

Translation of consolidated financial statements originally issued in Spanish - Note 31

Intercorp Financial Services Inc. and Subsidiaries

Consolidated financial statements as of June 30, 2014 (unaudited) and December 31, 2013 (audited) and for the six-month periods ended June 30, 2014 and 2013

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Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of financial position

As of June 30, 2014 (unaudited) and December 31, 2013 (audited)

	Note	2014 S/.(000)	2013 S/.(000)		Note	2014 S/.(000)	2013 S/.(000)
Assets				Liabilities and equity			
Cash and due from banks	4			Deposits and obligations	12	19,812,723	19,965,029
Cash and clearing		1,404,780	1,562,321	Inter-bank funds		234,025	100,022
Deposits in the Central Reserve Bank of Peru		3,574,725	4,339,421	Deposits from financial entities		174,199	183,792
Deposits in domestic and foreign banks		742,186	867,110	Due to banks and correspondents	13	2,388,851	2,537,405
Restricted funds		237,262	193,899	Accounts payable, provisions and other liabilities	11	1,040,139	928,570
				Deferred income tax liability, net		729	647
						4,340,269	3,426,557
		5,958,953	6,962,751	Bonds and other obligations	14		
				Technical reserves for premiums and claims	15	3,310,500	3,046,611
				Total liabilities		31,301,435	30,188,633
Inter-bank funds		50,005	204,905				
Investments at fair value through profit or loss		82,137	67,724				
Investments available-for-sale, net	5	3,289,452	2,592,462	Equity	16		
Loan portfolio, net	8	20,584,483	19,151,398	Equity attributable to IFS shareholders:			
Held-to-maturity investments, net	6	2,049,053	2,221,686	Capital stock		799,581	799,581
Real estate investment, net	7	419,113	448,449	Capital surplus		268,077	268,077
Investment in associates, net	9	35,877	38,099	Treasury stock		(279,200)	(221,703)
Property, furniture and equipment, net	10	441,107	446,106	Unrealized results, net		30,278	(15,259)
Accounts receivable and other assets, net	11	1,260,377	1,002,937	Retained earnings		2,121,150	2,176,189
Deferred Income Tax asset, net		90,178	78,166			2,939,886	3,006,885
				Minority interest		19,414	19,165
				Total equity		2,959,300	3,026,050
Total assets		34,260,735	33,214,683	Total liabilities and equity		34,260,735	33,214,683
Off-balance sheet accounts	18			Off-balance sheet accounts	18		
Contingent assets		17,211,469	17,740,642	Contingent liabilities		17,211,469	17,740,642
Other off-balance sheet asset accounts		69,599,818	57,967,878	Other off-balance sheet liability accounts		69,599,818	57,967,878
		86,811,287	75,708,520			86,811,287	75,708,520

The accompanying notes are an integral part of these consolidated balance sheets.

Intercorp Financial Services Inc. and Subsidiaries

Consolidated income statements

For the six-month periods ended June 30, 2014 and 2013 (unaudited)

	Note	2014 S/.(000)	2013 S/.(000)
Income from interests	19	1,441,558	1,198,504
Expenses related to interests	19	<u>(347,639)</u>	<u>(282,910)</u>
Gross financial margin		1,093,919	915,594
Provision for loan losses, net of recoveries	8(d)	<u>(220,309)</u>	<u>(183,449)</u>
Net financial margin		873,610	732,145
Fee income from financial services	20	154,681	167,031
Expenses related to financial services	20	(42,806)	(50,340)
Result from financial transactions	21	192,574	277,932
Result from insurance underwriting, net	22(a)	(31,805)	(37,266)
Administrative expenses	23(a)	<u>(604,482)</u>	<u>(559,728)</u>
Gross operating margin		541,772	529,774
Depreciation and Amortization		<u>(54,583)</u>	<u>(53,086)</u>
Net operating margin		487,189	476,688
Valuation of assets and provisions		<u>(15,144)</u>	<u>(537)</u>
Operating income		472,045	476,151
Other income, net	24	<u>5,434</u>	<u>19,828</u>
Income before tax		477,479	495,979
Income Tax		<u>(125,229)</u>	<u>(122,492)</u>
Net Income		<u>352,250</u>	<u>373,487</u>
Attributable to:			
IFS's shareholders		349,973	371,038
Minority interest		<u>2,277</u>	<u>2,449</u>
		<u>352,250</u>	<u>373,487</u>
Basic and diluted earnings per share attributable to IFS (stated in Nuevos Soles)	25	<u>3.882</u>	<u>4.098</u>
Weighted average number of outstanding shares (in thousands)	25	<u>90,163</u>	<u>90,533</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of comprehensive income

For the six-month periods ended June 30, 2014 and 2013 (unaudited)

	2014 S/.(000)	2013 S/.(000)
Net Income	352,250	373,487
Other comprehensive income:		
Loss in derivative financial instrument valuation	47	(9,016)
(Loss) Gain in available-for-sale investments valuation	58,039	(185,549)
Net loss in valuation of treasury stock	<u>(12,400)</u>	<u>19,827</u>
Total comprehensive income for the period	<u>397,936</u>	<u>198,749</u>
Attributable to:		
IFS's shareholders	395,510	197,454
Minority interest	<u>2,426</u>	<u>1,295</u>
	<u>397,936</u>	<u>198,749</u>

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of changes in equity

For the six-month periods ended June 30, 2014 and 2013 (unaudited)

	Number of shares (in thousand)		Attributable to IFS's equity holders							Minority interest S/.(000)	Total shareholder's equity S/.(000)
	Issued	In treasury	Capital stock S/.(000)	Treasury stock S/.(000)	Capital surplus S/.(000)	Unrealized gains S/.(000)	Retained earnings S/.(000)	Total S/.(000)			
Balance as of January 1, 2013	93,615	(3,115)	799,581	(205,225)	268,077	207,261	1,821,212	2,890,906	17,124	2,908,030	
Comprehensive income											
Net income	-	-	-	-	-	-	371,038	371,038	2,449	373,487	
Unrealized gains											
Net variation of available-for-sale investments of the Company and Subsidiaries	-	-	-	-	-	(184,324)	-	(184,324)	(1,225)	(185,549)	
Net variation of derivate financial instruments	-	-	-	-	-	(8,956)	-	(8,956)	(60)	(9,016)	
Net variation of treasury stock held by subsidiary	-	-	-	-	-	19,696	-	19,696	131	19,827	
Total comprehensive income	-	-	-	-	-	(173,584)	371,038	197,454	1,295	198,749	
Declared and paid dividends							(391,935)	(391,935)		(391,935)	
Net variation of treasury stock held by subsidiary, note 16(b)	-	38	-	(15,447)	-	-	-	(15,447)		(15,447)	
Application of legal reserve of Subsidiaries	-	-	-	-	-	-	13,557	13,557	(1,362)	12,195	
Balance as of June 30, 2013	93,615	(3,077)	799,581	(220,672)	268,077	33,677	1,813,872	2,694,535	17,057	2,711,592	
Balance as of January 1, 2014	93,615	(3,077)	799,581	(221,703)	268,077	(15,259)	2,176,189	3,006,885	19,165	3,026,050	
Comprehensive income											
Net income	-	-	-	-	-	-	349,973	349,973	2,277	352,250	
Unrealized gains											
Net variation of available-for-sale investments of the Company and Subsidiaries	-	-	-	-	-	57,804	-	57,804	235	58,039	
Net variation of derivate financial instruments	-	-	-	-	-	47	-	47	0	47	
Net variation of treasury stock held by subsidiary	-	-	-	-	-	(12,314)	-	(12,314)	(86)	(12,400)	
Total comprehensive income	-	-	-	-	-	45,537	349,973	395,510	2,426	397,936	
Declared and paid dividends							(424,056)	(424,056)	-	(424,056)	
Net variation of treasury stock held by subsidiary, note 16(b)	-	(661)	-	(57,497)	-	-	-	(58,158)		(58,158)	
Other	-	-	-	-	-	-	19,043	19,043	(2,177)	16,866	
Balance as of June 30, 2014	93,615	(3,738)	799,581	(279,200)	268,077	30,278	2,121,150	2,939,886	19,414	2,959,300	

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

Intercorp Financial Services Inc. and Subsidiaries

Consolidated statements of cash flows

For the six-month periods ended June 30, 2014 and 2013 (unaudited)

	2014	2013
	S/.(000)	S/.(000)
Reconciliation of net income with cash provided by operating activities		
Net income	352,250	373,487
Net income adjustments		
Add (less)		
Provision for loan losses, net of recoveries	220,309	183,449
Depreciation and amortization	54,583	53,086
Gain from valuation of investments, net	(45,585)	(157,063)
Gain from valuation of real estate investments	(35,636)	(37,323)
Other, net	(18,186)	(22,639)
Net changes in asset and liability accounts		
Net increase in loan portfolio	(1,634,695)	(1,774,552)
Net increase in deposits and obligations	(152,306)	2,774,644
Net increase in deposits from financial entities	(9,593)	4,583
(Increase) decrease in restricted funds	(43,363)	(101,048)
Increase in receivable accounts, net	(19,162)	(12,727)
(Decrease) increase in payable interest	(8,365)	1,798
Net Increase in other assets	(284,787)	(350,942)
Net increase in other liabilities	111,569	322,100
Increase in technical reserves	263,889	355,113
Net cash provided by operating activities	<u>(1,249,078)</u>	<u>1,611,966</u>

Consolidated statements of cash flow (continued)

	2014	2013
	S/.(000)	S/.(000)
Cash flows provided by (used in) investing activities		
Purchase of property, furniture and equipment	(29,333)	(29,478)
Net Increase (decrease) in investments (trading, available-for-sale and held-to-maturity)	(485,638)	(649,121)
Sale of real estate investments	80,055	104,283
Collection of dividends, net of increase investments in associates	3,379	7,728
Purchase of intangibles	(4,916)	(24,604)
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	(436,453)	(591,192)
Cash flows from financing activities		
Net decrease (increase) in due to banks and correspondents	(149,451)	271,304
Net increase in bonds and other obligations outstanding	922,974	229,283
Net decrease (increase) in receivable inter-bank funds	154,900	64,077
Payment of dividends	(424,056)	(391,935)
Increase in payable inter-bank funds	134,003	177,448
	<hr/>	<hr/>
Net cash provided by financing activities	638,370	2,000,741
Net cash increase	(1,047,161)	1,370,951
Balance of cash at the beginning of year	<hr/> 6,768,852	<hr/> 5,315,312
Balance of cash at end of year	<hr/> 5,721,691	<hr/> 6,686,263

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

Intercorp Financial Services Inc. and Subsidiaries

Notes to the consolidated financial statements

As of June 30, 2014 (unaudited) and December 31, 2013 (audited)

1. Business activity

Intercorp Financial Services Inc., henceforth “IFS” or “the Company” is a holding company incorporated in the Republic of Panama on September 19, 2006, as the result of the restructuring of its shareholder Intercorp Perú Ltd., henceforth “Intercorp Perú”, a holding corporation incorporated in 1997, in The Bahamas. As of June 30, 2014, Intercorp Perú directly and indirectly holds 73.09 percent of IFS’s issued capital stock and 71.97 percent of IFS’s shares representative of its outstanding capital stock (directly and indirectly 72.48 percent and 71.54 percent, respectively, as of December 31, 2013).

IFS’s legal domicile is 50 Street and 74 Street, ST Georges Bank Building, Republic of Panama. Its Management and administrative offices are located at Av. Carlos Villaran 140, Urb. Santa Catalina, La Victoria, Lima, Peru.

As of June 30, 2014 and December 31, 2013, IFS holds 99.3 percent and 100 percent of the capital stock of Banco Internacional del Peru S.A.A. – Interbank (henceforth “the Bank”) and of Interseguro Compañía de Seguros S.A. (henceforth “Interseguro”), respectively. IFS and its Subsidiaries operations are concentrated in Peru. Their main activities and balances of assets, liabilities and equity are described in Note 2.

The consolidated financial statements as of December 31, 2013 have been approved by General Shareholders’ Meeting held on April 7, 2014. The consolidated financial statements as of June 30, 2014 have been approved by the Board of Directors held on July 25, 2014.

2. Subsidiaries’ activities

The detail and business activities of IFS Subsidiaries are described below:

- (a) Banco Internacional del Perú S.A.A. – Interbank and Subsidiaries –
The Bank is incorporated in Peru and is authorized by the SBS, to perform multiple banking activities 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, guarantees, restrictions and other operation conditions that financial and insurance entities must comply with.

Notes to the consolidated financial statements (continued)

As of June 30, 2014 and December 31, 2013, the Bank has 276 and 269 offices, respectively and a branch located in Panama. Additionally, Interbank fully owns the following subsidiaries:

Subsidiary	Activity
Interfondos S.A. Sociedad Administradora de Fondos	Manages mutual and investment funds.
Internacional de Títulos Sociedad Titulizadora S.A. – Intertítulos S.T.	Manages securitization funds with combined assets.
Inversiones Huancavelica S.A.	Real estate activities.
Contacto Servicios Integrales de Crédito y Cobranzas S.A.	Collection services.
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities.
Corporación de Servicios Conexos S.A. – Expressnet	Service company provider of services related to credit card transactions or products identifiable to the brand American Express.

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

Interseguro was incorporated in Peru and began its operations in 1998 and is authorized by the SBS to offer life insurance products, annuities and others as authorized by Peruvian law, such as accident insurance. Interseguro's operations are governed by the Banking and Insurance Act. Likewise, during 2008 Interseguro obtained approval to operate as an insurance company which conducts both classes: life insurance risks and general risks.

Additionally, in June 2008, in accordance with SBS Resolution No.1816-2008, Interseguro obtained the authorization to work as an insurance company that operates the activities of life insurance and general risks. As of June 30, 2014 and December 31, 2013, the assets, liabilities, income and related expenses with the activity of general risks are not material to the financial statements at those dates.

As of June 30, 2014 and December 31, 2013, Interseguro owns the following subsidiaries:

Subsidiary	Activity
Centro Comercial Estación Central S.A.	Is dedicated to the administration of the mall called "Centro Comercial Estación Central" located in Lima downtown. As of June 30, 2014 and December 31, 2013, Interseguro holds 75 percent of its shares.
Patrimonio en Fideicomiso – D.S. N° 093-2002-EF, Interproperties Perú – Interseguro	A special purposes entity, see paragraph below.

Patrimonio en Fideicomiso D.S. 093-2002-EF, henceforth PF Interproperties Perú, on April 23, 2008, was constituted with the contribution of several assets from different companies of IFS. Its purpose was to create a legally independent entity to each investor that acts as originator, and through which the diverse projects approved by its Administration Committee can be structured, executed and developed, and in which said originators or trustees, being the case, can perform investments in real estate projects.

