

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of March 31, 2017, December 31, 2016 and for the three-month periods ended March 31, 2017 and 2016

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InterCorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

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

	Note	2017 S/(000)	2016 S/(000)		Note	2017 S/(000)	2016 S/(000)
Assets				Liabilities and equity			
Cash and due from banks	3			Deposits and obligations	8		
Non-interest bearing		2,495,217	2,628,115	Non-interest bearing		4,592,806	5,081,940
Interest bearing		3,711,521	5,869,583	Interest bearing		23,307,383	25,015,910
Restricted funds		2,833,323	3,264,105			<u>27,900,189</u>	<u>30,097,850</u>
		9,040,061	11,761,803	Inter-bank funds		165,020	332,255
Inter-bank funds		-	5,002	Due to banks and correspondents	9	4,948,745	5,328,603
Trading securities		90,736	80,149	Bonds, notes and other obligations	10	4,649,698	4,769,390
Available-for-sale investments	4(a)	9,707,174	9,518,398	Due from customers on acceptances		9,115	16,392
Held-to-maturity investments	4(h)	601,566	611,293	Insurance contract liabilities	11	5,101,441	5,010,513
				Accounts payable, provisions and other liabilities	7	1,201,035	1,162,064
Loans, net	5			Deferred Income Tax liability, net		3,244	3,946
Loans, net of unearned interest		28,339,456	28,192,647	Total liabilities		<u>43,978,487</u>	<u>46,721,013</u>
Allowance for loan losses		(1,192,544)	(1,166,782)	Equity, net	12		
		27,146,912	27,025,865	Equity attributable to IFS's shareholders:			
Investment property	6	736,355	745,185	Capital stock		963,446	963,446
Property, plant and equipment, net		585,609	589,820	Treasury stock		(522,106)	(522,106)
Due from customers on acceptances		9,115	16,392	Capital surplus		268,077	268,077
Accounts receivable and other assets, net	7	1,341,531	1,331,174	Reserves		2,600,000	2,600,000
Deferred Income Tax asset, net		58,484	34,278	Unrealized results, net		202,437	16,358
				Retained earnings		1,711,304	1,553,336
Total assets		<u>49,317,543</u>	<u>51,719,359</u>			<u>5,223,158</u>	<u>4,879,111</u>
				Non-controlling interest		115,898	119,235
				Total equity, net		<u>5,339,056</u>	<u>4,998,346</u>
				Total liabilities and equity, net		<u>49,317,543</u>	<u>51,719,359</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the three-month periods ended March 31, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Interest and similar income	14	944,445	903,659
Interest and similar expenses	14	(275,191)	(259,715)
Net interest and similar income		<u>669,254</u>	<u>643,944</u>
Provision for loan losses, net of recoveries	5(c)	(222,711)	(199,614)
Net interest and similar income after provision for loan losses, net of recoveries		<u>446,543</u>	<u>444,330</u>
Other income			
Fee income from financial services, net	15	220,716	206,591
Net gain on foreign exchange transactions		50,451	94,786
Net gain on sale of securities		30,135	(6,732)
Net trading income (loss)		4,548	(66,321)
Rental income		6,009	4,796
Valuation loss from investment property	6(b)	(11,194)	(5,883)
Others	16	35,234	28,284
Total other income		<u>335,899</u>	<u>255,521</u>
Insurance premiums and claims			
Net premiums earned	17	(41,906)	(50,915)
Net claims and benefits incurred for life insurance contracts and others	18	(83,928)	(76,562)
Total net premiums earned minus claims and benefits		<u>(125,834)</u>	<u>(127,477)</u>
Other expenses			
Salaries and employee benefits	19	(176,835)	(172,835)
Administrative expenses	20	(201,681)	(184,166)
Depreciation and amortization		(33,375)	(31,082)
Impairment loss on available-for-sale investments	4(c)	(4,913)	(21,304)
Expenses related to rental income		(420)	(32)
Others	16	(31,000)	(28,512)
Total other expenses		<u>(448,224)</u>	<u>(437,931)</u>
Income before translation result and Income Tax		<u>208,384</u>	<u>134,443</u>
Translation result		23,133	9,552
Income Tax		(73,560)	(83,323)
Net profit for the period		<u>157,957</u>	<u>60,672</u>
Attributable to:			
IFS's shareholders		158,617	60,639
Non-controlling interest		(660)	33
		<u>157,957</u>	<u>60,672</u>
Earnings per share attributable to IFS's shareholders (stated in Soles)	21	<u>1.483</u>	<u>0.557</u>
Weighted average number of outstanding shares (in thousands)	21	<u>106,931</u>	<u>108,821</u>

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 three-month periods ended March 31, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Net profit for the period		157,957	60,672
Other comprehensive income			
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:			
Net gain on available-for-sale investments	12(e)	206,666	243,901
Net movement on cash flow hedges	12(e)	289	322
Exchange differences on translation of foreign operations	12(e)	(20,757)	(14,364)
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods, net of Income Tax		<u>186,198</u>	<u>229,859</u>
Total other comprehensive income for the period, net of Income Tax		<u>344,155</u>	<u>290,531</u>
Attributable to:			
IFS's shareholders		344,696	290,064
Non-controlling interest		(541)	467
		<u>344,155</u>	<u>290,531</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 three-month periods ended March 31, 2017 and 2016

	Number of shares		Attributable to IFS's shareholders										
	Issued (in thousands)	In treasury (in thousands)	Capital stock S/(000)	Treasury stock S/(000)	Capital surplus S/(000)	Reserves S/(000)	Unrealized results, net, Note 12(d)			Retained earnings S/(000)	Total S/(000)	Non-controlling interest S/(000)	Total equity S/(000)
							Available-for- sale investments S/(000)	Cash flow hedges S/(000)	Exchange differences on translation of foreign operations S/(000)				
Balances as of January 1, 2016	113,110	(4,290)	963,446	(322,214)	268,077	2,000,000	(471,154)	(455)	110,214	1,797,637	4,345,551	115,380	4,460,931
Net profit for the period	-	-	-	-	-	-	-	-	-	60,639	60,639	33	60,672
Other comprehensive income	-	-	-	-	-	-	243,469	320	(14,364)	-	229,425	434	229,859
Total other comprehensive income	-	-	-	-	-	-	243,469	320	(14,364)	60,639	290,064	467	290,531
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,642)	(2,642)
Net variation of treasury stock held by Subsidiaries, Note 12(b)	-	4	-	371	-	-	-	-	-	-	371	-	371
Transfer of retained earnings to reserves, Note 12(g)	-	-	-	-	-	600,000	-	-	-	(600,000)	-	-	-
Income of new non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	15,852	15,852
Others	-	-	-	-	-	-	-	-	-	6,485	6,485	(28)	6,457
Balances as of March 31, 2016	113,110	(4,286)	963,446	(321,843)	268,077	2,600,000	(227,685)	(135)	95,850	1,264,761	4,642,471	129,029	4,771,500
Balances as of January 1, 2017	113,110	(6,179)	963,446	(522,106)	268,077	2,600,000	(83,807)	1,291	98,874	1,553,336	4,879,111	119,235	4,998,346
Net profit for the period	-	-	-	-	-	-	-	-	-	158,617	158,617	(660)	157,957
Other comprehensive income	-	-	-	-	-	-	206,549	287	(20,757)	-	186,079	119	186,198
Total other comprehensive income	-	-	-	-	-	-	206,549	287	(20,757)	158,617	344,696	(541)	344,155
Dividends paid to non-controlling interest of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,722)	(2,722)
Others	-	-	-	-	-	-	-	-	-	(649)	(649)	(74)	(723)
Balances as of March 31, 2017	113,110	(6,179)	963,446	(522,106)	268,077	2,600,000	122,742	1,578	78,117	1,711,304	5,223,158	115,898	5,339,056

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 three-month periods ended March 31, 2017 and 2016

	2017 S/(000)	2016 S/(000)
Cash flows from operating activities		
Net profit for the period	157,957	60,672
Plus (minus)		
Provision for loan losses, net of recoveries	222,711	199,614
Depreciation and amortization	33,375	31,082
Provision for sundry risks	3,732	2,007
Deferred Income Tax	1,043	(16,344)
Net gain (loss) on sale of securities	(30,135)	6,732
Impairment loss on available-for-sale investments	4,913	21,304
Net trading income (loss)	(4,548)	66,321
Valuation loss from investment property	11,194	5,883
Translation result	(23,133)	(9,552)
Decrease (increase) in accrued interest receivable	6,153	(6,114)
Increase (decrease) increase in accrued interest payable	23,632	(11,363)
Net changes in assets and liabilities		
Increase in loans	(348,613)	(278,789)
Increase in accounts receivable and other assets, net	(13,375)	(56,962)
Decrease in restricted funds	430,782	168,694
Decrease in deposits and obligations	(2,207,213)	(704,299)
Decrease in due to banks and correspondents	(366,018)	(71,425)
Increase in accounts payable, provisions and other liabilities	(74,383)	185,776
Purchase of trading securities, net	(5,833)	(30,957)
Net cash used in operating activities	<u>(2,177,759)</u>	<u>(437,720)</u>

Consolidated statements of cash flows (continued)

	2017 S/(000)	2016 S/(000)
Cash flows from investing activities		
Increase of available-for-sale and held-to-maturity investments, net	148,241	116,598
Purchase of property, plant and equipment	(35,570)	(38,505)
Purchase of intangible assets	(48,293)	(25,346)
Purchase of investment property	(2,364)	(21,469)
Net cash provided by investing activities	<u>62,014</u>	<u>31,278</u>
Cash flows from financing activities		
Net decrease in bonds, notes and other obligations	(10,260)	(23,392)
Net decrease (increase) in receivable inter-bank funds	5,002	(175,626)
Net (decrease) increase in payable inter-bank funds	(167,235)	80,009
Dividend payments to non-controlling interest	(2,722)	(2,642)
Net cash used in financing activities	<u>(175,215)</u>	<u>(121,651)</u>
Net decrease in cash and cash equivalents	(2,290,960)	(528,093)
Cash and cash equivalents at the beginning of the year	<u>8,497,698</u>	<u>8,781,524</u>
Cash and cash equivalents at the end of the year	<u>6,206,738</u>	<u>8,253,431</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of March 31, 2017, December 31, 2016 and for the three-month periods ended March 31, 2017 and 2016

1. Business activity and Group reorganization

(a) 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, 2017 and December 31, 2016, Intercorp Perú held 79.78 percent of IFS's capital stock.

