,228)	(3,228)	
Others	-	-	-	-	-	-	-	-	-	-	-	2,587	2,587	(36)	2,551	
Balance as of March 31, 2019	113,110	(2,418)	963,446	(208,178)	268,077	4,700,000	204,932	161,403	333,035	22,464	90,729	1,556,198	8,092,105	40,639	8,132,744	

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 quarters ended March 31, 2019 and 2018

	31.03.2019	31.03.2018
	S/(000)	S/(000)
Cash flows from operating activities		
Net profit for the period	352,725	289,984
Plus (minus) adjustments to the period's profit		
Impairment loss on loans, net of recoveries	186,414	172,885
Recovery due to impairment of financial investments	(1,887)	(2,258)
Depreciation and amortization	62,904	37,620
Provision for sundry risk	3,190	473
Deferred Income Tax	(5,579)	(14,319)
Net gain on sale of financial investments	(29,917)	(25,262)
Net gain on financial assets at fair value through profit or loss	(37,061)	(13,170)
Net (gain) loss for the valuation of investment property	(1,322)	5,106
Translation result	(10,091)	(5,987)
Net gain on sale of investment property	-	(1,559)
Increase in accrued interest receivable	(2,805)	(8,398)
Increase in accrued interest payable	17,183	38,644
Net changes in assets and liabilities		
Net increase in loans	(826,104)	(782,861)
(Decrease) increase in accounts receivable and other assets	(115,396)	(17,179)
Net decrease in restricted funds	442,710	20,097
Increase (decrease) in deposits and obligations	1,095,076	(1,383,929)
Decrease in due to banks and correspondents	(570,671)	(265,961)
Increase (decrease) in accounts payable, provisions and other liabilities	113,597	(40,381)
Decrease (increase) of investments at fair value through profit or loss	35,061	(184,226)
Net cash generated by (used in) operating activities	<u>708,027</u>	<u>(2,180,681)</u>

Consolidated statements of cash flows (continued)

	31.03.2019	31.03.2018
	S/(000)	S/(000)
Cash flows from investing activities		
Sale (purchase) of investments at fair value through other comprehensive income and at amortized cost	258,457	(890,527)
Purchase of property, furniture and equipment	(14,435)	(6,663)
Purchase of intangible assets	(20,992)	(11,618)
Purchase of investment property	(10,283)	(22,546)
Sale of investment property	-	194,080
	<u>212,747</u>	<u>(737,274)</u>
Cash flows from financing activities		
Issuance of bonds, notes and other obligations	360,318	649,001
Payment of bonds, notes and other obligations	(116,130)	-
Net increase in payable inter-bank funds	106,524	99,531
Net decrease in receivable inter-bank funds	425,020	224,472
Sale of treasury stock, net	-	382,727
Dividends payed to non-controlling interest	(3,228)	(2,825)
	<u>412,186</u>	<u>703,905</u>
Net increase (decrease) in cash and cash equivalents	1,693,278	(1,565,049)
Translation gain (loss) on cash and cash equivalents	23,947	(2,755)
Cash and cash equivalents at the beginning of the period	<u>7,087,062</u>	<u>9,225,617</u>
	<u>8,804,287</u>	<u>7,657,813</u>
Cash and cash equivalents at the end of the period		

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

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of March 31, 2019 and December 31, 2018

1. Business activity and business combinations

1.1 Business activity

Intercorp Financial Services Inc. and Subsidiaries (henceforth "IFS", "the Company" or "the Group") is a limited liability holding company incorporated in the Republic of Panama on September 19, 2006 and is a Subsidiary of Intercorp Perú Ltd. (henceforth "Intercorp Perú"), a holding Company incorporated in 1997 in the Commonwealth of the Bahamas. As of March 31, 2019 and December 31, 2018, Intercorp Perú holds 76.46 percent of IFS's capital stock, equivalent 75.94 percent of outstanding capital stock.

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

As of March 31, 2019 and 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") and 100 percent of the capital stock of Inteligo Group Corp. (henceforth "Inteligo").

Interbank and Interseguro operate in Peru, while Inteligo and its subsidiaries (Inteligo Sociedad Agente de Bolsa S.A., Inteligo Bank Ltd., Inteligo Perú Holdings S.A.C., Interfondos S.A. Sociedad Administradora de Fondos and Inteligo USA, Inc.) mainly 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 accompanying consolidated financial statements as of March 31, 2019, were approved by Board of Directors held on May 13, 2019. The audited consolidated financial statements of IFS and Subsidiaries as of December 31, 2018, issued on March 18, 2019, were approved by the General Shareholders' Meeting held on April 01, 2019.

1.2 Business combinations

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. 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 approximately S/891,911,000).

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.

Notes to the consolidated financial statements (continued)

The following are the fair values of the entities acquired:

	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)	137,900
Others	242,063
Liabilities	
Bonds, notes and other obligations	(9,823)
Insurance contract liabilities	(5,015,148)
Accounts payable, provisions and other liabilities	(67,340)
Hipotecaria Sura S.A.	
Assets (*)	12,560
Liabilities	(2,452)
Total net assets identified	<u>460,944</u>
Non-controlling interest – proportionate share of the acquired entities' net assets	(1,912)
Goodwill	<u>432,879</u>
Consideration transferred	<u><u>891,911</u></u>
(*) 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	<u>7,863</u>
	<u><u>660,527</u></u>

Notes to the consolidated financial statements (continued)

2. Main accounting principles and practices

2.1 Basis of presentation -

The accompanying 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.

As of March 31, 2019, the accounting principles and practices are consistent with standards applied as of December 31, 2018, which are included in the audited consolidated financial statements dated March 18, 2019.

2.2 Change in accounting policy, adoption of new IFRS and estimates

2.2.1 First adoption of IFRS 16 “Leases”

IFRS 16 was issued in January 2016 and replaces IAS 17 “Leases”. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases, with exception of balances 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 reflect lease payments. Also, the asset that represents the right to use the underlying asset during the lease term will be recorded. 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.

The Group has used the exemption 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.

In accordance with IFRS 16, the Group has adopted it under the modified retrospective method and has not expressed amounts from prior periods. It should be noted that the effect of the first adoption of the standard has not affected the Group’s net equity.

2.2.2 Transition disclosures:

The reconciliation between the book values according to NIC17 and the reported balances according to IFRS 16 as of January 1, 2019 (transition date), is as follows:

	IAS 17	Adjustments due to adoption of IFRS 16	IFRS 16		IAS 17	Adjustments for first adoption of IFRS 16	IFRS 16
	S/(000)	S/(000)	S/(000)		S/(000)	S/(000)	S/(000)
Assets				Liabilities and equity			
Cash and due from banks				Deposits and obligations			
Non-interest bearing	3,102,250	-	3,102,250	Non-interest bearing	5,321,025	-	5,321,025
Interest bearing	3,991,629	-	3,991,629	Interest bearing	<u>28,360,925</u>	-	<u>28,360,925</u>
Restricted funds	<u>1,286,532</u>	-	<u>1,286,532</u>		33,681,950	-	33,681,950
	8,380,411	-	8,380,411				
Inter-bank funds	495,037	-	495,037	Inter-bank funds	-	-	-
Financial investments	17,629,445	-	17,629,445	Due to banks and correspondents	4,293,361	-	4,293,361
Loans, net:				Bonds, notes and other obligations	6,496,778	-	6,496,778
Loans, net of unearned interest	34,325,721	-	34,325,721	Due from customers on acceptances	132,961	-	132,961
Impairment allowance for loans	<u>(1,364,804)</u>	-	<u>(1,364,804)</u>	Insurance contract liabilities	10,300,468	-	10,300,468
	32,960,917	-	32,960,917	Accounts payable, provisions and other liabilities	1,750,363	341,746	2,092,109
				Deferred Income Tax liability, net	<u>52</u>	-	<u>52</u>
				Total liabilities	<u>56,655,933</u>	<u>341,746</u>	<u>56,997,679</u>
				Equity, net			
Investment property	986,538	-	986,538	Equity attributable to IFS's shareholders:			
Property, furniture and equipment, net	622,525	341,746	964,271	Capital stock	963,446	-	963,446
Due from customers on acceptances	132,961	-	132,961	Treasury stock	(208,178)	-	(208,178)
Intangibles and goodwill, net	954,546	-	954,546	Capital surplus	268,077	-	268,077
Accounts receivable and other assets, net	1,502,554	-	1,502,554	Reserves	4,700,000	-	4,700,000
Deferred Income Tax asset, net	79,475	-	79,475	Unrealized results, net	121,686	-	121,686
				Retained earnings	<u>1,203,043</u>	-	<u>1,203,043</u>
					7,048,074	-	7,048,074
				Non-controlling interest	<u>40,402</u>	-	<u>40,402</u>
				Total equity, net	<u>7,088,476</u>	-	<u>7,088,476</u>
Total assets	<u>63,744,409</u>	<u>341,746</u>	<u>64,086,155</u>	Total liabilities and equity, net	<u>63,744,409</u>	<u>341,746</u>	<u>64,086,155</u>

The adjustment amounting to S/341,746,000 corresponds to the right to use the leased assets and the respective obligation to pay for the rental agreements of subsidiaries.

For reference purposes, the impact of IFRS 16 adoption on the consolidated statement of income for the first quarter of 2019, is presented below:

	Balances before IFRS 16	Impact of adoption IFRS 16	Balances under IFRS 16
	31.03.2019		31.03.2019
	S/(000)		S/(000)
Interest and similar income	1,166,740	-	1,166,740
Interest and similar expenses	(335,020)	(765)	(335,785)
Net interest and similar income	831,720	(765)	830,955
Impairment loss on loans, net of recoveries	(186,414)	-	(186,414)
Recovery due to impairment of financial investments	1,887	-	1,887
Net interest and similar income after impairment loss	647,193	(765)	646,428
Fee income from financial services, net	222,998	-	222,998
Net gain on foreign exchange transactions	41,306	-	41,306
Net gain on sale of financial investments	29,917	-	29,917
Net gain on financial assets at fair value through profit or loss	37,061	-	37,061
Net gain on investment property	11,874	-	11,874
Other income	18,730	-	18,730
	361,886	-	361,886
Insurance premiums and claims			
Net premiums earned	97,963	-	97,963
Net claims and benefits incurred for life insurance contracts and others	(172,037)	-	(172,037)
	(74,074)	-	(74,074)
Other expenses			
Salaries and employee benefits	(195,375)	-	(195,375)
Administrative expenses	(196,250)	19,531	(176,719)
Depreciation and amortization	(43,473)	(19,431)	(62,904)
Other expenses	(46,718)	-	(46,718)
	(481,816)	100	(481,716)
Income before translation result and Income Tax	452,524	(665)	452,524
Translation result	10,091	-	10,091
Income Tax	(109,890)	-	(109,890)
Net profit for the period	352,725	(665)	352,725
Attributable to:			
IFS's shareholders	351,233	(665)	350,568
Non-controlling interest	2,157	-	2,157
	353,390	(665)	352,725
Earnings per share attributable to IFS's shareholders basic and diluted (stated in Soles)	3.173		3.167
Weighted average number of outstanding shares (in thousands)	110,692		110,692

Notes to the consolidated financial statements (continued)

2.3 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.

