Intercorp Financial Services Inc. and Subsidiaries

Unaudited interim condensed consolidated financial statements as of September, 30, 2014 and for the nine-month period then ended

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Content

Interim condensed consolidated financial statements

Intercorp Financial Services Inc. and Subsidiaries

Interim condensed consolidated statements of financial position

As of September 30, 2014 and December 31, 2013

	Note	2014 S/.(000)	2013 S/.(000) (Note 2.4)
Assets			
Cash and due from banks:	3		
Non-interest bearing		1,564,330	2,046,602
Interest bearing		3,971,357	5,160,599
Restricted funds		575,028	193,895
		6,110,716	**7,401,096**
Inter-bank funds		40,004	204,905
Trading securities		122,448	126,692
Investments available-for-sale	4	7,414,964	5,550,994
Loans, net:	5		
Loans, net of unearned income		23,127,398	21,161,536
Allowance for loan losses		(790,969)	(694,375)
		22,336,428	**20,467,161**
Investment property	6	606,724	792,423
Property, furniture and equipment, net		571,622	574,186
Due from customers on acceptances		23,649	22,310
Accounts receivable and other assets, net	7	1,316,530	1,023,360
Deferred income tax asset, net		20,659	16,029
Total activo		**38,563,743**	**36,179,156**

	Note	2014 S/.(000)	2013 S/.(000) (Note 2.4)
Liabilities and equity			
Deposits and obligations:	8		
Non-interest bearing		5,024,324	4,563,685
Interest bearing		17,395,120	17,503,774
		22,419,444	**22,067,459**
Inter-bank funds		60,006	100,022
Due to banks and correspondents	9	2,891,387	2,762,116
Bonds, notes and other obligations	10	4,469,309	3,424,955
Due from customers on acceptances		23,649	22,310
Insurance contract liabilities	11	3,581,543	3,137,183
Accounts payable, provisions and other liabilities	7	1,089,908	938,019
Deferred income tax liability, net		647	14,646
Total liabilities		**34,535,893**	**32,466,710**
Equity			
Equity attributable to Group's shareholders:	12		
Capital stock		963,446	1,045,981
Treasury stock		(275,991)	(227,707)
Capital surplus		268,077	268,077
Unrealized results, net		124,308	27,092
Retained earnings		2,840,982	2,578,774
		3,920,822	3,692,217
Non-controlling interest		107,028	20,229
Total equity		**4,027,850**	**3,712,446**
Total liabilities and equity		**38,563,743**	**36,179,156**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Intercorp Financial Services Inc. and Subsidiaries

Interim condensed consolidated income statements

For the nine-month periods ended September 30, 2014 and 2013

	Note	2014 S/.(000)	2013 S/.(000)
Interest and similar income	14	2,069,546	1,764,644
Interest and similar expenses	14	(586,137)	(482,648)
Net interest and similar income		**1,483,409**	**1,281,996**
Provision for loan losses, net of recoveries	5(b)	(319,669)	(270,880)
Net interest and similar income after provision for loan losses		**1,163,740**	**1,011,116**
Other income			
Fee income from financial services, net	15	509,503	471,726
Net gain on foreign exchange transactions		159,795	125,483
Net gain on sale of securities		106,864	212,398
Net trading income		18,227	(13,054)
Rental income		24,197	24,025
Profit from sale of investment property		5,814	4,034
Valuation gain from investment property	6	29,336	68,098
Other	16	54,727	62,431
Total other income		**908,463**	**955,142**
Insurance premiums and claims			
Net premiums earned	17	104,861	275,634
Net claims and benefits incurred for life insurance contracts and others		(132,771)	(126,279)
Total premiums earned less claims and benefits		**(27,910)**	**149,355**
Other expenses			
Salaries and employee benefits		(475,640)	(463,354)
Administrative expenses		(503,351)	(456,348)
Depreciation and amortization		(78,634)	(71,332)
Impairment loss on available-for-sale investments		(685)	(9)
Expenses related to rental income		(4,574)	(3,373)
Other	16	(72,719)	(62,243)
Total other expenses		**(1,135,604)**	**(1,056,660)**
Income before translation result and income tax		908,690	1,058,952
Translation result		(15,340)	(17,429)
Income tax	13(c)	(202,050)	(205,594)
Profit for the period		691,300	835,929
Attributable to:			
Equity holders of the Group		687,818	832,527
Non-controlling interest		3,482	3,403
		691,300	835,929
Basic and diluted earnings per share attributable to the Group (stated in Nuevos Soles)	18	6.287	7.567
Weighted average number of outstanding shares (in thousands)	18	109,405	110,027

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Intercorp Financial Services Inc. and Subsidiaries

Interim condensed consolidated statements of comprehensive income

For the nine-month periods ended September 30, 2014 and 2013

	2014 S/.(000)	2013 S/.(000)
Profit for the period	**691,300**	**835,929**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealized (loss) gain on available-for-sale investments	78,816	(431,981)
Unrealized gain on cash flow hedges	4,952	6,257
Exchange differences on translation of foreign operations	13,448	33,138
Total comprehensive income for the year, net of income tax	**788,516**	**443,343**
Attributable to:		
Equity holders of the Group	785,034	439,940
Non-controlling interest	3,537	2,682
	788,571	**442,622**

Intercorp Financial Services Inc. and Subsidiaries

Interim condensed consolidated statements of changes in equity

For the nine-month periods ended September 30, 2014 and 2013

	Number of shares		Attributable to IFS Group shareholders										
							Unrealized results, net						
	Issued	**In treasury**	**Capital stock**	**Other paid-in capital**	**Treasury stock**	**Capital surplus**	**Available–for–sale investments**	**Derivatives Instruments designated as cash flow hedges**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
	(in thousands)	(in thousands)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Balances as of January 1, 2013	**93,615**	**(3,115)**	**799,581**	**246,400**	**(191,401)**	**268,077**	**484,715**	**(18,722)**	**(14,741)**	**2,027,107**	**3,601,016**	**18,285**	**3,619,301**
Net income	-	-	-	-	-	-	-	-	-	832,526	832,526	3,403	835,929
Unrealized results													
Other comprehensive income	-	-	-	-	-	-	(431,981)	6,257	33,138	-	(392,586)	(721)	(393,307)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(431,981)**	**6,257**	**33,138**	**832,526**	**439,940**	**2,682**	**442,622**
Declared and paid dividends	-	-	-	-	-	-	-	-	-	(432,759)	(432,759)	-	(432,759)
Dividends paid to minority shareholders in Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(1,492)	(1,492)
Net variation of treasury stock held by Subsidiaries	-	28	-	-	(42,863)	-	-	-	-	-	(42,863)	-	(42,863)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	12,954	12,954	-	12,954
Other	-	-	-	-	-	-	-	-	-	(1,456)	(1,456)	(330)	(1,786)
Balances as of September 30, 2013	**93,615**	**(3,087)**	**799,581**	**246,400**	**(234,264)**	**268,077**	**52,734**	**(12,465)**	**18,397**	**2,438,372**	**3,576,832**	**19,145**	**3,595,977**
Balances as of January 1, 2014	**93,615**	**(3,315)**	**799,581**	**246,400**	**(227,707)**	**268,077**	**20,139**	**(10,607)**	**17,560**	**2,578,774**	**3,692,217**	**20,229**	**3,712,446**
Net income	-	-	-	-	-	-	-	-	-	687,818	687,818	3,482	691,300
Unrealized results													
Other comprehensive income	-	-	-	-	-	-	78,816	4,952	13,448	-	97,216	55	97,271
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**78,816**	**4,952**	**13,448**	**687,818**	**785,034**	**3,537**	**788,571**
Declared and paid dividends,	-	-	-	-	-	-	-	-	-	(443,551)	(443,551)	-	(443,551)
Dividends paid to minority shareholders in Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(2,061)	(2,061)
Net variation of treasury stock held by Subsidiaries	-	(433)	-	-	(48,284)	-	-	-	-	-	(48,284)	-	(48,284)
Dividends received by Subsidiaries on treasury stock	-	-	-	-	-	-	-	-	-	16,775	16,775	-	16,775
Spin-off Inteligo Real Estate	-	-	-	(82,535)	-	-	-	-	-	1,941	(80,594)	80,594	-
Contribution of Inteligo Group	19,495	-	163,865	(163,865)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	(775)	(775)	4,729	3,954
Balances as of September 30, 2014	**113,110**	**(3,748)**	**963,446**	**-**	**(275,991)**	**268,077**	**98,955**	**(5,655)**	**31,008**	**2,840,982**	**3,920,822**	**107,028**	**4,027,850**