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

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

The main activities of IFS's Subsidiaries and their assets, liabilities, equity, operating income, net income balances and other relevant information are presented in Note 1(b).

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

(b) Subsidiaries

IFS's Subsidiaries are the following:

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

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

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

Notes to the consolidated financial statements (continued)

Entity	Activity
Interfondos S.A. Sociedad Administradora de Fondos	Manages mutual funds and investment funds.
Internacional de Títulos Sociedad Tituladora S.A. - Intertítulos S.T.	Manages securitization funds.
Inversiones Huancavelica S.A.	Real estate activities.
Contacto Servicios Integrales de Créditos y Cobranzas S.A.	Collection services.
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities.
Compañía de Servicios Conexos Expressnet S.A.C.	Services related to credit card transactions or products related to the brand “American Express”.
IBK DPR Securitizadora	A consolidated special purpose entity (SPE), by which Interbank issued negotiable long-term notes which matured in 2016.

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

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

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

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

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

On the other hand, in the Universal Shareholders’ Meeting held on December 21, 2016, it was approved a project of “simple reorganization” between Interseguro and Mapfre Peru Vida Compañía de Seguros y

Notes to the consolidated financial statements (continued)

Reaseguros S.A. (henceforth “Mapfre”, an unrelated party), through which Interseguro is committed to the acquisition of an equity block comprised of assets, liabilities, rights, obligations and legal matters related to an annuity retirement insurance policies portfolio issued by Mapfre. The mentioned assets and liabilities have the same balances amounted to S/197,241,000; in that sense, due to the net equity block’s value is zero, Interseguro will not recognize a capital surplus. At the date of this report, the approval of this transaction by the SBS is pending.

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

(iii) Inteligo Group Corp. and Subsidiaries

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

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

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

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

Notes to the consolidated financial statements (continued)

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

	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)
Consolidated statements of financial position						
Cash and due from banks	8,337,216	10,966,505	111,094	84,225	656,871	757,929
Trading securities and available-for-sale investments	4,017,919	3,982,116	4,864,415	4,611,642	1,384,820	1,466,371
Held-to-maturity investments	601,567	611,293	-	-	-	-
Loans, net	25,489,388	25,331,312	-	-	1,659,161	1,695,421
Investment property	-	-	736,355	745,185	-	-
Total assets	40,031,611	42,402,877	6,002,713	5,795,908	3,795,003	4,014,633
Deposits and obligations	24,956,613	26,898,615	-	-	3,008,766	3,246,319
Due to banks and correspondents	4,829,591	5,259,484	54,057	1,847	65,098	67,271
Bonds, notes and other obligations	4,486,240	4,598,310	164,455	171,215	-	-
Insurance contract liabilities	-	-	5,101,441	5,010,513	-	-
Total liabilities	35,866,201	38,054,932	5,448,342	5,342,484	3,087,468	3,338,097
Equity attributable to IFS's shareholders	4,165,410	4,347,945	467,465	364,452	707,535	676,536
Non-controlling interest – equity	-	-	86,906	88,972	-	-
For the three-month periods ended March, 31						
	Interbank and Subsidiaries		Interseguro and Subsidiaries		Inteligo and Subsidiaries	
	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)
Consolidated income statements						
Net interest and similar income	556,157	549,391	85,849	69,713	25,764	24,551
Provision for loan losses, net of recoveries	(225,423)	(199,614)	-	-	2,712	-
Valuation gain and gain from sale of investment properties	-	-	(11,194)	(5,883)	-	-
Fee income from financial services, net	203,332	189,185	(1,229)	(656)	29,028	24,261
Total net premiums earned minus claims and benefits	-	-	(125,834)	(127,477)	-	-
Impairment loss on available-for-sale investments	-	-	(4,913)	(21,304)	-	-
Net profit (loss) for the period attributable to IFS's shareholders	194,535	201,753	(75,945)	(135,504)	48,788	30,388
Non-controlling interest	-	-	(2,014)	(1,371)	-	-

Notes to the consolidated financial statements (continued)

2. Significant accounting policies

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (henceforth “IFRS”) as issued by the International Accounting Standards Board (henceforth “IASB”). The accounting principles and practices as of March 31, 2017, are consistent with respect to the rules applied as of December 31, 2016, which are included in the audited consolidated financial statements dated March 24, 2017.

3. Cash and due from banks

This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Cash and clearing	1,616,234	1,545,638
Deposits in the Central Reserve Bank of Peru – BCRP	3,216,493	5,304,343
Deposits in banks	1,373,289	1,647,066
Restricted funds	2,833,323	3,264,105
	<u>9,039,339</u>	<u>11,761,152</u>
Accrued interest	722	651
Total	<u>9,040,061</u>	<u>11,761,803</u>

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

As of March 31, 2017, the “Cash and due from banks” caption of the consolidated statements of financial position includes approximately US\$1,195,058,000 and S/830,929,000 (US\$1,588,248,000 and S/856,453,000 as of December 31, 2016), which represent the legal reserve that Interbank must maintain for its deposits and obligations. These funds are kept in Interbank and BCRP vaults and are within the limits required by Peruvian regulations in force at those dates.

The legal reserve funds maintained at the BCRP are non-interest bearing, except for the part that exceeds the minimum reserve required. As of March 31, 2017, the excess in foreign currency amounted to approximately US\$234,072,000 equivalent to approximately S/760,265,000 and accrued interest at an annual average rate of 0.23 percent (US\$345,688,000, equivalent to approximately S/1,160,129,000, and an annual average rate of 0.18 percent as of December 31, 2016), whereas the excess amount in Soles amounted to approximately S/999,061,000 and accrued interest in Soles at an annual average rate of 1.05 percent (S/2,429,162,000 and an annual average rate of 1.05 percent as of December 31, 2016).

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

Notes to the consolidated financial statements (continued)

As of March 31, 2017 and December 31, 2016, the “Restricted Funds” caption is mainly comprised of deposits in the BCRP amounting to approximately US\$824,551,000 (equivalent to S/2,678,142,000) and US\$915,204,000 (equivalent to S/3,071,424,000), respectively, as a guarantee for loans received from this entity, see Note 9(b).

As of March 31, 2017 and December 31, 2016, this caption included restricted funds for approximately US\$47,619,000 (equivalent to S/154,667,000) and US\$58,027,000 (equivalent to S/194,737,000), respectively, which mainly correspond to requirements from counterparties of derivative transactions, see Note 7(d).

Notes to the consolidated financial statements (continued)

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

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

	2017				2016			
	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)	Amortized cost S/(000)	Unrealized gross amount		Estimated fair value S/(000)
		Gains S/(000)	Losses S/(000)			Gains S/(000)	Losses S/(000)	
Corporate, leasing and subordinated bonds	4,234,549	94,577	(72,492)	4,256,634	4,120,202	38,627	(158,492)	4,000,337
Negotiable Certificates of Deposit issued by BCRP	1,505,822	2,535	(19)	1,508,338	1,709,845	2,523	(84)	1,712,284
Peruvian Sovereign Bonds	1,302,875	20,344	(47,575)	1,275,644	1,223,965	4,171	(90,732)	1,137,404
Mutual funds and investment funds participations	1,015,386	74,998	(15,793)	1,074,591	1,030,427	61,319	(18,558)	1,073,188
Bonds guaranteed by the Peruvian Government	488,810	12,478	(1,445)	499,843	471,338	7,674	(5,962)	473,050
Sovereign and Global Bonds of foreign countries	219,591	-	(1,446)	218,145	249,554	-	(3,350)	246,204
Global Bonds of the Republic of Peru	216,341	-	(4,042)	212,299	163,778	-	(5,636)	158,142
Indexed Certificates of Deposit issued by BCRP	29,639	88	-	29,727	39,414	51	-	39,465
Total	9,013,013	205,020	(142,812)	9,075,221	9,008,523	114,365	(282,814)	8,840,074
Listed shares								
Peruvian and foreign entities	323,618	10,045	(17,346)	316,317	297,132	26,232	(8,387)	314,977
InRetail Perú Corp. (f)	70,653	77,057	-	147,710	110,217	92,857	-	203,074
Non-listed shares and participations								
Royalty Pharma (g)	60,898	7,063	-	67,961	62,923	5,341	-	68,264
Others	938	672	-	1,610	968	694	(129)	1,533
	456,107	94,837	(17,346)	533,598	471,240	125,124	(8,516)	587,848
	9,469,120	299,857	(160,158)	9,608,819	9,479,763	239,489	(291,330)	9,427,922
Accrued interest				98,355				90,476
Total				9,707,174				9,518,398