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

2.3.1 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.

The effect of the adoption of SPP-S-2017 and SPP-I-2017 tables, amounted and recorded in June 2018, affecting the results of the year within the caption "Net premiums earned" of the consolidated statement of income for the period 2018.

2.3.2 Changes in the assumptions used in calculating interest rates to discount pension reserves

Until May 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 June 2018, Interseguro modified the estimation of these assumptions, using the riskfree rate due to the currency of Peruvian government's sovereign yield curves plus an illiquidity premium as a portion of the spread that is not related to loss given default or the cost of credit rating downgrade. This spread is calculated based on the performance of the asset portfolio designated by Interseguro to cover its pension obligations.

Notes to the consolidated financial statements (continued)

The purpose of changing the method to build the interest rate was 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 use of new interest rates as of June 1, 2018, amounted to S/423,080,000, which, according to IAS 8, has been prospectively recognized, recorded in June 2018, and is part of the year's movement in other comprehensive results within the caption "Unrealized results, net" for the period 2018.

2.4 Summary of significant accounting policies

As of March 31, 2019, the accounting principles and practices are consistent with of standards applied as of December 31, 2018, which are included in the audited financial statements issued on March 18, 2019.

Notes to the consolidated financial statements (continued)

3. Subsidiaries

IFS's Subsidiaries are the following:

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

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

In January 2019, Interbank signed a purchase agreement for the total of its stake in Interfondos with Inteligo Perú Holdings, a related company, subsidiary of Inteligo Group. This operation had no effect on the consolidated financial statements of IFS.

(b) Interseguro Compañía de Seguros S.A.

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.

(c) Inteligo Group Corp. and Subsidiaries

Inteligo is an entity incorporated in the Republic of Panama. The main activity of its Subsidiaries is to provide private and institutional banking services, management mutual funds and brokerage services.

(d) Hipotecaria Sura Empresa Administradora Hipotecaria S.A., in liquidation

As of March 31, 2019, the company has been liquidated, by virtue of the agreement adopted in Universal Shareholders' Meeting, held on February 20, 2019. This company was incorporated in Peru, was regulated by the SBS and its main activity was to grant mortgage loans.

(e) Negocios e Inmuebles S.A. and Holding Retail Perú S.A.

As of March 31, 2019 and December 31, 2018, 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.

For more details on the IFS's Subsidiaries, see Note 3 "Subsidiaries" of the annual consolidated financial statements issued on March 18, 2019.

Notes to the consolidated financial statements (continued)

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

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

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Cash and clearing (b)	1,611,311	1,860,442
Deposits in BCRP (b)	5,897,045	3,639,927
Deposits in banks (c)	1,295,931	1,586,693
Accrued interest	9,103	6,817
	<u>8,813,390</u>	<u>7,093,879</u>
Restricted funds (d)	847,223	1,286,532
Total	<u><u>9,660,613</u></u>	<u><u>8,380,411</u></u>

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

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 March 31, 2019, the excess in foreign currency accrued interest in US Dollars at an annual average rate of 1.99 percent (1.95 percent as of December 31, 2018). During 2019 and 2018, Interbank did not maintain 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.

Notes to the consolidated financial statements (continued)

- (d) The Group maintains restricted funds related to:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Repurchase agreements with BCRP (*)	759,686	1,189,454
Derivative financial instruments, Note 8(d)	82,837	92,456
Others	<u>4,700</u>	<u>4,622</u>
Total	<u>847,223</u>	<u>1,286,532</u>

- (*) As of March 31, 2019, correspond to deposits maintained in the BCRP which guarantee repurchase agreements amounting to S/752,132,000 including interests (guaranteed repurchase agreements amounting to S/1,156,825,000 including interests as of December 31, 2018); see Note 10(b).

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

- (e) Inter-bank funds

These are loans made between financial institutions whose maturity, in general, is less than 30 days. As of March 31, 2019 and December 31, 2018, the inter-bank funds accrue interest at an annual rate between 2.75 percent and 3.00 percent in national currency and do not have specific guarantees.

Notes to the consolidated financial statements (continued)

5. Financial investments

(a) This caption is made up as follows, as of March 31, 2019 and December 31, 2018 is as follow:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Debt instruments measured at fair value through other comprehensive income (b) and (h)	13,361,566	13,143,526
Investments at amortized cost (d) and (h)	1,837,509	1,843,944
Investments at fair value through profit or loss (c)	1,565,096	1,571,468
Equity instruments measured at fair value through other comprehensive income (e)	928,737	845,317
Total financial investments	17,692,908	17,404,255
Accrued income		
Debt instruments measured at fair value through other comprehensive income (b)	148,643	185,067
Investments at amortized cost	11,222	40,123
Total	17,852,773	17,629,445

Notes to the consolidated financial statements (continued)

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

	31.03.2019								
	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)	Maturity	Annual effective interest rates			
		Gains S/(000)	Losses (b.1) S/(000)			S/		US\$	
						Min %	Max %	Min %	Max %
Corporate, leasing and subordinated bonds	7,941,503	172,324	(138,384)	7,975,443	Apr-19 / Jan-114	2.00	9.00	2.77	8.00
Peruvian Sovereign Bonds	2,512,686	107,755	(19,293)	2,601,148	Sep-23 / Feb-55	2.00	8.00	-	-
Negotiable Certificates of Deposit issued by BCRP	1,490,243	1,057	(31)	1,491,269	Apr-19 / Aug-20	2.56	2.95	-	-
Bonds guaranteed by the Peruvian Government	745,420	12,062	(6,953)	750,529	May-24 / Jul-34	4.00	6.00	5.00	7.00
Global Bonds of the Republic of Peru	331,653	2,271	(1,343)	332,581	Jul-25 / Feb-55	6.00	7.00	2.88	2.92
United States of America Treasury Bonds	83,405	-	(537)	82,868	Dec-20 / Oct-23	-	-	2.25	2.29
Global Bonds of the Republic of Colombia	64,273	448	(98)	64,623	Jul-21 / Jan-33	-	-	3.09	7.00
Global Bonds of the United Mexican States	63,738	-	(633)	63,105	Oct-23	-	-	3.32	3.32
Total	13,232,921	295,917	(167,272)	13,361,566					
Accrued interest				148,643					
Total				13,510,209					

	31.12.2018								
	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)	Maturity	Annual effective interest rates			
		Gains S/(000)	Losses (b.1) S/(000)			S/		US\$	
						Min %	Max %	Min %	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	9.11
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
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 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
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 March 31, 2019 and December 31, 2018, Inteligo holds corporate bonds from different entities for approximately S/450,590,000 and S/411,047,000, respectively, which guarantee loans with Credit Suisse First Boston and J. Safra Sarasin.

(**) 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 10(b).

Notes to the consolidated financial statements (continued)

(b.1) The Group has determined that the unrealized losses on debt instruments as of March 31, 2019 and 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.

As of March 31, 2019 and 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:

Issuer	31.03.2019			Maturity at 31.03.2019	31.12.2018			Maturity at 31.12.18	Risk rating at 31.03.19 and 31.12.18 (***)
	Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)		Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)		
Peruvian Sovereign Bonds	2,512,686	107,755	(19,293)	2023-2055	2,702,571	46,714	(65,955)	2020 - 2055	A- (*)
Global Bonds of the Republic of Peru	331,653	2,271	(1,343)	2025-2055	332,311	1,439	(14,692)	2025 - 2055	BBB+ (*)
Global Bonds of the Republic of Colombia	64,273	448	(98)	2021-2033	271,482	-	(4,046)	2019 -2037	BBB (*)
Global Bonds of the United Mexican States	63,738	-	(633)	2023	105,749	-	(7,133)	2023- 2034	BBB+ (*)
Corporación Financiera de Desarrollo S.A.	386,581	301	(12,696)	2019-2046	386,240	-	(19,238)	2019 - 2046	AA (**)
PA Pacifico Trust	162,982	-	(10,147)	2035	166,049	-	(12,280)	2035	BBB- (*)
Cencosud S.A.	143,448	-	(9,740)	2045	191,388	-	(20,819)	2045	BBB- (*)
Banco de Crédito del Perú	227,007	-	(9,453)	2019-2023	222,072	-	(14,536)	2019 - 2023	AA+ (**)
Bienes Raíces Uno Trust	180,499	-	(9,342)	2044	183,572	-	(23,301)	2044	BBB (*)
Fermaca Enterprises S.R.L.	223,019	-	(9,089)	2038	229,906	-	(11,778)	2038	BBB- (*)
Mexico City Airport Trust	93,512	-	(7,299)	2047	94,948	-	(11,129)	2047	BBB (*)
Electricite de France S.A.	71,246	-	(5,243)	2114	72,431	-	(8,673)	2114	A- (*)
Línea Amarilla S.A.C.	173,499	2,525	(4,030)	2037	173,130	1,042	(4,998)	2037	AA (**)
Taboada Finance Ltda.	92,414	892	(3,913)	2029-2033	93,010	612	(4,694)	2029-2033	BBB+ (*)
Celeo Redes Operación CL	92,714	-	(3,594)	2047	94,252	-	(6,014)	2047	BBB (*)
Enel Distribución Perú S.A.A.	85,609	680	(3,375)	2025-2038	85,665	426	(5,864)	2025 - 2038	AAA (**)
Falabella Perú S.A.A.	101,294	206	(3,130)	2028-2035	101,341	-	(6,474)	2028 - 2035	AA+ (**)
Mexichem SAB de CV	175,449	-	(3,065)	2042-2044	178,387	-	(18,048)	2042 - 2044	BBB- (*)
Lima Metro Line 2 Finance Limited	146,903	-	(3,040)	2034	149,512	-	(7,935)	2034	BBB (*)
Celulosa Arauco y Constitución S.A.	161,186	-	(2,480)	2047	163,796	-	(12,295)	2047	BBB- (*)
Goldman Sachs	63,471	2,253	(2,386)	2030-2042	63,129	-	(6,572)	2030 - 2042	BBB+ (*)
H2OImos S.A.	229,707	-	(2,268)	2025-2032	230,838	-	(4,793)	2025- 2032	AA (**)
México Generadora de Energía	70,812	-	(1,663)	2032	72,009	-	(5,324)	2032	BBB (*)
BBVA Continental	204,030	5,042	(1,548)	2022-2033	199,326	2,039	(4,737)	2022 - 2033	BBB+ (*)
Instruments with individual losses less than S/1 million	7,107,984	173,980	(38,404)		3,999,374	296	(94,135)		
Total	13,165,716	296,353	(167,272)		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.