In accordance with the applicable accounting principles, PF Interproperties Peru is a Special Purpose Entity (SPE) which must be consolidated by IFS. As of June 30, 2014 and December 31, 2013, Interseguro maintains assets contributed to these SPEs. The assets contributed by this subsidiary are included in the accompanying consolidated financial statements in the caption "Real estate investment, net". See Note 7.

Notes to the consolidated financial statements (continued)

On the other hand, until July 2012, Interseguro was the sole shareholder of Real Plaza S.A. (an entity engaged to the management of shopping centers) and InRetail Properties Management S.R.L. (entity engaged to activities related to real estate business). At said date, Interseguro exchanged the aforementioned share into shares equivalent to 0.12 percent of the capital stock of InRetail Perú Corp., a related company. Lastly, during 2013, Interseguro sold these shares of InRetail Perú Corp; see Note 5(j).

(c) **San Borja Global Opportunities (formerly AFP Interactiva S.A.). -**

Through Resolution SBS N°8965-2012, dated on November 30, 2012, the SBS authorized the constitution of AFP Interactiva S.A. as a pension fund administrator. As of December 31, 2013 the capital contribution made by the Company amounted to S/.2,600,000. However, Shareholders' Meeting held in December 2013 agreed the reduction of the company's capital stock in S/. 2,599,000; which was completed in February 2014. As of June 30, 2014, the company changed its name to San Borja Global Opportunities. At the same time its corporate purpose was changed to investment activities. As of July, 2014, this Subsidiary has not yet started its operations.

The table below shows a summary of the audited separate financial statements of the main Subsidiaries before consolidation adjustments with IFS, as of June 30, 2014 and December 31, 2013 and for the six-month periods June 30, 2014 and 2013:

	Banco Internacional del Perú S.A.A. - Interbank		Interseguro Compañía de Seguros S.A.	
	30.06.14 S/.(000)	31.12.13 S/.(000)	30.06.14 S/.(000)	31.12.13 S/.(000)
Total assets	30,623,550	29,698,834	3,998,883	3,622,821
Total liabilities	27,902,739	27,047,194	3,618,268	3,181,877
Shareholders' equity, net	2,720,811	2,651,640	380,615	440,944
Net income	325,425	647,090	68,190	152,376

Notes to the consolidated financial statements (continued)

3. Accounting principles and practices

In the preparation and presentation of the accompanying consolidated financial statements, Management of the Company and its Subsidiaries has complied with the SBS standards in force in Peru as of June 30, 2014 and December 31, 2013, for both financial entities – IFS, the Bank and its Subsidiaries – and insurance entities – Interseguro and its Subsidiaries. The accounting principles and practices as of June 30, 2014, have not been modified from those applied as of December 31, 2013, summarized in the audited report dated February 14, 2014.

4. Cash and due from banks

As of June 30, 2014, “Cash and due from banks” caption of the Consolidated statement of financial position includes approximately US\$939,991,000 and S/.1,039,764,000 (US\$1,454,091,000 and S/.1,014,241,000 as of December 31, 2013), which represents the legal reserve that the Bank must establish for some of its obligations. These funds are kept in the Bank’s vaults and in the Central Reserve Bank of Peru (henceforth “BCRP” by its Spanish acronym). The Bank maintains such legal reserve within the limits required by prevailing regulations.

The legal reserve maintained by the Bank at the BCRP does not accrue interests, except for the part that exceeds the minimum reserve required in foreign and local currency. As of June 30, 2014, the monthly amount by which foreign currency deposits exceeded the minimum legal reserve requirements was approximately US\$182,565,000, equivalent to S/.510,452,000, and accrued interest at an annual average rate of 0.04 percent (US\$315,362,000, equivalent to S/.881,438,000, with an annual average interest rate of 0.04 percent as of December 31, 2013). The exceeding amount in local currency was approximately S/.172,809,000, and accrued interest at an annual average rate of 0.85 percent (S/.277,301,000 at an annual average rate of 1.25 percent as of December 31, 2013).

Deposits in domestic and foreign banks are denominated in Nuevos Soles and US Dollars. All amounts are unrestricted and earn interests at market rates.

As of June 30, 2014 and December 31, 2013, this caption includes restricted funds for approximately S/. 236,877,000 and S/. 193,733,000, respectively, which corresponds mainly to requirements from counterparties of derivative transactions – see Note 11(g) and funds provided from remittances received which guarantee the payment of the notes issued by IBK DPR Securitizadora; see further detail in Note 14(c) and 14(d).

Notes to the consolidated financial statements (continued)

5. Investment available-for-sale, net

(a) The table below presents the components of this caption as of June 30, 2014 and December 31, 2013:

	2014				2013			
	Amortized cost	Unrealized Gross amount		Fair value	Amortized cost	Unrealized Gross amount		Fair value
		Profit	Loss			Profit	Loss	
S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000	
Negotiable bank certificates in local currency issued by Peruvian Central Bank (b)	699,141	214	(4)	699,351	653,739	385	(99)	654,025
Financial and corporate Bonds (c)	967,362	17,879	(3,437)	981,804	552,620	5,329	(13,434)	544,515
Peruvian Sovereign Bonds (d)	579,955	11,562	(24,556)	566,961	469,144	121	(29,401)	439,864
Mutual and investment funds participations (e)	182,922	3,286	(4,970)	181,238	179,304	3,789	(11,453)	171,640
Indexed Negotiable bank certificates in local currency issued by Peruvian Central Bank (f)	30,049	-	(2)	30,047	117,978	-	-	117,978
United States of America Treasury Bonds (g)	-	-	-	-	110,694	-	(1,400)	109,294
Peruvian Global Bonds (h)	159,344	822	(531)	159,635	63,992	63	(2,315)	61,740
Foreign Global Bonds	182,610	627	(44)	183,193	69,300	-	(1,717)	67,583
Peruvian issued letters	1,616	29	-	1,645	-	-	-	-
Time deposits in Inteligo Bank Ltd., a related company	2,907	-	-	2,907	8,639	-	-	8,639
Total	2,805,906	34,419	(33,544)	2,806,781	2,225,410	9,687	(59,819)	2,175,278
Shares – Quoted								
Peruvian and foreign private sector shares (i)	261,520	30,787	(22,057)	270,250	195,803	42,664	(17,093)	221,374
InRetail Perú Corp's shares.(j)	70,653	38,368	-	109,021	70,653	35,829	-	106,482
Other	62	109	-	171	62	99	-	161
Shares – Not quoted								
Royalty Pharma (k)	23,308	52,568	-	75,876	23,200	46,239	-	69,439
Other	7,545	-	(7,090)	455	806	-	(353)	453
	363,088	121,832	(29,147)	455,773	290,524	124,831	(17,446)	397,909
	3,168,994	156,251	(62,691)	3,262,554	2,515,934	134,518	(77,265)	2,573,187
Add - Accrued interest on investments				26,898				19,275
Total				3,289,452				2,592,462

Notes to the consolidated financial statements (continued)

(b) Negotiable Bank Certificates issued by the BCRP (CDN-BCRP) are denominated in Nuevos Soles. As of June 30, 2014, the maturity of said certificates ranges between July 2014 and June 2015 (January and November 2014 as of December 31, 2013), and accrue effective annual interest rates between 3.72 and 3.86 percent in both periods.

(c) The table below presents the details of financial and corporate bonds:

	2014	2013
	S/.000	S/.000
Issued by local companies -		
BBVA Banco Continental	131,740	111,987
Banco de Crédito del Perú S.A.	130,156	172,141
Rutas de Lima	84,162	-
Fondo Mi Vivienda	48,991	-
Abengoa Trasmision Sur	47,085	-
Cineplanet	40,569	-
Hunt Oil	29,382	-
Corporación Financiera de Desarrollo S.A.	25,148	425
San Miguel Industrias	18,071	-
Volcan	15,083	11,839
Other	91,370	81,488
Issued by foreign companies -		
Interproperties Finance	60,907	-
Fermaca Enterprises	53,630	-
Corpbanca	47,532	-
Corporación Andina de Fomento	37,514	29,120
Votorantim	36,081	63,801
Banco Latinoamericano de Comercio Exterior	30,181	30,384
Other	54,201	43,330
Total	981,804	544,515

(d) As of June 30, 2014 and December 31, 2013, Peruvian Sovereign Bonds are denominated in Nuevos Soles, have maturities between February 2018 and August 2046 and accrue interests at effective annual rates between 2.20 and 6.90 percent.

Notes to the consolidated financial statements (continued)

- (e) As of June 30, 2014 and December 31, 2013, corresponds to participations in local and foreign investment funds recorded at their quoted value as of the end of the month.
- (f) Indexed Bank Certificates were issued by the BCRP (CDN-BCRP) are denominated in Nuevos Soles. These certificates are adjusted as the exchange rate of the US Dollar changes, recorded between laying and maturity date, have maturities in July 2014 (between January and February 2014, as of December 31, 2013) and accrue interests at effective annual rates between 0.08 and 0.36 percent (between 0.10 and 0.13 percent as of December 31, 2013).
- (g) As of December 31, 2013 these certificates have maturities in August 2023 and accrue an interest at effective annual rates of 2.72 percent.
- (h) Correspond to Global Bonds denominated in US Dollars, whose maturities between March 2019 and July 2025 (between March 2019 and November 2033, as of December 31, 2013) and accrue interests at effective annual rates between 1.0 and 3.4 percent (between 2.83 and 5.01 percent as of December 31, 2013).
- (i) The table below presents the details of local and foreign private sector shares:

	2014	2013
	S/ .000	S/ .000
Peruvian shares -		
Luz del sur S.A.A.	49,311	61,801
BBVA Banco Continental	21,176	-
Graña y Montero S.A.	10,968	11,868
Edelnor	11,501	3,331
Other	4,816	4,463
Foreign shares -		
Energía del Sur S.A.	52,954	89,311
Aguas Andinas S.A.	18,251	18,651
Bank of America	16,115	-
I-shares MSCI MEXICO INDEX	14,220	8,553
Other	70,938	23,396
Total	<u>270,250</u>	<u>221,374</u>

Notes to the consolidated financial statements (continued)

- (j) As of June 30, 2014 and December 31, 2013, IFS and its Subsidiaries hold 2,404,920 shares, which represent 2.34 percent of InRetail's capital stock.
- (k) As of June 30, 2014 and December 31, 2013, IFS and its Subsidiaries hold 54,978 and 251,286 participations of Royalty Pharma Select (RPS) and Royalty Pharma Investment (RPI), respectively, at market value amounting approximately to US\$4,008,000 and US\$23,093,000 (equivalent approximately to S/.11,208,000 and S/.64,569,000, respectively).

As of June 30, 2014 and 2013, IFS and its Subsidiaries received dividends from these participations that amounted to approximately S/.2,176,000 and S/. 8,044,000, which were recorded as part of the "Income from sale and valuation of investments, net" in the "Result of financial operations" caption of the consolidated statements of income; note 21.

The estimated market value of the participations as of June 30, 2014 and December 31, 2013 has been determined by IFS's Management and its Subsidiaries on the basis of the Net Asset Value (NAV) provided by the Fund's administrators which is reviewed by IFS's Management, which has concluded that it is a reasonable estimation of the market value.

- (l) Management of IFS and its Subsidiaries have determined that unrealized losses as of June 30, 2014 and December 31, 2013, are of temporary nature. Likewise, the Company has the capacity and intents to hold each of these investments with unrealized losses for a period of time sufficient to allow a recovery in the fair value, which may occur at their maturity; therefore, it considers that unrealized losses do not qualify as impairment to be recognized in the consolidated results of the year.
- (m) The table below presents the balance of available-for-sale investments, classified by maturity dates, as of June 30, 2014 and December 31, 2013:

	2014	2013
	S/.000	S/.000
Due within 1 month	226,944	71,974
From 1 to 3 months	95,129	116,876
From 3 months to 1 year	561,417	645,505
From 1 to 5 years	356,323	20,479
More than 5 years	1,382,823	1,148,804
Shares and participations (without maturity)	639,918	569,549
	<u>3,262,554</u>	<u>2,573,187</u>

Notes to the consolidated financial statements (continued)

6. Held-to-maturity investments, net

(a) The table below presents the components of this caption as of June 30, 2014 and December 31, 2013:

	2014	2013
	S/.(000)	S/.(000)
Corporate and financial bonds (b)	1,451,975	1,569,167
Peruvian Sovereign Bonds (c)	284,547	339,209
Bonds granted by the Peruvian Government (d)	310,048	309,956
Foreign Sovereign Bonds	-	820
	<hr/>	<hr/>
	2,046,570	2,219,152
	<hr/>	<hr/>
Investment in real estate projects	2,483	2,534
	<hr/>	<hr/>
	2,049,053	2,221,686
	<hr/>	<hr/>

(b) The table below presents the details of financial and corporate bonds:

	2014	2013
	S/.(000)	S/.(000)
Issued by local companies -		
Southern Perú Copper	137,380	137,575
Red de Energía del Perú	110,057	109,938
H2OImos S.A.	101,187	100,071
Telefónica del Perú S.A.A.	95,697	93,660
Corporación Financiera de Desarrollo S.A.	90,326	90,335
Línea Amarilla S.A.C.	85,497	84,507
Kallpa Generación S.A	53,765	54,889
Banco Interamericano de Finanzas	52,417	51,181
Duke Energy	50,508	50,496
Edelnor	41,716	-
Abengoa Transmision Sur	38,312	-
Other	164,258	266,383
Issued by foreign companies -		
Votorantim	104,731	104,746
Vale S.A.	53,613	85,339
Odebrecht Finance Ltd.	78,207	78,237
Export - Import Bank of Korea	71,791	69,706
Telefónica S.A.	-	55,163
British Telecom PLC	-	53,043
Petrobras	51,415	51,406
Other	71,098	32,492
	<hr/>	<hr/>
	1,451,975	1,569,167
	<hr/>	<hr/>

These bonds have maturities between January 2015 and October 2096 and accrue effective annual interest rates between 5.625 and 9.50 percent in foreign currency; and between 5.125 and 7.375 percent in nuevos Soles and VAC plus 2.875 percent and VAC plus 6.25 percent annual.