Notes to the consolidated financial statements (continued)

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

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

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

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

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

Notes to the consolidated financial statements (continued)

- (c) As a result of the impairment assessment of its available-for-sale investments, the Group recorded an impairment amounting to S/4,913,000 and S/21,304,000 in the quarters ended March 31, 2017 and 2016, respectively, which is presented in the caption “Impairment loss on available-for-sale investments” of the consolidated income statements. The movement of available-for-sale investments unrealized results, net of deferred Income Tax and non-controlling interest, is presented in Note 12(d). As of March 31, 2017 and December 31, 2016, the detail of unrealized losses of debt instruments and mutual fund and investment participations classified as available-for-sale is as follows:

Issuer	2017			2016		
	Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)	Amortized cost S/(000)	Unrealized gross gain S/(000)	Unrealized gross loss S/(000)
Peruvian Sovereign Bonds	1,302,875	20,344	(47,575)	1,223,965	4,171	(90,732)
Global Bonds of the Republic of Peru	216,341	-	(4,042)	163,778	-	(5,636)
Corporación Financiera de Desarrollo S.A.	204,833	1,631	(13,242)	182,340	33	(15,368)
Fibra Uno	102,270	-	(7,473)	105,709	-	(17,868)
Banco de Crédito del Perú S.A.	215,808	207	(6,505)	184,420	176	(6,962)
H2OImos S.A.	114,919	-	(5,831)	115,247	18	(11,417)
Línea Amarilla S.A.C.	91,566	911	(5,562)	91,071	163	(8,670)
Centerbridge Partners, L.P.	27,853	-	(5,412)	-	-	-
Vale Overseas Ltd.	91,520	114	(5,045)	94,645	-	(11,183)
Gso Capital Solution Fund (AS) LP	15,032	-	(4,111)	-	-	-
Abengoa Transmisión Sur S.A.	184,015	753	(4,078)	162,526	3	(10,217)
Instruments with individual losses / lower than S/4 million		-	(33,936)		-	(104,761)
		<u>23,960</u>	<u>(142,812)</u>		<u>4,564</u>	<u>(282,814)</u>

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

Notes to the consolidated financial statements (continued)

- (f) As of March 31, 2017 and December 31, 2016, the Group held approximately 2,396,920 and 3,125,000 shares, respectively, which represented 2.33 and 3.04 percent, respectively, of InRetail Peru Corp.'s capital stock (a related entity).
- (g) Corresponds to participations in RPI International Holding, LP ("RPI Partnership"), Royalty Pharma Cayman Holding and LP ("RPS Partnership"). RPI Partnership and RPS Partnership invest in a series of feeder funds whose objective is to invest in Royalty Pharma Investments and Royalty Pharma Select, respectively, which are investment funds established under the laws of the Republic of Ireland and authorized by the Central Bank of the Republic of Ireland. These investment funds are engaged in the purchase of medical patents and biotechnology. The participations in RPI Partnership and RPS Partnership are not liquid and require authorization for their trading.

As of March 31, 2017 and December 31, 2016, the Group held 152,251 participations of RPI Partnership which fair values amounted to approximately US\$20,924,000 and US\$20,341,000 (equivalent to approximately S/67,961,000 and S/68,264,000, respectively).

During 2017 and 2016, the Group received dividends from these participations for approximately S/1,064,000 and S/8,626,000, respectively, which are included in the "Interest and similar income" caption in the consolidated income statements.

- (h) As of March 31, 2017 and December 31, 2016, held-to-maturity investments are entirely comprised of Peruvian Sovereign Bonds amounting to S/601,566,000 and S/611,293,000, respectively, including accrued interests.

During 2016, the Bank reclassified Peruvian Sovereign Bonds classified as available-for-sale investments into held-to-maturity investments. At the reclassification date, the carrying values amounted to approximately S/129,548,000, and the unrealized gains and losses accumulated in the shareholders' equity amounted to S/220,000; the unrealized gains and losses will be transferred to each period's results through the remaining term of the instruments. As a result of these transfers, the Bank has recorded a net loss of approximately S/639,000 and S/618,000, in the income statements as of March 31, 2017 and December 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, the carrying amount of these investments is S/425,676,000 and S/432,832,000, respectively.

As of March 31, 2017 and December 31, 2016, these investments have maturities between August 2020 and August 2037, have accrued interest at effective annual rates between 5.34 and 6.33 percent; and their estimated fair value amounts to approximately S/616,112,000 and S/605,299,000, respectively.

Notes to the consolidated financial statements (continued)

5. Loans, net

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Direct loans		
Loans	20,993,178	20,638,183
Credit cards	3,715,911	3,859,148
Leasing	1,660,795	1,771,512
Discounted notes	445,406	407,435
Factoring	209,926	201,894
Advances and overdrafts	17,055	39,483
Refinanced loans	293,123	296,485
Past due and under legal collection loans	726,764	693,320
	<u>28,062,158</u>	<u>27,907,460</u>
Plus (minus)		
Accrued interest from performing loans	306,840	311,695
Unearned interest and interest collected in advance	(29,542)	(26,508)
Allowance for loan losses (c)	(1,192,544)	(1,166,782)
	<u>27,146,912</u>	<u>27,025,865</u>
Indirect loans	<u>4,227,777</u>	<u>4,450,470</u>

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

	2017 S/(000)	2016 S/(000)
Commercial loans	13,588,552	13,407,913
Consumer loans	8,814,429	8,888,561
Mortgage loans	5,110,636	5,041,107
Small and micro-business loans	548,541	569,879
Total	<u>28,062,158</u>	<u>27,907,460</u>

Notes to the consolidated financial statements (continued)

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

	2017	2016
	S/(000)	S/(000)
Beginning balances	1,190,758	1,065,192
Provision	222,711	199,614
Recovery of written-off loans	29,987	25,236
Written-off loans	(208,395)	(174,180)
Sale of loan portfolio	(869)	(951)
Translation result and others	(8,749)	(7,062)
Ending balances (*)	<u>1,225,443</u>	<u>1,107,849</u>
Balances as of December 31, 2016 (*)		<u>1,190,758</u>

(*) The allowance for loan losses includes the allowance for direct and indirect loans amounting to S/1,192,544,000 and S/32,899,000, respectively, as of March 31, 2017 (S/1,166,782,000 and S/23,976,000, respectively, as of December 31, 2016). The allowance for loan losses for indirect loans is presented in the “Accounts payable, provisions and other liabilities” caption of the consolidated statements of financial position; see Note 7(a).

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

Notes to the consolidated financial statements (continued)

6. Investment property

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)	Acquisition or construction year	Hierarchy level (i)	Valuation methodology	
					2017	2016
Land						
San Isidro – Lima	248,024	255,431	2008	Level 3	Appraisal	Appraisal
San Martín de Porres – Lima	60,618	60,008	2015	Level 3	Appraisal	Appraisal
Piura	39,889	39,889	2009	Level 3	Appraisal	Appraisal
Sullana	25,008	25,008	2014	Level 3	Appraisal	Appraisal
Chimbote	8,710	8,710	2015	Level 3	Appraisal	Appraisal
Others	15,404	15,512	-	Level 3	Appraisal	Appraisal
	<u>397,653</u>	<u>404,558</u>				
Completed investment property						
“Real Plaza” Shopping Malls						
Pucallpa	217,162	218,799	2014	Level 3	DCF	DCF
Talara	38,331	40,060	2015 – 2016	Level 3	DCF	DCF
	<u>255,493</u>	<u>258,859</u>				
Buildings						
Ate Vitarte – Lima	44,671	45,865	2006	Level 3	DCF	DCF
Panorama – Lima	20,321	20,724	2016	Level 3	DCF	DCF
Trujillo	13,587	10,166	2016	Level 3	DCF	DCF
Pardo y Aliaga – Lima	3,278	3,596	2010	Level 3	DCF	DCF
	<u>81,857</u>	<u>80,351</u>				
Built on leased land						
Others	1,352	1,417	-	Level 3	DCF	DCF
Total	<u>736,355</u>	<u>745,185</u>				

DCF: Discounted cash flow

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

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

Notes to the consolidated financial statements (continued)

The movement of investment property for the three-month periods ended March 31, 2017 and 2016, is as follows:

	2017 S/(000)	2016 S/(000)
Beginning balance	745,185	713,262
Additions	2,364	21,469
Valuation loss	(11,194)	(5,883)
Ending balance	<u>736,355</u>	<u>728,848</u>
		<u>745,185</u>
Balance as of December 31, 2016		<u>745,185</u>

Notes to the consolidated financial statements (continued)

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

(a) These captions are comprised of the following:

	2017 S/(000)	2016 S/(000)
Accounts receivable and other assets		
Financial instruments		
Other accounts receivable, net	189,163	210,446
Accounts receivable from sale of investments	166,845	147,655
Accounts receivable related to derivative financial instruments (d)	164,627	203,089
Assets for technical reserves for claims and premiums by reinsurers	104,750	128,168
Operations in process (c)	51,914	37,429
Insurance operations receivables, net	37,557	19,407
Accounts receivable from reinsurers and coinsurers	27,415	28,936
Credit card commissions receivable	16,718	14,845
	<u>758,989</u>	<u>789,975</u>
Non-financial instruments		
Intangible assets, net	298,959	267,401
Deferred charges	71,789	53,884
Prepaid Income Tax	70,243	55,178
Value Added tax credit (b)	62,419	86,213
Investments in associates	52,721	51,777
Prepaid rights to related entity, Note 22(f)	12,603	14,532
Others	13,808	12,214
	<u>582,542</u>	<u>541,199</u>
Total	<u>1,341,531</u>	<u>1,331,174</u>
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	436,735	377,828
Accounts payable related to derivative financial instruments (d)	204,264	236,137
Accounts payable for acquisitions of investments	128,157	50,528
Operations in process (c)	111,936	116,273
Workers' profit sharing and salaries payable	69,310	110,549
Accounts payable to reinsurers and coinsurers	26,590	51,468
Allowance for indirect loan losses, Note 5(c)	32,899	23,976
	<u>1,009,891</u>	<u>966,759</u>
Non-financial instruments		
Taxes payable	67,945	52,144
Deferred income	54,104	57,254
Provision for other contingencies	29,354	32,383
Others	39,741	53,524
	<u>191,144</u>	<u>195,305</u>
Total	<u>1,201,035</u>	<u>1,162,064</u>

Notes to the consolidated financial statements (continued)

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

	2017			Maturity	2016			Maturity	2017 and 2016 Hedged instruments
	Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)		Assets S/(000)	Liabilities S/(000)	Notional amount S/(000)		
Derivatives held for trading (i)									
Forward exchange contracts	48,678	39,292	5,421,405	Between April 2017 and March 2018	45,115	20,741	3,961,083	Between January 2017 and March 2018	-
Interest rate swaps	19,710	13,537	2,624,431	Between July 2017 and December 2029	25,958	18,263	2,761,079	Between December 2017 and December 2029	-
Currency swaps	92,509	84,534	1,315,331	Between April 2017 and January 2025	129,737	121,655	1,464,297	Between January 2017 and January 2025	-
Options	1,425	1,549	448,616	Between April 2017 and January 2018	432	924	192,573	Between January 2017 and July 2017	-
Cross currency swaps	-	65,352	191,171	January 2023	-	74,554	197,528	January 2023	-
	<u>162,322</u>	<u>204,264</u>	<u>10,000,954</u>		<u>201,242</u>	<u>236,137</u>	<u>8,576,560</u>		
Derivatives held as hedges									
Cash flow hedges:									
Interest rate swaps (IRS), Note 9d(i)	565	-	162,400	January 2018	499	-	167,800	January 2018	Due to banks
Interest rate swaps (IRS), Note 9d(ii)	1,121	-	162,400	October 2018	967	-	167,800	October 2018	Due to banks
Interest rate swaps (IRS), Note 9d(iv)	619	-	129,920	August 2018	381	-	134,240	August 2018	Due to banks
	<u>2,305</u>	<u>-</u>	<u>454,720</u>		<u>1,847</u>	<u>-</u>	<u>469,840</u>		
	<u>164,627</u>	<u>204,264</u>	<u>10,455,674</u>		<u>203,089</u>	<u>236,137</u>	<u>9,046,400</u>		

As of March 31, 2017 and December 31, 2016, certain derivative financial instruments required the establishment of collateral deposits; see Note 3.

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

Notes to the consolidated financial statements (continued)

8. Deposits and obligations

(a) This caption is made up as follows:

	2017	2016
	S/(000)	S/(000)
Time deposits	9,495,576	10,099,575
Saving deposits	8,939,741	8,915,374
Demand deposits	8,060,495	9,586,985
Compensation for service time	1,391,239	1,490,213
Other obligations	13,138	5,703
	<hr/>	<hr/>
Total	27,900,189	30,097,850
	<hr/>	<hr/>

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

(c) As of March 31, 2017 and December 31, 2016, approximately S/8,127,138,000 and S/8,269,694,000, respectively, of deposits and obligations are covered by the Peruvian Deposit Insurance Fund.

Notes to the consolidated financial statements (continued)

9. Due to banks and correspondents

(a) This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)
By type		
Central Reserve Bank of Peru (b)	2,668,500	3,048,412
Promotional credit lines (c)	1,608,264	1,610,588
Loans received from foreign entities (d)	584,154	620,106
Loans received from Peruvian entities	54,017	1,847
	<u>4,914,935</u>	<u>5,280,953</u>
Interest and commissions payable	33,810	47,650
	<u>4,948,745</u>	<u>5,328,603</u>
By term		
Short term	1,616,555	1,808,495
Long term	3,332,190	3,520,108
	<u>4,948,745</u>	<u>5,328,603</u>
Total	<u>4,948,745</u>	<u>5,328,603</u>

(b) As of March 31, 2017 and December 31, 2016, corresponds to currency repurchase operations according to which Interbank receives Soles for approximately S/2,668,500,000 and S/2,948,500,000, respectively, and delivers US dollars to the BCRP (for an amount equivalent to the one received). The US dollars delivered are recorded as restricted funds, see Note 4. As of March 31, 2017, these obligations have maturities between May 2017 and March 2019 and bear an effective interest rate of 3.00 and 6.38 percent (with maturities between January 2017 and March 2019 and bear an effective interest rate of 3.00 and 6.38 percent as of December 31, 2016). As of March 31, 2017 and December 31, 2016, these operations accrued interest payable for approximately S/26,805,000 and S/41,531,000, respectively. Furthermore as of December 31, 2016, it includes a security repurchase operation according to which Interbank receives Soles for approximately S/99,912,000 and delivers Negotiable Certificates of Deposit issued by the BCRP, these guarantees are recorded as available-for-sale investments, see Note 5(d); this operation was settled in January 2017 and bears an effective interest rate of 4.58 percent.

(c) The promotional credit lines represent loans in Soles and US dollars received from Corporación Financiera de Desarrollo (COFIDE) with the purpose of promoting development in Peru. These liabilities are guaranteed with the loan portfolio up to the used amount and include specific terms on how the funds should be used, the financial conditions that must be maintained and other administrative matter. In Management's opinion, the Group is complying with all these requirements. As of March 31, 2017, these loans accrued an effective annual interest rate that fluctuated between 7.55 and 10.0 percent in Soles and between 4.62 and 8.55 percent in foreign currency and have maturities between December 2018 and November 2031 (7.55 and 10.0 percent in Soles and 4.13 and 8.06 percent in foreign currency and maturities between January 2019 and November 2031, as of December 31, 2016).

Notes to the consolidated financial statements (continued)

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

Entity	Country	Final maturity	2017 S/(000)	2016 S/(000)
HSBC Bank PLC (i)	United Kingdom	2018	162,400	167,800
Wells Fargo Bank & Co. (ii)	United States of America	2018	162,400	167,800
JP Morgan Chase & Co. (iii)	United States of America	2018	129,920	134,240
Bank J. Safra Sarasin	Switzerland	April 2017	64,960	67,120
Sumitomo Bank	United States of America	April 2017	32,480	33,560
Bladex	Supranational	2018	31,994	49,586
			584,154	620,106

Transactions with foreign entities bore an effective annual average interest rate of 2.35 percent during 2017 (2.48 percent during 2016).

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

Notes to the consolidated financial statements (continued)

10. Bonds, notes and other obligations

(a) This caption is comprised of the following:

Issuance	Annual interest rate	Interest payment	Maturity	Amount issued (000)	2017 S/(000)	2016 S/(000)
Local issuances						
Subordinated bonds – first program (b)						
Second (B series) - Interbank	9.50%	Semiannually	2023	US\$30,000	97,440	100,680
Third (A series) - Interbank	3.5% + VAC	Semiannually	2023	S/110,000	110,000	110,000
Fifth (A series) – Interbank	8.50%	Semiannually	2019	S/3,300	3,300	3,300
Sixth (A series) - Interbank	8.16%	Semiannually	2019	US\$15,110	49,077	50,709
Eighth (A series) - Interbank	6.91%	Semiannually	2022	S/137,900	137,157	137,184
Second, first tranche – Interseguro	6.97%	Semiannually	2024	US\$35,000	113,680	117,460
Second, second tranche - Interseguro	6.00%	Semiannually	2024	US\$15,000	48,720	50,340
					<u>559,374</u>	<u>569,673</u>
Subordinated bonds – second program (b)						
Second (A series) – Interbank	5.81%	Semiannually	2023	S/150,000	149,694	149,684
Third (A series) – Interbank	7.50%	Semiannually	2023	US\$50,000	161,986	167,360
					<u>311,680</u>	<u>317,044</u>
Total local issuances					<u>871,054</u>	<u>886,717</u>
International issuances						
Subordinated bonds (c) – Interbank	6.625%	Semiannually	2029	US\$300,000	968,466	1,000,573
Junior subordinated notes (d) – Interbank	8.50%	Semiannually	2070	US\$200,000	642,336	664,153
Senior bonds (e) – Interbank	5.75%	Semiannually	2020	US\$400,000	1,293,287	1,335,970
Senior bonds (e) – Interbank	5.75%	Semiannually	2020	US\$250,000	744,986	780,328
					<u>3,649,075</u>	<u>3,781,024</u>
Total local and international issuances					<u>4,520,129</u>	<u>4,667,741</u>
Interest payable					<u>129,569</u>	<u>101,649</u>
Total					<u>4,649,698</u>	<u>4,769,390</u>

Notes to the consolidated financial statements (continued)

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

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

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

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

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

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

- (e) Starting in April 2016, Interbank can redeem these bonds, at the coupon payment date, paying a penalty equal to the United States Treasury rate plus 50 basis points.

The principal payment of both issuances will take place on the maturity date of the bonds or when Interbank redeems them.