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Intercorp Financial Services Inc. and Subsidiaries

Interim condensed consolidated statements of cash flows

For the nine-month periods ended September 30, 2014 and 2013

	2014 S/.(000)	2013 S/.(000)
Cash flows operating activities		
Profit for the period	691,300	835,929
Add (deduct)		
Provision for loan losses, net of recoveries	319,669	270,880
Depreciation and amortization	78,634	71,332
Provision for sundry risk	8,355	6,896
Deferred income tax	(25,410)	11,186
Net gain on sale of securities	(106,864)	(212,398)
Impairment loss on available-for-sale investments	685	9
Valuation gain from investment property	(29,336)	(68,098)
Net trading income	(18,227)	13,054
Translation result	(2,761)	(6,623)
Profit from sale of investment property	(5,814)	(4,034)
Purchase of trading securities, net	11,781	(55,225)
Increase in accrued interest receivable	(33,128)	(61,028)
Increase in accrued interest payable	19,943	37,024
Net changes in assets and liabilities		
Increase in loans	(2,158,652)	(3,443,295)
Increase in other assets	(489,062)	(496,801)
Increase in deposits and obligations	376,781	4,613,254
Increase (decrease) in due to banks and correspondents	132,923	(45,621)
Increase in other liabilities	944,643	1,116,095
Income tax paid	(228,122)	(184,049)
Net cash (used in) provided by operating activities	(512,662)	2,398,487

Interim condensed consolidated statements of cash flows (continued)

	2014 S/.(000)	2013 S/.(000)
Cash flows from investing activities		
Purchase of available-for-sale investments	(1,826,649)	(937,210)
Purchase of property, furniture and equipment	(45,076)	(43,383)
Purchase of intangible assets	(38,210)	(21,367)
Proceeds from the sale of investment property	293,808	135,232
Purchase of investment property	(72,959)	(66,732)
Net cash used from investing activities	(1,689,086)	(933,460)
Cash flows from financing activities		
Issuance of bonds and notes	936,665	169,554
Redemption and payments of bonds and notes	(64,180)	(136,450)
Net increase in payable inter-bank funds	163,726	164,996
Net decrease in receivable inter-bank funds	(40,016)	220,427
Cash dividends	(443,551)	(432,759)
Payments of dividends to minority shareholders	(2,061)	(1,819)
Net cash provided by (used in) financing activities	550,583	(16,051)
Net (decrease) increase in cash and cash equivalents	(1,651,165)	1,448,976
Translation (loss) gain on cash and cash equivalents	(19,524)	94,088
Cash and cash equivalents at the beginning of the period	7,206,376	5,507,432
Cash and cash equivalents as of September 30,	5,535,687	7,050,496
-		
Supplementary cash flows information:		
Cash paid during the nine-month periods for -		
Interest	566,194	445,624
Cash received during the nine-month periods for -		
Interest	2,036,418	1,703,616

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Intercorp Financial Services Inc. and Subsidiaries

Notes to the interim condensed consolidated financial statements

As of September 30, 2014 and December 31, 2013

1. Business activity, Group Reorganization and Subsidiaries

1.1 Business Activity

Intercorp Financial Services Inc. (hereafter IFS or the Group) is a holding company incorporated in the Republic of Panama in 2006, subsidiary of Intercorp Perú Ltd. (hereafter Intercorp Perú), a holding company incorporated in 1997 in The Bahamas. As of September 30, 2014 and December 31, 2013 Intercorp Perú holds 74.3% and 68.9% of the issued capital stock of IFS, respectively.

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

As of September 30, 2014 and December 31, 2013 IFS holds 99.30% of the capital stock of Banco Internacional del Perú S.A.A. – Interbank (hereafter "Interbank") , 100% of Interseguro Compañía de Seguros S.A. (hereinafter "Interseguro"); while Inteligo Group (hereinafter "Inteligo") became a subsidiary of IFS in August 2014, as a result of the reorganization then accomplished. See Note 1.2.

1.2 Group Reorganization

Inteligo Group Corp. is a holding company incorporated in the Republic of Panama in 2006, as a subsidiary of Intercorp Perú Ltd. As of December 31, 2013, Inteligo Group held 100% of the capital stock of Inteligo Bank Ltd. (hereafter "Inteligo Bank"), Inteligo Sociedad Agente de Bolsa S.A. and Inteligo Real Estate Corp.

In July 2014, the restructuring of Inteligo Group and IFS was approved. The reorganization effective date was August 1, 2014 and included: (i) the spin-off of Inteligo Group's real estate subsidiaries to Intercorp Perú Ltd.; and, (ii) the contribution of all of the outstanding shares of Inteligo Group to IFS in exchange of 19,495,413 new shares issued by IFS to Intercorp Perú.

Under IFRS, reorganizations under common control are accounted for at book values, therefore no fair value adjustment or goodwill has been recognized and all amounts have been accounted for under their book values.

Given that the reorganization will not lead to a change in Intercorp Peru's control of the Subsidiaries now grouped under IFRS, in accordance with International Financial Reporting Standards (see Note 2.2) the reorganization is considered a transaction among entities under common control. As a result, the reorganization has been accounted for using the pooling-of-interest method. The consolidated financial statements comprise the consolidated financial statements of IFS and Subsidiaries and the consolidated financial statements of Inteligo Group and Subsidiaries for all periods presented.

The accompanying consolidated financial statements of IFS and Subsidiaries as of September 30, 2014 and for the nine-month periods ended September 30, 2014 and 2013 were approved by the Board of Directors on November 10, 2014.

1.3 Subsidiaries

IFS's Subsidiaries are the following:

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

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

As of September 30, 2014 and December 31, 2013 Interbank had 280 and 269 offices, respectively, and a branch established in the Republic of Panama. Additionally, it holds 100% of the shares of the following Subsidiaries:

Entity	**Activity**
Interfondos S.A. Sociedad Administradora de Fondos	Manages mutual funds and investment funds.
Internacional de Títulos Sociedad Titulizadora S.A. – Intertítulos S.T.	Manages securitization funds.
Inversiones Huancavelica S.A.	Real estate activities.
Contacto Servicios Integrales de Crédito y Cobranzas S.A.	Collection services
Corporación Inmobiliaria de La Unión 600 S.A.	Real estate activities.
Compañía de Servicios Conexos S.A. – Expressnet	Services related to credit card transactions or products related to the brand "American Express".
IBK Securitizadora	A consolidated special purpose entity (SPE), by which Interbank issued negotiable long – term notes, see Note 10.

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

Interseguro is incorporated in Peru and its operations are governed by the Banking and Insurance Act. It is authorized by the SBS to issue life and general risk insurance contracts and it holds 75% of the shares of the following Subsidiary:

Entidad	**Actividad**
Centro Comercial Estación Central S.A.	Administration of "Centro Comercial Estación Central", located in downtown Lima; as of September 30, 2014 and December 31, 2013 Interseguro holds 75 % of its shares.

Patrimonio Fideicometido D.S.093-2002-EF, Interproperties Perú (herein after "the Patrimonio Fideicometido – Interproperties Perú") is a structured entity, incorporated in April 2008, in which several investors contributed investment properties; each investor or investors has ownership of and controls the specific contributed investment property. The fair values of the properties owned and controlled by Interseguro which were included in this structured entity as of September 30, 2014 and December 31, 2013 amounted to S/.395,252,000 and S/.393,791,000, respectively. See Note 6 for further details. For accounting purposes these assets included in this structure are considered “silos” under IFRS 10 because they are ring-fenced parts of the wider structured entity (the Patrimonio Fideicometido - Interproperties Perú). The Group has ownership of and decision making power over these properties and the Group has the exposure or rights to their returns; therefore, the Group has consolidated the silos containing the investment properties that it controls.