(c) As of June 30, 2014, the sovereign bonds are denominated in nuevos soles (in nuevos soles and foreign currency as of December 31, 2013), accrue at annual interest rate between 5.20 and 8.20 percent in nuevos soles and VAC plus 3.83

Notes to the consolidated financial statements (continued)

percent annual in local currency (between 6.60 and 8.75 percent in foreign currency, 5.20 and 8.20 percent in nuevos soles and VAC plus 3.83 and VAC plus 7.39 percent annual in local currency as of December 31, 2013). As of June 30, 2014 and December 31, 2013 have maturities between September 2023 and August 2046, respectively.

- (d) Correspond to debt financial instruments issued by concessionary entities from the Peruvian Government, in order to finance public works and are guaranteed by the Peruvian Government to enforce the payment of the public debt service, accrue interests at annual rates between 5.20 and 8.75 percent as of June 30, 2014 (4.10 and 7.74 percent as of December 31, 2013) and have maturities between May 2018 and October 2033.
- (e) The table below presents the balance of held-to-maturity investments, by maturity date, as of June 30, 2014 and December 31, 2013:

	2014	2013
	S/.(000)	S/.(000)
From 3 months to 1 year	32,069	7,428
From 1 to 5 years	49,686	53,192
More than 5 years	1,964,815	2,158,532
	<u>2,046,570</u>	<u>2,219,152</u>

7. Real estate investment, net

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

	2014	2013
	S/(000)	S/(000)
Assets built on owned land -		
Buildings, land and work-in-progress (b)		
Buildings	26,256	30,570
Land (e)	96,702	126,409
Work-in-progress	127,184	125,822
Centro comercial Real Plaza Sullana	67,891	64,781
Centro Comercial Real Plaza Piura (c)	8,557	8,557
Assets built on surface rights -		
Centro Comercial Real Plaza Centro Cívico (d)	111,532	109,244
	<u>438,122</u>	<u>465,383</u>
Accumulated depreciation of buildings	(19,009)	(16,934)
	<u>419,113</u>	<u>448,449</u>

Management periodically obtains independent appraisals of the Company's real estate investments. Based on these appraisals, as of June 30, 2014 and December 31, 2013, Management has determined that the fair value is upper than the book value.

- (b) Correspond to land, buildings and work-in-progress which have been acquired with the purpose of constructing real estate projects.

Notes to the consolidated financial statements (continued)

- (c) As of March 31, 2013, Interseguro sold part of this real estate investment in cash keeping a portion of the land for amounted to S/.8,557,000. The sale was made at market values amounting to S/. 128,952,000 in cash into Patrimonio Fideicomiso – D.S. N°093-2002- EF Interproperties Holding II, an equity fund constituted in september 2011, whose investors are entities related to IFS, generating an earnings of approximately S/.40,579,000, which was recorded in the “Result of financial operations” caption of the consolidated statements of income; note 21.
- (d) Interseguro holds the concession of surface rights on these buildings with the National Pension Funds Administration (“ONP” by its Spanish acronym). The term of this contract is 30 years extendable at maturity and comprises the payment to the ONP of an annual rent over a certain percentage of the gross income obtained from the operations of the mall which shall not be less than US\$ 800,000. During 2014 and 2013, Interseguro has provisioned as expense for this concept an approximate amount of S/.1,262,906 and S/.1,144,590, respectively, which was recorded in the “Result of financial operations” caption of the consolidated statements of income; see note 21.
- (e) As of June 30, 2014, Interseguro sold this real estate investment. This sale was made at market values amounting to S/. 99,858,000 into Patrimonio Fideicomiso – D.S. N°093-2002- EF Interproperties Holding II, an equity fund constituted in september 2011, whose investors are entities related to IFS, generating an earnings of approximately S/.35,636,000, which was recorded in the “Result of financial operations” caption of the consolidated statements of income; note 21.

Notes to the consolidated financial statements (continued)

8. Loan portfolio, net

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

	2014	2013
	S/.(000)	S/.(000)
Direct loans		
Loans	14,758,313	13,735,897
Credit cards	2,839,521	2,544,767
Leasing	2,277,312	2,155,275
Discounted notes	419,328	457,092
Factoring	280,458	292,677
Advances and overdrafts	151,047	122,100
Refinanced and restructured loans	131,161	123,897
Past due and under legal collection loans	406,623	346,626
	21,263,763	19,778,331
Add (less)		
Accrued interest from performing loans	191,150	172,451
Deferred interest and interest collected in advance	(15,188)	(14,112)
Allowance for loan losses (c)	(855,242)	(785,272)
	20,584,483	19,151,398
Indirect loans	4,262,884	4,057,672

As of June 30, 2014 and December 31, 2013, 51 percent of the direct and indirect loan portfolio corresponded to 700 and 691 customers, respectively. Loans were mainly granted to companies established in Peru or to companies whose shareholders have investments mostly in Peru.

(b) The table below presents the direct loan portfolio distributed by economic sector as of June 30, 2014 and December 31, 2013:

	2014	2013
	S/.(000)	S/.(000)
Commercial credits	10,171,014	9,522,154
Mortgage credits	3,935,819	3,742,848
Consumer credits	6,492,525	5,960,154
Small Business credits	664,405	553,175
	21,263,763	19,778,331

Notes to the consolidated financial statements (continued)

- (c) As of June 30, 2014 and December 31, 2013, the credit risk classification of the Bank's loan portfolio according to SBS standards, is as follows:

Risk category	2014		2013	
	Total		Total	
	S/.(000)	%	S/.(000)	%
Normal	24,116,395	94.5	22,451,717	93.5
With potential problem	476,227	1.9	539,439	2.7
Substandard	240,503	0.9	219,977	1.0
Doubtful	345,861	1.4	342,343	1.6
Loss	347,661	1.4	282,527	1.2
Total	25,526,647	100.0	23,836,003	100.0

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

	2014	2013
	S/.(000)	S/.(000)
	(*)	(*)
Balance at the beginning of the period	838,889	743,081
Provision recognized as expense (includes pro-cyclical provisions)	256,131	229,227
Prior years provision recoveries	(35,820)	(45,778)
Recovery	37,235	49,990
Write-offs and sales	(185,577)	(204,356)
Exchange result, net	70	15,541
Balance at the end of the period	910,928	787,705
Balance as of December 31, 2013		838,889

- (*) The allowance for loan losses includes the provisions for indirect loans and for credit risk related to over-indebtedness amounting to approximately S/.55,686,000 and S/.53,617,000 as of June 30, 2014 and December 31, 2013, respectively, which are recorded in the "Accounts payable, provisions and other liabilities" caption of the consolidated statement of financial position; note 11.

In Management's opinion, the provision for loan losses recorded as of June 30, 2014 and December 31, 2013, complies with SBS regulations in effect at those dates.

- (e) Interest rates on loans are freely determined, based on the rates prevailing in the Peruvian market.

Notes to the consolidated financial statements (continued)

- (f) Interests, commissions and expenses over loans or installments that are in the situation of refinanced, past due, legal collection, or classified into the categories of Doubtful or Loss, are accounted as suspended revenues or interests (off-balance sheet accounts) and are recognized as income in the consolidated statements of income when they collect.
- (g) The table below presents the direct loan portfolio as of June 30, 2014 and December 31, 2013, classified by maturity dates:

	2014	2013
	S/.(000)	S/.(000)
Outstanding		
Due within 1 month	2,325,430	1,792,630
From 1 to 3 months	4,005,015	2,474,474
From 3 months to 1 year	3,332,473	4,497,652
From 1 to 5 years	7,568,062	7,164,273
More than 5 years	3,626,160	3,502,676
	20,857,140	19,431,705
Past due loans	265,509	233,765
Loans in legal collection	141,114	112,861
	21,263,763	19,778,331

9. Investments in associates

- (a) The table below presents the components of this caption as of June 30, 2014 and December 31, 2013:

	Ownership percentage	Book value	
		2014	2013
		S/ .000	S/ .000
Entity -			
Procesos MC Perú S.A.	50	28,171	27,298
Compañía Peruana de Medios de Pago S.A.C. - Visanet	16	3,959	5,770
La Fiduciaria S.A.	35	2,242	3,376
Other	-	1,505	1,655
		35,877	38,099

- (b) As of June 30, 2014 and 2013, as a result of applying the equity accounting method in associates, IFS and its Subsidiaries recorded gains for approximately S/.6,168,000 and S/.7,706,000, respectively, which was included in the "Result of financial operations" caption of the consolidated statements of income; note 21.

Notes to the consolidated financial statements (continued)

10. Property, furniture and equipment, net

(a) The table below presents the movement of this caption as of June 30, 2014 and December 31, 2013:

Description	Land	Buildings and facilities	Furniture and equipment	Vehicles	Leasehold improvements	In-transit equipment and work in progress	Total 2014	Total 2013
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Cost								
Balance as of January 1	68,818	503,844	459,098	971	93,219	28,627	1,154,577	1,092,307
Additions and transfers	-	908	21,587	-	1,737	5,101	29,333	14,598
Disposals and write-offs (d)	-	-	(7,079)	-	-	-	(7,079)	(1,575)
Balance as of June 30	68,818	504,752	473,606	971	94,956	33,728	1,176,831	1,105,330
Accumulated depreciation								
Balance as of January 1	-	333,279	303,501	886	70,805	-	708,471	645,308
Depreciation for the period	-	7,774	21,681	11	5,081	-	34,547	18,198
Disposals and write-offs (d)	-	-	(7,294)	-	-	-	(7,294)	(1,553)
Balance as of June 30	-	341,053	317,888	897	75,886	-	735,724	661,953
Net book value	68,818	163,699	155,718	74	19,070	33,728	441,107	443,377
Balance as of December 31								446,106

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

(c) Management periodically reviews the residual values, useful life and the depreciation method to ensure they are consistent with the economic benefits and life expectation for the property, furniture and equipment. In Management's opinion, there is no evidence of impairment of the value in use of property, furniture and equipment as of June 30, 2014 and December 31, 2013.

(d) As of June 30, 2014 and December 31, 2013, correspond mainly to write-offs performed by the Bank on fully depreciated assets.

(e) With SBS authorization, in the prior years the Bank recorded voluntary revaluations over certain fixed assets at their fair values which were determined by an independent appraiser and amounted to approximately S/.61,140,000; which generated a deferred Income Tax. As of June 30, 2014 and December 31, 2013 the value of the revaluations, net of their accumulated depreciation, amounts to approximately S/.38,046,000 and S/.38,757,000, respectively.

Notes to the consolidated financial statements (continued)

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

(a) The table below presents the components of this caption as of June 30, 2014 and December 31, 2013:

	2,014	2,013
	\$/.(000)	\$/.(000)
Accounts receivable and other assets		
Financial Instruments		
Value added tax credit (b)	255,774	269,380
Accounts receivable for sale of investments	181,972	73,050
Other accounts receivable, net	218,444	136,910
Accounts receivable related to valuation of derivative financial instruments (g)	83,193	129,556
Transactions in process (d)	112,875	60,846
Investment fund participation (c)	86,225	84,503
Rights paid to related entity (f)	22,741	25,123
Commissions receivable for credit cards	16,007	14,807
Recoverable taxes	86,085	29,473
Accounts receivable for insurance underwriting, net	2,198	6,770
Accounts receivable to reinsurers and coinsurers	2,802	1,677
	1,068,316	832,095
Non Financial Instruments		
Intangible assets, net (e)	109,008	118,584
Deferred charges	71,762	39,777
Prepaid rent	3,820	3,385
Interest premium, net	1,711	3,336
Other	5,760	5,760
	192,061	170,842
Total	1,260,377	1,002,937
Accounts payable, provisions and other liabilities -		
Financial Instruments		
Other accounts payable	218,522	276,313
Transactions in process (d)	181,973	136,672
Accounts payable for purchase of investments	275,031	161,533
Accounts payable related to valuation of derivative financial instruments (g)	115,944	159,075
Provision for losses on indirect loan portfolio (contingent loans), note 8 (e)	55,686	53,617
Workers' profit sharing and salaries payable	87,497	77,407
Accounts payable to insurance	509	-
Accounts payable to reinsurers and coinsurers	2,214	2,371
	937,376	866,988
Non Financial Instruments		
Provision for contingencies (h)	10,576	7,131
Payable taxes	19,329	-
Other	72,858	54,451
	102,763	61,582
Total	1,040,139	928,570

Notes to the consolidated financial statements (continued)

- (b) Corresponds to the Value Added Tax ("IGV" by its Spanish acronym) resulting from the purchase of goods for leasing operations carried out by the Bank, to be recovered through the collection of such transactions.
- (c) Corresponds to certificates of participation that the Bank holds in an investment fund dedicated to operating leasing transactions. In attention to the nature of the operation, and according to the rules of the SBS, these certificates are recorded at their amortized cost and presented as accounts receivable. As of June 30, 2014 and 2013 the Bank registered income yield approximately to S/.1,609,000 and S/.2,240,000; respectively, which were included in the "Other income, net" caption of the consolidated income statement.
- (d) Transactions 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 account in the following month. These transactions do not affect the consolidated results as of June 30, 2014 and December 31, 2013.
- (e) Management assesses periodically the amortization method used with the purpose of ensuring them to be consistent with the economic benefit of the intangibles. In Management's opinion of IFS and its Subsidiaries, there is no evidence of impairment of the intangibles maintained as of June 30, 2014 and December 31, 2013.
- (f) Corresponds mainly, to a contract signed in 2003 between the Bank and Supermercados Peruanos S.A., a related entity. The Bank entered into a 15 year concession agreement with Supermercados Peruanos S.A., to install financial services facilities inside the stores of Supermercados Peruanos S.A. Under this agreement, the Bank paid an amount in foreign currency equivalent to S/.32,323,000 (IGV included) which is being amortized over a 15 year period. In addition, during 2009 the Bank entered into a new concession agreement for new spaces ceded to the Bank in new stores of Supermercados Peruanos S.A., for an amount of approximately S/.16,494,000, which is being amortized during the period of the contract (6 years and 8 months).

As of June 30, 2014 and 2013, IFS has recorded for such concepts an expense of approximately S/.2,384,000, which is included in the "Administrative expenses" caption in the consolidated statements of income.

Notes to the consolidated financial statements (continued)

- (g) The table below presents the fair value of the derivative financial instruments as of June 30, 2014 and December 31, 2013, recorded as assets or liabilities, along with their nominal amounts and maturities. The presented reference gross amount is the amount of the underlying asset of the derivative and it is the basis over which the changes in the fair value of the derivatives are measured; note 18(a).