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

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

Notes to the consolidated financial statements (continued)

11. Insurance contract liabilities

(a) This caption is comprised of the following:

	2017 S/(000)	2016 S/(000)
Technical reserves (b)	4,951,618	4,838,260
Claims reserves (c)	149,823	172,253
	<u>5,101,441</u>	<u>5,010,513</u>
By term		
Short term	453,500	452,055
Long term	4,647,941	4,558,458
Total	<u>5,101,441</u>	<u>5,010,513</u>

Notes to the consolidated financial statements (continued)

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

	31.03.2017					31.03.2016					31.12.2016				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Beginning balances	4,526,171	121,592	152,957	37,540	4,838,260	4,061,692	122,527	131,186	32,329	4,347,734	4,061,692	122,527	131,186	32,329	4,347,734
Insurance subscriptions	87,043	-	912	11,332	99,287	139,402	-	864	9,450	149,716	425,895	-	3,953	27,631	457,479
Time passage adjustments (*)	73,625	6,691	12,317	(11,458)	81,175	81,928	1,521	8,847	(10,540)	81,756	68,318	(935)	30,996	(22,523)	75,856
Maturities and recoveries	-	-	(3,393)	-	(3,393)	-	-	(2,612)	-	(2,612)	-	-	(10,879)	-	(10,879)
Exchange differences	(59,235)	-	(4,216)	(260)	(63,711)	(46,321)	-	(3,343)	(22)	(49,686)	(29,734)	-	(2,299)	103	(31,930)
Ending balances	4,627,604	128,283	158,577	37,154	4,951,618	4,236,701	124,048	134,942	31,217	4,526,908	4,526,171	121,592	152,957	37,540	4,838,260

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

	2017				2016			
	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities (**) S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Interest rate effect	79,728	-	-	79,728	116,468	-	-	116,468
Aging insured population effect	(19,049)	12,317	(11,458)	(18,190)	(78,202)	30,996	(22,523)	(69,729)
Inflation and other effects	19,637	-	-	19,637	29,117	-	-	29,117
Time passage adjustments	80,316	12,317	(11,458)	81,175	67,383	30,996	(22,523)	75,856

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

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

	2017					2016				
	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)	Annuities S/(000)	Retirement, disability and survival annuities S/(000)	Life insurance S/(000)	General insurance S/(000)	Total S/(000)
Reported claims	1,007	78,689	25,743	8,588	114,027	991	87,813	25,679	8,603	123,086
IBNR	-	21,661	13,620	515	35,796	-	36,249	12,443	475	49,167
	1,007	100,350	39,363	9,103	149,823	991	124,062	38,122	9,078	172,253

Notes to the consolidated financial statements (continued)

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

31.03.2017					
	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total
	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)
Beginning balances	991	124,062	38,122	9,078	172,253
Claims	67,933	(23,850)	7,416	3,182	54,681
Adjustments to prior years claims	-	24,014	3,405	1,050	28,469
Payments	(67,908)	(23,875)	(9,419)	(4,155)	(105,357)
Exchange difference	(9)	(1)	(161)	(52)	(223)
Ending balances	<u>1,007</u>	<u>100,350</u>	<u>39,363</u>	<u>9,103</u>	<u>149,823</u>
31.03.2016					
	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total
	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)
Beginning balances	655	93,361	26,336	9,003	129,355
Claims	60,185	13,468	6,397	6,214	86,264
Adjustments to prior years claims	-	25,183	5,372	(1,843)	28,712
Payments	(60,210)	(22,938)	(8,518)	(4,672)	(96,338)
Exchange difference	(5)	-	(120)	(51)	(176)
Ending balances	<u>625</u>	<u>109,074</u>	<u>29,467</u>	<u>8,651</u>	<u>147,817</u>
31.12.2016					
	Annuities	Retirement, disability and survival annuities	Life insurance	General insurance	Total
	S/ (000)	S/ (000)	S/ (000)	S/ (000)	S/ (000)
Beginning balances	655	93,361	26,336	9,003	129,355
Claims	251,911	75,342	35,441	12,710	375,404
Adjustments to prior years claims	-	60,606	12,991	5,685	79,282
Payments	(251,568)	(105,246)	(36,602)	(18,287)	(411,703)
Exchange difference	(7)	(1)	(44)	(33)	(85)
Ending balances	<u>991</u>	<u>124,062</u>	<u>38,122</u>	<u>9,078</u>	<u>172,253</u>

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

Notes to the consolidated financial statements (continued)

12. Equity

(a) Capital stock and other paid-in capital

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

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

(b) Treasury stock held by Subsidiaries

As of March 31, 2017 and December 31, 2016, the Group holds approximately 6,179,000 shares issued by IFS with a total cost of S/522,106,000.

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

(c) Capital surplus

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

Notes to the consolidated financial statements (continued)

(d) Unrealized results on financial instruments

This item is made-up as follows:

	Unrealized gain (loss)			Total S/(000)
	Available-for-sale investments reserve S/(000)	Cash flow hedge reserve S/(000)	Exchange differences on translation of foreign operations S/(000)	
Balances as of January 1, 2016	(471,154)	(455)	110,214	(361,395)
Unrealized gain from available-for-sale investments, net of unrealized loss	181,364	-	-	181,364
Transfer to realized gain from available-for-sale investments, net of realized loss	40,183	-	-	40,183
Transfer of impairment loss of available-for-sale investments to consolidated income statements	21,304	-	-	201,304
Foreign currency translation	-	-	(14,364)	(14,364)
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	618	-	-	618
Variation for net unrealized loss on cash flow hedges	-	(137)	-	(137)
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	457	-	457
Balances as of March 31, 2016	<u>(227,685)</u>	<u>(135)</u>	<u>95,850</u>	<u>(131,970)</u>
Balances as of January 1, 2017	(83,807)	1,291	98,874	16,358
Unrealized gain from available-for-sale investments, net of unrealized loss	211,220	-	-	211,220
Transfer to realized gain from available-for-sale investments, net of realized loss	(10,223)	-	-	(10,223)
Transfer of impairment loss of available-for-sale investments to consolidated income statements	4,913	-	-	4,913
Foreign currency translation	-	-	(20,757)	(20,757)
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	639	-	-	639
Variation for net unrealized loss on cash flow hedges	-	321	-	321
Transfer of realized loss on cash flow hedges to consolidated income statements, net of realized gain	-	(34)	-	(34)
Balances as of March 31, 2017	<u>122,742</u>	<u>1,578</u>	<u>78,117</u>	<u>202,437</u>

Notes to the consolidated financial statements (continued)

(e) Components of other comprehensive income

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

	31.03.2017 S/(000)	31.03.2016 S/(000)
Available-for-sale investments:		
Unrealized gain from available-for-sale investments	211,220	181,364
Transfer to realized gain from available-for-sale investments, net of realized loss	(10,223)	40,183
Transfer of impairment loss from available-for-sale investments to consolidated income statements, Note 4(c)	4,913	21,304
Accrual of unrealized loss from held-to-maturity investments to consolidated income statements	639	618
Subtotal	<u>206,549</u>	<u>243,469</u>
Non-controlling interest	117	432
Total	<u>206,666</u>	<u>243,901</u>
Cash flow hedges:		
Net unrealized gain (loss) from cash flow hedges	321	(137)
Transfer of net realized gain (loss) from cash flow hedge to consolidated income statements	(34)	457
Subtotal	<u>287</u>	<u>320</u>
Non-controlling interest	2	2
Total	<u>289</u>	<u>322</u>
Foreign currency translation reserve	(20,757)	(14,364)
Total other comprehensive income for the period	<u>186,198</u>	<u>229,859</u>

(f) Shareholders' equity for statutory purposes (regulatory capital)

IFS and Inteligo are not required to establish a regulatory capital for statutory purposes. As of March 31, 2017 and December 31, 2016, the shareholders' equity required for Interbank and Interseguro is calculated based on the separate financial statements of each subsidiary prepared following the accounting principles and practices of the SBS. Also, as of those dates, the shareholders' equity required for Inteligo Bank is calculated in accordance with the requirements of the Central Bank of the Bahamas. The shareholders' equity required for Interbank, Interseguro and Inteligo Bank is detailed below:

Interbank's shareholders' equity for legal purposes (regulatory capital)

According to the provisions of Legislative Decree No. 1028, Interbank's shareholders' equity for legal purposes (regulatory capital) must be equal to or greater than 10 percent of the assets and contingent credits

Notes to the consolidated financial statements (continued)

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, 2017 and December 31, 2016, Interbank maintains the following amounts related to its assets and contingent credits weighted by risk and regulatory capital (basic and supplementary):

	31.03.2017	31.12.2016
	S/(000)	S/(000)
Total risk weighted assets and credits	35,443,056	35,475,270
Total regulatory capital	6,059,250	5,638,867
Basic regulatory capital (Level 1)	4,232,918	3,789,347
Supplementary regulatory capital (Level 2)	1,826,332	1,849,520
Global capital to regulatory capital ratio	17.10%	15.90%

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

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

Also, said resolution establishes a gradual adequacy period of five years, starting in July 2012. As of March 31, 2017 and December 31, 2016, the percentage of adequacy required by the SBS is 100 percent, therefore the additional regulatory capital estimated by Interbank amounts to approximately S/664,820,000 and S/657,852,000, respectively.

In Management’s opinion, Interbank has complied with the requirements set forth in the aforementioned Resolution.