Notes to the consolidated financial statements (continued)

- (b.2) Following is the analysis of changes in fair value and the corresponding expected credit loss for debt instruments measured at fair value through other comprehensive income:

Gross carrying amount	31.03.2019	31.12.2018
	S/(000)	S/(000)
Beginning balances	13,171,576	13,626,736
New assets originated or purchased	1,314,706	4,629,335
Assets derecognized or matured (excluding write-offs)	(513,418)	(4,807,997)
Change in fair value	(472,882)	(472,879)
Changes due to modifications other than losses	(2,282)	-
Foreign exchange effect	(110,014)	196,381
Ending balances	13,387,686	13,171,576

Movement of the allowance for expected credit losses	31.03.2019	31.03.2018
	S/(000)	S/(000)
Expected credit loss at the beginning of the period	28,049	40,840
New assets originated or purchased	573	159
Assets derecognized or matured (excluding write-offs)	(177)	(6,218)
Effect on the expected credit loss due to the change of the stage during the year	(2,360)	4,208
Changes in the models and inputs used to calculate the expected credit losses	77	(407)
Foreign exchange effect	(42)	110
Expected credit loss at the end of the period	26,120	38,692
Net balance	13,361,566	13,132,884

Notes to the consolidated financial statements (continued)

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

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Equity instruments		
Local and foreign mutual funds and investment funds participations	1,102,969	1,144,771
BioPharma Credit PLC	140,558	144,157
Royalty Pharma	140,126	78,808
ViaSat Inc.	28,286	21,705
LendUp	23,389	23,720
Ishare Core MSCI World UCIT	20,068	18,195
Others	62,320	72,046
Debt instruments		
Corporate, leasing and subordinated bonds	31,762	42,625
Peruvian Sovereign Bonds	15,618	21,927
United States of America Treasury Bonds	-	3,514
Total	<u>1,565,096</u>	<u>1,571,468</u>

- (d) As of March 31, 2019 and December 31, 2018, the investments at amortized costs are comprised of Peruvian Sovereign Bonds for an amount of S/1,848,731,000 and S/1,884,067,000, respectively, including accrued interest. These investments present a low credit risk and the expected credit loss is insignificant.

As of March 31, 2019, these investments have maturity dates that range from September 2023 to August 2037, have accrued interests at an effective annual rate ranging from 4.21 percent and 6.33 percent, and its estimated fair value amounts to approximately S/1,859,014,000. As of December 31, 2018, maturity dates ranged from August 2020 to August 2037, accrue interests at an effective annual rate between 4.05 percent to 6.33 percent, and its estimated fair value amounts to approximately S/1,856,325,000.

As of March 31, 2019 and December 31, 2018, Interbank holds loans with the BCRP that are guaranteed through the Peruvian Sovereign Bonds, which are classified as restricted, for approximately S/792,262,000 and S/738,635,000, respectively; see Note 10(b).

Notes to the consolidated financial statements (continued)

- (e) As of March 31, 2019, and December 31, 2018, the composition of equity instruments measured at fair value through other comprehensive income is as follows:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
InRetail Perú Corp.	283,750	228,122
Biopharma Credit PLC	254,806	261,484
Ferreycorp S.A.A.	76,365	78,528
Engie-Energía Perú S.A.	57,866	51,384
Ishares MSCI Chile - ETF	42,838	41,763
Luz del Sur S.A.A.	40,660	23,727
Ishares MSCI United Kingdom	29,557	-
Vanguard FTSE Emerging Markets ETF	28,203	25,702
Ishares MSCI ACWI ETF	24,604	21,967
Gilead Sciences INC	19,413	18,988
Bolsa de Valores de Lima S.A.	15,661	15,737
Ishares MSCI Peru ETF	11,532	3,087
Ishares MSCI New Zealand ETF	11,165	7,286
Ishares CORE S&P 500 ETF	-	28,723
Others minor than S/10 million	32,317	38,819
Total	<u>928,737</u>	<u>845,317</u>

Notes to the consolidated financial statements (continued)

- (f) 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 March 31, 2019 and December 31, 2018:

Debt instruments measured at fair value through other comprehensive income and at amortized cost (*)	31.03.2019				31.12.2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Corporate, leasing and subordinated bonds	7,659,654	315,789	-	7,975,443	7,167,899	313,245	-	7,481,144
Peruvian Sovereign Bonds	4,438,657	-	-	4,438,657	4,527,274	-	-	4,527,274
Negotiable Certificates of Deposit issued by BCRP	1,491,269	-	-	1,491,269	1,380,479	-	-	1,380,479
Bonds guaranteed by the Peruvian Government	750,529	-	-	750,529	794,998	-	-	794,998
Global Bonds of the Republic of Peru	332,581	-	-	332,581	319,058	-	-	319,058
United States of America Treasury Bonds	82,868	-	-	82,868	82,849	-	-	82,849
Global Bonds of the Republic of Colombia	64,623	-	-	64,623	267,436	-	-	267,436
Global Bonds of the United Mexican States	63,105	-	-	63,105	98,616	-	-	98,616
Global Bonds of the Republic of Chile	-	-	-	-	35,616	-	-	35,616
Total	14,883,286	315,789	-	15,199,075	14,674,225	313,245	-	14,987,470

(*) The amounts presented do not consider impairment.

Notes to the consolidated financial statements (continued)

6. Loans, net

(a) This caption is made up as follows:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Direct loans		
Loans	26,107,303	25,569,152
Credit cards	5,131,764	4,881,404
Leasing	1,635,600	1,682,629
Discounted notes	467,285	494,953
Factoring	256,149	309,558
Advances and overdrafts	39,918	50,219
Refinanced loans	213,747	210,384
Past due and under legal collection loans	867,239	856,909
	<u>34,719,005</u>	<u>34,055,208</u>
Plus (minus)		
Accrued interest from performing loans	342,297	318,250
Unearned interest and interest collected in advance	(42,317)	(47,737)
Impairment allowance for loans (d)	<u>(1,396,243)</u>	<u>(1,364,804)</u>
Total direct loans, net	<u>33,622,742</u>	<u>32,960,917</u>
Indirect loans	<u>3,992,027</u>	<u>4,071,460</u>

Notes to the consolidated financial statements (continued)

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

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Commercial loans (*)	16,013,120	16,032,068
Consumer loans	11,380,611	10,891,278
Mortgage loans	6,586,861	6,407,479
Small and micro-business loans	<u>738,413</u>	<u>724,383</u>
Total	<u>34,719,005</u>	<u>34,055,208</u>

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

Notes to the consolidated financial statements (continued)

- (d) The movement of the direct and indirect loans portfolio and the movement of the respective allowance for expected credit loss, is as follows:

(d.1) Direct loans

Gross carrying amount of direct loans	31.03.2019	31.12.2018
	S/(000)	S/(000)
Beginning of period balances	34,055,208	29,174,701
New assets originated or purchased	5,778,056	16,526,772
Assets derecognized or repaid (excluding write offs)	(4,181,440)	(10,407,387)
Write offs (***)	(193,042)	(791,107)
Others (*)	(574,742)	(777,430)
Foreign exchange effect	(165,035)	329,659
End of period balances	<u>34,719,005</u>	<u>34,055,208</u>
Changes in the allowance for expected credit losses	31.03.2019	31.03.2018
	S/(000)	S/(000)
Expected credit loss at the beginning of period	<u>1,364,804</u>	<u>1,260,347</u>
Impact of the expected credit loss in the consolidated income statements -		
New assets originated or purchased	93,533	81,456
Assets derecognized or repaid (excluding write offs)	(64,840)	(81,549)
Impact on the expected credit loss for credits that change stage in the year	183,570	157,304
Others (**)	(14,603)	20,573
	<u>197,660</u>	<u>177,784</u>
Write offs (***)	(193,042)	(213,810)
Recovery of written-off loans	31,312	35,129
Foreign exchange effect	(4,491)	(1,345)
Expected credit loss at the end of period	<u>1,396,243</u>	<u>1,258,105</u>
Balance as of Decemebr 31, 2018		<u>1,364,804</u>

Notes to the consolidated financial statements (continued)

(d.2) Indirect loans

Gross carrying amount	31.03.2019 S/(000)	31.12.2018 S/(000)
Beginning of period balances	4,071,460	4,266,495
New assets originated or purchased	713,437	1,599,629
Assets derecognized or repaid (excluding write offs)	(614,216)	(1,779,309)
Others (*)	(147,481)	(93,179)
Foreign exchange effect	(31,173)	77,824
End of period balances	<u>3,992,027</u>	<u>4,071,460</u>
Changes in the allowance for expected credit losses	31.03.2019 S/(000)	31.03.2018 S/(000)
Expected credit loss at 01.01.2019	<u>62,051</u>	<u>139,178</u>
Impact of the expected credit loss in the consolidated income statements -		
New assets originated or purchased	2,201	4,528
Assets derecognized or repaid	(11,258)	(10,330)
Impact on the expected credit loss for credits that change stage in the year	(216)	1,264
Others	(1,973)	(361)
	<u>(11,246)</u>	<u>(4,899)</u>
Foreign exchange effect and others	(391)	(222)
Expected credit loss at the end of period balances	<u>50,414</u>	<u>134,057</u>
Balance as of Decemebr 31, 2018		<u>62,051</u>

(*) 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).