	2014		
	Notional amount	Assets	Liabilities
	S/.(000)	S/.(000)	S/.(000)
Derivatives held for trading	7,218,759	82,733	66,723
Derivatives designated as cash flow hedges	429,496	460	49,221
	<u>7,648,255</u>	<u>83,193</u>	<u>115,944</u>
	2013		
	Notional amount	Assets	Liabilities
	S/.(000)	S/.(000)	S/.(000)
Derivatives held for trading	7,678,054	129,087	109,727
Derivatives designated as cash flow hedges	512,510	469	49,348
	<u>8,190,564</u>	<u>129,556</u>	<u>159,075</u>

As of June 30, 2014 and December 31, 2013, there exist operations of foreign currency forwards and currency swaps, as well as interest rates that according to the respective subscribed contracts, have required the constitution of guarantees for approximately S/.161,086,000 and S/.145,792,000 respectively; see note 4.

- (h) As of June 30, 2014 and December 31, 2013, these amounts include provisions for sundry legal contingencies originated from ongoing lawsuits against IFS and its Subsidiaries owing to the nature of the business. IFS and its Subsidiaries establish provisions for such lawsuits when, in the opinion of Management and its internal legal advisers, it is probable that the liability will be assumed by IFS and its Subsidiaries and the amount can be reliably estimated.

Notes to the consolidated financial statements (continued)

12. Deposits and obligations

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

	2014 S/.(000)	2013 S/.(000)
Time deposits (d)	7,882,617	7,846,214
Saving deposits	5,620,882	5,343,819
Demand deposits	5,589,108	5,938,627
Restricted obligations with public (*)	712,018	830,346
Other obligations	8,098	6,023
	<u>19,812,723</u>	<u>19,965,029</u>
Total	19,812,723	19,965,029

(*) As of June 30, 2014 and December 31, 2013, corresponds mainly to restricted deposits granted as guarantees by clients, in connection with direct and indirect loans granted by the Bank. Those deposits amounting for approximately S/ .541,814,000 and S/ .657,504,000, respectively.

- (b) Interest rates applied over deposits and obligations are determined by the Bank based on interest rates prevailing in the Peruvian market.
- (c) As of June 30, 2014 and December 31, 2013, approximately S/ .5,974,975,000 and S/ .5,799,518,000, respectively, of deposits and obligations are covered by the "Deposit Insurance Fund", respectively.
- (d) The table below shows the balance of time deposits classified by maturity as of June 30, 2014 and December 31, 2013:

	2014 S/.(000)	2013 S/.(000)
Due within 1 month	3,161,187	2,760,122
From 1 to 3 months	1,469,677	2,528,866
From 3 months to 1 year	2,309,507	1,659,878
From 1 to 5 years	942,246	897,348
	<u>7,882,617</u>	<u>7,846,214</u>
	7,882,617	7,846,214

Notes to the consolidated financial statements (continued)

13. Due to banks and correspondents

(a) The table below presents the components of this caption as of June 30, 2014 and December 31, 2013:

	2014	2013
	S/.(000)	S/.(000)
By type		
Loans received from foreign entities (b)	979,744	1,263,712
Promotional credit lines (d)	1,364,244	1,259,727
Loans received from BCRP (e)	30,000	-
	<u>2,373,988</u>	<u>2,523,439</u>
Interest and commissions payable	14,863	13,966
	<u>2,388,851</u>	<u>2,537,405</u>
By term		
Short term	251,199	453,938
Long term	2,137,652	2,083,467
	<u>2,388,851</u>	<u>2,537,405</u>
Total	<u>2,388,851</u>	<u>2,537,405</u>

(b) As of June 30, 2014 and December 31, 2013, includes the following:

Entity	Country	Final maturity	2014	2013
			S/.(000)	S/.(000)
Syndicated loan (c)	Multiple	2016	552,770	551,020
BLADEX	Panama	2015	180,062	214,936
Corporación Andina de Fomento - CAF	Venezuela	2016	69,900	69,875
Cobank	United States of America	2014	27,960	54,058
Deutsche Bank	Germany	2016	9,252	52,398
Wells Fargo Bank	United States of America	2014	83,880	195,650
China Development Bank	China	2016	55,920	69,875
HSBC Bank PLC	United Kingdom	2014	-	55,900
			<u>979,744</u>	<u>1,263,712</u>

During 2014, transactions with foreign entities bear interest at annual average rate of 2.85 (2.9 percent as of December 31, 2013).

Some of the loan agreements include standard clauses required to meet financial ratios, use of funds criteria and other administrative matters. In Management's opinion, said standard clauses do not limit the normal operation of the

Notes to the consolidated financial statements (continued)

Company and its Subsidiaries and have been met in accordance with international standard practices for these transactions.

- (c) Corresponds to a syndicated loan in July 2013 for US\$ 200,000,000 which was recorded net of issuance. Fifteen foreign financial entities took part in this transaction. Among them, Bank of America (USA) and Citibank N.A. (USA) granted US\$40,000,000 each one. This loan accrues interest at the 6-month Libor rate plus a margin of 1.85 percent with maturity in October 2016.
- (d) Promotional credit lines represent loans in Nuevos Soles and US Dollars granted by Corporacion Financiera de Desarrollo ("COFIDE" by its Spanish acronym) to the Bank, corresponding to credit lines aimed to promote the country's development. These liabilities are guaranteed by a loan portfolio up to the amount of the credit line used and include specific agreements on how these funds must be used, the financial conditions that have to be complied with and other administrative matters. In Management's opinion, it has been meeting said requirements. These transactions accrued interests at rates that fluctuated between 7.12 and 9.85 percent as of June 30, 2014 with maturity between January 2015 and April 2028 (between February 2014 and April 2028 as of December 31, 2013).
- (e) Corresponds to purchase transactions with repurchase commitment in foreign currency held with Central Reserve Bank of Peru.
- (f) As of June 30, 2014 and December 31, 2013, the amortization schedule for the long-term obligations is the following:

Year	2014	2013
	S/.(000)	S/.(000)
From 2 to 3 years	295,044	204,832
From 3 to 4 years	755,403	838,881
From 4 to 5 years	132,362	218,320
More than 5 years	954,843	821,434
Total	<u>2,137,652</u>	<u>2,083,467</u>

Notes to the consolidated financial statements (continued)

14. Bonds and other obligations

(a) The table below presents the components of this caption as of June 30, 2014 and December 31, 2013:

Issuer	Issuance	Annual Nominal Interest rate	Interest Payment basis	Maturity	Authorized amount (000)	Used amount (000)	Outstanding balances as of June 30, 2014 S/.(000)	Outstanding balances as of December 31, 2013 S/.(000)
Negotiable notes (DPR)								
IBK DPR Securitizadora (c)	First issue	Libor 3M + 2.75% / Libor 3M + 3.00%	Quarterly	2014-2015	US\$200,000	US\$200,000	74,489	131,370
IBK DPR Securitizadora (d)	First issue	Libor 3M + 4.25%	Quarterly	2016	US\$121,200	US\$121,200	187,437	212,497
							261,926	343,867
Subordinated bonds (b) - first program								
Interbank	Second issue (B series)	9.50%	Semiannually	2023	US\$50,000	US\$30,000	83,880	83,850
Interbank	Third issue (A series)	(VAC) + 3.5%	Semiannually	2023	135000	110000	109,284	110,000
Interbank	Fifth issue (A series)	8.50%	Semiannually	2019	S/. 135,000	S/. 3,300	3,300	3,300
Interbank	Sixth issue (A series)	8.16%	Semiannually	2019	US\$45,000	US\$15,110	42,248	42,232
Interbank	Eighth issue (A series)	6.91%	Semiannually	2022	S/. 300,000	S/. 137,900	137,900	137,900
Interseguro	First issue	9.00%	Quarterly	2016	US\$5,000	US\$5,000	13,980	13,975
Interseguro	Second issue	6.97%	Semiannually	2024	US\$35,000	US\$35,000	97,860	-
							488,452	391,257
Subordinated Bonds (b) - second program								
Interbank	Second issue (A series)	5.80%	Semiannually	2023	S/. 450,000	S/. 150,000	149,581	149,563
Interbank	Third issue (A series)	7.50%	Semiannually	2023	US\$125,000	US\$50,000	139,342	139,305
							288,923	288,868
Redeemable subordinated Bonds (h)								
Interbank	Third issue (A series)	6.63%	Semiannually	2029	US\$300,000	US\$300,000	832,980	-
							832,980	-
Mortgage bonds - first program								
Interbank	First issue (A series)	4.90%	Semiannually	2014	US\$10,000	US\$10,000	-	1,118
Interbank (e)	Second issue (A and B Series)	5.6355%-Libor6M+0.9pb	Semiannually	2015	US\$10,000	US\$10,000	2,516	3,354
							2,516	4,472
International Issuance through Panamanian Branch								
Junior Subordinated notes (f)	First issue	8.50%	Semiannually	2070	US\$200,000	US\$200,000	549,980	549,229
Senior bonds (g)	First issue	5.75%	Semiannually	2020	US\$400,000	US\$400,000	1,111,442	1,110,632
Senior bonds (g)	Second issue	5.75%	Semiannually	2020	US\$250,000	US\$250,000	723,689	682,632
							2,385,111	2,342,493
Interest payable							80,361	55,600
							4,340,269	3,426,557

(*) From the outstanding balances as of June 30, 2014 and December 31, 2013, there have been adjusted, for consolidation purposes, the bonds and other obligations held by IFS and its Subsidiaries amounting S/. 707,000 and S/. 2,805,000, respectively.

Notes to the consolidated financial statements (continued)

- (b) Subordinated bonds do not have specific guarantees and according to SBS regulations, this issuance qualifies as Tier 2 regulatory equity.

As of June 30, 2014 and December 31, 2013, the Bank maintains a currency swap operation which, in accordance with the SBS authorization, is recorded as cash flow hedging of the Second issuance (series A) – Second program. Through this operations, in economic terms, the debt issued in Nuevos Soles was translated into US Dollars.

- (c) The notes were disbursed in 2008 into two tranches, US\$60,000,000 and US\$140,000,000, and accrue interest at the 3-month Libor rate plus 2.75 and 3 percent. The loan has no specific guarantees or conditions for its use and was obtained through IBK DPR Securitizadora.

IBK DPR Securitizadora issued negotiable long-term notes for the same two tranches, amounts and maturities, accruing interests at the 3-month Libor rate plus 2.75 percent. These notes are guaranteed by remittances received by the Bank through SWIFT transfers, by which they are transferred by the Bank to IBK DPR Securitizadora upon received. The issuance of these notes has standards clauses on meeting financial ratios and other administrative matters which, in Management's opinion, are being met and do not affect the Bank's operation.

In order to hedge the variable rate component of these transactions, the Bank has entered into two interest-rate swap agreements, with notional amounts of US\$60,000,000 and US\$140,000,000, respectively, by which it receives the 3-month Libor rate and pays an annual fixed rate of 3.70 and 3.75 percent, respectively, starting in March 2009. The swaps' payment schedules are identical to those of the loan, and the Bank has recorded these derivatives as cash-flow hedges.

- (d) This loan was disbursed in June 2009 and accrues interest at the 3-month Libor rate plus 4.25 percent; the loan has no specific guarantees or conditions for its use and was obtained through IBK DPR Securitizadora.

IBK DPR Securitizadora issued negotiable long-term notes for the same amount and maturity, accruing interests at the 3-month Libor rate plus 4.25 percent. These notes are guaranteed by remittances received by the Bank through SWIFT transfers, by which they are transferred by the Bank to IBK DPR Securitizadora upon received. The issuance of these notes has standards clauses on meeting financial ratios and other administrative matters which, in Management's opinion, are being met and do not affect the Bank's operation.

For this transaction, the Bank has entered into an interest-rate swap contract, for which it receives the 3-month Libor rate plus a margin of 4.25 percent and pays an annual fixed rate of 7.90 percent starting in September 2009. The swap schedule is exactly equal to that of the loan and the Bank has recorded this derivative as a cash-flow hedge.

- (e) As of June 30, 2014 and December 31, 2013, the Bank maintains an interest rate swap, which has been designated as cash-flow hedge, by this operation economically bonds were converted to fixed rate.

Notes to the consolidated financial statements (continued)

- (f) These notes have fixed interest rate for the first ten years since April 2020, then interest rate changes to floating rate per year equal to the Libor for the three-month plus 674 basis points, provided that the floating rate for any interest period will not be less than 10.5 percent per year, with semiannual payments. Since that date, on any interest payment date, the Bank can redeem 100 percent of the notes, without penalties. Interest payments are non-cumulative if an interest payment is not made in full or paid as set forth, due to Interbank's right to cancel interest payments, a mandatory prohibition established by the SBS, or if the SBS determines that Interbank is in non-compliance with applicable minimum regulatory capital. In such cases, Interbank will not declare, pay or distribute a dividend for the period in which the interest payments are not made. The principal payment will take place at the maturity date or when the Bank redeems the notes.

This debt, considering SBS regulations, qualifies as Tier 1 in computing regulatory capital (17.65 percent on equity, reserves and earnings with capitalization agreement). The excess qualifies as Tier 2 regulatory equity.

- (g) In September 2010 and 2012, the Bank issued senior bonds denominated "5.750% Senior Notes due 2020". Starting in April 2016, the Bank will be able to redeem the entirety of the bonds at any coupon payment date. In such case, it will have to pay a redemption penalty equivalent to the interest rate of the United States of America Treasury Bond plus 50 basis points.

The principal payment of both issuances will take place either at the maturity date or when the Bank redeems them.

- (h) In March 2014, the Bank issued subordinated bonds denominated "6.625% Fixed-to-Floating Rate Subordinated Notes due 2029". This issue was made at par with an annual initial interest rate fixed at 6.625% until March 19, 2024, with semiannual payments. Thereafter, the rate is converted to a variable rate equal to LIBOR for three (3) months plus 5.760% with quarterly payments.

This issuance, considering SBS regulations, qualifies as Tier 2 in computing regulatory equity.