Interseguro’s shareholder’s equity for legal purposes (regulatory capital)

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

Notes to the consolidated financial statements (continued)

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

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

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

	31.03.2017 S/(000)	31.12.2016 S/(000)
Regulatory capital	579,355	584,755
Less:		
Solvency equity (solvency margin)	288,364	297,661
Guarantee fund	<u>100,928</u>	<u>104,181</u>
Surplus	<u>190,063</u>	<u>182,913</u>

Inteligo Bank shareholders' equity for legal purposes (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, 2017 and December 31, 2016 is the following:

	31.03.2017 US\$(000)	31.12.2016 US\$(000)
Total eligible capital	<u>187,532</u>	<u>187,497</u>
Total risk weighted assets	<u>750,223</u>	<u>764,520</u>
Capital adequacy ratio (in percentage)	<u>25.00%</u>	<u>24.52%</u>

(g) Reserves

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

Notes to the consolidated financial statements (continued)

13. Tax situation

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

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

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

- (b) Legal entities or individuals not domiciled in Peru are subject to an additional tax on dividends received from entities domiciled in Peru. The corresponding tax is withheld by the entity that distributes the dividends. In this regard, since IFS controls the entities that distribute the dividends, it recognizes the amount of the additional Income Tax as expense of the financial year of the dividends. In this sense, as of March 31, 2017 and 2016, the Group has recorded expenses for S/6,054,000 and S/7,546,000, respectively, in the caption “Income Tax” of the consolidated income statements.

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

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

As of December 31, 2016, the applicable current Income Tax rate was 28 percent on the taxable income (30 percent as of December 31, 2014).

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

Notes to the consolidated financial statements (continued)

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

The Value-Added-Tax and Income Tax returns of Interbank and Interseguro for the years 2012 to 2016 are pending to be audited by SUNAT.

On the other hand, on April 2004, June 2006, February 2007, June 2007, November 2007, October 2008 and December 2010, Interbank was notified with Tax Assessments and Fine Imposing Resolutions regarding mainly the assessments of the Income Tax years 2000 to 2006, for which it filed Tax Claims and Tax Appeals. In March 2009, August 2010 and December 2011, the Tax Authority issued Intendancy Resolutions regarding tax years 2000 to 2006 for which Interbank filed the corresponding appeals. In December 2014, the Tax Authority issued Resolution of Intendancy N° 0150140011647 declaring partly accepted the appeal filed by the Bank corresponding to the 2001 Income Tax. On the part not accepted by SUNAT, Interbank filed a new appeal. In February 2016, Interbank obtained the Tax Court Resolution N° 00783-3-2016, which declares as partially founded the case concerning to the 2001 Income Tax. In February 2017, the Lima’s Superior Court of Justice declared invalid the judgment in first instance ordering the judge to re-issue a new decision about the case concerning to the 2002 Income Tax. In the opinion of Management and its legal advisors, any possible additional tax assessment would not have any material consequences on the Bank’s financial statements as of March 31, 2017 and December 31, 2016.

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

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

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

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

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

Notes to the consolidated financial statements (continued)

14. Interest and similar income and expenses

This caption is comprised of the following:

	For the three-month periods ended March 31	
	2017 S/(000)	2016 S/(000)
Interest and similar income		
Interest and fees on loan portfolio	786,069	776,097
Interest on available-for sale investments	148,189	111,838
Interest on due from banks and inter-bank funds	5,784	4,592
Other interest and similar income	4,403	11,132
Total	944,445	903,659
Interest and similar expenses		
Interest and fees on deposits and obligations	131,824	102,726
Interest on bonds, notes and other obligations	76,561	83,017
Interest and fees on obligations with financial institutions	55,916	64,002
Deposit insurance fund fees	9,206	8,526
Other interest and similar expenses	1,684	1,444
Total	275,191	259,715

Notes to the consolidated financial statements (continued)

15. Fee income from financial services, net

This caption is comprised of the following:

	For the three-month periods ended March 31	
	2017 S/(000)	2016 S/(000)
Income		
Maintenance and mailing of accounts, transfer fees and commissions on		
credit and debit card services	144,591	136,091
Commissions for banking services	38,006	41,063
Funds management fees	34,264	31,268
Fees for indirect loans	13,618	14,869
Collection services fees	8,005	6,982
Brokerage and custody services fees	2,700	1,615
Others	6,423	6,875
Total	<u>247,607</u>	<u>238,763</u>
Expenses		
Debtor's life insurance premiums	12,285	15,153
Fees paid to foreign banks	2,544	2,482
Brokerage and custody services	825	216
Others	11,237	14,321
Total	<u>26,891</u>	<u>32,172</u>
Net	<u>220,716</u>	<u>206,591</u>

Notes to the consolidated financial statements (continued)

16. Other income and expenses

This caption is comprised of the following:

	For the three-month periods ended	
	March 31	
	2017	2016
	S/(000)	S/(000)
Other income		
ATM rental income	5,679	5,948
Gain from sale of written-off-loans	4,371	49
Equity in income of investments in associates	4,285	3,728
Other technical income for insurance operations	2,242	1,745
Services rendered to third parties	1,688	2,263
Incentives for credit card operations	398	5,570
Other income	16,571	8,981
	<u>35,234</u>	<u>28,284</u>
Other expenses		
Commissions from insurance activities	12,623	11,267
Sundry technical insurance expenses	3,920	3,557
Provision for sundry risk	3,732	2,007
Donations	1,049	932
Administrative and tax penalties	861	541
Other expenses	8,815	10,208
	<u>31,000</u>	<u>28,512</u>

Notes to the consolidated financial statements (continued)

17. Net premiums earned

This caption is comprised of the following for the three-month periods ended March 31, 2017 and 2016:

	Premiums assumed (1)		Adjustment of technical reserves (2)		Gross premiums earned (*) (3) = (1) – (2)		Premiums ceded to reinsurers (4)		Net premiums earned (5) = (3) – (4)	
	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)
Life insurance										
Annuities (**)	71,137	115,530	(160,668)	(221,330)	(89,531)	(105,800)	-	-	(89,531)	(105,800)
Group life	33,907	31,472	(720)	(595)	33,187	30,877	(866)	(1,081)	32,321	29,796
Individual life	13,182	11,713	(8,263)	(5,657)	4,919	6,056	(527)	(545)	4,392	5,511
Retirement, disability and survival (***)	8,988	34,905	(6,691)	(1,521)	2,297	33,384	(8,403)	(32,667)	(6,106)	717
Others	6	335	(853)	(716)	(847)	(381)	-	(56)	(847)	(437)
Total life insurance	127,220	193,955	(177,195)	(229,819)	(49,975)	(35,864)	(9,796)	(34,349)	(59,771)	(70,213)
Total general insurance	17,735	18,228	553	1,809	18,288	20,037	(423)	(739)	17,865	19,298
Total general	144,955	212,183	(176,642)	(228,010)	(31,687)	(15,827)	(10,219)	(35,088)	(41,906)	(50,915)

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

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

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

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

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

This caption is comprised of the following for the three-month periods ended March 31, 2017 and 2016:

	Gross claims and benefits		Ceded claims and benefits		Net insurance claims and benefits	
	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)	2017 S/(000)	2016 S/(000)
Life insurance						
Annuities	(67,933)	(60,184)	-	-	(67,933)	(60,184)
Group life	(9,866)	(10,675)	896	1,440	(8,970)	(9,235)
Individual life	(634)	(824)	180	342	(454)	(482)
Retirement, disability and survival	(164)	(38,652)	(2,141)	36,406	(2,305)	(2,246)
Others	(321)	(271)	270	110	(51)	(161)
General Insurance	(4,232)	(4,370)	17	116	(4,215)	(4,254)
	(83,150)	(114,976)	(778)	38,414	(83,928)	(76,562)

Notes to the consolidated financial statements (continued)

19. Salaries and employee benefits

This caption is comprised of the following:

	For the three-month periods ended	
	March 31	
	2017	2016
	S/(000)	S/(000)
Salaries	126,818	127,720
Workers' profit sharing	17,221	15,976
Social security	11,684	11,482
Severance indemnities	8,825	9,547
Vacations, health insurance and others	12,287	8,110
Total	176,835	172,835

20. Administrative expenses

This caption is comprised of the following:

	For the three-month periods ended	
	March 31	
	2017	2016
	S/(000)	S/(000)
Services received from third parties	191,156	174,024
Taxes and contributions	10,525	10,142
Total	201,681	184,166

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

Notes to the consolidated financial statements (continued)

21. Earnings per share

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

	Outstanding shares (in thousands)	Shares considered in computation (in thousands)	Effective days in the year	Weighted average number of shares (in thousands)
Period 2016				
Balance as of January 1, 2016	108,820	108,820	90	108,820
Sale of treasury stock	6	6	30	2
Purchase of treasury stock	(2)	(2)	27	(1)
Balance as of March 31, 2016	<u>108,824</u>	<u>108,824</u>		<u>108,821</u>
Net profit attributable to IFS S/(000)				<u>60,639</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>0.557</u>
Period 2017				
Balance as of January 1, 2017	106,931	106,931	90	106,931
Sale of treasury stock	-	-	-	-
Purchase of treasury stock	-	-	-	-
Balance as of March 31, 2017	<u>106,931</u>	<u>106,931</u>		<u>106,931</u>
Net profit attributable to IFS S/(000)				<u>158,617</u>
Basic and diluted earnings per share attributable to IFS (Soles)				<u>1.483</u>

Notes to the consolidated financial statements (continued)

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

	2017 S/(000)	2016 S/(000)
Intercorp Perú Ltd.	238,048	121,656
Supermercados Peruanos S.A.	103,286	116,153
Homecenters Peruanos S.A.	86,766	85,905
Nessus Hoteles Perú S.A.	73,448	81,040
Cineplex S.A.	67,248	19,286
Colegios Peruanos S.A.	50,863	50,872
Tiendas Peruanas S.A.	41,176	37,637
San Miguel Industrias Ecuador	32,500	32,500
Eckerd Perú S.A.	28,936	31,759
Bembos S.A.C.	28,707	30,861
Financiera Oh! S.A. (formerly Financiera Uno S.A.)	22,340	74,149
San Miguel Industrias PET S.A.	26,226	21,092
PF Interproperties Perú	21,033	21,423
Procesos de Medios de Pago S.A.	32,319	34,110
Other less than 20 millions	147,144	154,040
	<u>1,000,040</u>	<u>912,483</u>

- (c) As of March 31, 2017 and December 31, 2016, the directors, executives and employees of the Group have been involved, directly and indirectly, in credit transactions with certain subsidiaries of the Group, as permitted by the Peruvian law, which regulates and limits on certain transactions with employees, directors and officers of financial entities. As of March 31, 2017 and December 31, 2016, direct loans to employees, directors and officers amounted to S/152,456,000 and S/153,424,000, respectively; said loans are repaid monthly and bear interest at market rates.