(c) Inteligo Group‘s Subsidiaries –

(i) Inteligo Bank Ltd.

It is incorporated in The Commonwealth of the Bahamas and has a branch established in the Republic of Panama that operates under an international license issued by the Superintendence of Banks of the Republic of Panama. Its main activities are wealth management services mainly with Peruvian citizens.

(ii) Inteligo Sociedad Agente de Bolsa S.A. -

It is incorporated in Peru and provides brokerage services.

(iii) Inteligo Real Estate Corp.-

It is a holding company incorporated in the Republic of Panama. Inteligo Real Estate Corp. controls 100% of the shares of Inteligo Real Estate Perú S.A.C. This company owns approximately 40 percent of an investment property contributed to the Patrimonio Fideicometido – Interproperties Perú., with market value of S/.82,857,000 as of December 31, 2013. As explained in Note 1.2, this company was transferred to Intercorp Peru in July 2014.

The table below presents a summary of financial information of the main Subsidiaries, before adjustments and eliminations for the consolidation, as of September 30, 2014 and December 31, 2013 and for the nine-month periods ended September 30, 2014 and 2013 in accordance with International Financial Reporting Standards (IFRS):

	Banco Internacional del Perú S.A.A. – Interbank and Subsidiaries		**Interseguro Compañía de Seguros S.A. and Subsidiaries**		**Inteligo Group Corp. and Subsidiaries**	
	As of September 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)	As of September 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)	As of September 30, 2014 S/.(000)	As of December 31, 2013 (*) S/.(000)
Balance Sheet - Information						
Investment available for sale	3,171,265	1,965,625	3,641,691	2,968,640	933,178	901,002
Loans, net	21,026,560	19,341,267	-	-	1,309,894	1,125,926
Investment property		-	606,724	711,466	-	82,857
Total assets	31,549,901	29,872,998	4,440,518	3,870,084	2,803,441	2,718,713
Deposits and obligations	20,302,415	20,239,433	2,543	-	2,208,521	2,017,263
Bonds, notes and other obligations	4,116,561	3,068,715	116,757	13,975	-	-
Insurance contracts liabilities	-	-	3,581,543	3,137,183	-	-
Due to banks and correspondents	3,000,613	2,881,272	10,864	-	117,528	224,711
Total liabilities	28,487,983	27,068,117	3,796,279	3,328,947	2,346,956	2,265,009
Total equity	3,061,917	2,804,881	644,242	541,137	456,486	453,704
	September 2014 S/.(000)	**September 2013** S/.(000)	**September 2014** S/.(000)	**September 2013** S/.(000)	**September 2014** S/.(000)	**September 2013** S/.(000)
Income Statement - Information						
Net interest and similar income	1,317,959	1,121,265	140,465	125,606	39,624	45,345
Provision for loan losses, net of recoveries	(319,669)	(270,880)	-	-	-	-
Fee Income from financial services	464,041	433,025	(1,605)	(1,280)	71,946	59,196
Premiums earned less claims and benefits	-	-	(27,910)	149,355	-	-
Profit of the period	522,337	464,387	93,008	307,366	118,820	92,752

(*) As of December 31, 2013, Investment Property corresponds to Inteligo Real Estate Perú S.A.C. As explained in Note 1.2, this company was transferred to Intercorp Perú Ltd in July 1, 2014.

2. Basis of preparation and Accounting policies

2.1 Basis of preparation -

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

Financial statements for the year ended December 31, 2013 are the first that the Group has prepared in accordance with IFRS, and the opening statement of financial position was prepared as of January 1, 2012, the Group's date of transition to IFRS. For periods up to and including the year ended as of December 31, 2013, IFS prepared its financial statements in accordance with Peruvian SBS GAAP, while Inteligo Group prepared its financial statements in accordance with IFRS. See Note 2.4 for explanation about main adjustments made by the Group in restating its Peruvian SBS GAAP consolidated financial statements.

The interim condensed financial statements have been prepared on a historical cost basis, except for investment property, derivative financial instruments, investments at fair value through profit or loss (trading securities) and available-for-sale investments that have been measured at fair value. The interim condensed consolidated financial statements are presented in Nuevos Soles and all values are rounded to the nearest thousand (S/.(000)), except when otherwise indicated.

The preparation of the interim condensed consolidated financial statements in conformity with IFRS as issued by the International Accounting Standards Board (IASB) requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of significant events in the notes to the interim condensed consolidated financial statements.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Existing circumstances and assumptions about future developments, however, may change due to markets or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Actual results could differ from those estimates. The most significant estimates comprised in the accompanying interim condensed consolidated financial statements are related to the computation of the allowance for loan losses, the fair value measurement of investments and investment property, the technical reserves for claims and premiums, the estimated useful life of intangible assets, property, furniture and equipment, the fair value measurement of derivative financial instruments and the calculation of deferred tax assets and liabilities.

2.2 Basis of consolidation -

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

A change in the ownership interest of a Subsidiary, without a loss of control, is accounted for as an equity transaction.

Assets in custody or managed by the Group, such as investments funds and other, are not part of the Group's consolidated financial statements.

2.3 Summary of significant accounting policies -

(a) Foreign currency translation -

Functional and presentation currency:

The Group has determined that its functional and presentation currency is the Nuevo Sol, because it reflects the economic substance of the underlying events and circumstances relevant to most of the Group entities, insofar as its main operations and/or transactions, such as loans granted, financing obtained, sale of insurance premiums, interest and similar income, interest and similar expenses and an important percentage of purchases are established and settled in Nuevos Soles.

Because Inteligo Bank has a functional currency different from the Nuevo Sol, it was translated for combining purposes using the methodology established by IAS 21, "The Effects of Changes in Foreign Exchanges Rates", as follows:

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

All resulting translation differences were recognized in the caption "Exchange differences on translation of foreign operation" of the consolidated statements of other comprehensive income.

(b) Income and expense recognition from banking activities –

Interest income and expense for all interest-bearing financial instruments, including those related to financial instruments classified as held for trading or designated at fair value through profit or loss, are recognized within "Interest and similar income" and "Interest and similar expenses" in the consolidated statements of income using the effective interest rate method ("EIR"), which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Interest income is suspended when collection of loans become doubtful, when loans are overdue more than 90 days or when the borrower or securities issuer defaults, if earlier than 90 days; such income is excluded from interest income until collected. Uncollected income on such loans is provisioned. When Management determines that the debtor's financial condition has improved, the recording of interest thereon is reestablished on an accrual basis.

Interest income includes coupons earned on fixed income investment and trading securities and the accrued discount and premium on financial instruments. Dividends are recognized as income when they are declared.

Fees and commission income are recognized on an accrual basis. Contingent credit fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any direct incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

All other revenues and expenses are recognized on an accrual basis.

(c) Insurance contracts –

Accounting policies for insurance activities:

For the adoption of IFRS 4 "Insurance contracts", the Group decided to continue applying to insurance contracts the existing accounting policies that were applicable prior to the adoption of IFRS (i.e., Peruvian SBS GAAP) with certain modifications described below:

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

- Technical reserves for annuities and retirement, disability and survival insurances: the Group considered current mortality and morbidity tables which differ from those established by the SBS and set the interest rate to discount the future cash flows of these liabilities as the current interest rate that reflects the interest rate performance of the debt instruments in the portfolio, adjusted for credit risk (see detail of tables and interest rates used in Note 11.

Product classification:

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur.

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

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

Insurance receivables:

Insurance receivables are recognized when due and are measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated income statements.

Reinsurance commissions:

Commissions on reinsurance contracts for ceded premiums are deferred and amortized on a straight line basis over the term of the coverage of the reinsurance contracts.

Insurance contracts liabilities:

Life insurance liabilities are recognized when contracts are entered into.

The technical reserves for retirement, disability and survival insurance and annuities are determined as the sum of the discounted value of expected future benefits to be paid during a defined or non-defined period, computed upon the basis of current mortality and morbidity tables and current discount interest rates described in Note 11. Individual life technical reserves are determined as the sum of the discounted value of expected future benefits, administration expenses, policyholder options and guarantees and investment income, less the discounted value of the expected premiums that would be required to meet the future cash outflows. Furthermore, the technical reserves for group life insurance contracts comprise the provision for unearned premiums and unexpired risks.