Notes to the consolidated financial statements (continued)

- (i) International issuances are listed at the Luxemburg Stock Exchange. Likewise, local and international issuances maintain certain financial and operating covenants which, in Management's opinion, the Bank has complied with at the dates of the consolidated balance sheets.
- (j) As of June 30, 2014 and December 31, 2013, the amortization schedule of these long-term obligations is the following:

Year	2014	2013
	S/.(000)	S/.(000)
Due within 1 year	217,562	199,327
From 1 to 2 years	107,391	136,772
From 2 to 5 years	-	54,201
More than 5 years	<u>4,015,316</u>	<u>3,036,257</u>
	<u>4,340,269</u>	<u>3,426,557</u>

15. Technical reserves for premiums and claims

- (a) The table below presents the components of this caption as of June 30, 2014 and December 31, 2013:

	2014 S/.(000)	2013 S/.(000)
Technical reserves for premiums (b)	3,249,175	2,979,761
Technical reserves for claims (c)	<u>61,325</u>	<u>66,850</u>
	<u>3,310,500</u>	<u>3,046,611</u>

- (b) Technical reserves for premiums disclosed by type of insurance are shown below:

	2014 S/.(000)	2013 S/.(000)
Life mathematical reserves		
Annuities reserves	3,015,228	2,760,357
Retirement, disability and survival pensions	116,415	116,753
Life insurance	87,532	75,997
Complementary insurance for high risk-jobs		4,572
Unearned premium reserve		
Compulsory traffic accident insurance (SOAT)	11,258	9,771
General insurance	<u>18,742</u>	<u>12,311</u>
	<u>3,249,175</u>	<u>2,979,761</u>

Notes to the consolidated financial statements (continued)

(c) Technical reserves for claims disclosed by type of insurance are shown below:

	2014		
	Claims reported S/.(000)	IBNR (e) S/.(000)	Total S/.(000)
Retirement insurance	35,085	-	35,085
Life insurance	6,199	9,859	16,058
Compulsory traffic accident insurance (SOAT)	6,594	214	6,808
Annuities reserves	1,690	-	1,690
Personal accidents	673	274	947
General insurance	668	69	737
	50,909	10,416	61,325

	2013		
	Claims reported S/.(000)	IBNR (e) S/.(000)	Total S/.(000)
Retirement insurance	37,228	13	37,241
Life insurance	9,139	10,104	19,243
Compulsory traffic accident insurance (SOAT)	6,428	383	6,811
Annuities reserves	1,125	-	1,125
Personal accidents	845	200	1,045
General insurance	156	1,229	1,385
	54,921	11,929	66,850

(d) In Management Company's opinion, these balances reflect the exposure to life and general insurance contracts as of June 30, 2014 and December 31, 2013, in accordance with SBS regulations.

(e) As of June 30, 2014 and December 31, 2013, the incurred but not reported claims have been determined in accordance with in force regulations approved by SBS. In such sense, in Management Interseguro's opinion it is adequate to properly respond to the incurred but not reported claims.

Notes to the consolidated financial statements (continued)

16. Equity

(a) Capital stock -

As of June 30, 2014 and December 31, 2013 the Company's capital stock is represented by 93,615,451 shares with issuance value of US\$9.72 per share.

The General Shareholders' Meeting held on April 7, 2014, agreed to distribute US\$150,000,000 in dividends corresponding to 2013 (equivalent to approximately S/.424,056,000), which were paid in May, 2014.

The General Shareholders' Meeting held on April 8, 2013, agreed to distribute US\$150,000,000 in dividends corresponding to 2012 (equivalent to approximately S/.391,935,000), which were paid in May, 2013.

(b) Treasury stock held by Subsidiaries-

As of June 30, 2014, the Bank and Interfondos hold 3,738,393 shares issued by IFS, while their cost amounted to S/.279,200,000 (3,077,240 shares held by the Bank with a cost amounted to S/. 221,703,000 as of December 31, 2013).

(c) Surplus capital-

Corresponds to the difference between the nominal value of the shares issued in June 2007 and September 2008, and their sell or exchange value. The capital surplus is presented net of the expenses incurred related to the issuance of shares.

(d) Unrealized Gains-

The table below presents the components of this caption:

	2014	2013
	S/.(000)	S/.(000)
IFS:		
Unrealized gains on available-for-sale investment	38,390	33,581
Interbank:		
Unrealized losses on hedging financial derivatives instruments, net of income tax	(25,016)	(25,063)
Unrealized gains (loss) on available-for-sale investment	(27,577)	(48,869)
Interseguro:		
Unrealized gains on available-for-sale investment	44,481	25,092
Total	<u>30,278</u>	<u>(15,259)</u>

Notes to the consolidated financial statements (continued)

(e) Components of other comprehensive income-

The statements of comprehensive income include other comprehensive income from available-for-sale investments and derivative financial instruments used as cash flow hedging.

(f) Regulatory capital -

IFS is not required to calculate a regulatory capital. As of June 30, 2014 and December 31, 2013, the shareholders' equity for legal purposes, required for its Subsidiaries of IFS dedicated to financial and insurance activities in Peru, calculated according to SBS standards, is calculated as follows:

Bank's regulatory capital -

According with means of Legislative Decree 1028, the Banking Act was amended. The amendments established that the regulatory capital must be equal to or more than 10 percent of the total risk weighted assets and contingent operations, represented by the sum of: (i) the regulatory capital requirement for market risk multiplied by 10, (ii) the regulatory capital requirement for operational risk multiplied by 10, and (iii) the weighted assets and contingent credits by credit risk.

As of June 30, 2014 and December 31, 2013, in application of Legislative Decree 1028 and its modification, the weighted assets and contingent credits by credit risk and shareholders' equity for legal purposes (regulatory capital basic and supplementary):

	30.06.14	31.12.13
	S/.(000)	S/.(000)
Total risk weighted assets and credits	28,393,099	26,684,039
Total regulatory capital	4,491,717	3,572,147
Basic regulatory capital (Level 1)	2,838,669	2,590,903
Supplementary regulatory capital (Level 2)	1,653,048	981,244
Global regulatory capital ratio	15.82%	13.39%

As of June 30, 2014 and December 31, 2013, the Bank is compliant with the Resolutions SBS No. 2115-2009, No. 6328-2009, No. 14354-2009, Regulations for the regulatory capital requirement for operational risk, for market risk and for credit risk, respectively, and its modification. Those regulations establish, mainly, the methodologies to be used by financial entities to calculate weighted assets and credits by each type of risk.

Notes to the consolidated financial statements (continued)

In July, 2011, the SBS issued Resolution No. 8425-2011, which states that an entity must determine an additional regulatory capital. In this sense, Peruvian financial institutions must 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 shall be equal to the amount of regulatory capital requirements calculated for each of the following components: economic cycle, concentration risk, market concentration risk and interest rates risk, among others. Likewise, the Bank has a term of five years starting in July 2012 to adequate its regulatory capital to the new requirements. As of June 30, 2014, the percentage of adequacy established by the SBS is 55 percent, therefore that additional regulatory capital requirement estimated by the Bank amounted to approximately S/.405,806,000 (S/.399,774,000 with 55 percent of the percentage of adequacy established by the SBS as of December 31, 2013).

Regulatory Capital of Interseguro -

According to Resolution SBS No. 1124-2006, amended by Resolutions SBS No. 8243-2008, No. 12687-2008 and No. 5587-2009. The effective equity must surpass the sum of the solvency equity, the guarantee fund and the effective equity aimed to cover credit risks.

The solvency net equity is represented by the solvency margin or the minimum capital, whichever the greatest. As of June 30, 2014 and December 31, 2013, the solvency net equity is represented by the solvency margin. The solvency margin is the complementary support that the entities shall maintain to deal with possible situations of excess claims not foreseen in the constitution of technical reserves. The total solvency margin corresponds to the sum of the solvency margins of the type of insurance which Interseguro operates.

Furthermore, the guarantee fund represents the additional equity support that the entities shall maintain to deal with other risks that can affect them and that are not covered by the regulatory net equity, such as the investment risks and other risks. The monthly amount of the fund should be equal to 35 percent of the solvency net equity, according to Resolution SBS No. 1124-2006.

Notes to the consolidated financial statements (continued)

As of June 30, 2014 and December 31, 2013, as a result of the application of the aforementioned regulation and according to what has been explained in the previous paragraphs, Interseguro has the following effective equity coverage surplus:

	2014 S/.(000)	2013 S/.(000)
Regulatory net equity total	372,086	274,224
Less:		
Solvency equity	196,613	177,568
Guarantee fund	68,815	62,149
Surplus	<u>106,658</u>	<u>34,507</u>

(e) **Subsidiaries' legal and special reserves**

Pursuant to current legislation for financial and insurance entities, a reserve of at least 35 percent of the Subsidiaries' paid-in capital is required to be established through annual transfers of not less than 10 percent of their net income; said legal reserve can only be used to absorb losses or be capitalized. In both cases, the Bank and Interseguro have the obligation to replenish it.

Additionally, pursuant to Legislative Decree 770 (which is no longer in force), the Bank established a reserve in order to cover potential losses on assets received as payment and seized through legal actions prior to December 31, 1994. In August 2012, with permission by the SBS the Bank used approximately S/.7,577,000 of this reserve to record provisions the total book value of assets which was related to this reserve which was subsequently sold. As of June 30, 2014 and December 31, 2013, the balance of such legal reserve is approximately S/.1,242,000 and is not allowed to distribute or use this reserve without prior authorization by the SBS.

In the General Shareholders' Meeting held on March 29, 2004, the Bank approved the creation of a special reserve amounting to approximately S/.10,822,000 through the transfer of income generated in 2003 and the Bank is not allowed to distribute or use this reserve without prior SBS authorization.

Notes to the consolidated financial statements (continued)

17. Tax situation

- (a) Because it is incorporated in Panama, Intergroup is not subject to any Income tax. Entities and individuals not domiciled in Peru must pay an additional tax of 4.1 percent over dividends received from entities domiciled in Peru. The entity that distributes the dividends is responsible of performing the retention of the indicated tax. In this regard, since the Company controls the entities that distribute dividends, recognizes the amount of said income tax, recorded as an expense in the period when such dividends belong. In this sense, as of June 30, 2014 and December 31, 2013, the Company recorded expenses for S/.8,985,000 and S/.9,376,000 respectively in the consolidate statements of income.
- (b) IFS's Subsidiaries are subject to Peruvian tax legislation. They calculate their Income Tax on the basis of their individual financial statements. As of June 30, 2014 and December 31, 2013, the statutory Income Tax rate was 30 percent over the taxable income.
- (c) Since 2011, with the Income Tax modification, introduced by Act No.29645, interests and other income generated by foreign loans granted to the national public sector must also be included as an item unaffected by the Income Tax.

Meanwhile, Act No. 29663, amended by Act No. 29757, established that are considered income of Peruvian source those obtained through the indirect disposal of shares or capital representative participations of legal persons domiciled in the country. For such purposes, it must be considered that an indirect disposal arises when shares or capital representative participations of a non-domiciled legal person are disposed which, at the same time, is the proprietor – directly or through another or other legal persons – of shares or capital representative participations of one or more legal persons domiciled in the country, provided that certain conditions established by law are met. In this regard, it also defines the assumptions under which the issuer is jointly liable.

On the other hand, since January 1, 2010, are regarded as non-taxable the rents and gains generated by assets that are backing the technical reserves from life insurance entities constituted or established in the country, for retirement, disability and survivorship pensions from the private pension funds administrators, constituted according to law. Likewise, are regarded as non-taxable the rents and gains generated by assets which that backing the technical reserves determined by law of the annuities pensions different from those mentioned in the previous paragraph and the technical reserves that life insurance entities commercialize, even when these products include a saving or investment component. Such exemption will be maintained while the rents and gains continue to back the technical obligation previously mentioned.

Notes to the consolidated financial statements (continued)

On the other hand, it is worth noticing that Act No. 29966, published on December 18, 2012, extended until December 31, 2015, the exemption to the IGV of the interests generated by real estate securities issued through public offer by legal persons constituted or established in the country, provided that the issuance is performed under either the Securities Market Act, which was enacted by Legislative Decree No. 861, or the Investment Funds Act, enacted by Legislative Decree No. 862, as correspondingly.

- (d) For the purpose of determining the Income Tax and the Value Added Tax, the transfer prices agreed for transactions between related entities, or for transactions conducted with or through entities domiciled in low or zero tax countries must be supported by documentation containing information on the valuation methods applied and the criteria used in the determination of such prices. The Tax Authority has the right to request this information. Based on analysis of the Company and its Subsidiaries operations, in the opinion of Management and its legal advisors, the application of these tax standards would not have any material consequences on the consolidated financial statements as of June 30, 2014 and December 31, 2013.
- (g) The Tax Authority is legally entitled to review and, if necessary, adjust the Income Tax computed during a term of four years following the year in which a tax return was filed. The Income tax and Value Added Tax returns of Interbank corresponding to 2009 through 2013 and Interseguro corresponding to 2011, through 2013 are pending reviewing by the Tax Authority.

In the other hand, in April 2004, June 2006, February 2007, June 2007, November 2007, October 2008 and December 2010, the Bank received Tax Assessments and Fine Imposing Resolutions related to Income Tax Returns filed in 2000, 2001, 2002, 2003, 2004, 2005 and 2006; for all of them the Bank has filed a tax claims and appeals. In March 2009, August 2010 and September 2011, the Tax Authority has issued Tax administration resolutions for the years 2000, 2001, 2002, 2003, 2004, 2005 and 2006 for which the Bank has filed appeals. Additionally, the Tax Authority has started the examination process on the Income Tax for the year 2009 and on the labor obligations for the year 2011.

In the opinion of the Bank's and Interseguro's Management and their legal advisors, any possible additional tax assessment would not have any material consequences on the consolidated financial statements as of June 30, 2014 and December 31, 2013.

On June 20, 2013, and December 11, 2013, the Tax Authority finished the examination processes corresponding to the determination of the Bank's Income Tax for the years 2007 and 2008, respectively. No additional payment was required.

Notes to the consolidated financial statements (continued)

18. Off-balance sheet accounts

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

	2014 S/.(000)	2013 S/.(000)
Indirect loans, Note 9(a), (b)		
Bank letters of guaranty and stand-by letters of credit	3,950,750	3,736,803
Import and export letters of credit	303,311	298,561
Due from bank acceptances	8,823	22,308
	<u>4,262,884</u>	<u>4,057,672</u>
Foreign currency forwards transactions, Note 4		
Held for trading		
Purchase of foreign currency forwards	2,062,184	2,957,993
Sale of foreign currency forwards	2,749,197	3,367,265
Currency swap transaction	1,076,148	970,162
Held as hedging		
Currency swap transaction	164,567	164,509
	<u>6,052,096</u>	<u>7,459,929</u>
Responsibilities by credit line agreements (c)	6,896,489	6,223,041
	<u>17,211,469</u>	<u>17,740,642</u>
Total contingent operations		
Other off-balance sheet accounts (d)		
Interest rates swaps		
Held for trading	1,331,230	382,634
Held as hedging	264,929	348,001
	<u>1,596,159</u>	<u>730,635</u>
Guarantees received	27,656,434	21,002,556
Commissions on trusts (e)	1,791,759	2,009,129
Securities in custody	2,833,014	3,220,206
Mutual and investment funds managed by Interfondos Sociedad Administradora de Fondos	2,496,598	2,444,515
Equity trusts managed by Intemacional de Títulos Sociedad Titulizadora S.A. - Intertítulos S.T.	6,648,980	4,959,248
Collections on behalf of third parties	782,377	465,911
Suspended interests	186,829	153,137
Consumer credit card lines	8,483,760	7,620,300
Write-off loans	7,446,893	7,010,146
Available lines from abroad	2,240,819	2,000,789
Miscellaneous	7,436,196	6,351,306
	<u>68,003,659</u>	<u>57,237,243</u>
Total other off-balance sheet accounts	<u>69,599,818</u>	<u>57,967,878</u>
	<u>86,811,287</u>	<u>75,708,520</u>
Total off-balance sheet accounts	<u>86,811,287</u>	<u>75,708,520</u>

Notes to the consolidated financial statements (continued)

- (b) In the normal course of its operations, IFS and its Subsidiaries perform contingent operations (indirect loans). These transactions expose the Company to additional credit risk beyond the amounts recognized in the consolidated statements of financial position.