- (f) In Management's opinion, the allowance for loan losses recorded as of March 31, 2019 and December 31, 2018, has been established in accordance with IFRS 9; and it is sufficient to cover expected losses on the loan portfolio.

Notes to the consolidated financial statements (continued)

7. Investment property

(a) This caption is made up as follows:

	31.03.2019 S/(000)	31.12.2018 S/(000)	Acquisition or construction year	Hierarchy level (i)	Valuation
Land					
San Isidro – Lima	245,768	249,377	2009	Level 3	Appraisal
Miraflores – Lima	69,646	70,800	2017	Level 3	Appraisal
San Martín de Porres – Lima	63,449	64,501	2015	Level 3	Appraisal
Piura	49,881	50,708	2008	Level 3	Appraisal
Sullana	16,223	16,491	2012	Level 3	Appraisal
Santa Clara – Lima	10,128	10,342	2017	Level 3	Appraisal
Chimbote	7,300	7,421	2015	Level 3	Appraisal
Lurin	4,032	4,032	2008	Level 3	Appraisal
Others	11,631	11,672	-	Level 3	Appraisal
	<u>478,058</u>	<u>485,344</u>			
Completed investment property - “Real Plaza” Shopping Malls					
Talara	39,837	41,337	2015	Level 3	DCF
	<u>39,837</u>	<u>41,337</u>			
Buildings					
Orquídeas - San Isidro - Lima	138,689	144,645	2016	Level 3	DCF
Ate Vitarte – Lima	69,319	67,894	2006	Level 3	DCF
Chorrillos – Lima	64,572	51,552	2017	Level 3	DCF
Maestro – Huancayo	32,229	32,901	2017	Level 3	DCF
Cusco	30,740	28,472	2017	Level 3	DCF
Panorama – Lima	20,571	20,437	2016	Level 3	DCF
Pardo y Aliaga – Lima	18,627	19,164	2008	Level 3	DCF
Trujillo	17,636	16,270	2016	Level 3	DCF
Cercado de Lima – Lima	12,783	12,929	2017	Level 3	DCF
Others	24,773	24,100	2017	Level 3	DCF
	<u>429,939</u>	<u>418,364</u>			
Built on leased land					
San Juan de Lurigancho – Lima	41,761	41,493	2017	Level 3	DCF
	<u>41,761</u>	<u>41,493</u>			
Total	<u>989,595</u>	<u>986,538</u>			

DCF: Discounted cash flow

- (i) During 2019 and 2018, there were no transfers between levels of hierarchy.
(ii) As of March 31, 2019 and December 31, 2018, there are no liens on investment property.

Notes to the consolidated financial statements (continued)

- (b) The net gain on investment properties as of March 31, 2019 and 2018, is presented below:

	31.03.2019 S/(000)	31.03.2018 S/(000)
Gain (loss) on valuation of investment property	1,322	(5,106)
Income for rental of investment property	10,552	6,722
Gain on sale of investment property	-	1,559
Total	<u>11,874</u>	<u>3,175</u>

- (c) The movement of investment property for the quarters ended March 31, 2019 and 2018, is as follows:

	31.03.2019 S/(000)	31.03.2018 S/(000)
Beginning of period balances	986,538	1,118,608
Additions (c.1)	10,283	22,546
Sales and disposals	(8,548)	(192,521)
Valuation gain (loss)	1,322	(5,106)
End of period balances	<u>989,595</u>	<u>943,527</u>
Balance as of December 31,		<u>986,538</u>

- (c.1) During 2019 and 2018, the main additions are outlays related to the construction of the “Orquídeas” (San Isidro – Lima) and “Chorrillos” (Lima) buildings.

- (d) Fair value measurement: Investment property and investment property under construction
Valuation techniques –
The valuation techniques to estimate the fair value and the main assumptions are described in note 8 “Investment Properties” of the audited consolidated financial statements to 2018.

The main assumptions used in the valuation and estimation of the market value of investment properties:

	<u>US\$ / Percentage</u>	
	2019	2018
Average ERV	US\$61.3	US\$59.1
Long-term inflation	2.6%	2.6%
Long-term occupancy rate	99.0%	98.9%
Average growth rate of rental income	2.6%	2.6%
Average NOI margin	93.0%	95.3%
Discount rate	9.0%	9.0%

Notes to the consolidated financial statements (continued)

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

(a) These captions are comprised of the following:

	31.03.2019 S/(000)	01.01.2019 S/(000) (Note 2.2.2)	31.12.2018 S/(000)
Accounts receivable and other assets			
Financial instruments			
Accounts receivable from sale of investments	556,613	367,902	367,902
Other accounts receivable, net	371,290	440,531	440,531
Accounts receivable related to derivative financial instruments (b)	138,367	185,376	185,376
Assets for technical reserves for claims and premiums by reinsurers	122,207	147,891	147,891
Accounts receivable from reinsurers and coinsurers	37,762	39,875	39,875
Operations in process	33,553	54,428	54,428
Insurance operations receivables, net	14,606	42,795	42,795
Credit card commissions receivable	13,534	13,237	13,237
Total	<u>1,287,932</u>	<u>1,292,035</u>	<u>1,292,035</u>
Non-financial instruments			
Deferred charges	95,081	80,113	80,113
Investments in associates	66,507	63,233	63,233
Prepaid Income Tax	16,725	19,860	19,860
Prepaid rights to related entity, Note 23(f)	8,176	8,856	8,856
Public works tax deduction	7,637	22,608	22,608
Value Added Tax credit (b)	5,310	5,517	5,517
Others	6,280	10,332	10,332
	<u>205,716</u>	<u>210,519</u>	<u>210,519</u>
Total	<u>1,493,648</u>	<u>1,502,554</u>	<u>1,502,554</u>
Accounts payable, provisions and other liabilities			
Financial instruments			
Other accounts payable	430,085	471,412	471,412
Liability for leases, Note 2.2.2	330,193	341,746	-
Accounts payable for acquisitions of investments	446,179	228,687	228,687
Contract liability with investment component	348,160	298,382	298,382
Accounts payable related to derivative financial instruments (b)	144,142	154,116	154,116
Operations in process	129,093	116,717	116,717
Workers' profit sharing and salaries payable	79,314	127,516	127,516
Allowance for indirect loan losses, Note 6(d)	50,414	62,051	62,051
Accounts payable to reinsurers and coinsurers	36,500	62,879	62,879
	<u>1,994,080</u>	<u>1,863,506</u>	<u>1,521,760</u>
Non-financial instruments			
Taxes payable	130,517	101,085	101,085
Deferred income	63,159	59,482	59,482
Provision for other contingencies	47,567	46,506	46,506
Others	11,220	21,530	21,530
	<u>252,463</u>	<u>228,603</u>	<u>228,603</u>
Total	<u>2,246,543</u>	<u>2,092,109</u>	<u>1,750,363</u>

Notes to the consolidated financial statements (continued)

(b) The fair value of derivative financial instruments recorded as assets or liabilities, including their notional amounts as of March 31, 2019 and December 31, 2018, is presented below:

	31.03.2019				Maturity	Hedged instruments	Caption of the consolidated statements of financial position where the hedged item has been recognized
	Assets	Liabilities	Notional amount	Effective part recognized in other comprehensive income during the year			
	S/(000)	S/(000)	S/(000)				
Derivatives held for trading -							
Forward exchange contracts	10,948	9,856	3,057,613	-	Between April 2019 and March 2020	-	-
Interest rate swaps	29,005	36,479	2,385,006	-	Between November 2020 and December 2029	-	-
Currency swaps	35,529	36,226	1,018,894	-	Between April 2019 and January 2025	-	-
Cross currency swaps	-	54,766	195,291	-	January 2023	-	-
Options	263	838	128,975	-	Between April 2019 and June 2020	-	-
	<u>75,745</u>	<u>138,165</u>	<u>6,785,779</u>	<u>-</u>			
Derivatives held as hedges							
Cash flow hedges:							
Cross currency swaps (CCS)	46,626	1,307	1,393,560	(8,015)	January 2023	Senior bonds	Bonds, notes and other obligations
Cross currency swaps (CCS)	15,996	-	497,700	3,174	October 2027	Senior bonds	Bonds, notes and other obligations
Cross currency swaps (CCS)	-	1,511	66,360	(83)	October 2020	Senior bonds	Bonds, notes and other obligations
Interest rate swaps (IRS)	-	1,436	132,720	(231)	November 2020	Due to banks	Due to banks and correspondents
Interest rate swaps (IRS)	-	862	82,950	(176)	December 2020	Due to banks	Due to banks and correspondents
Interest rate swaps (IRS)	-	861	82,950	(176)	December 2020	Due to banks	Due to banks and correspondents
	<u>62,622</u>	<u>5,977</u>	<u>2,256,240</u>	<u>(5,507)</u>			
	<u>138,367</u>	<u>144,142</u>	<u>9,042,019</u>	<u>(5,507)</u>			

Notes to the consolidated financial statements (continued)

	31.12.2018				Maturity	Hedged instruments	Caption of the consolidated statements of financial position where the hedged item has been recognized
	Assets	Liabilities	Notional amount	Effective part recognized in other comprehensive income during the year			
	S/(000)	S/(000)	S/(000)				
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	-	-
	<u>88,338</u>	<u>151,937</u>	<u>8,537,851</u>	<u>-</u>			
Derivatives held as hedges							
Cash flow hedges:							
Swap cruzado de moneda (CCS)	74,144	-	1,349,200	25,775	January 2023	Senior bonds	Bonds, notes and other obligations
Swap cruzado de moneda (CCS)	22,675	-	505,950	3,420	October 2027	Senior bonds	Bonds, notes and other obligations
Swap cruzado de moneda (CCS)	219	-	67,460	2,562	October 2020	Senior bonds	Bonds, notes and other obligations
Swap de tasas de interés (IRS)	-	1,002	134,920	(684)	November 2020	Due to banks	Due to banks and correspondents
Swap de tasas de interés (IRS)	-	589	84,325	(394)	December 2020	Due to banks	Due to banks and correspondents
Swap de tasas de interés (IRS)	-	588	84,325	(393)	December 2020	Due to banks	Due to banks and correspondents
	<u>97,038</u>	<u>2,179</u>	<u>2,226,180</u>	<u>30,286</u>			
	<u>185,376</u>	<u>154,116</u>	<u>10,764,031</u>	<u>30,286</u>			

(i) As of March 31, 2019 and December 31, 2018, certain derivative financial instruments required the establishment of collateral deposits; see Note 4(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 2019 and 2018. Likewise, in 2019 and 2018, 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.