Insurance claims reserves include reserves for reported claims and an estimate of the incurred but non-reported claims to the Group (hereinafter “IBNR”). IBNR reserves were determined on the basis of the Chain Ladder methodology (a generally accepted actuarial method), whereby the weighted average of past claim development is projected into the future, with the projection based on the ratios of cumulative past claims. Adjustments to the liabilities at each reporting date are recorded in the consolidated statements of income. The liability is derecognized when the obligation expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate, by using an existing liability adequacy test as laid out under IFRS 4. In the case of annuities and retirement, disability and survival insurances this was done by using current assumptions for mortality and morbidity tables and interest rates.

Income recognition:

Life insurance contracts:

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

Property, casualty and group life insurance contracts:

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Benefits, claims and expenses recognition:

(i) Gross benefits and claims

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, including internal and external claims handling costs that are directly related to the processing and settlement of claims. Death, survival and disability claims are recorded on the basis of notifications received. Annuities payments are recorded, monthly, when due.

(ii) Reinsurance premiums

Reinsurance premiums comprise the total premiums payable for the whole coverage provided by contracts entered in the period and are recognized on the date on which the policy incepts. Unearned reinsurance premiums are deferred over the coverage period of the reinsurance contract.

(iii) Reinsurance claims

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

(iv) Acquisition costs

The acquisition costs related to the sale of new policies are expensed as incurred.

(d) Financial Instruments: Initial recognition and subsequent measurement –

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In accordance with IAS 39 “Financial Instruments: Recognition and measurement”, all financial assets and liabilities, including derivative financial instruments, are recognized in the statement of financial position and measured based on the category in which the instrument is classified.

Financial assets and liabilities can be classified into the following categories:

- financial assets and liabilities at fair value through profit or loss;
- available-for-sale financial assets;
- held-to-maturity financial assets;
- loans and receivables; or

- financial liabilities at amortized cost.

The classification of financial instruments at initial recognition depends on the purpose and Management's intention when the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus any directly attributable incremental cost of acquisition or issue, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(e) Derecognition of financial assets and liabilities –

Financial assets

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognized when: (i) the rights to receive cash flows from the asset have expired; or (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

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

(f) Offsetting financial instruments –

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and Management has the intention to settle on a net basis, or realize the assets and settle the liability simultaneously.

(g) Impairment of financial assets –

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

(h) Derivatives –

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are recognized as assets when the fair value is positive and as liabilities when negative.

Derivatives can be designated as hedging instruments under hedge accounting and in the event they qualify, depending upon the nature of the hedged item, the method for recognizing gains or losses from changes in fair value will be different. These derivatives, which are used to hedge exposures to risk or modify the characteristics of financial assets and liabilities and that meet IAS 39 criteria, are recognized as hedge accounting.

Derivatives not designated as hedging instruments or that do not qualify for hedge accounting are initially recognized at fair value and are subsequently remeasured at their fair value; which is estimated based on the market exchange rate and interest rate. They are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains and losses for changes in their fair value are recorded in the consolidated income statements.

In accordance with IAS 39, to qualify for hedge accounting, all of the following conditions are met:

(i) at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;

(ii) the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;

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

(iv) the effectiveness of the hedge can be reliably measured, i.e the fair value or cash flows of the hedge item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured; and

(v) the hedge is assessed on an ongoing basis and it is determined that the hedge has in fact been highly effective throughout the periods for which the hedge was designated.

IAS 39 presents three hedge accounting categories: fair value hedge; cash flow hedge; and hedge of net investments in a foreign operation. The Group uses derivatives as hedging instruments under cash flow hedge, as detailed in Note 7(b).

Fair value hedge

For derivatives that are designated and qualify as fair value hedges, the following practices are adopted:

(i) the gain or loss arising from the new measurement of the hedge instrument at fair value is recognized in income; and

(ii) the gain or loss arising from the hedged item, attributable to the effective portion of the hedge risk, adjusts the book value of the hedged item and is also recognized in income.

When the derivative expires or is sold or the hedge no longer meets the accounting hedge criteria or the entity revokes the designation, the Group prospectively discontinues the accounting hedge. In addition, any adjustment in the book value of the hedged item is amortized in income.

Cash flow hedge

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting and also when the Group redesignates a hedge, any cumulative gain or loss existing in Other comprehensive income is frozen and is recognized in income when the hedge item is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in Other comprehensive income is immediately transferred to the consolidated income statement.

(i) Investments in associates –

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control over those policies. The considerations made to determining significant influence are similar to those necessary to determine control over Subsidiaries.

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

(j) Leases –

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

Operating leases:

Leases in which a significant portion of the risks and benefits of the asset are hold by the lessor are classified as operating leases. Under this concept, the Group has mainly leases used as banking branches.

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

Finance leases:

Finance leases are recognized as granted loans at the present value of the future lease collections. The difference between the gross receivable amount and the present value of the loan is recognized as unearned interest. Lease income is recognized over the term of the lease agreement using the effective interest rate method, which reflects a constant periodic rate of return.

(k) Rental income –

The Group is the lessor in operating leases of its investment property. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated income statements due to its operating nature, except for contingent rental income which is recognized when it arises.

The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, Management is reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognized in the consolidated income statements when the right to receive them arises.

Service charges, management charges and other expenses recoverable from tenants and income arising from expenses recharged to tenants is recognized in the period in which the compensation becomes receivable. Service and management charges and other such receipts are included in Rental income gross of the related costs, as Management considers that the Group acts as principal in this respect.

(l) Investment property –

Classification of property –

The Group determines whether a property is classified as investment property or inventory property:

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

(ii) Inventory property comprises property that is held for sale in the ordinary course of business.

The Group has not classified any property as inventory property.

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

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

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

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the "Valuation gain from investment property" caption of the consolidated income statement in the year in which they arise, including the corresponding tax effect. Transfers are made to or from investment property only when there is a change in use.

Fair values are evaluated periodically by Management, based on the discounted cash flows that are expected to be obtained from these investments. Fair values of investments properties under construction or investment properties held to operate in the future are assessed by an independent external appraiser, through the application of a recognized valuation model. See note 6.

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

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the assets in the previous full period's financial statements.

(m) Foreclosed assets –

Foreclosed assets are recorded at the lower of cost or estimated market value (less cost to sell), which is obtained from valuations made by independent appraisers. Reductions in book values are recorded in the consolidated income statements.

(n) Property, furniture and equipment –

Property, furniture and equipment are stated at cost less accumulated depreciation and impairment losses, if applicable. Such costs include expenditures that are directly attributable to the acquired property, furniture or equipment. Maintenance and repair costs are charged to the consolidated income statements; significant renewals and improvements are capitalized when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow from the use of the acquired property, furniture or equipment.

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

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

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

Asset's residual value, useful life and the selected depreciation method are periodically reviewed to ensure that they are consistent with current economic benefits and life expectations.

(o) Intangible assets with finite useful lives –

The intangible assets with finite useful lives that are included in the "Accounts receivable and other assets, net" caption of the consolidated statements of financial position are mainly costs incurred in connection with the acquisition of computer software used in operations and other minor intangible assets. The amortization expense is calculated following the straight-line method in a period between 4 and 5 years.

(p) Impairment of non-financial assets –

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

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

(q) Due from customers on acceptances –

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

(r) Financial guarantees –

In the ordinary course of business, the Group issues financial guarantees, such as letters of credit, guarantees and acceptances. Financial guarantees are initially recognized at fair value (which is equivalent at that moment to the fee received) in the caption "Other liabilities" of the consolidated statements of financial position. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated statements of income and the best estimate of expenditure required to settle any financial obligation arising as a result of the financial guarantee.

Any increase in the liability relating to a financial guarantee is included in the consolidated income statements. The fee received is recognized in the caption "Fee income from financial services, net" of the consolidated income statements on a straight line basis over the life of the granted financial guarantee.

(s) Defined contribution pension plan –

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

(t) Provisions –

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

(u) Contingencies –

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

(v) Fair value measurement –

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

Fair values of financial instruments measured at amortized cost are disclosed in Note 23.