IFS and its Subsidiaries applies the same credit policies for granting and evaluating the provisions required for direct loans when performing contingent operations, note 8, including obtaining guarantees when it deems it necessary. Guarantees vary and include deposits in financial institutions or other assets.

Taking into account that many of the contingent operations are expected to expire without IFS and its Subsidiaries have to disburse funds, the total committed amounts do not necessarily represent future cash requirements.

- (c) Unused lines of credit and loans granted but not disbursed do not correspond to commitments to grant loans; and include consumer lines of credit and other consumer loans that are paid when the customer receives notice to that effect.
- (d) The balance of "Other off-balance sheet accounts" includes different transactions recorded mainly for control purposes. The most important balance corresponds to guarantees received and is expressed at the agreed value of guarantees as of the date of the loan agreement. This balance does not represent the fair value of guarantees held by IFS and its Subsidiaries.
- (e) The Bank provides custody, trust, corporate management, investment management and consulting services to third parties, in which the Bank carries out instructions on behalf of its customers and does not assume responsibility for those decisions. These assets are not included in these consolidated financial statements.

19. Interest income and expense

The table below presents the components of this caption:

	2014	2013
	S/.(000)	S/.(000)
Financial income		
Interest and commissions on loans	1,308,318	1,066,339
Interest on due from banks and inter-bank funds	6,985	34,660
Income from interests over investments	124,505	95,974
Other financial income	1,750	1,531
Total	1,441,558	1,198,504
Financial expenses		
Interest and commissions on deposits and obligations	153,294	118,003
Interest on bonds and obligations outstanding	119,633	90,878
Interest and fees on deposits and due to banks and correspondents	68,884	70,082
Other financial expense	5,828	3,947
Total	347,639	282,910
Gross financial margin	1,093,919	915,594

Notes to the consolidated financial statements (continued)

20. Income and expenses from financial services

The table below presents the components of this caption:

	2014 S/.(000)	2013 S/.(000)
Income from financial services		
Fee for miscellaneous services	86,653	97,609
Commissions on contingent operations	24,616	23,923
Credit and debit card commissions	13,368	16,867
Fee for collections of services	10,047	9,395
Income from financial consulting	9,640	8,465
Other	10,357	10,772
Total	154,681	167,031
Expenses relating to financial services		
Insurance	9,003	17,573
Insurance premium to the Funds deposits	13,178	11,495
Fees paid for transfers	4,306	8,669
Other	16,319	12,603
Total	42,806	50,340

21. Result by financial transactions

The table below presents the components of this caption:

	2014 S/.(000)	2013 S/.(000)
Net gain on foreign currency transaction	101,009	30,761
Gain on available-for-sale investment, Note 7(c)	44,846	175,684
Income on investment rentals and real estate projects	15,083	16,114
Trading Derivatives	(6,185)	6,703
Participation from investments in subsidiaries and associates, net, Note 10(b)	3,185	7,626
Gain (loss) on investments at fair value through profit or loss	739	1,285
Sale on real estate investments	35,636	39,744
Other	(1,739)	15
Total	192,574	277,932

Notes to the consolidated financial statements (continued)

22. Result of insurance underwriting, net

The table below presents the components of this caption:

	2014 S/.(000)	2013 S/.(000)
Assumed premiums	344,579	270,843
Ceded premiums	(268,946)	(215,667)
Adjustment of technical reserves for assumed and ceded premiums	(1,942)	(2,304)
Claims on assumed premiums	(100,344)	(82,445)
Claims on ceded premiums	<u>2,237</u>	<u>786</u>
Gross technical result	(24,416)	(28,787)
Commissions from written premiums	(9,834)	(8,677)
Other technical income	5,591	2,684
Other technical expenses	<u>(3,146)</u>	<u>(2,486)</u>
Technical result, net	<u>(31,805)</u>	<u>(37,266)</u>

23. Administrative expenses

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

	2014 S/.(000)	2013 S/.(000)
Services received from third parties (b)	288,750	266,958
Personnel expenses (c)	297,834	276,960
Taxes and contributions	<u>17,898</u>	<u>15,810</u>
Total	<u>604,482</u>	<u>559,728</u>

(a) The amounts recorded as "Services received from third parties" correspond mainly to public relations expenses, professional fees, office leases, transportation services, repair and maintenance services, telecommunication costs, among others.

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

	2014 S/.(000)	2013 S/.(000)
Salaries	216,560	206,097
Worker's profit sharing expense	28,995	21,173
Social security	18,967	17,190
Vacation, health care and other	16,429	15,061
Severance indemnity expenses	<u>16,883</u>	<u>17,439</u>
Total	<u>297,834</u>	<u>276,960</u>

The average number of employees of the Company and its Subsidiaries for the years 2014 and 2013 was 7,506 and 7,263, respectively.

Notes to the consolidated financial statements (continued)

24. Other income, net

The table below presents the components of this caption:

	2014 S/.(000)	2013 S/.(000)
Income from services and commissions	26,825	29,430
Rental income	9,284	8,113
Income tax over dividends	(8,985)	(9,376)
Other, net	(21,690)	(8,339)
Total other income, net	5,434	19,828

25. Earnings per share

The table below presents the calculation of the weighted average number of shares and the earnings per share:

	Outstanding shares (in thousands)	Basis for calculation shares (in thousands)	Days as of the end of year	Weighted average number of shares (in thousands)
2013				
Balance as of January 1, 2013	90,500	90,500	180	90,500
Sale of treasury stock	38	38	155	28
Balance as of June 30, 2013	90,538	90,538		90,528
Net earnings S/.(000)				371,038
Earnings per share in Nuevos Soles				4.098
2014				
Balance as of January 1, 2014	90,538	90,538	180	90,538
Purchase of treasury stock	(3)	(3)	158	(2)
Purchase of treasury stock	(658)	(658)	less than 100	(373)
Balance as of June 30, 2014	89,877	89,877		90,163
Net earnings S/.(000)				349,973
Earnings per share in Nuevos Soles				3.882

Notes to the consolidated financial statements (continued)

26. Transactions with related parties and affiliated companies

- (a) The table below presents the balances with related and affiliated companies as of June 30, 2014 and December 31, 2013:

	2014 S/.(000)	2013 S/.(000)
Assets		
Cash and due from banks	76,710	87,726
Held-to-maturity investments (real estate projects),	30,413	30,677
Loan portfolio, net	630,146	652,855
Other assets	44,307	58,761
Liabilities		
Deposits and obligations	277,136	491,152
Bonds and other obligations	1,779	11,984
Other liabilities	6,999	10,998
Off-balance sheet accounts		
Indirect loans	92,086	68,330
	June-14 S/.(000)	June-13 S/.(000)
Income (expense)		
Interest income and rentals	28,052	15,962
Administrative expenses	(8,545)	(15,771)
Other, net	5,742	5,458

- (b) According to Peruvian law, transactions between related parties must be performed under market conditions. Additionally, the SBS establishes the criteria to determine said relationship and sets certain limits to operations between related parties, employees and board members of financial entities.

As of June 30, 2014, loans and other credits to employees and directors amounted to approximately S/ .109,170,000 (S/ .105,008,000 as of December 31, 2013).

Notes to the consolidated financial statements (continued)

- (c) The table below presents the detail of the main shareholder and affiliates companies as of June 30, 2014 and December 31, 2013:

	2014 S/.(000)	2013 S/.(000)
Supermercados Peruanos S.A.	111,885	115,876
Intercorp Perú Ltd.	40,026	111,664
Inmobiliaria Puerta del Sol S.A.	108,300	60,000
Cineplex S.A.	27,974	58,123
Homecenters Peruanos S.A.	52,867	43,097
Financiera Uno S.A.	42,074	39,149
Eckerd Perú S.A.	41,438	38,743
Tiendas Peruanas S.A.	36,037	31,669
Victoria Global Opportunities S.A.C.	21,232	30,953
Nessus Hoteles Perú S.A.	33,845	29,389
Other	114,468	94,192
	<hr/>	<hr/>
	630,146	652,855
	<hr/>	<hr/>

- (d) Total fees paid to the Board of Directors of IFS and its Subsidiaries amounted to approximately S/.570,000 and S/.512,000 for the years 2014 and 2013, respectively, and are included in the "Administrative expenses" caption of the consolidated statements of income.
- (e) As of June 30, 2014 and December 31, 2013, IFS and its Subsidiaries participate in domestic mutual and investment funds, recorded as available-for-sale investments and managed by Interfondos S.A. Sociedad Administradora de Fondos, that amount approximately to S/.74,683,000 and S/.41,361,000, respectively.
- (f) In Management's opinion, transactions with related companies have been performed under normal market conditions and within the limits allowed by SBS. Taxes generated by these transactions and the taxable base used for computing them, are those customarily used in the industry and are determined according to prevailing tax standards.

Notes to the consolidated financial statements (continued)

27. Classification of financial instruments

The table below presents the assets and liabilities of the statement of financial position, according with the classification established in the International Accounting Standards 39 "Financial Instruments":

	2014					2013						
	At fair value through profit or loss for trading	Loans and items receivable	Investments available-for-sale at fair value	Held-to-maturity investments	Financial liabilities at amortized cost	Total	At fair value through profit or loss for trading	Loans and items receivable	Investments available-for-sale at fair value	Held-to-maturity investments	Financial liabilities at amortized cost	Total
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Financial assets												
Cash and due from banks	-	5,958,953	-	-	-	5,958,953	-	6,962,751	-	-	-	6,962,751
Inter-bank funds	-	50,005	-	-	-	50,005	-	204,905	-	-	-	204,905
Investments at fair value through profit or loss	82,137	-	-	-	-	82,137	67,724	-	-	-	-	67,724
Available-for-sale investments	-	-	3,289,452	-	-	3,289,452	-	-	2,592,462	-	-	2,592,462
Loan portfolio, net	-	20,584,483	-	-	-	20,584,483	-	19,151,398	-	-	-	19,151,398
Held-to-maturity investments, net	-	-	-	2,049,053	-	2,049,053	-	-	-	2,221,686	-	2,221,686
Accounts receivable and other assets	83,193	985,123	-	-	-	1,068,316	129,556	702,539	-	-	-	832,095
	<u>165,330</u>	<u>27,578,564</u>	<u>3,289,452</u>	<u>2,049,053</u>	<u>-</u>	<u>33,082,399</u>	<u>197,280</u>	<u>27,021,593</u>	<u>2,592,462</u>	<u>2,221,686</u>	<u>-</u>	<u>32,033,021</u>
Financial liabilities												
Deposits and obligations	-	-	-	-	19,812,723	19,812,723	-	-	-	-	19,965,029	19,965,029
Inter-bank funds	-	-	-	-	234,025	234,025	-	-	-	-	100,022	100,022
Deposits from financial entities	-	-	-	-	174,199	174,199	-	-	-	-	183,792	183,792
Due to banks and correspondents	-	-	-	-	2,388,851	2,388,851	-	-	-	-	2,537,405	2,537,405
Bonds and other obligations	-	-	-	-	4,340,269	4,340,269	-	-	-	-	3,426,557	3,426,557
Technical reserves for premiums and claims	-	-	-	-	3,310,500	3,310,500	-	-	-	-	3,046,611	3,046,611
Accounts payable, provisions and other liabilities	115,944	-	-	-	821,432	937,376	155,992	-	-	-	710,996	866,988
	<u>115,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,081,999</u>	<u>31,197,943</u>	<u>155,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,970,412</u>	<u>30,126,404</u>

28. Risk Management

Comprises the management of major risks, which by the nature of its operations, IFS and its Subsidiaries face: credit risk, market risk, liquidity risk and insurance risk.

- Credit risk: It is the possibility of loss due to the inability or unwillingness of borrowers, counterparties or liable third parties to fulfill their contractual obligations.
- Market risk: It is the possibility of losses in-and-off the statements of financial position that arise from changes in market conditions; it generally includes the following types of risk: foreign exchange, fair value interest rate, price, among others.
- Liquidity risk: It is the possibility of loss by failing financing requirements and the application of funds that arise from cash flow mismatches.
- Insurance and real estate risk: is the possibility that the insured event occurs and therefore the uncertainty regarding the amount claimed occurs. By the nature of the insurance contract, this risk is random and unpredictable

To manage these risks, each of the Subsidiaries has a structure and organization that specializes in the management, measurement and mitigation processes and coverage, considering the needs and regulatory requirements that are specific to the activities they perform. The Subsidiaries of IFS, mainly the Bank and Interseguro, operate independently but articulately with the general provisions issued by the Board and Management.

(a) Structure and organization of risk management –

The structure and organization of risk management of the main Subsidiaries is as follows:

(i) Bank –
Board -

The Bank's Board is responsible for establishing an appropriate integrated risk management and to foster an internal environment that facilitates their development. The Board is permanently informed about the degree of exposure of the various risks managed by the Bank.

The Board has established various specialized committees which have been delegated specific functions in order to strengthen risk management and internal control.

Audit Committee -

The Audit Committee is a collegiate body established by the Board's agreement. Its main purpose is to oversee that the accounting and financial reporting processes are appropriate, and to evaluate the activities of internal and external auditors. The Committee is comprised by three members of the Board and may also have the participation of the General Manager, the Internal Auditor, the Manager of Legal Affairs and other executives of the Bank whenever their presence is required. The Committee meets at least 6 times a year in regular sessions and submits to the Board a copy of the Minutes thus reporting the most important topics discussed.