(c) As of March 31, 2019 and January 1, 2019, correspond to the financial liability for rents payable related to the right to use assets, for approximately S/330,193,000 and S/341,746,000, respectively.

Notes to the consolidated financial statements (continued)

9. Deposits and obligations

(a) This caption is made up as follows:

	31.03.2019 S/(000)	31.12.2018 S/(000)
Demand deposits	11,721,409	10,109,492
Time deposits	10,710,418	11,074,316
Saving deposits	10,678,989	10,728,257
Compensation for service time	1,664,804	1,763,826
Other obligations	14,380	6,059
Total	<u>34,790,000</u>	<u>33,681,950</u>

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

(c) As of March 31, 2019 and December 31, 2018, approximately S/9,694,219,000 and S/9,734,215,000, respectively, of deposits and obligations are covered by the Peruvian Deposit Insurance Fund.

Notes to the consolidated financial statements (continued)

10. Due to banks and correspondents

(a) This caption is comprised of the following:

	31.03.2019 S/(000)	31.12.2018 S/(000)
By type		
BCRP (b)	1,520,688	2,073,919
Promotional credit lines (c)	1,381,431	1,386,603
Loans received from foreign entities (d)	783,048	796,028
Loans received from Peruvian entities	1,482	763
	<u>3,686,649</u>	<u>4,257,313</u>
Interest and commissions payable	39,470	36,048
	<u>3,726,119</u>	<u>4,293,361</u>
By term		
Short term	1,935,638	2,507,623
Long term	1,790,481	1,785,738
	<u>3,726,119</u>	<u>4,293,361</u>
Total	<u>3,726,119</u>	<u>4,293,361</u>

(b) As of March 31, 2019 and December 31, 2018, correspond to currency repurchase operations according to which Interbank receives Soles for approximately S/751,700,000 and S/1,154,500,000, respectively, and delivers US Dollars to the BCRP (for an amount equivalent to the one received). The US Dollars delivered are recorded as restricted funds; see Note 4(d). As of March 31, 2019, these obligations have maturities between June 2019 and March 2020 and bear an effective interest rate between 0.40 and 1.67 percent; these operations accrued interest payable for approximately S/432,000 (with maturities between February and June 2019, and bearing effective interest rates between 0.28 and 1.22 percent; these operations generated interest payable for approximately S/2,325,000, as of December 31, 2018).

Additionally, as of March 31, 2019 and December 31, 2018, it includes repurchase agreements whereby Interbank receives Soles for approximately S/768,988,000 and S/919,419,000, respectively, and delivers securities of its investment portfolio as guarantees. In relation to such operations, as of March 31, 2019, Interbank delivered Peruvian Sovereign Bonds as guarantee, which are recorded as investments at amortized cost, see Note 5(e). These operations mature from May 2019 to July 2020 and accrue interests at effective annual interest rates between 3.67 percent to 4.72 percent. In addition, 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 5(e) and 5(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.

Notes to the consolidated financial statements (continued)

- (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 7.66 percent and 8.56 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 January 2027 to November 2031, and, in foreign currency, between 6.67 percent to 8.84 percent and maturities from April 2028 to December 2029, as of December 31, 2018).

As of March 31, 2019, and December 31, 2018, the FMV's loans earned, in local currency, an effective annual interest rate between 5.00 percent and 8.30 percent and in foreign currency of 7.75 percent. As of March 31, 2019, they have maturities from April 2019 to March 2039 and as of December 31, 2018, they have maturities from January 2019 to December 2038.

11. Bonds, notes and other obligations

- (a) This caption is comprised of the following:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Local issuances		
Subordinated bonds – first program	353,123	355,482
Subordinated bonds – second program	365,141	486,737
Subordinated bonds – third program	66,360	-
Corporative bond – second program	150,031	-
Negotiable Certificates of Deposit - first program	143,927	-
Total local issuances	<u>1,078,582</u>	<u>842,219</u>
International issuances		
Senior bonds	3,804,200	3,861,468
Subordinated bonds	990,633	1,006,875
Junior subordinated notes	661,075	671,546
Total International issuances	<u>5,455,908</u>	<u>5,539,889</u>
Total local and international issuances	<u>6,534,490</u>	<u>6,382,108</u>
Interest payable	128,723	114,670
Total	<u>6,663,213</u>	<u>6,496,778</u>

- (b) The local and international issuances include standard clauses of compliance with financial ratios, the use of funds and other administrative matters. In the opinion of Management and its legal advisers, this clause has been met by the Group as of March 31, 2019 and December 31, 2018.

Notes to the consolidated financial statements (continued)

- (c) For more details see Note 14 "Bonds, notes and other obligations" of the annual consolidated financial statements issued on March 18, 2019.

12. Insurance contract liabilities

- (a) This caption is comprised of the following:

	2018 S/(000)	2018 S/(000)
Technical reserves for insurance premiums (b)	9,744,851	10,006,960
Technical reserves for claims (c)	256,402	293,508
	<u>10,001,253</u>	<u>10,300,468</u>
By term		
Short term	938,338	935,182
Long term	9,062,915	9,365,286
Total	<u>10,001,253</u>	<u>10,300,468</u>

Notes to the consolidated financial statements (continued)

(b) The movement of technical reserves for insurance premiums disclosed by type of insurance for the quarters ended March 31, 2019 and 2018, is as follows:

	31.03.2019					31.03.2018				
	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Beginning of period 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
Insurance subscriptions	78,343	-	548	28,792	107,683	58,117	1	4,256	17,916	80,290
Time passage adjustments	(289,404)	(12,166)	29,591	(27,459)	(299,438)	(59,290)	10,586	11,505	(17,513)	(54,712)
Maturities and recoveries	-	-	(8,037)	-	(8,037)	-	-	(3,393)	-	(3,393)
Exchange differences	(53,532)	-	(8,776)	(9)	(62,317)	(12,732)	121	(993)	(702)	(14,306)
End of period balances	8,401,301	703,051	599,492	41,007	9,744,851	9,020,891	687,657	537,037	36,183	10,281,768
Balance as of December 31, 2018						8,665,894	715,217	586,166	39,683	10,006,960

(c) In Management's opinion, these balances reflect the exposure of life and general insurance contracts as of March 31, 2019, December 31, 2018 and March 31, 2018, in accordance with IFRS 4.

Notes to the consolidated financial statements (continued)

(d) The main assumptions used in the estimation of retirement, disability and survival annuities and individual life reserves as of March 31, 2019 and December 31, 2018, were the following:

Type	31.03.2019		31.12.2018 (*)	
	Mortality table	Technical rates	Mortality table	Technical rates
Annuities	SPP-S-2017, SPP-I-2017 with improvement factor for mortality	5.78% in US\$ 2.80% in S/ VAC 6.48% in adjusted S/	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/
Retirement, disability and survival	SPP-S-2017, SPP-I-2017 with improvement factor for mortality	2.8% in S/ VAC	SPP-S-2017, SPP-I-2017 with improvement factor for mortality	2.74% in S/ VAC
Individual life insurance contracts (included linked insurance contracts)	CSO 80 adjusted	4.00 - 5.00%	CSO 80 adjusted	4.00 - 6.00%

(*) 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 March 31, 2019 and December 31, 2018, 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:

Variables	31.03.2019			31.12.2018		
	Reserve S/(000)	Variation of the reserve		Reserve S/(.000)	Variation of the reserve	
		Amount S/(000)	Percentage %		Amount S/(.000)	Percentage %
Annuities						
Portfolio in S/ and US Dollars - Basis amount						
Changes in interest rate: + 100 bps	7,596,830	(804,473)	(9.58)	7,816,973	(848,921)	(9.80)
Changes in interest rate: - 100 bps	9,375,208	973,905	11.59	9,696,893	1,030,999	11.90
Changes in mortality table at 105%	8,327,303	(74,000)	(0.88)	8,587,633	(78,261)	(0.90)
Changes in mortality table at 95%	8,478,712	77,409	0.92	8,747,817	81,923	0.95
Retirements, disability and survival						
Portfolio in S/ - Basis amount						
Changes in interest rate: + 100 bps	633,096	(78,205)	(10.99)	635,838	(79,379)	(11.10)
Changes in interest rate: - 100 bps	808,076	96,775	13.61	813,614	98,397	13.76
Changes in mortality table at 105%	702,611	(8,690)	(1.22)	706,495	(8,722)	(1.22)
Changes in mortality table at 95%	720,415	9,115	1.28	724,366	9,149	1.28

Notes to the consolidated financial statements (continued)

13. Equity

(a) Capital stock -

As of March 31, 2019 and December 31, 2018, 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 1, 2019, agreed to distribute dividends from the year 2018 for approximately US\$197,187,000 (equivalent to approximately S/654,464,000), US\$1.75 per share, paid on May 03, 2019.

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), US\$1.40 per share, paid on May 03, 2018.

(b) Treasury stock held by Subsidiaries -

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

Entity	Number of shares (000)	Cost S/(000)
Interbank	1,986	164,295
IFS	432	43,883
Total	2,418	208,178

Stock buyback program

In the Shareholders' Meeting of IFS, held on May 25, 2016, the program of acquisition of own issuance shares was approved. Such acquisition, as agreed, may be carried out on one or more occasions, as appropriate to 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.

During 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".