(w) Income tax –

Income tax is computed based on individual financial statements of IFS, Inteligo Group and each one of their Subsidiaries.

Deferred income tax is accounted for in accordance with IAS 12 "Income Tax". In this sense, deferred income tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes. Deferred assets and liabilities are measured using the tax rates that are expected to be in force in the years in which such temporary differences are expected to be recovered or settled. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that arise from the manner in which each individual entity of the Group expects, at the consolidated statements of financial position dates, to recover or settle the carrying amount of its assets and liabilities.

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

According to IAS 12, deferred income tax is determined considering the tax rate applicable to the non-distributed earnings; any additional tax on distribution of dividends is recorded at the date at which the liability is recognized.

(x) Segment information

IFRS 8 – "Operating segments" requires that operating segments be disclosed consistently with information provided to the chief operating decision maker, who is the person or group of persons that allocates resources to the segments and assesses their performance. Segment information is presented in Note 20.

(y) Fiduciary activities and management of funds –

The Group provides trustee, investment management, advisory and custody services to third parties that result in the holding of assets on their behalf. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group, see Note 24.

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

(z) Earnings per share –

Basic and diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. IFS and Inteligo Group do not have financial instruments with dilutive effect, therefore basic and diluted earnings per share are identical for the periods reported.

Nevertheless, because of the reorganization described in Note 1, the Group's earnings per share reflect the structure of the Group for all periods presented as if the new structure had been in place on January 1, 2012, see Note 18.

2.4 Adoption of International Financial Reporting Standards (IFRS) -

The financial statements have been prepared in accordance with IFRS and the accounting policies described in Note 2.3.

IFS has prepared its financial statements for the year ended December 31, 2013 in accordance with IFRS and the opening financial position was prepared as of January 1, 2012 (Group's date of transition to IFRS). For previous periods IFS prepared its financial statements in accordance with Peruvian SBS GAAP, while Inteligo Group prepared its financial statements in accordance with IFRS since 2005.

The reconciliation of the Statement of Financial position as of December 31, 2013 and the reconciliation of the Income Statement for the nine-month period ended September 30, 2013, including IFRS adoption and the Inteligo Group balances (excluding elimination entries) , was the following:

Reconciliation of the Statement of Financial Position as of December 31, 2013

(In millions):

Peruvian SBS GAAP line items	31.12.2013 (Peruvian SBS GAAP)	Reclassifications		Remeasurements		31.12.2013 (IFRS)	Inteligo Group (IFRS)	31.12.2013 (IFRS)
Assets							-	
Cash and due from banks	6,963	-		-		6,963	438	7,401
Inter-bank funds	205	-		-		205	-	205
Investments:	0	-		0		0	0	0
Trading securities	68	-		-		68	59	127
Investments available-for-sale, net	2,592	2,219	G	(73)	G	4,739	812	5,551
Held-to-maturity investments	2,222	(2,222)	G	-		-	-	-
Loans, net:	0	0		-		-	-	-
Loans, net of unearned income	19,937	89	A, E	9		20,034	1,127	21,162
Allowance for loan losses	(785)	(1)	A, E	93	B	(693)	(1)	(694)
Investment property	447	1		262	H	710	83	792
Property, furniture and equipment, net	446	3		117	C	566	8	574
Due from customers on acceptances	0	22	K	0		22	0	22
Accounts receivable and other assets, net	1,041	(84)	A	1		958	65	1,023
Deferred Income Tax asset, net	78	0		(64)	J	15	1	16
Total assets	**33,213**	**27**		**346**		**33,586**	**2,593**	**36,179**
Liabilities and equity								
Deposits and obligations:	20,149	0		-		20,149	1,919	22,067
Inter-bank funds	100	0		-		100	-	100
Due to banks and correspondents	2,537	0		-		2,537	225	2,762
Bonds, notes and other obligations	3,427	0		-		3,427	(2)	3,425
Due from customers on acceptances	-	22	K	-		22	-	22
Insurance contract liabilities	3,047	0		91	I	3,137	-	3,137
Accounts payable, provisions and other liabilities	929	5		(13)	B, D	920	18	938
Deferred Income Tax liability, net	1	0		14	J	15	0	15
Total liabilities	**30,189**	**27**		**91**		**30,307**	**2,159**	**32,467**
Equity								
Equity attributable to Group's shareholders:								
Capital stock and other paid-in capital	800	-		0		800	246	1,046
Treasury stock	(222)	-		0		(222)	(6)	(228)
Capital surplus	268	-		0		268	0	268
Unrealized results, net	(15)	-		(45)	G	(60)	87	27
Retained earnings	2,174	-		298		2,472	107	2,579
Equity attributable to Group's shareholders:	**3,005**			**253**		**3,258**	**434**	**3,692**
Non-controlling interest	**19**	-		**1**		**20**	**-**	**20**
Total equity	**3,024**	**-**	**-**	**254**	**-**	**3,278**	**434**	**3,712**
Total liabilities and equity	**33,213**	**27**	**-**	**346**	**-**	**33,586**	**2,593**	**36,179**

Reconciliation of the Consolidated Income Statements for the nine-months ended September 30, 2013:

(In millions):

Consolidated income statements	30.09.2013 (Peruvian SBS GAAP)	Reclassificacions	Remeasurements	30.09.2013 (IFRS)	Inteligo Group (IFRS)	30.09.2013 (IFRS)
Interest and similar income	1,874	(188) A	-	1,685	79	1,765
Interest and similar expenses	(452)		-	(452)	(30)	(483)
Net interest and similar income	**1,421**	**(188)**	**-**	**1,233**	**49**	**1,282**
Provision for loan losses, net of recoveries	(273)		2 B	(271)	-	(271)
Net interest and similar net of provision for loan losses	**1,148**	**(188)**	**2**	**962**	**49**	**1,011**
Other income						
Fee income from financial services, net	228	188 A	(3)	413	59	472
Net gain on foreign exchange transactions	125		-	125	-	125
Net gain on sale of securities	162		1	164	49	212
Net trading (loss) income	9		(26)	(16)	3	(13)
Rental income	24		-	24	-	24
Profit from sale of investment property	41		(37) H	4	-	4
Valuation gain from investment property	-		68 H	68	-	68
Other	70		-	70	(8)	62
Total other income	**660**	**188**	**3**	**852**	**104**	**955**
Insurance premiums and claims						
Net premiums earned	85		190 I	276	-	276
Net claims and benefits incurred for life insurance contracts and others	(126)		-	(126)	-	(126)
Total premiums earned less claims and benefits	**(41)**	**-**	**190**	**149**	**-**	**149**
<u>Other expenses</u>						
Salaries and employee benefits	(418)		-	(418)	(45)	(463)
Administrative expenses	(442)		3	(440)	(17)	(456)
Depreciation and amortization	(80)		8 C	(72)	-	(71)
Impairment loss on available-for-sale investments	-		-	-	-	-
Expenses related to rental income	(3)		-	(3)	-	(3)
Other	(85)		4	(81)	19	(62)
Total other expenses	**(1,028)**	**-**	**14**	**(1,014)**	**(43)**	**(1,057)**
Income before translation result and income tax	**739**	**-**	**210**	**949**	**110**	**1,059**
Translation result	(20)		-	(20)	3	(17)
Income tax	(198)		(8)	(206)	-	(206)
Profit of the period	**522**	**-**	**202**	**723**	**113**	**836**
Attributable to:						
Non-controlling interest	(4)		-	(3)	-	(3)
Equity holders of the Group	**518**	**-**	**202**	**720**	**113**	**833**

A. Reclassifications

Under Peruvian SBS GAAP certain balances were presented or grouped differently as compared with IFRS. Therefore, the required reclassifications for IFRS presentation were made.

B. Allowance for loan losses –

According to Peruvian SBS GAAP, the provision for loan losses is calculated and recorded following SBS Resolution N° 11356-2008, which sets parameters to determine the calculation of provisions which is based on formulas and the use of specific percentages over the balances of loans and collateral received. Also, it requires constitution of generic provisions based on total loan portfolio, including generic provisions on not-impaired loans.