Comprehensive Risk Management Committee-

The Comprehensive Risk Management Committee ("GIR", by its Spanish acronym) is a collegiate body established by the Board's agreement. It is responsible for policies and organization for the comprehensive risk management as well as the amendments to said policies. This Committee defines the level of tolerance and the exposure degree to risk that the Bank is willing to assume in its business and also decides the necessary actions aimed to implementing the required corrective measures in case of deviations from the levels of tolerance to risk. It is comprised by two members of the Board, the General Manager, the Vice-Presidents and the Manager of Legal Affairs. The Committee reports monthly to the Board the main issues it has discussed and the agreements adopted in the previous meeting.

Assets and Liabilities Committee -

The Assets and Liabilities Committee ("ALCO") is a corporate body created by the Board's agreement. Its main purpose is to manage the structure of the Bank's financial position, in function of its profitability and risk targets. The ALCO is also responsible for the proposition of new products or operations that contain components of market risk. Likewise, it is the communications channel with the units that generate market risks. The ALCO meets monthly and is comprised by the General Manager, the Vice-Presidents of Risks, Commercial, Finance and Capital Markets, the Manager of Market Risks and the Deputy Manager of Position Desk.

General Manager -

The General Manager has the responsibility to implement into the Bank an adequate comprehensive risk management. He also directs and coordinates the efforts of the different commercial and supporting Vice-Presidencies, aiming to establish an adequate balance between risk and profitability. The Vice-Presidency of Risks is a line body which reports directly to the General Manager, and it is in charge of proposing the policies, procedures and methodologies for a competent comprehensive risk management, and of promoting the alignment of the actions aimed to manage the Bank's risks with the levels of risk appetite and risk tolerance, as well as the development of appropriate controls. The Vice-Presidency of Risks is comprised by the following divisions: Corporate Risks Screening, Business Risks Screening, Risks and Recoveries Tracking, Operational Risk, Retail Banking Risks, Small-Businesses Banking Risks and Market Risk, as well as the Department of Credit Risk Management Models.

Internal Audit -

The Division of Internal Audit reports functionally to the Board. It provides with independent and objective assurance and consulting; analyzing the adequacy of the procedures as well as their compliance.

(ii) Interseguro – Board -

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

Notas a los estados financieros (continuación)

Investment Risk Unit -

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

Internal audit -

The Internal Audit assesses both the adequacy of the risk management processes and their compliance, reporting its findings and recommendations to Management and the Board.

(b) Risk measurement and reporting systems -

IFS and its Subsidiaries use different risk management models and tools. These tools measure and value the risk with a prospective view, thus allowing the making of better risk decisions at different stages or credit lifecycle, customer or product. The tools are constantly monitored and validated regularly to ensure that the levels of prediction and performance are maintained and to make corrections or adjustments to the models when necessary.

(c) Risk mitigation and coverage -

In order to mitigate the various risk exposures and provide adequate coverage, IFS and its Subsidiaries have established a series of measures, among which are the following:

- Policies, procedures, methodologies, models and parameters aimed to identify, measure, monitor and report risk.
- Reviewing and assessment of credit risk, through specialized units of risk approval.
- Monitoring and timely tracking and maintaining of risk within defined tolerance levels.
- Compliance with regulatory limits and establishing of internal limits on exposure concentrations.

Similarly, as part of comprehensive risk management, IFS and its Subsidiaries in certain circumstances use derivative financial instruments to mitigate risk exposures, which results from changes in interest rates and exchange rates.

(d) Risk concentration

IFS and its Subsidiaries, through its policies and procedures, provide guidelines and mechanisms to avoid excessive risk concentration, maintaining a diversified portfolio. In the event that a concentration risk is identified, IFS and its Subsidiaries has specialized units that allow to control and manage said risk.

28.1 Credit Risk Management -

(a) Bank -

The Bank has opted for a risk policy that ensures sustained and profitable growth in all banking services; for this assessment incorporates procedures for appropriate decision -making tools and methodologies to identify, measure, mitigate and control the various risks in the most efficient manner and in accordance with the provisions of the SBS. It also develops management models that enable the accurate measurement, quantification and monitoring of credits granted for each business unit, thus encouraging the continuous improvement of policies, tools, methodologies and processes.

The Bank's exposure to credit risk is managed through the permanent assessment of the debtors and potential debtors' ability to comply with the interests and capital payments of their obligations and through the change in the loan limits when appropriate. The exposure to credit risk is also partly managed through personal and corporate guarantees, but there exist a significant part of the loans upon which said guarantees cannot be obtained.

(i) Management of guarantees -

(i.1) Policies and procedures for management and valuation

The Bank has policies and guidelines established for the management of guarantees received as collaterals of loans granted, which allows them to mitigate the assumed credit risk. Assets that guarantee loan operations bear a certain value prior to the loans approving and the procedures for their updating are described in the Manual of Appraisal for Guarantees, which contains what is established by the SBS in Resolution No. 11356-2008, Regulation on Debtors Assessment and Classification and Provision Requirements.

In order to manage guarantees, the Bank operates specialized divisions on the constitution, management and release of guarantees.

(i.2) Types of guarantee

Guarantees that back loan operations are constituted by different goods and property, securities and financial instruments, and their preferential status depends on the following conditions:

- Easy convertibility into cash, which can be used to pay the guaranteed obligation.
- Proper legal documentation, duly registered at the corresponding public records.
- Do not present previous obligations that could reduce their value.
- Their value is updated.

Notas a los estados financieros (continuación)

(ii) Loan-related commitments (indirect loans) -

The Bank grants indirect loans such as guarantee letters, endorsement letters and documentary letters of credit which bear credit risk provided that the client does not meet the conditions agreed on the loan. The Bank applies the same policies it uses for the granting and assessment of provisions for direct loans in the case of indirect loans – see Note 15 – including the requirement of guarantees when it deems it necessary.

(b) Interseguro-

The portfolio of clients to whom Interseguro provides individual life insurance and annuities, is an atomized one. On the other hand, for the field of title insurance, the portfolio is concentrated in the Bank's clients and Financiera Uno SA, a related entity, about 98 percent of said balance. Finally, the lease receivables are reviewed periodically to ensure their recovery; and credit risk is managed by the Interseguro's Management according to policies, procedures and controls properly established.

(c) Maximum exposure to credit risk -

As of June 30, 2014 and December 31, 2013, Management of IFS and its Subsidiaries has estimated that the maximum amount of credit risk to which IFS and its Subsidiaries is exposed is represented by the carrying amount of financial assets posing a potential credit risk and consist mainly of deposits with banks, available-for-sale investments, held-to-maturity investments, loans (direct and indirect), regardless of the market value of guarantees or collateral, operations with derivative financial instruments, accounts receivable from insurance operations and other monetary assets. The exposure for each borrower, including banks and investments, is established by sub-limits that cover risks from operations in the statements of financial position and off said statements (contingent accounts) and risk limits for items subject to negotiation, such as foreign currency forward contracts. The actual exposures and their comparison against the established limits are reviewed periodically.

(d) Credit risk management for loans -

In order to manage credit risk, the Vice-Presidency of Risks applies processes to each business segment which comprise three fundamental stages: loan admission, risk tracking and monitoring, and recovery of troubled portfolio. These processes have the purpose of maintaining a loan quality according to the appetite for risk defined by the Bank's and IFS's Senior Management.

The process of loan admission is fundamentally based on the good knowledge on the client and its economic activity, being determining the evaluation of its payment ability, credit history and solvency. This process leans on the applying of risk management methodologies and tools that allow to measure and value the risk quality of the loan to be granted, through models and automatic qualification systems for loan admission.

The portfolio tracking and monitoring process is performed through an integrated system of alerts aimed to early detect the credit risk, which allow the identification of clients exposed to potential risks that would affect their payment ability with a possible impact on their credit evolution and upon which there must be taken immediate preventive, corrective and tracking actions. In order to do so, the Bank and IFS apply systems, models and guidelines which allow the tracking of debtors regarding the evolution of the detected risks, decision-making and management of said risks to achieve their normalization or collection.

For each business segment, it is performed a permanent monitoring on the portfolio's main trends, in terms of quality indicators evolutions, economic sector and geographic concentration, among others.

Lastly, the collection process of the troubled loan portfolio is performed through a set of coordinated actions which are applied for the adequate and timely recovery of loans. Their purpose is to minimize losses in loans exposed to high credit risk.

- e) **Management of credit risk in available-for-sale and held-to-maturity investments -**
IFS and its subsidiaries control the credit risk of their investments based on risk assessment of issuers and instruments. In the case of investments abroad assessment considers the ratings issued by international credit rating agencies, as well as country risk of the issuer, which is evaluated considering their main macroeconomic variables. In the case of local investments are considered local rating and sorting; as appropriate, internal analysis of financial position are made.

28.2 Market Risk Management -

Market risk is the possibility of loss due to changes in financial market conditions. The main changes to which IFS and Subsidiaries are exposed are: exchange rates risk, interest rates risk and price risk; these variations can affect the value of financial assets and liabilities of IFS and its Subsidiaries.

IFS and its Subsidiaries separates exposures to market risk into two blocks: Trading Book, which comprises positions in liquid investments; and Banking Book, which comprises banking assets and liabilities inherent to the intermediation business – mainly deposits and loans – whose exposure to market risk arises from the changes in portfolio structural positions.

- (a) **Trading Book -**
In order to control and monitor the risks arising from the volatility of risk factors involved within each instrument, it has been established maximum exposure limits by currency, investment type, Value-at-Risk (VaR), and tolerance to expected maximum loss (Stop Loss), which are controlled on a daily basis. Likewise, reports for the GIR and ALCO committees are submitted regularly.

The main technique used to measure and control market risk is VaR, which is a statistical measurement that quantifies the maximum loss expected for the investment portfolio for a period of time and a determined significance level under normal market conditions. IFS and its Subsidiaries use the Monte Carlo VaR model for a one-day horizon, with exponential volatility and a 99 percent confidence level. The VaR is calculated through each risk factor: interest rate, exchange rate and investment type: derivatives, fixed income and variable income.

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

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

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

It is worth mentioning that according to SBS Resolution No. 6328-2009 "Regulation on Effective Equity Requirements for Market Risk", there are also included as part of the trading portfolio in the calculation of VaR the following available-for-sale investments which are held by the Bank:

- Debt securities:
 - Sovereign risk exposures of the Republic of Peru on CDBCRP, Sovereign Bonds (excluding VAC Bonds) and Global Bonds.

- Equity securities:
 - Shares that are listed in the General Index of the Lima Stock Exchange
 - Participations in open investment collective schemes whose fund is invested in at least 70 percent in equities.

(b) Banking Book -

IFS and its Subsidiaries holds positions that are not actively traded which are part of its assets and liabilities. These positions include all loan placements and funds raised through the Bank's intermediation business, as well as certain investments that are not deemed as trading.

(i) Interest rate risk -

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

Repricing gap -

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

Sensitivity to changes in interest rates -

Following is the sensitivity of both the consolidated statements of income and the valuation of the Banking Book to diverse fluctuations in interest rates. Fluctuations affect expected flows as well as the balances value.

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

The fluctuations in interest rates are applied equally all through the yield curve, which means that it considers a parallel move of the curve. The effects are considered independently for each of the two currencies presented.

The calculations are based on the interest rate risk regulatory model approved by the SBS in force at the date of the statements of financial position. The sensitivities are calculated prior to the Income Tax effect.

In the case of the Bank's interest rate exposure is monitored by the ALCO Committee and the GIR Committee, with the latter approving the maximum allowable limits. In the case of Interseguro, the Board sets limits, which are monitored by the investment risk unit.

Notas a los estados financieros (continuación)

The estimated effects of the estimated changes on interest rates of IFS and its Subsidiaries as of December 31, 2013, are the following:

Currency	Changes in basis points	2013			
		Sensitivity of net income S/.(000)	Sensitivity in net equity S/.(000)		
US Dollars	+/-50	+ / -	8,882	+ / -	43,089
US Dollars	+/-75	+ / -	13,323	+ / -	64,633
US Dollars	+/-100	+ / -	17,763	+ / -	86,177
US Dollars	+/-150	+ / -	26,645	+ / -	129,266
Nuevos soles	+/-50	- / +	9,101	- / +	40,618
Nuevos soles	+/-75	- / +	13,652	- / +	60,926
Nuevos soles	+/-100	- / +	18,202	- / +	81,234
Nuevos soles	+/-150	- / +	27,303	- / +	121,852

Sensitivity to price changes -

Following are the sensitivities for shares and mutual funds, with variations of 10, 25 and 30 percent in their market prices. In the case of shares, prices depend in less extent on the interest rate.

Market price sensitivity	Changes in basis	
	points %	2013 S/.(000)
Shares	+/-10	39,791
Shares	+/-25	99,477
Shares	+/-30	119,373
Mutual and investment funds	+/-10	17,164
Mutual and investment funds	+/-25	42,910
Mutual and investment funds	+/-30	51,492

(ii) Foreign exchange risk -

IFS and its Subsidiaries are exposed to the effects of fluctuations in the exchange rates of the foreign currency prevailing in its financial position and cash flows. Managements of the Subsidiaries set limits on the levels of exposure by currency and in total overnight transactions which are monitored daily. Most of the assets and liabilities in foreign currency are stated in US dollars. Transactions in foreign currency are carried at the market exchange rate.

As of June 30, 2014, the weighted average market exchange rate published by the SBS for transactions in US dollars was S/.2.796 for \$ 1.00 bid and S/.2.796 for \$ 1.00 ask (S/.2.794 and S/.2.796 as of December 31, 2013, respectively). As of June 30, 2014, the exchange rate for the accounting for asset accounts and liabilities in foreign currency established by the SBS was S/.2.796 per US \$ 1.00 (S/.2.795 as of December 31, 2013).

Notas a los estados financieros (continuación)

The table below presents a detail of IFS and its Subsidiaries' currency position as of June 30, 2014 and December 31, 2013:

	2014	2013
	S/.(000)	S/.(000)
Assets		
Cash and due from banks	4,875,804	5,708,832
Inter-bank funds	-	69,876
Investments at fair value through profit or loss	25,965	25,076
Available-for-sale investments, net	1,815,746	1,384,111
Held-to-maturity investments	999,246	1,100,106
Loan portfolio	8,297,819	7,775,264
Other assets	284,754	196,909
	<u>16,299,334</u>	<u>16,260,174</u>
Liabilities		
Deposits and obligations	8,131,766	9,178,280
Deposits from financial entities	74,765	72,098
Due to banks and correspondents	1,264,729	1,807,560
Bonds and other obligations	3,924,574	2,662,333
Technical reserves for premiums and claims	1,658,193	1,648,645
Other liabilities	276,210	105,714
	<u>15,330,237</u>	<u>15,474,630</u>
Forwards transactions - net long position	(689,809)	(320,894)
Currency swap transactions - net long position	(170,981)	(145,849)
Currency option transaction - long position	<u>(8,187)</u>	<u>-</u>
Net position	<u>100,120</u>	<u>318,801</u>

The short position in derivatives by forward contracts as of June 30, 2014 , corresponds to the purchase and sale of foreign exchange transactions with notional amounts of approximately US\$ 737,048,000 and US\$983,761,000, equivalent to S/.2,060,786,000 and S/.2,750,595,000 respectively (overbought position by buying and selling currencies amounting to US\$1,058,316,000 and US\$ 1,204,746,000, equivalent to S/.2,957,993,000 and S/.3,367,265,000 respectively, as of December 31, 2013), Note 18.