Notes to the consolidated financial statements (continued)

- (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) 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 March 31, 2019 and December 31, 2018, the regulatory capital required for Interbank, Interseguro and Hipotecaria Sura (until February 2019), 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 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 March 31, 2019 and December 31, 2018, Interbank maintains the following amounts related to its assets and contingent credits weighted by risk and regulatory capital (basic and supplementary):

	31.03.2019	31.03.2018
	S/(000)	S/(000)
Total risk weighted assets and credits	45,446,804	44,390,985
Total regulatory capital	7,466,925	7,007,381
Basic regulatory capital (Level 1)	5,452,789	5,042,037
Supplementary regulatory capital (Level 2)	2,014,136	1,965,344
Global capital to regulatory capital ratio	16.43%	15.79%

As of March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, the

Notes to the consolidated financial statements (continued)

additional regulatory capital estimated by Interbank amounts to approximately S/756,650,000 and S/735,483,000, 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 March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, Interseguro's surplus equity is as follows:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Regulatory capital	990,179	1,042,699
Less:		
Solvency equity (solvency margin)	562,510	559,930
Guarantee fund	<u>196,879</u>	<u>195,975</u>
Surplus	<u>230,790</u>	<u>286,794</u>

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 March 31, 2019 and December 31, 2018 is the following:

	31.03.2019	31.12.2018
	US\$(000)	US\$(000)
Total eligible capital	<u>240,449</u>	<u>216,977</u>
Total risk weighted assets	<u>894,746</u>	<u>850,069</u>
Capital adequacy ratio (in percentage)	<u>26.87</u>	<u>25.52</u>

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

Notes to the consolidated financial statements (continued)

(e) 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.

Notes to the consolidated financial statements (continued)

14. 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. As of March 31, 2019 and December 31, 2018, dividends distributed by Peruvian Subsidiaries to IFS were subject to a withholding of 5.0 percent of the profits generated in those years. 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 March 31, 2019 and 2018, the Company has recorded expenses for S/1,089,000 and S/9,485,000, respectively, in the caption “Income Tax” of the consolidated income statements.
- (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 March 31, 2019 and December 31, 2018, was 29.5 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: 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.
 - Seguros Sura: Income Tax returns of the years 2012 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 2014, 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.

Notes to the consolidated financial statements (continued)

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 matters by SUNAT as of December 31, 2018, amounts to approximately S/393,000,000, out of which S/50,000,000 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 March 31, 2019 and December 31, 2018.

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 levying 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 levying 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 amount of the deficiency under protest and filed a complaint.

On February 14, 2018, SUNAT, through Letter No.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 tax request.

Notes to the consolidated financial statements (continued)

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/50,000,000. To date, Interbank Management has submitted the respective complaint to the resolutions indicated above. In Management opinion and its legal advisors, any eventual additional tax would not be significant for the financial statements as of March 31, 2019 and December 31, 2018.

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. The tax debt claimed by SUNAT amounts to approximately S/19,000,000. Considering that this debt corresponds to a period prior to the acquisition of Seguros Sura by the Group (November 2017) and according to the conditions of the purchase and sale agreement of this entity, this tax assessment, 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 assessment would not be significant for the consolidated financial statements as of March 31, 2019 and December 31, 2018.

Notes to the consolidated financial statements (continued)

- (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 March 31, 2019 and December 31, 2018.

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 information requirements: (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.

- (g) 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 of the compensation. In order for said cost or expense to be deductible for the local company, the remuneration must have been paid to the filing date of the annual tax return for the Income Tax (Legislative Decree No. 1369).

Notes to the consolidated financial statements (continued)

- (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 legal person who has the status of trustee or administrator, is domiciled in the country; c) any of the members 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 actions or situations or economic relations viewed as evasion 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 actions, situations or economic relations to be carried out within the framework of tax planning, this power being non-delegable. The actions, situations and economic relations carried out within the framework of tax 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 managers of the company have approved the aforementioned actions, 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.

Notes to the consolidated financial statements (continued)

- (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 significant changes is the inclusion of a new indirect sale assumption, which is triggered 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 double taxation.
 - 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 adopted for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree No. 1425). Until 2018, there was no rule 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 income or expense agreed upon by the parties have occurred, provided they are not subject to a subsequent condition, in which case the recognition shall take place when it is fulfilled and when collection or payment is to take place will not be taken into account; and, if the determination of the consideration depends on a future action or event, the total or part of the corresponding income or expense will be deferred until that action or event occurs.

Notes to the consolidated financial statements (continued)

15. Interest and similar income and expenses

(a) This caption is comprised of the following:

	For the quarters ended March 31	
	2019 S/(000)	2018 S/(000)
Interest and similar income -		
Interest on loan portfolio	905,215	797,290
Interest on investments at fair value through other comprehensive income	194,159	197,819
Interest on due from banks and inter-bank funds	27,289	11,256
Interest on investments at amortized cost	21,961	18,979
Dividends on financial instruments through other comprehensive income	17,113	9,760
Other income	1,003	1,171
Total	1,166,740	1,036,275
Interest and similar expenses		
Interest and fees on deposits and obligations	178,154	129,374
Interest on bonds, notes and other obligations	99,639	79,742
Interest and fees on obligations with financial institutions	42,373	44,253
Deposit insurance fund fees	10,900	9,824
Result from hedging transactions	2,279	2,279
Interest on leases, Note 2.2.2	765	-
Other expenses	1,675	1,423
Total	335,785	266,895

(b) The amounts shown in 15(a) include interest income and expenses calculated using the effective interest rate, which are related to the following elements:

	For the quarters ended March 31	
	2019 S/(000)	2018 S/(000)
Financial assets measured at amortized cost	954,465	827,525
Financial assets measured at fair value through other comprehensive income	194,159	197,819
Total interest on financial assets not measured at fair value	1,148,624	1,025,344
Financial liabilities measured at amortized cost	320,166	253,369

Notes to the consolidated financial statements (continued)

16. Fee income from financial services, net

This caption is comprised of the following:

	For the quarters ended March	
	2019	2018
	S/(000)	S/(000)
Income		
Maintenance and mailing of accounts, transfer fees and commissions on credit and debit card	155,391	151,385
Commissions for banking services	51,951	58,392
Funds management fees	35,116	38,204
Fees from indirect loans	13,797	15,237
Collection services fees	9,786	8,426
Brokerage and custody services fees	2,092	3,397
Others	8,944	8,885
Total	<u>277,077</u>	<u>283,926</u>
Expenses		
Credit cards	24,385	24,091
Debtor's life insurance premiums	10,533	23,288
Fees paid to foreign banks	3,671	3,262
Brokerage and custody services	172	963
Others	15,318	15,725
Total	<u>54,079</u>	<u>67,329</u>
Net	<u>222,998</u>	<u>216,597</u>

Notes to the consolidated financial statements (continued)

17. Other income (and expenses)

(a) This caption is comprised of the following:

	For the quarters ended March	
	31	
	2019	2018
	S/(000)	S/(000)
Other income		
Income from investments in associates	5,736	3,501
Other technical income from insurance operations	3,129	2,518
Income from ATM rentals	1,419	708
Services rendered to third parties	995	691
Other income	<u>7,451</u>	<u>6,994</u>
Total other income	<u>18,730</u>	<u>14,412</u>
Other expenses		
Commissions from insurance activities	(13,412)	(16,922)
Sundry technical insurance expenses	(10,359)	(9,912)
Provision for sundry risk	(3,190)	(473)
Expenses related to rental income	(1,544)	(42)
Donations	(1,291)	(1,361)
Other expenses	<u>(16,922)</u>	<u>(14,661)</u>
Total other expenses	<u>(46,718)</u>	<u>(43,371)</u>

Notes to the consolidated financial statements (continued)

18. Net premiums earned

This caption is comprised of the following for the quarters ended March 31, 2019 and 2018:

	Premiums assumed		Adjustment of technical reserves		Gross premiums earned (*)		Premiums ceded to reinsurers		Net premiums earned	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Life insurance										
Annuities (**)	78,324	47,389	(56,553)	(19,042)	21,771	28,347	-	-	21,771	28,347
Group life	33,083	26,660	(85)	131	32,998	26,791	(1,275)	(1,435)	31,723	25,356
Individual life	33,297	32,531	(21,939)	(12,194)	11,358	20,337	(1,155)	(1,442)	10,203	18,895
Retirement, disability and survival (***)	4,980	38,316	6,934	(10,737)	11,914	27,579	(1,700)	(24,818)	10,214	2,761
Others	-	1	(68)	(411)	(68)	(410)	-	-	(68)	(410)
Total life insurance	149,684	144,897	(71,711)	(42,253)	77,973	102,644	(4,130)	(27,695)	73,843	74,949
Total general insurance	25,776	22,088	(1,548)	(338)	24,228	21,750	(108)	(428)	24,120	21,322
Total	175,460	166,985	(73,259)	(42,591)	102,201	124,394	(4,238)	(28,123)	97,963	96,271

(*) 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.

Notes to the consolidated financial statements (continued)

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

This caption is comprised of the following for the quarters ended March 31, 2019 and 2018:

	Gross claims and benefits		Ceded claims and benefits		Net insurance claims and benefits	
	2019 S/(000)	2018 S/(000)	2019 S/(000)	2018 S/(000)	2019 S/(000)	2018 S/(000)
Life insurance						
Annuities	(150,833)	(133,476)	-	-	(150,833)	(133,476)
Group life	(13,330)	(12,432)	1,552	1,189	(11,778)	(11,243)
Individual life	(195)	(2,086)	982	824	787	(1,262)
Retirement, disability and survival	(3,150)	(51,884)	(2,193)	28,503	(5,343)	(23,381)
Others	(366)	(973)	(173)	468	(539)	(505)
General insurance	(4,353)	(5,281)	22	10	(4,331)	(5,271)
	(172,227)	(206,132)	190	30,994	(172,037)	(175,138)

Notes to the consolidated financial statements (continued)

20. Salaries and employee benefits

This caption is comprised of the following:

	<u>For the quarters ended March 31</u>	
	2019	2018
	S/(000)	S/(000)
Salaries	136,656	131,732
Workers' profit sharing	24,273	16,451
Social security	12,605	12,603
Vacations, health insurance and others	11,791	11,792
Severance indemnities	10,050	9,855
Total	195,375	182,433

21. Administrative expenses

(a) This caption is comprised of the following:

	<u>For the quarters ended March 31</u>	
	2019	2018
	S/(000)	S/(000)
Services received from third parties (b), Note 2.2.2	167,844	171,740
Taxes and contributions	8,875	8,700
Total	176,719	180,440

(b) 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.