IFRS:

IAS 39 determines that an entity should assess, on each reporting date, whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if there is objective evidence of impairment as a consequence of one or more events that occurred after the initial recognition of the loan (loss event), this event or events impact the future cash flow and it can be reliably estimated.

The amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate of the loan.

Initially, it is necessary to assess, on an individual basis, if there is objective evidence of impairment for exposures that are individually significant, or collectively for exposures that are not individually significant. If there is no objective evidence for an exposure individually assessed, be it significant or not, it should be included in a group of exposures with similar characteristics and assessed collectively. The exposures that are individually assessed and for which a loss has been recorded should not be included in the collective assessment.

The differences between Peruvian SBS GAAP and IFRS methodologies resulted in different amounts of the allowance for loan losses and, as a result, as of December 31, 2013, it was recognized a decrease of S/.93 million in the “Allowance for loan losses” caption; a decrease of S/.40 million in “Accounts payable, provisions and other liabilities” caption; and an increase of S/.93 million in “Retained earnings” caption, net of its deferred income tax.

C. Property, furniture and equipment, net –

Cost

Peruvian SBS GAAP:

The cost of some land and buildings included voluntary revaluations made by Interbank in previous years with the authorization of the SBS; as well, for such assets depreciation was not computed by component and useful life used for depreciation purposes was established considering tax regulation.

IFRS:

In accordance with IFRS 1, an entity may, on the transition date to IFRS, measure a fixed asset at its fair value and this amount will be considered the deemed cost of said asset from such date on. IFS has elected to measure certain items of property at fair value at the date of transition to IFRS, and for such assets it has reviewed their useful lives and residual values. As result, the caption “Property, furniture and equipment” increased by S/.S/.117 million as of December 31, 2013.

D. Deferred fee income

Peruvian SBS GAAP:

Up to May 2013, certain commissions and fees for financial services were recognized as income when they were collected.

IFRS:

The recognition of fee revenue (including commissions) is determined by the purpose of the fees and the basis of accounting for any associated financial instruments. If there is an associated financial instrument, fees that are an integral part of the effective interest rate of that financial instrument are included within the effective yield calculation. Fees earned from services that are provided over a specified service period are recognized over that service period. Fees earned for the completion of a specific service or significant event are recognized when the service has been completed or the event has occurred.

As a result of IFRS adoption, as of December 31, 2013, it was recognized an increase of S/.27 million in “Accounts payable, provisions and other liabilities” caption.

E. Finance lease

Peruvian SBS GAAP:

Following SBS rules, certain loans granted by the Group under finance leases were included as part of the “Other assets” caption in the statement of financial position and not as part of the loan portfolio.

IFRS

IAS 39 “Financial instruments: recognition and measurement” requires that loans granted must be recognized as part of the loan portfolio.

As a result of IAS 39 application, S/.89 million and its related provision of S/.1, million were reclassified from “Accounts receivables and other assets, net” caption to “Loans, net of unearned income” caption and “Allowance for loan losses” caption, respectively, of the statement of financial position as of December 31, 2013). See paragraph A.

F. Impairment of investments available for sale

Peruvian SBS GAAP

Impairment of available for sale equity investments must be recognized according to SBS Resolution 7034-2012, which established that an impairment must be recorded when: (i) a significant decrease in fair value (50%) has occurred over a prolonged period of time (defined as 12 months), or (ii) when fair value has decreased for a period of 12 consecutive months and a decrease of 20% in fair value has occurred; and considering certain qualitative criteria of the issuer. However, if the Group is aware of the existence of any impairment before the mentioned thresholds are surpassed, it records an impairment loss immediately.

IFRS

According to IAS 39, a financial asset is impaired and an impairment loss must be recorded only if there is objective evidence of impairment as a result of one or more subsequent events since initial recognition of the asset (a loss event incurred). In the case of equity instruments classified as investments available for sale, a significant or prolonged decline in the fair value of the instrument below its cost is evidence of impairment. Management has established as significant any decline over 30% and as prolonged any decline for a period over 12 months.

As a result of this, it was recognized a increase of the "Unrealized results, net" caption of S/.14 million, against a decrease of "Retained earnings", as of December 31, 2013.

G. Financial instruments designated as investments held to maturity

Peruvian SBS GAAP:

According to SBS Resolution No.7034-2012, Interseguro holds financial instruments designated as investments held to maturity, which are recorded at amortized cost.

IFRS

IAS 39 permits an entity to designate financial instruments as financial assets or liabilities at fair value through profit or loss, or available-for-sale financial assets, on the date of acquisition or issue of the financial instrument. In accordance with an IFRS 1 exemption, a new designation may be made on the transition date, even if the instrument has originally been designated in another category.

As a result of IFRS adoption, as oof December 3, 2013, IFS reclassified S/. 2,219 million of its investments held to maturity to investments available for sale. Therefore, IFS also estimated the fair value of said financial instruments, which resulted in the recognition of an increase in "Unrealized gains" of S/.73 million as of December 31, 2013. In addition, the effect of the net variation of the unrealized result for the year ended December 31, 2013, resulted in a net loss of S/.208 million on investment available -for- sale in the statement of comprehensive income.

Peruvian SBS GAAP:

For SBS rules, the calculation of a realized gain or loss of a debt instruments sold is not based on the amortized cost book value calculated under the effective interest method.

H. Investment property –

Peruvian SBS GAAP:

Under Peruvian SBS GAAP investment property is recorded at cost, less accumulated depreciation and accumulated impairment, if any.

IFRS:

Under IAS 40, the Group elected to record investment property at its fair value.

As a result of IFRS adoption, as of December 31, 2013 IFS recognized an increase in "Investment property" caption of S/.262 million against "Retained earnings" caption; as of December 31, 2013.

I. Insurance contract liabilities

Technical reserves

Peruvian SBS GAAP

Reserves for retirement, disability and survival insurances and annuities are determined based on actuarial methodologies approved by the SBS. Said reserves are equivalent to the present value of all future payments to be made to the insured person and or its beneficiaries.

On the other hand, for annuities the mortality table and the discount interest rate determined by the SBS are "RV-2004 Modified" for annuities sold since August 2006 and RV-85 for annuities sold before that date and 3 – 4.7 percent, respectively.

For technical reserves for disability and survival insurances, the SBS has approved mortality tables MI-85 and B-85 and an interest rate equivalent to 3 – 4.5 percent, respectively.

IFRS

Liabilities for annuities and for retirement, disability and survival insurances are the present value of expected future payments in a grant and not grant period, based on current mortality and morbidity tables and current interest rates described in Note 13(e).

Based on IFRS and in order to make the financial statements information more reliable and no less relevant, the Group considered current mortality and morbidity tables which differ from those established by the SBS at the IFRS transition date and set, the interest rate to discount the future cash flows of these liabilities as the current interest rate that reflects the interest rate performance of the debt instruments in the portfolio, adjusted for credit risk. The effect of the change in the mortality table and in the discount interest rate, generated an increase in technical reserves of S/.91 million as of December 31, 2013 in the "Insurance contract liabilities" caption of the statement of financial position.

J. Deferred income tax

As a result of the previously explained IFRS remeasurements, the related effects in deferred income tax, according with their temporality, were estimated. Deferred income tax effects as a result of IFRS adoption as of December 31, 2013, resulted in a decrease in the "Deferred Income Tax asset, net" caption of S/.64 million and an increase in the "Deferred Income Tax liability, net" caption of S/.14 million, these variations generated a total effect of S/.78 million.

K. Due from customers on acceptances –

According to Peruvian SBS GAAP the amount of "Due from customers on acceptances" is recorded as an Off-balance sheet account, for control purposes.

IFRS:

Due from customers on acceptances corresponds to accounts receivables from customers for import and export transactions, whose obligations have been accepted and, because the counterparties are different, following IAS 32 – "Financial Instruments: Presentation" an account receivable and an account payable for the same amount must be recorded. The account receivable and the account payable amounted to S/.22 million as of December 31, 2013, respectively.