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

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

	2017 S/(000)	2016 S/(000)
Salaries	6,140	3,893
Board of Directors' compensation	368	336
Total	<u>6,508</u>	<u>4,229</u>

Notes to the consolidated financial statements (continued)

- (e) As of March 31, 2017 and December 31, 2016, the Group holds participations in different mutual funds managed by Interfondos. As of March 31, 2017, they amount to S/6,588,000 and are classified as investment at fair value through profit or loss (S/161,000 as of December 31, 2016).
- (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 year 2030, and for an amount of approximately S/12,603,000 and S/14,532,000 as of March 31, 2017 and December 31, 2016, respectively, see Note 7(a). Interbank may renew the term of the agreement for an additional term of 15 years.
- (g) It corresponds to a loan with maturity in 2046 and bears interest at market value.
- (h) In Management's opinion, transactions with related companies have been performed under standard market conditions and within the limits permitted by 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.

23. Business segments

Segment information is presented for the consolidated entities and considering that IFS has determined that Inteligo is a segment (wealth management) since the reorganization under common control.

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

Banking

Mainly loans, credit facilities, deposits and current accounts.

Insurance

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

Wealth management

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

The consolidated entities 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, 2017 and 2016.

Notes to the consolidated financial statements (continued)

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

	2017					2016				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
Total income (*)										
Third party	1,111,657	57,269	78,957	(9,445)	1,238,438	1,066,954	7,320	63,932	(29,941)	1,108,265
Inter-segment	(10,674)	(11)	(111)	10,796	-	(6,414)	(8)	(214)	6,636	-
Total income	1,100,983	57,258	78,846	1,351	1,238,438	1,060,540	7,312	63,718	(23,305)	1,108,265
Extracts of results										
Interest and similar income	814,960	88,645	39,672	1,168	944,445	792,424	73,456	37,757	22	903,659
Interest and similar expenses	(258,803)	(2,796)	(13,908)	316	(275,191)	(243,033)	(3,743)	(13,206)	267	(259,715)
Net interest and similar income	556,157	85,849	25,764	1,484	669,254	549,391	69,713	24,551	289	643,944
Provision for loan losses, net of recoveries	(225,423)	-	2,712	-	(222,711)	(199,614)	-	-	-	(199,614)
Net interests and similar income after provision for loan losses	330,734	85,849	28,476	1,484	446,543	349,777	69,713	24,551	289	444,330
Fee income from financial services, net	203,332	(1,229)	29,028	(10,415)	220,716	189,185	(656)	24,261	(6,199)	206,591
Net gain on sale of securities	9,394	11,069	9,672	-	30,135	7,789	(14,158)	(363)	-	(6,732)
Other income	83,978	690	585	(205)	85,048	77,556	(407)	2,277	(23,764)	55,662
Total net premiums earned minus claims and benefits	-	(125,834)	-	-	(125,834)	-	(127,477)	-	-	(127,477)
Depreciation and amortization	(30,501)	(1,055)	(1,819)	-	(33,375)	(28,214)	(1,053)	(1,815)	-	(31,082)
Impairment loss of available-for-sale investments	-	(4,913)	-	-	(4,913)	-	(21,304)	-	-	(21,304)
Other expenses	(348,525)	(51,823)	(17,296)	7,708	(409,936)	(325,500)	(45,297)	(18,335)	3,587	(385,545)
Income before translation result and Income Tax	248,412	(87,246)	48,646	(1,428)	208,384	270,593	(140,639)	30,576	(26,087)	134,443
Translation result	14,579	8,434	45	75	23,133	7,514	3,186	(188)	(960)	9,552
Income Tax	(68,456)	853	97	(6,054)	(73,560)	(76,354)	578	-	(7,547)	(83,323)
Net profit for the period	194,535	(77,959)	48,788	(7,407)	157,957	201,753	(136,875)	30,388	(34,594)	60,672
Attributable to:										
IFS's shareholders	194,535	(75,945)	48,788	(8,761)	158,617	201,753	(135,504)	30,388	(35,998)	60,639
Non-controlling interest	-	(2,014)	-	1,354	(660)	-	(1,371)	-	1,404	33
	194,535	(77,959)	48,788	(7,407)	157,957	201,753	(136,875)	30,388	(34,594)	60,672

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

Notes to the consolidated financial statements (continued)

	2017				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
As of March 31, 2017					
Total assets	40,031,611	6,002,713	3,795,003	(511,784)	49,317,543
Total liabilities	35,866,201	5,448,342	3,087,468	(423,524)	43,978,487
	2016				
	Banking S/(000)	Insurance S/(000)	Wealth management S/(000)	Holding and eliminations S/(000)	Total consolidated S/(000)
As of December 31, 2016					
Total assets	42,402,877	5,795,908	4,014,633	(494,059)	51,719,359
Total liabilities	38,054,932	5,342,484	3,338,097	(14,500)	46,721,013

Notes to the consolidated financial statements (continued)

24. Financial instruments classification

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

	As of March 31, 2017						As of December 31, 2016					
	Financial assets and liabilities designated at fair value											
	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)	Held for trading or hedging S/(000)	Loans and accounts receivable S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)
Financial assets												
Cash and due from banks	-	9,040,061	-	-	-	9,040,061	-	11,761,803	-	-	-	11,761,803
Inter-bank funds	-	-	-	-	-	-	-	5,002	-	-	-	5,002
Trading securities	90,736	-	-	-	-	90,736	80,149	-	-	-	-	80,149
Available-for-sale investments	-	-	9,707,174	-	-	9,707,174	-	-	9,518,398	-	-	9,518,398
Held-to-maturity investments	-	-	-	601,566	-	601,566	-	-	-	611,293	-	611,293
Loan portfolio, net	-	27,146,912	-	-	-	27,146,912	-	27,025,865	-	-	-	27,025,865
Due from customers on acceptances	-	9,115	-	-	-	9,115	-	16,392	-	-	-	16,392
Accounts receivable and other assets, net	164,627	594,362	-	-	-	758,989	203,089	586,886	-	-	-	789,975
	<u>255,363</u>	<u>36,790,450</u>	<u>9,707,174</u>	<u>601,566</u>	<u>-</u>	<u>47,354,553</u>	<u>283,238</u>	<u>39,395,948</u>	<u>9,518,398</u>	<u>611,293</u>	<u>-</u>	<u>49,808,877</u>
Financial liabilities												
Deposits and obligations	-	-	-	-	27,900,189	27,900,189	-	-	-	-	30,097,850	30,097,850
Inter-bank funds	-	-	-	-	165,020	165,020	-	-	-	-	332,255	332,255
Due to banks and correspondents	-	-	-	-	4,948,745	4,948,745	-	-	-	-	5,328,603	5,328,603
Bonds, notes and other obligations	-	-	-	-	4,649,698	4,649,698	-	-	-	-	4,769,390	4,769,390
Due from customers on acceptances	-	-	-	-	9,115	9,115	-	-	-	-	16,392	16,392
Insurance contract liabilities	-	-	-	-	5,101,441	5,101,441	-	-	-	-	5,010,513	5,010,513
Accounts payable, provisions and other liabilities	204,264	-	-	-	805,627	1,009,891	236,137	-	-	-	730,622	966,759
	<u>204,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,579,835</u>	<u>43,784,099</u>	<u>236,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,285,625</u>	<u>46,521,762</u>

Notes to the consolidated financial statements (continued)

25. Financial risk management

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

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

(a) Maximum exposure to credit risk

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

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

(b) Credit risk management for loans

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

Notes to the consolidated financial statements (continued)

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

As of March 31, 2017						
Loan portfolio classification	Commercial loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Small and micro-business loans S/(000)	Total S/(000)	%
Neither past due nor impaired						
Normal	12,959,333	7,589,284	4,410,447	473,459	25,432,523	95
With potential problems	211,012	80,334	27,003	4,948	323,297	1
	<u>13,170,345</u>	<u>7,669,618</u>	<u>4,437,450</u>	<u>478,407</u>	<u>25,755,820</u>	
Past due but not impaired						
Normal	186,172	4,431	269,036	9,791	469,430	2
With potential problems	31,796	266,600	94,838	8,981	402,215	1
	<u>217,968</u>	<u>271,031</u>	<u>363,874</u>	<u>18,772</u>	<u>871,645</u>	
Impaired						
Substandard	54,121	245,185	66,862	6,989	373,157	1
Doubtful	45,422	359,529	77,468	9,670	492,089	2
Loss	100,696	269,066	164,982	34,703	569,447	2
	<u>200,239</u>	<u>873,780</u>	<u>309,312</u>	<u>51,362</u>	<u>1,434,693</u>	
Total loan portfolio, gross	<u>13,588,552</u>	<u>8,814,429</u>	<u>5,110,636</u>	<u>548,541</u>	<u>28,062,158</u>	104
Minus: Allowance for loan losses	<u>197,232</u>	<u>875,066</u>	<u>64,809</u>	<u>55,437</u>	<u>1,192,544</u>	4
Total, net	<u>13,391,320</u>	<u>7,939,363</u>	<u>5,045,827</u>	<u>493,104</u>	<u>26,869,614</u>	100

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

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

As of March 31, 2017 and December 31, 2016, loans amounting to approximately S/779,348,000 and S/678,035,000, respectively, were not impaired and were past due for less than 30 days.