Notes to the consolidated financial statements (continued)

22. Earnings per share

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

	Outstanding shares	Shares considered in computation	Effective days in the year	Weighted average number of shares
	(in thousands)	(in thousands)		(in thousands)
Period 2018				
Balance as of January 1, 2018	107,682	107,682	90	107,682
Sale of treasury stock	<u>3,010</u>	<u>3,010</u>	59	<u>1,973</u>
Balance as of March 31, 2018	<u>110,692</u>	<u>110,692</u>		<u>109,655</u>
Net profit for the period S/(000)				<u>288,209</u>
Basic and diluted earnings per share (Soles)				<u>2.628</u>
Period 2019				
Balance as of January 1, 2019	110,692	110,692	90	110,692
Balance as of March 31, 2019	<u>110,692</u>	<u>110,692</u>		<u>110,692</u>
Net profit for the period S/(000)				<u>350,568</u>
Basic and diluted earnings per share (Soles)				<u>3.167</u>

Notes to the consolidated financial statements (continued)

23. 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 March 31, 2019 and December 31, 2018:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Assets		
Instruments at fair value through profit or loss		
Participations - Royalty Pharma	140,126	78,808
Negotiable certificates of deposit – Financiera Oh! S.A.	20,062	20,809
Investment funds participations – NGCP	2,850	2,890
Shares - InRetail Perú Corp.	-	7,322
Other minors	216	205
	<u>163,254</u>	<u>110,034</u>
Investments at fair value through other comprehensive income		
Shares - InRetail Perú Corp, Note 5(f)	283,750	228,122
Corporate bonds - InRetail Shopping Malls S.A.	72,843	59,131
Corporate bonds - Colegios Peruanos S.A.	56,100	58,913
Corporate bonds - Intercorp Perú Ltd.	4,342	15,766
Corporate bonds - Intercorp Retail Inc.	29,394	-
Corporate bonds - Cineplex S.A.	-	7,317
	<u>446,429</u>	<u>369,249</u>
Loans, net (b)	1,274,735	1,157,158
Accounts receivable from UTP (h)	66,334	58,968
Accounts receivable from Homecenters Peruanos S.A. (g)	56,682	20,877
Accounts receivable from Supermercados Peruanos S.A	38,166	18,264
Accounts receivable related to derivative financial instruments	2,596	3,908
Other assets (f)	11,399	10,183
Liabilities		
Deposits and obligations	665,818	571,032
Other liabilities	148	214
Off-balance sheet accounts		
Indirect loans (b)	120,187	139,702
	For the quarters ended March 31	
	2019	2018
	S/(000)	S/(000)
Income (expenses)		
Interest and similar income	21,947	31,314
Interest and similar expenses	(4,599)	(2,398)
Valuation of financial derivative instruments	7	(1,146)
Rental income	4,693	1,917
Gain on sale of investment property	-	1,559
Administrative expenses	(11,453)	(10,010)
Others, net	6,929	5,786

Notes to the consolidated financial statements (continued)

- (b) As of March 31, 2019 and December 31, 2018, the detail of loans (direct and indirect) is the following:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Supermercados Peruanos S.A.	221,855	237,527
Intercorp Perú Ltd.	169,168	65,046
InRetail Pharma S.A.	157,435	168,656
GTP Inversionistas S.A.C.	100,364	102,027
Nessus Hoteles Perú S.A.	98,037	103,020
Financiera Oh! S.A.	84,296	65,300
Colegios Peruanos S.A.C.	80,883	82,222
Universidad Tecnológica del Perú	80,000	80,000
Homecenters Peruanos S.A.	61,113	62,322
San Miguel Industrias PET S.A.	56,858	46,239
Cineplex S.A.	39,579	42,840
San Miguel Industrias Ecuador	32,910	32,910
Bembos S.A.C.	32,417	32,877
Centros de Salud Peruanos S.A.	28,717	20,701
Procesos de Medios de Pago S.A.	27,045	28,279
PF Interproperties Perú	20,925	21,126
Other less than 20 millions	103,320	105,768
	<hr/>	<hr/>
	1,394,922	1,296,860
	<hr/>	<hr/>

- (c) 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 March 31, 2019 and December 31, 2018, direct loans to employees, directors and officers amounted to S/212,288,000 and S/223,381,000, 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.

Notes to the consolidated financial statements (continued)

- (d) The Group's key personnel compensations, including the Income Tax assumed for the quarters ended March 31, 2019 and 2018, are presented below:

	For the quarters ended March	
	31	
	2019	2018
	S/(000)	S/(000)
Salaries	7,415	4,079
Board of Directors' compensations	367	372
	<hr/>	<hr/>
Total	7,782	4,451
	<hr/>	<hr/>

- (e) As of March 31, 2019 and December 31, 2018, 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/13,000 and S/9,934,000, 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/8,176,000 and S/8,856,000 as of March 31, 2019 and December 31, 2018, respectively (see Note 8(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 March 31, 2019 and 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.

Notes to the consolidated financial statements (continued)

24. 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. It serves mainly Peruvian citizens.

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

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

No revenue from transactions with a single external customer or counterparty exceeded 10 percent of the Group’s total revenues for the periods as of March 31, 2019 and 2018.

Notes to the consolidated financial statements (continued)

The following table presents the Group's financial information by business segments for the quarters ended March 31, 2019 and 2018:

	2019					2018				
	Banking	Insurance	Wealth management	Holding and eliminations	Total	Banking	Insurance	Wealth management	Holding and eliminations	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Total income (*)										
Third party	1,291,408	278,593	121,325	(64,737)	1,626,589	1,113,075	264,023	77,897	(8,955)	1,446,040
Inter-segment	(10,557)	-	(227)	10,784	-	(4,362)	-	(2,003)	6,365	-
Total income	1,280,851	278,593	121,098	(53,953)	1,626,589	1,108,713	264,023	75,894	(2,590)	1,446,040
Extracts of results										
Interest and similar income	964,986	156,801	45,586	(633)	1,166,740	843,132	157,632	33,749	1,762	1,036,275
Interest and similar expenses	(307,418)	(13,640)	(14,860)	133	(335,785)	(242,449)	(13,728)	(9,135)	(1,583)	(266,895)
Net interest and similar income	657,568	143,161	30,726	(500)	830,955	600,683	143,904	24,614	179	769,380
Impairment loss on loans, net of recoveries	(186,342)	-	(72)	-	(186,414)	(173,268)	-	383	-	(172,885)
Recovery (loss) due to impairment of financial investments	(2)	2,361	(472)	-	1,887	(130)	97	2,291	-	2,258
Net interest and similar income after impairment loss	471,224	145,522	30,182	(500)	646,428	427,285	144,001	27,288	179	598,753
Fee income from financial services, net	193,361	(999)	38,914	(8,278)	222,998	179,719	(1,682)	43,079	(4,519)	216,597
Net gain on sale of securities	11,543	(6,169)	24,543	-	29,917	11,583	2,091	11,588	-	25,262
Other income	121,518	30,997	12,282	(55,826)	108,971	78,641	9,711	(10,519)	(6,198)	71,635
Total net premiums earned minus claims and benefits	-	(74,074)	-	-	(74,074)	-	(78,867)	-	-	(78,867)
Depreciation and amortization	(55,399)	(5,031)	(2,474)	-	(62,904)	(34,137)	(2,244)	(2,168)	929	(37,620)
Other expenses	(335,392)	(65,657)	(24,420)	6,657	(418,812)	(327,967)	(59,537)	(24,274)	5,534	(406,244)
Income before translation result and Income Tax	406,855	24,589	79,027	(57,947)	452,524	335,124	13,473	44,994	(4,075)	389,516
Translation result	233	4,353	683	4,822	10,091	1,900	1,020	530	2,537	5,987
Income Tax	(107,386)	-	(1,408)	(1,096)	(109,890)	(94,469)	-	(1,565)	(9,485)	(105,519)
Net profit for the period	299,702	28,942	78,302	(54,221)	352,725	242,555	14,493	43,959	(11,023)	289,984
Attributable to:										
IFS's shareholders	299,702	28,942	78,302	(56,378)	350,568	242,555	14,493	43,959	(12,798)	288,209
Non-controlling interest	-	-	-	2,157	2,157	-	-	-	1,775	1,775
	299,702	28,942	78,302	(54,221)	352,725	242,555	14,493	43,959	(11,023)	289,984

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

Notes to the consolidated financial statements (continued)

	2019				
	Banking	Insurance	Wealth management	Holding and eliminations	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
As of March 31, 2019					
Capital expenditures (*)	30,354	13,364	1,992	-	45,710
Total assets	49,231,104	12,967,548	3,754,231	(196,677)	65,756,206
Total liabilities	43,850,841	11,533,013	2,923,890	(684,283)	57,623,461
	2018				
	Banking	Insurance	Wealth management	Holding and eliminations	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
As of December 31, 2018					
Capital expenditures (*)	176,082	70,333	9,718	41	256,174
Total assets	47,440,393	12,572,396	3,808,939	(77,319)	63,744,409
Total liabilities	41,986,416	11,795,308	2,996,179	(121,970)	56,655,933

(*) 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 quarters ended March 31, 2019, is S/1,519,101,000 in Peru and S/107,488,000 in Panama (for the quarters ended March 31, 2018, it is S/1,384,142,000 in Peru and S/61,898,000 in Panama). The distribution of the Group's total assets based on the location of the customer and its assets as of March 31, 2019, it is S/62,164,114,000 in Peru and S/3,592,093,000 in Panama (for the year ended December 31, 2018, it is S/60,033,938,000 in Peru S/3,710,471,000 in Panama. It should be noted that both income and assets located in Panama correspond mainly to Peruvian citizens.