Notas a los estados financieros (continuación)

The net position of currency swaps as of June 30, 2014, applicable to exchange transactions for buying and selling foreign exchange transactions (nuevos soles per US dollars and vice versa) with notional amounts of approximately US\$186,394,000 and US\$ 247,546,000, equivalent to S/.521,158,000 and S/.692,139,000 (currency swaps with notional amounts of approximately US\$176,891,000 and US\$229,073,000, equivalent to S/.494,411,000 and S/.640,260,000 as of December 31 2013), Note 18.

As of June 30, 2014, IFS and its Subsidiaries had granted indirect loans (contingent loans) in foreign currency of approximately US\$817,552,000, equivalent to S/ .2,285,875,000 (US\$ 836,518,000, equivalent to S/ .2,338,069,000 as of December 31, 2013), Note 18.

IFS and its Subsidiaries manage the currency risk by matching their deposit and lending operations, overseeing daily the global position changes. The overall position changes of IFS and its Subsidiaries are equal to long positions minus short positions in currencies other than the nuevo sol. The global position includes the balance sheets positions (spot) and derivative positions.

Following are the sensibilities for the case of the US Dollar variations. Given its volume, the position in US Dollars is the sole exposure that could cause the Bank a material loss. The negative variations represent potential losses, while the positive ones represent potential gains.

Sensitivity analysis	Change in exchange rates	2013
	%	S/.(000)
Devaluation		
USDollar	5	807
USDollar	10	1,613
Revaluation		
USDollar	5	(807)
USDollar	10	(1,613)

28.3 Liquidity risk management -

The liquidity risk consists of IFS and its Subsidiaries inability to comply with the maturity of its obligations, thus incurring losses that importantly affect its equity position. This risk may arise as result of diverse events such as: the unexpected decrease of funding sources, the inability to rapidly settle assets, unexpected claims not covered by insurance, and others.

IFS and its Subsidiaries has a set of indicators to be monitored and reported daily. Said indicators set minimum liquidity levels permitted for the short term. The indicators reflect various aspects of risk, such as: concentration, stability, currency position, main depositors, etc.

IFS and its Subsidiaries also assesses the medium-term and long-term liquidity through a structural analysis of its funds inflows and outflows on diverse maturity terms. This process allows it to know, for each currency, the diverse funding sources, how liquidity needs increase, and which terms are mismatched. Both for assets and liabilities, there are considered assumptions for the operations that do not have determined maturity dates. Said products include: revolving loans, savings and others similar. There are also included the estimated obligations arising from contingent liabilities such as guarantee letters or non-used credit lines. On the basis of this information, the necessary decisions to maintain the target liquidity levels are taken.

In the case of the Bank, liquidity is managed by the Vice President of Capital Markets. Said Vice President chairs the ALCO Committee, where the positions, movements, indicators and limits on liquidity management are presented. Liquidity risk is in turn overseen by the GIR Committee, where the risk level that the Bank is willing to take is defined, and the corresponding indicators, limits and controls are reviewed. The Market Risk Division is responsible for tracking these indicators. It should be noted that the Bank takes short-term deposits and transforms them into longer-term loans. Therefore, their exposure to liquidity risk increases. However, the Bank keeps a set of deposits that historically are renewed or maintained, and which represent a stable funding source.

For Interseguro, liquidity is managed by the Board, which sets limits on the minimum proportion of the available maturity funds to meet these requirements and a minimum level of credit lines that should be available to cover maturities, claims and disclaimers to unexpected levels of demand.

28.4 Insurance and real estate risk management

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

In relation to a portfolio of insurance contracts where the theory of large numbers and probabilities for pricing and availability provisions is applied, the main risk facing the insurance business of IFS and its Subsidiaries, managed by Interseguro, is that claims and/or payment of benefits covered by the policies exceed the carrying amount of insurance liabilities. This could happen to the extent that the frequency and/or severity of claims and benefits are greater than estimated. The factors that are considered to perform the assessment of insurance risks are the following:

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

Interseguro contracts have automatic reinsurance coverages that protect it from loss frequency and severity. The purpose of reinsurance is that the total net insurance losses do not affect the equity and liquidity of Interseguro in any year.

Interseguro has developed its insurance underwriting strategy to diversify the type of insurance risks accepted. Factors that aggravate the insurance risk include lack of risk diversification in terms of type and amount of risk, and geographic location. The underwriting strategy attempts to ensure that underwriting risks are well diversified in terms of type and amount of risk. Subscription limits serve to implement the selection criterion for appropriate risk.

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

Interseguro's Management constantly monitors trends in claims, which allows it to perform estimates of claims incurred but not reported that are supported by recent information. These estimates are also reviewed by independent experts.

Furthermore, Interseguro is exposed to the risk that mortality rates associated with customers do not reflect the actual mortality and may cause the premium calculated for the coverage offered is insufficient to cover claims. For this reason, Interseguro performs a careful risk selection or subscription when issuing policies, because by doing so it can classify the degree of risk presented by a proposed insured, analyzing characteristics such as gender, smoking conditions, health status, among others.

Notes to the consolidated financial statements (continued)

In the case of annuity business, the risk assumed by Interseguro is that the real life expectancy of the insured population is greater than that estimated when determining income, which would mean a deficit of reserves to meet the payment of pensions.

In relation to risk reinsurance, Interseguro's policy consists of only subscribing contracts with companies with international classification determined by the SBS regulations. Likewise, Interseguro subscribes reinsurance contracts as part of its program of risk reduction, which can be either proportional-based or non-proportional-based. Most automatic proportional reinsurance contracts correspond to those which are obtained for reducing exposure to certain categories of Interseguro's business. Non-proportional reinsurance is primarily the excess of loss reinsurance designed to mitigate Interseguro's net exposure to losses from catastrophic risk. The limits for the retention of excess of reinsurance loss vary by product line and geographic area. Interseguro has also limited its exposure by setting maximum claim amounts on certain contracts.

Insurance products do not have particularly relevant terms or clauses that could have a significant impact or represent significant uncertainties about Interseguro's cash flows.

(a) Life Insurance Contracts

The sensitivity analysis of changes in the mortality table and interest rate as of December 31, 2013, is shown below:

Variables	2013 (*)			
	Changes in variables (%)	Impact on gross liabilities	Impact on net liabilities	Impact on Income before taxes
Mortality table	(+/- 5)	(111,878)	(111,878)	(111,878)

(b) Concentration of insurance risk life

The concentration of insurance liabilities as of December 31, 2013, is presented below:

Geographic Location	2013		
	Gross liabilities S/.(000)	Reinsurance liabilities S/.(000)	Net liabilities S/.(000)
Peru			
Center	3,046,611	(4,582)	3,042,029
Total	3,046,611	(4,582)	3,042,029

Notes to the consolidated financial statements (continued)

(c) Real estate risk management -

Through SBS Resolution No. 2840-2012 dated May 11, 2012 "Regulation of real estate risk management in insurance companies" insurance companies are required to identify measure, control and report the level of real estate risk they face. Also, real estate risk is defined as the possibility of losses due to changes or volatility of market prices of properties.

The following properties are considered assets subject to real estate risk:

- Properties on which real rights are owned, whether used for investment purposes and for their own use.
- Securities representing shares of real estate companies, understood as those that generate regular income from this activity or engaged in property investment.
- Certificates of participation in collective real estate investment schemes whether open or closed.
- Investments in real estate trusts.

There shall not be considered assets subject to real estate risk to those who back insurance contracts reservations in which the investment risk is borne entirely by the contractor or insured party.

Interseguro has identified the following risks associated to the real estate investment portfolio:

- The cost of development projects may increase if there are delays in the planning process. Interseguro receives services from advisors who are experts in specific planning requirements on the location of the project in order to reduce the risks that may arise in the planning process.
- A major tenant may become insolvent thus causing a significant loss in rental income and a reduction in the value of the associated property. To reduce this risk, Interseguro reviews the financial status of all prospective tenants and decides on the appropriate level of safety required as lease deposits or guarantees.
- Exposure of the fair value of the real estate portfolio and the cash flows generated by the occupants and/or tenants.

28.5 Capital management -

IFS actively manages capital base to cover the risks inherent to its activities. The capital adequacy of IFS and its Subsidiaries is monitored by using, among other measures, the rules and ratios established by the SBS, the supervisory authority of its main Subsidiaries.

Notes to the consolidated financial statements (continued)

29. Fair value -

Fair value is the amount for which an asset can be exchanged between a buyer and a seller, both of them duly informed, or the amount by which an obligation may be canceled between a debtor and a creditor with sufficient information under the terms of a free transaction.

The fair value is a market-based measurement; hence a financial instrument traded in an actual transaction on an active and liquid market is priced by its underlying fair value. When the price of a financial instrument is not observable, the measurement of its fair value must be performed by using another valuation technique, trying to maximize the use of relevant observable variables and to minimize the use of unobservable ones.

To calculate the fair value of an instrument that is not listed on liquid markets, it can be used the market value of an instrument actively listed on the market that has similar characteristics, or can be obtained by any analytical technique, such as discounted cash flow analysis or the multiples method.

The assumptions and calculations used to determine the fair value of financial assets and liabilities are the following:

- (i) Financial instruments carried at fair value – The fair value is based on market prices or some other methods of financial valuation. The positions valued at market prices are mainly investments traded on centralized mechanisms. The positions valued by some method of financial valuation include derivative financial instruments and instruments that may not have market prices in which case their fair value is mainly determined by using the market interest rate curves and the price vector provided by the SBS.
- (ii) Instruments whose fair value is similar to the book value - For short-term financial assets and liabilities, such as cash, inter-bank funds and others similar, it is considered that their fair value is their book value.
- (iii) Financial instruments at fixed rates – The fair value of the financial liabilities at fixed rate and at amortized cost is determined by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. In the case of prices issued debt, the fair value is determined on the basis of the quoted market prices. The fair value of the loan portfolio and deposits and obligations, according to the SBS Multiple Official Letter No. 1575-2014, corresponds to its book value. Likewise, the fair value of accounts receivable from insurance operations, according to the SBS Multiple Official Letter No. 1400-2014 also corresponds to their book value

Notes to the consolidated financial statements (continued)

- (a) The following table compares the carrying amounts and fair values of financial instruments of IFS and its Subsidiaries, presented in the consolidated statements of financial position, according to the methodology explained above:

	2013	
	Book value S/.(000)	Fair value S/.(000)
Assets		
Financial assets		
Cash and due from banks	6,962,751	6,962,751
Inter-bank funds	204,905	204,905
Investments at fair value through profit or loss	67,724	67,724
Available-for-sale investments, net	2,592,462	2,592,462
Held-to-maturity investments	2,221,686	2,149,108
Loan portfolio, net	19,151,398	19,151,398
Accounts receivable and other assets	832,095	832,095
Total	32,033,021	31,960,443
Liabilities		
Deposits and obligations	19,965,029	19,965,029
Inter-bank funds	100,022	100,022
Deposits from financial entities	183,792	183,792
Due to banks and correspondents	2,537,405	2,544,073
Bonds and other obligations	3,426,557	3,484,820
Technical reserves for premiums and claims	3,046,611	3,046,611
Accounts payable, provisions and other liabilities	866,988	866,988
Total	32,033,021	31,960,443

Notes to the consolidated financial statements (continued)

(b) Determination of fair value and value hierarchy -

The following table shows an analysis of the instruments recorded at fair value (trading securities, available-for-sale and held-to-maturity investments and derivatives) by level of fair value hierarchy:

	2013			
	Level 1 S/.(000)	Level 2 S/.(000)	Level 3 S/.(000)	Total S/.(000)
Assets -				
Investments at fair value through profit or loss	67,206	-	-	67,206
Available-for-sale Investments				
Debt instruments	1,105,196	898,442	-	2,003,638
Shares				
InRetail shares	106,482	-	-	106,482
Royalty Pharma	-	-	69,439	69,439
Mutual and investment funds	125,424	41,362	4,854	171,640
Peruvian and foreign private sector shares	206,699	14,837	452	221,988
Derivate accounts receivable	-	129,556	-	129,556
	<u>1,611,007</u>	<u>1,084,197</u>	<u>74,745</u>	<u>2,769,949</u>
Accrued interest				19,790
				<u>2,789,739</u>
Liabilities				
Derivate accounts payable	-	159,075	-	159,075
	<u>-</u>	<u>159,075</u>	<u>-</u>	<u>159,075</u>

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

The financial instruments included in Level 2 are valued with the market prices of other instruments possessing similar characteristics or with financial valuation models based on information of variables that can be available on the market (interest rate curves, price vectors, etc.). IFS and its Subsidiaries uses this method mainly to value derivative financial instruments.

The financial assets included in Level 3 are valued by using assumptions and data that do not correspond to prices of operations traded on the market. In general, this method is based on internal information of the Company, but that also are reflected in financial valuation models.

As of December 31, 2013, the net unrealized gain of Level 3 financial instruments amounts to S/.46,239,000. During 2013, no financial instruments were transferred from Level 3 to Level 1 or Level 2.

Notes to the consolidated financial statements (continued)

30. Subsequent event

On July 18, IFS's Board decided to accept Intercorp's contribution consisting of 100 percent of capital stock of Inteligo Group Corp. (Inteligo). As of result of this transaction, the IFS will issue 19.5 million of shares in favor of Intercorp Peru Ltd.

Inteligo is one of the leaders in asset management, financial advisory, custody and brokerage services through their subsidiaries Inteligo Bank (incorporated in The Bahamas) and Inteligo SAB (Peruvian brokerage house).

31. Additional explanation for English translation

The accompanying consolidated financial statements are presented on the basis of accounting principles generally accepted in Peru for financial and insurance entities. Certain accounting practices applied by IFS and its Subsidiaries that comply with accounting principles generally accepted in Peru for financial and insurance entities may differ in certain aspects to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.