As of March 31, 2017 and December 31, 2016, refinanced loans amount to S/293,123,000 and S/296,485,000, respectively. Past due refinanced loans as of those dates amount to S/64,890,000, and S/63,735,000, respectively, out of which S/592,000 and S/309,000, respectively, are classified as past-due and not-impaired; and S/64,298,000 and S/63,426,000, as impaired, respectively.

Notes to the consolidated financial statements (continued)

(ii) Foreign exchange risk

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

As of March 31, 2017, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.246 per US\$1 for buying and S/3.249 US\$1 for selling (S/3.352 and S/3.360 as of December 31, 2016, respectively). As of March 31, 2017, the exchange rate for the accounting of asset and liability accounts in foreign currency set by the SBS was S/3.248 per US\$1 (S/3.356 as of December 31, 2016).

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

	As of March 31, 2017				As of December 31, 2016			
	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)	US Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Assets								
Cash and due from banks	7,747,017	994,120	298,924	9,040,061	10,497,324	991,219	273,260	11,761,803
Inter-bank funds	-	-	-	-	-	5,002	-	5,002
Trading securities	66,415	24,321	-	90,736	43,502	36,647	-	80,149
Available-for-sale investments	4,762,238	4,935,288	9,648	9,707,174	4,763,512	4,746,382	8,504	9,518,398
Held-to-maturity investments	-	601,566	-	601,566	-	611,293	-	611,293
Loan portfolio, net	8,445,154	18,701,758	-	27,146,912	8,655,259	18,370,606	-	27,025,865
Due from customers on acceptances	9,115	-	-	9,115	16,392	-	-	16,392
Accounts receivable and other assets	177,372	565,192	16,425	758,989	151,058	635,086	3,831	789,975
	<u>21,207,311</u>	<u>25,822,245</u>	<u>324,997</u>	<u>47,354,553</u>	<u>24,127,047</u>	<u>25,396,235</u>	<u>285,595</u>	<u>49,808,877</u>
Liabilities								
Deposits and obligations	12,896,874	14,728,600	274,715	27,900,189	15,414,006	14,575,525	108,319	30,097,850
Inter-bank funds	-	165,020	-	165,020	332,255	-	-	332,255
Due to banks and correspondents	1,070,243	3,878,502	-	4,948,745	1,054,747	4,273,856	-	5,328,603
Bonds, notes and other obligations	4,212,924	436,774	-	4,649,698	4,332,219	437,171	-	4,769,390
Due from customers on acceptances	9,115	-	-	9,115	16,392	-	-	16,392
Insurance contract liabilities	1,930,894	3,170,547	-	5,101,441	1,957,701	3,052,812	-	5,010,513
Accounts payable, provision and other liabilities	185,023	812,666	12,202	1,009,891	167,582	781,773	17,404	966,759
	<u>20,305,073</u>	<u>23,192,109</u>	<u>286,917</u>	<u>43,784,099</u>	<u>23,274,902</u>	<u>23,121,137</u>	<u>125,723</u>	<u>46,521,762</u>
Forwards position, net	(314,306)	357,514	(43,208)	-	(231,204)	270,864	(39,660)	-
Currency swaps position, net	(9,229)	9,229	-	-	(9,583)	9,583	-	-
Cross currency swaps position, net	(191,171)	191,171	-	-	(197,528)	197,528	-	-
Options position, net	(4,155)	4,155	-	-	(6,102)	6,102	-	-
	<u>383,377</u>	<u>3,192,205</u>	<u>(5,128)</u>	<u>3,570,454</u>	<u>407,728</u>	<u>2,759,175</u>	<u>120,212</u>	<u>3,287,115</u>
Monetary position, net								

Notes to the consolidated financial statements (continued)

As of March 31, 2017, the Group granted indirect loans (contingent operations) in foreign currency for approximately US\$649,600,000, equivalent to S/2,180,057,000 (US\$683,290,000, equivalent to S/2,293,120,000 as of December 31, 2016).

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

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

Sensitivity analysis	Changes in currency		
	rates %	2017 S/(000)	2016 S/(000)
Devaluation (*)			
US Dollar	5	(19,169)	(20,386)
US Dollar	10	(38,338)	(40,773)
US Dollar	15	(57,507)	(61,159)
Revaluation			
US Dollar	5	19,169	20,386
US Dollar	10	38,338	40,773
US Dollar	15	57,507	61,159

(*) The Group's Management does not estimate a devaluation of the US Dollar to the Sol in the next few years.

Notes to the consolidated financial statements (continued)

26. Fair value

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

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

	As of March 31, 2017				As of December 31, 2016			
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Financial assets								
Trading securities	86,654	2,952	1,130	90,736	77,052	1,929	1,168	80,149
Available-for-sale investments								
Debt instruments	4,810,662	3,189,967	-	8,000,629	4,680,267	3,086,619	-	7,766,886
Mutual funds and investment funds participations	170,189	643,020	261,382	1,074,591	167,431	643,460	262,297	1,073,188
Shares of the private sector, foreign entities and others	316,130	1,797	-	317,927	314,772	1,738	-	316,510
Royalty Pharma	-	-	67,961	67,961	-	-	68,264	68,264
InRetail Peru Corp.	147,710	-	-	147,710	203,074	-	-	203,074
Derivatives receivable	-	164,627	-	164,627	-	203,089	-	203,089
	<u>5,531,345</u>	<u>4,002,363</u>	<u>330,473</u>	<u>9,864,181</u>	<u>5,442,596</u>	<u>3,936,835</u>	<u>331,729</u>	<u>9,711,160</u>
Accrued interest				98,355				90,476
Total financial assets				<u>9,962,536</u>				<u>9,801,636</u>
Financial liabilities								
Derivatives payable	-	204,264	-	204,264	-	236,137	-	236,137

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

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

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

As of March 31, 2017 and December 31, 2016, the unrealized gain on Level 3 financial instruments amounts to S/19,057,000 and S/18,286,000, respectively, and the unrealized loss amounts to S/12,005,000 and S/9,250,000 respectively. During 2017 and 2016, there were no transfers of financial instruments from Level 3 to Level 1 or to Level 2.

Notes to the consolidated financial statements (continued)

(b) Financial instruments not measured at their fair value

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

	As of March 31, 2017					As of December 31, 2016				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	9,040,061	-	9,040,061	9,040,061	-	11,761,803	-	11,761,803	11,761,803
Inter-bank funds	-	-	-	-	-	-	5,002	-	5,002	5,002
Held-to-maturity investments	616,111	-	-	616,111	601,566	204,275	401,024	-	605,299	611,293
Loan portfolio, net	-	27,175,830	-	27,175,830	27,146,912	-	27,906,646	-	27,906,646	27,025,865
Due from customers on acceptances	-	9,115	-	9,115	9,115	-	16,392	-	16,392	16,392
Other accounts receivable and other assets, net	-	594,362	-	594,362	594,362	-	586,886	-	586,886	586,886
Total	616,111	36,819,368	-	37,435,479	37,392,016	204,275	40,677,753	-	40,882,028	40,007,241
Liabilities										
Deposits and obligations	-	27,888,230	-	27,888,230	27,900,189	-	30,100,962	-	30,100,962	30,097,850
Inter-bank funds	-	165,020	-	165,020	165,020	-	332,255	-	332,255	332,255
Due to banks and correspondents	-	4,959,466	-	4,959,466	4,948,745	-	5,338,642	-	5,338,642	5,328,603
Bonds, notes and notes issued	4,075,617	936,941	-	5,012,559	4,649,698	4,113,938	950,632	-	5,064,570	4,769,390
Due from customers on acceptances	-	9,115	-	9,115	9,115	-	16,392	-	16,392	16,392
Insurance contract liabilities	-	5,101,441	-	5,101,441	5,101,441	-	5,010,513	-	5,010,513	5,010,513
Accounts payable and other liabilities	-	805,627	-	805,627	805,627	-	730,622	-	730,622	730,622
Total	4,075,617	39,865,841	-	43,941,458	43,579,835	4,113,938	42,480,018	-	46,593,956	46,285,625

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

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

Notes to the consolidated financial statements (continued)

27. Fiduciary activities and management of funds

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

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

	2017 S/(000)	2016 S/(000)
Investment funds	11,532,228	11,638,129
Mutual funds	<u>3,588,256</u>	<u>3,511,240</u>
Total	<u><u>15,120,484</u></u>	<u><u>15,149,369</u></u>

28. 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.