Notes to the consolidated financial statements (continued)

25. Financial instruments classification

The financial assets and liabilities of the consolidated statements of financial position as of March 31, 2019 and December 31, 2018:

	As of March 31, 2019					As of December 31, 2018				
	At fair value through profit or loss	Debt instruments measured at fair value through other comprehensive income	Equity instruments measured at fair value through other comprehensive income	Amortized cost	Total	At fair value through profit or loss	Debt instruments measured at fair value through other comprehensive income	Equity instruments measured at fair value through other comprehensive income	Amortized cost	Total
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Financial assets										
Cash and due from banks	-	-	-	9,660,613	9,660,613	-	-	-	8,380,411	8,380,411
Inter-bank funds	-	-	-	70,017	70,017	-	-	-	495,037	495,037
Financial investments	1,565,096	13,510,209	928,737	1,848,731	17,852,773	1,571,468	13,328,593	845,317	1,884,067	17,629,445
Loans, net	-	-	-	33,622,742	33,622,742	-	-	-	32,960,917	32,960,917
Due from customers on acceptances	-	-	-	89,748	89,748	-	-	-	132,961	132,961
Accounts receivable and other assets, net	138,367	-	-	1,149,565	1,287,932	185,376	-	-	1,106,659	1,292,035
	1,703,463	13,510,209	928,737	46,441,416	62,583,825	1,756,844	13,328,593	845,317	44,960,052	60,890,806
Financial liabilities										
Deposits and obligations	-	-	-	34,790,000	34,790,000	-	-	-	33,681,950	33,681,950
Inter-bank funds	-	-	-	106,524	106,524	-	-	-	-	-
Due to banks and correspondents	-	-	-	3,726,119	3,726,119	-	-	-	4,293,361	4,293,361
Bonds, notes and other obligations	-	-	-	6,663,213	6,663,213	-	-	-	6,496,778	6,496,778
Due from customers on acceptances	-	-	-	89,748	89,748	-	-	-	132,961	132,961
Insurance contract liabilities	-	-	-	10,001,253	10,001,253	-	-	-	10,300,468	10,300,468
Accounts payable, provisions and other liabilities	144,142	-	-	1,849,938	1,994,080	154,116	-	-	1,367,644	1,521,760
	144,142	-	-	57,226,795	57,370,937	154,116	-	-	56,273,162	56,427,278

Notes to the consolidated financial statements (continued)

26. 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.

For more detail see Note 31 "Financial risk management" of the annual consolidated financial statements issued on March 18, 2019.

Notes to the consolidated financial statements (continued)

(a) 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 4.

(a.1) Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements as of March 31, 2019 and December 31, 2018, were as follows:

	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		Net amount S/(000)
				Financial instruments (including non-cash collateral) S/(000)	Cash collateral received S/(000)	
2019						
Description						
Derivatives, Note 8(b)	138,367	-	138,367	(45)	-	138,322
Total	138,367	-	138,367	(45)	-	138,322
2018						
Description						
Derivatives, Note 8(b)	185,376	-	185,376	(41)	-	185,335
Total	185,376	-	185,376	(41)	-	185,335

(a.2) Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of March 31, 2019 and December 31, 2018, were as follows:

	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		Net amount S/(000)
				Financial instruments (including non-cash collateral) S/(000)	Cash collateral received S/(000)	
2019						
Description						
Derivatives, Note 8(b)	144,142	-	144,142	(45)	(82,837)	61,260
Total	144,142	-	144,142	(45)	(82,837)	61,260
2018						
Description						
Derivatives, Note 8(b)	154,116	-	154,116	(41)	(92,456)	61,619
Total	154,116	-	154,116	(41)	(92,456)	61,619

Notes to the consolidated financial statements (continued)

(b) 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 March 31, 2019, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.316 per US\$1 bid and S/3.321 per US\$1 ask (S/3.369 and S/3.379 as of December 31, 2018, 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/3.318 per US\$1 (S/3.373 as of December 31, 2018).

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

	As of March 31, 2019				As of December 31, 2018			
	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Assets								
Cash and due from banks	8,325,676	1,010,807	324,130	9,660,613	6,802,749	1,224,791	352,871	8,380,411
Inter-bank funds	-	70,017	-	70,017	-	495,037	-	495,037
Financial investments	7,684,914	10,156,160	11,699	17,852,773	7,670,084	9,941,459	17,902	17,629,445
Loans, net	10,115,034	23,507,708	-	33,622,742	10,048,173	22,912,744	-	32,960,917
Due from customers on acceptances	72,242	-	17,506	89,748	112,653	-	20,308	132,961
Accounts receivable and other assets, net	287,365	982,551	18,016	1,287,932	154,643	1,102,800	34,592	1,292,035
	26,485,231	35,727,243	371,351	62,583,825	24,788,302	35,676,831	425,673	60,890,806
Liabilities								
Deposits and obligations	14,964,017	19,538,035	287,948	34,790,000	13,584,983	19,807,644	289,323	33,681,950
Inter-bank funds	-	106,524	-	106,524	-	-	-	-
Due to banks and correspondents	1,030,288	2,695,831	-	3,726,119	1,046,545	3,246,816	-	4,293,361
Bonds, notes and other obligations	5,982,827	680,386	-	6,663,213	6,110,077	386,701	-	6,496,778
Due from customers on acceptances	72,242	-	17,506	89,748	112,653	-	20,308	132,961
Insurance contract liabilities	3,839,190	6,162,063	-	10,001,253	4,072,811	6,227,657	-	10,300,468
Accounts payable, provisions and other liabilities	458,518	1,527,633	7,929	1,994,080	215,093	1,297,074	9,593	1,521,760
	26,347,082	30,710,472	313,383	57,370,937	25,142,162	30,965,892	319,224	56,427,278
Assets (Liabilities) net								
Forwards position, net	(984,364)	1,016,617	(32,253)	-	(629,147)	685,813	(56,666)	-
Currency swaps position, net	(14,423)	14,423	-	-	(59,991)	59,991	-	-
Cross currency swaps position, net	1,762,329	(1,762,329)	-	-	1,724,081	(1,724,081)	-	-
Options position, net	(279)	279	-	-	81	(81)	-	-
Monetary position, net	901,412	4,285,761	25,715	5,212,888	681,164	3,732,581	49,783	4,463,528

As of March 31, 2019, the Group granted indirect loans (contingent operations) in foreign currency for approximately US\$649,612,000, equivalent to S/2,155,412,000 (US\$696,510,000, equivalent to S/2,349,328,000 as of December 31, 2018).

Notes to the consolidated financial statements (continued)

27. 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 March 31, 2019				As of December 31, 2018			
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Financial assets								
Financial investments								
At fair value through profit or loss	813,479	304,653	446,964	1,565,096	811,238	352,273	407,957	1,571,468
Debt instruments measured at fair value through other comprehensive income	10,221,076	3,140,490	-	13,361,566	9,822,970	3,320,556	-	13,143,526
Equity instruments measured at fair value through other comprehensive income	927,093	1,644	-	928,737	843,646	1,671	-	845,317
Derivatives receivable	-	138,367	-	138,367	-	185,376	-	185,376
	11,961,648	3,585,154	446,964	15,993,766	11,477,854	3,859,876	407,957	15,745,687
Accrued interest				148,643				185,067
Total financial assets				16,142,409				15,930,754
Financial liabilities								
Accounts payable by derivatives	-	144,142	-	144,142	-	154,116	-	154,116

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.

Notes to the consolidated financial statements (continued)

(a.1) 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/14,676,000.
		WACC	8.0%	500 basis points increase in the WACC would result in decrease in fair value by S/27,032,000. 500 basis points decrease in the WACC would result in increase in fair value by S/38,704,000.
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/4,768,000. 500 basis points decrease in the discount rate would result in increase in fair value by S/6,221,000.
		WACC	9.0%	500 basis points increase in the WACC would result in decrease in fair value by S/1,344,000. 500 basis points decrease in the WACC would result in increase in fair value by S/1,632,000.
	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/2,459,000.
	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/208,000.

(a.2) The table below includes a reconciliation of fair value measurement of financial instruments classified by the Group within Level 3 of the valuation hierarchy:

	For the quarters ended March 31	
	2019 S/(000)	2018 S/(000)
Initial balance as of January 1	407,957	261,737
Purchases	68,384	107,042
Sales	(14,145)	(4,576)
Total gain (loss) recognized on the consolidated income statements	(15,232)	4,839
End of year balances	446,964	369,042

During 2018, there were no transfers of financial instruments from Level 3 to Level 1 or to Level 2.

Notes to the consolidated financial statements (continued)

(b) Financial instruments not measured at their fair value -

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

	As of March 31, 2019					As of December 31, 2018				
	Level 1	Level 2	Level 3	Fair value	Book value	Level 1	Level 2	Level 3	Fair value	Book value
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Assets										
Cash and due from banks	-	9,660,613	-	9,660,613	9,660,613	-	8,380,411	-	8,380,411	8,380,411
Inter-bank funds	-	70,017	-	70,017	70,017	-	495,037	-	495,037	495,037
Investments at amortized cost	1,859,014	-	-	1,859,014	1,848,731	700,177	1,156,148	-	1,856,325	1,884,067
Loans, net	-	33,524,234	-	33,524,234	33,622,742	-	33,276,930	-	33,276,930	32,960,917
Due from customers on acceptances	-	89,748	-	89,748	89,748	-	132,961	-	132,961	132,961
Accounts receivable and other assets, net	-	1,149,565	-	1,149,565	1,149,565	-	1,106,659	-	1,106,659	1,106,659
Total	1,859,014	44,494,177	-	46,353,191	46,441,416	700,177	44,548,146	-	45,248,323	44,960,052
Liabilities										
Deposits and obligations	-	34,787,155	-	34,787,155	34,790,000	-	33,699,626	-	33,699,626	33,681,950
Inter-bank funds	-	106,524	-	106,524	106,524	-	-	-	-	-
Due to banks and correspondents	-	3,730,437	-	3,730,437	3,726,119	-	4,291,346	-	4,291,346	4,293,361
Bonds, notes and notes issued	5,659,642	1,145,784	-	6,805,426	6,663,213	5,569,970	895,427	-	6,465,397	6,496,778
Due from customers on acceptances	-	89,748	-	89,748	89,748	-	132,961	-	132,961	132,961
Insurance contract liabilities	-	10,001,253	-	10,001,253	10,001,253	-	10,300,468	-	10,300,468	10,300,468
Accounts payable and other liabilities	-	1,849,938	-	1,849,938	1,849,938	-	1,367,644	-	1,367,644	1,367,644
Total	5,659,642	51,710,839	-	57,370,481	57,226,795	5,569,970	50,687,472	-	56,257,442	56,273,162

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 March 31, 2019 and December 31, 2018, 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.

Notes to the consolidated financial statements (continued)

28. 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 for the performance of the assets under its administration.

As of March 31, 2019 and December 31, 2018, the value of the managed off-balance sheet financial assets is as follows:

	31.03.2019	31.12.2018
	S/(000)	S/(000)
Investment funds	13,256,297	12,924,575
Mutual funds	<u>4,512,724</u>	<u>4,668,076</u>
Total	<u>17,769,021</u>	<u>17,592,651</u>

29. Additional explanation for English translation

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