3. Cash and due from banks

This item is made up as follows:

	As of September 30, 2014	As of December 31, 2013
	S/.(000)	S/.(000)
Cash and clearing	1,258,546	1,562,357
Deposits in Central Reserve Bank of Peru – BCRP	3,332,817	4,338,596
Deposits in banks	944,145	1,305,423
Restricted funds	575,028	193,895
	6,110,536	7,400,271
Accrued interest	180	825
Total	6,110,716	7,401,096

4. Investments available–for–sale

(a) This item is made up as follows:

	As of September 30, 2014				As of December 31, 2013			
		Unrealized gross amount				Unrealized gross amount		
	Amortized Cost	Gains	Losses	Estimated fair value	Amortized Cost	Gains	Losses	Estimated fair value
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Corporate, leasing and subordinated bonds	3,035,525	84,135	(100,575)	3,019,085	2,607,203	50,148	(147,059)	2,510,292
Peruvian sovereign bonds	881,976	1,623	(82,180)	801,419	807,166	11,259	(65,982)	752,443
Indexed Certificates of Deposit issued by BCRP	831,529	9,005	(4)	840,530	117,978	-	-	117,978
Negotiable Certificates of Deposit issued by BCRP	820,469	322	(15)	820,776	653,739	385	(99)	654,025
Mutual funds and investments participations	557,347	35,698	(13,888)	579,157	351,198	52,990	(10,296)	393,892
Bonds guaranteed by the Peruvian Government	312,387	19,456	(7,662)	324,181	307,952	17,552	(4,763)	320,741
Peruvian Global Bonds	166,053	-	(2,362)	163,691	63,992	63	(2,315)	61,740
Colombian Global Bonds	114,424	-	(1,755)	112,669	36,872	-	(659)	36,213
Mexican Global Bonds	88,947	-	(1,030)	87,917	18,114	-	(428)	17,686
United States of America Treasury Bonds	2,175	-	(9)	2,166	110,694	-	(1,400)	109,294
Brazilian Global Bonds	-	-	-	-	15,123	-	(655)	14,468
Total	6,810,832	150,239	(209,480)	6,751,591	5,090,031	132,397	(233,656)	4,988,772
Listed shares								
Peruvian and foreign entities	293,664	36,573	(30,566)	299,671	216,347	46,131	(6,335)	256,143
InRetail Perú Corp., Note 19(a)	95,329	61,052	(652)	155,729	94,511	35,829	(4,318)	126,022
Non listed shares and participations								
Royalty Pharma, Note 19(a)	84,965	64,211	-	149,176	64,398	63,562	-	127,960
Other	834	-	(364)	470	806	-	(353)	453
	474,792	161,836	(31,582)	605,046	376,062	145,522	(11,006)	510,578
	7,285,624	312,075	(241,062)	7,356,637	5,466,093	277,919	(244,662)	5,499,350
Add – Accrued Interest on investments				58,327				51,644
Total				7,414,964				5,550,994

(b) The Group has determined that the unrealized losses as of September 30, 2014 and December 31, 2013 are of temporary nature. The Group intends and has the ability to hold each investment for a period of time sufficient to allow for an anticipated recovery in fair value, until the earlier of its anticipated recovery or maturity.

As of September 30, 2014 and December 31, 2013, the detail of unrealized losses on debt investments available for sale is as follows:

Issuer	September 30, 2014 S/.(000)	December 31, 2013 S/.(000)
Peruvian Government and BCRP	92,222	73,059
Corporación Financiera de Desarrollo S.A.	16,004	21,868
H2Olmos S.A.	12,200	8,486
Línea Amarilla S.A.C.	8,352	6,326
Banco Votorantim S.A.	6,849	15,954
Red de Energía del Perú S.A.	6,539	10,375
Odebrecht S.A.	5,939	17,237
Empresa de Distribución Eléctrica de Lima Norte S.A.A.	4,589	6,795
Petróleo Brasileiro S.A.	4,472	7,160
Export-Import Bank of Korea	3,753	4,967
Southern Perú Copper Corporation S.A.A.	3,302	12,764
Instituto Costarricence de Electricidad	1,948	2,608
Crediscotia Financiera S.A.	1,482	2,616
Banco de Crédito del Perú	921	3,140
Vale S.A.	531	6,495
BBVA Banco Continental	233	2,139
Mutual funds and investments participations	13,888	10,296
Other	26,256	21,371
	209,480	233,656

5. Loans, net

(a) This item is made up as follows:

	As of September 30, 2014 S/.(000)	As of December 31, 2013 S/.(000)
Direct loans		
Loans	16,161,439	14,869,505
Credit cards receivables	3,046,373	2,547,560
Leasing receivables	2,320,876	2,217,742
Discounted notes	382,756	457,092
Factoring receivables	269,389	256,637
Advances and overdrafts	137,429	128,135
Refinanced loans	138,296	123,897
Past due and under legal collection loans	430,011	346,627
	22,886,569	20,947,195
Add (less)		
Accrued interest	256,512	228,453
Unearned interest	(15,684)	(14,112)
Allowance for loan losses (b)	(790,969)	(694,375)
Total direct loans, net	22,336,428	20,467,161
Indirect loans	4,397,440	4,107,238

(b) Changes in the allowance for loan losses (direct and indirect) were as follows:

	2014 S/.(000)	2013 S/.(000)
Balance as of January 1	707,508	601,697
Provision	319,669	270,880
Recoveries of written-off loans	66,763	74,753
Loan portfolio written-off	(294,844)	(294,895)
Translation result	7,439	15,704
Balance as of September 30 (*)	806,535	668,139
Balance as of December 31, 2013 (*)		707,508

(*) The allowance for loan losses includes the allowance for indirect loans amounting to S/.15,566,000 and S/.13,133,000, as of September 30, 2014 and December 31, 2013, respectively, which is presented in the "Accounts payable, provisions and other liabilities" caption of the interim condensed consolidated statements of financial position; see Note 7(a).

In Management's opinion, the allowance for loan losses recorded as of September 30, 2014 and December 31, 2013 has been established in accordance with IAS 39 and is sufficient to cover incurred losses on the loan portfolio.

6. Investment property

(a) This item is made up as follows:

	As of September 30, 2014	As of December 31, 2013	Acquisition or construction year	2014 Hierarchy (i)	Valuation methodology	
	S/.(000)	S/.(000)				
Land -						
San Isidro	229,919	209,938	2008	Level 3	Appraisal	Appraisal
Puruchuco (c)	-	87,894	2008	Level 3	Appraisal	Appraisal
Piura	26,566	26,566	2009	Level 3	Appraisal	Appraisal
Lurín	19,378	19,239	2012	Level 3	Appraisal	Appraisal
Others	19,900	30,356	-	-	-	-
	295,763	373,993				
Completed investment property						
Shopping mall "Real Plaza"-						
Pucallpa	191,911	125,823	2014	Level 3	DCF	DCF
Sullana	80,032	64,611	2014	Level 3	DCF	Cost+appraisal
	271,943	190,434				
Buildings -						
Ate Vitarte	34,798	33,754	-	Level 3	DCF	DCF
Pardo y Aliaga	2,234	2,193	2010	Level 3	DCF	DCF
	37,032	35,947				
Built on leased land -						
Real Plaza Centro Cívico Shopping mall (d)	-	187,832	2007	Level 3	DCF	DCF
Others	1,985	2,333	-	-	-	-
	1,985	190,165				
Investment property under construction (iii) -						
Others	-	1,884	-	-	-	-
	-	1,884				
Total investment property	606,724	792,423				

DCF: Discounted cash flow

(i) There were no transfers between Levels.

(ii) As of September 30, 2014 and December 31, 2013, there were no encumbrances on any investment property.

(iii) Investment property under construction includes the fair value of the respective land.

The movement of investment property is as follows:

	2014 S/(000)	2013 S/(000)
Balance as of January 1	792,423	679,984
Additions	72,959	66,732
Disposal of property	(287,994)	(131,198)
Fair value adjustment	29,336	68,098
Balance as of September 30	606,724	683,616
Balance as of December 31, 2013		792,423

(b) During 2014, the main additions correspond to capital expenditures made for the construction of the Real Plaza Pucallpa Shopping mall and the Real Plaza Sullana Shopping Mall, which are now operating shopping malls, for approximately S/.54,615,000.

During 2013, the main additions correspond to capital expenditures made for the construction of the Real Plaza Pucallpa Shopping mall and the Real Plaza Sullana Shopping Mall, which were work in progress, for approximately S/.42,915,000, S/.15,901,000, respectively, and the purchase from third parties of land lots located in different Peruvian cities for approximately S/.1,361,000.

(c) Corresponds mainly to the sale of the Puruchuco land lot located in Lima to a related entity, with gains of approximately S/.2,714,000, recorded in the “Profit from sale of investment property” caption of the interim condensed consolidated statements of income and collected as of September 30, 2014.

In January 2013, Interseguro sold, for cash and at its fair value, the Real Plaza Piura Shopping Mall to a related entity, recognizing a gain of approximately S/.3,763,000, that has been recorded in the “Profit from sale of investment property” caption of the consolidated statements of income.

(d) In September 2014, Interseguro sold, for cash and its fair value, investment property denominated “Real Plaza Centro Cívico Shopping Mall” to a related entity for approximately S/.190,933,000, and recognized a gain of approximately S/.2,313,000.

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

(a) This item is made up as follows:

	As of September 30, 2014	As of December 31, 2013
	S/(000)	S/(000)
Accounts receivable and other assets		
Financial instruments		
Other accounts receivable, net	199,451	164,757
Accounts receivable related to derivative financial instruments (b)	129,911	125,816
Accounts receivable from sale of investments	250,946	73,050
Operations in process	70,427	64,288
Credit card commission	15,296	14,807
Insurance operation receivables, net	32,211	21,222
Accounts receivable from reinsurer and coinsurer entities	6,615	1,677
Total	704,857	465,617
Non-financial instrument		
Value-Added-Tax credit	274,183	270,309
Intangible assets	138,468	135,670
Prepaid expenses	61,395	53,117
Investments in associates	39,356	38,099
Income tax credit	60,106	29,473
Prepaid expenses to related entity, Note 19(f)	21,737	25,123
Other	16,428	5,952
	611,673	557,743
Total	1,316,530	1,023,360
Accounts payable, provisions and other liabilities		
Financial instruments		
Other accounts payable	325,275	285,311
Accounts payable for acquisitions of investments	159,831	161,533
Accounts payable related to derivative financial instruments (b)	169,939	159,269
Operations in process	205,222	142,068
Workers' profit sharing and salaries payable	93,569	79,655
Allowance for indirect loan losses, Note 5(b)	15,566	13,133
Accounts payable to reinsurer and coinsurer	5,231	2,371
Taxes payable	14,113	14,775
	988,746	858,115
Non-financial instrument		
Provision for contingencies	12,790	8,231
Deferred fee income	74,149	53,179
Other	14,223	18,494
	101,162	79,904
Total	1,089,908	938,019

(b) The following table presents as of September 30, 2014 and December 31, 2013 the fair value of derivative financial instruments recorded as an asset or a liability, including their notional amounts. The notional amount is the nominal amount of the derivative's underlying asset and is the base over which changes in fair value are measured.

	As of September 30, 2014				
	Assets S/.(000)	**Liabilities** S/.(000)	**Notional amount** S/.(000)	**Maturity**	**Hedged instrument**
Derivatives held for trading-					
Forward exchange contracts	36,770	45,704	6,176,292	Between October 2014 and January 2016	
Interest rate swaps	12,668	10,813	1,411,474	Between February 2016 and August 2024	
Currency swaps	79,803	60,097	1,362,907	Between January 2015 and September 2024	
Foreign currency options	163	44,995	170,100	January 11, 2023	
Cross currency swaps (CCS)	506	689	242,170	Between October 2014 and December 2014	
	129,911	162,298	9,362,943		
Derivatives held as hedges -					
Cash flow hedges:					
Interest rate swaps (IRS)	-	2,011	57,800	June 15, 2015	Negotiable notes (DPR)
Interest rate swaps (IRS)	-	5,564	180,388	June 15, 2016	Negotiable notes (DPR)
Interest rate swaps (IRS)	-	67	2,370	November 4, 2015	Mortgage bonds
	-	7,642	240,558		
	129,911	169,939	9,603,501		

	As of December 31, 2013				
	Assets S/.(000)	**Liabilities** S/.(000)	**Notional amount** S/.(000)	**Maturity**	**Hedged instrument**
Derivatives held for trading-					
Forward exchange contracts	65,200	71,269	6,458,049	Between January 2014 and January 2016	
Interest rate swaps	7,968	2,003	382,634	Between February 2014 and August 2024	
Currency swaps	52,179	36,649	970,162	Between January 2014 and May 2023	
Cross currency swaps (CCS)	469	35,189	164,509	January 11, 2023	
	125,816	145,110	7,975,354		
Derivatives helds as hedges -					
Cash flow hedges:					
Interest rate swaps (IRS)	-	3,702	131,529	June 16, 2014 and June 15, 2015	Negotiable notes (DPR)
Interest rate swaps (IRS)	-	10,300	213,416	June 15, 2016	Negotiable notes (DPR)
Interest rate swaps (IRS)	-	157	3,056	November 4, 2015	Mortgage bonds
	-	14,159	348,001		
	125,816	159,269	8,323,355		

8. Deposits and obligations

(a) This item is made up as follows:

	As of September 30, 2014	As of December 31, 2013
	S/(000)	S/(000)
Time deposits	10,319,041	9,773,506
Savings deposits	5,921,217	5,370,923
Demand deposits	6,163,228	6,917,007
Other obligations	15,958	6,023
Total	22,419,444	22,067,459

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

9. Due to banks and correspondents

(a) This item is made up as follows:

	As of September 30, 2014	As of December 31, 2013
	S/(000)	S/(000)
By type -		
Loans received from foreign entities	1,107,119	1,488,367
Promotional credit lines	1,363,915	1,259,727
Central Reserve Bank of Peru	404,200	-
	2,875,234	2,748,094
Interest and commissions payable	16,153	14,022
	2,891,387	2,762,116
By term -		
Short term	601,025	678,648
Long term	2,290,362	2,083,468
Total	2,891,387	2,762,116

10. Bonds, notes and other obligations

(a) This item is made up as follows:

	Outstanding balances	
	As of September 30, 2014	**As of December 31, 2013**
	S/(000)	S/(000)
Senior bonds (*)	1,902,591	1,793,264
Junior subordinated notes (*)	568,813	547,627
Subordinated bonds (b)	1,669,371	680,125
Negotiable notes (DPR)	237,618	343,867
Mortgage bonds	2,601	4,472
Interest payable	88,315	55,600
Total	4,469,309	3,424,955

(*) Issued through Interbank Panamanian Branch

(b) In March 2014, Interbank issued subordinated notes amounting to U.S.$300,000,000, (S/.838,800,000 Nuevos Soles) which accrue a fixed annual interest rate of 6.625% for the first ten years. Starting March 2024 interest rate becomes a floating rate equal to the 3 month Libor rate for US dollar deposits plus 576 basis points. Starting on that date and on any interest payment date, Interbank can redeem 100 percent of the notes without penalties. The principal payment will take place at the maturity date or when Interbank redeems the notes.

This issuance qualifies in accordance to SBS rules as second level regulatory equity (Tier 2).

(c) Local and international issuances maintain certain financial and operating covenants which in Management's opinion, the Group has complied with at the dates of the interim condensed consolidated financial statements.

11. Insurance contract liabilities

(a) This item is made up as follows:

	As of September 30, 2014	**As of December 31, 2013**
	S/(000)	S/(000)
Technical reserves (b)	3,532,133	3,070,333
Claims reserves	49,411	66,850
	3,581,543	3,137,183

(b) Technical reserves disclosed by type of insurance are the following:

	30.09.2014	31.12.2013
	S/(000)	S/(000)
Annuities	3,276,584	2,823,489
Retirement, disability and survival annuities	129,405	144,193
Life insurance	94,069	80,569
General insurance	32,075	22,082
	3,532,133	3,070,333

The movement of technical reserves is as follows:

	2014				
	Annuities	**Retirement, disability and survival annuities**	**Life insurance**	**General insurance**	**Total**
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Beginning as of January 1	2,823,489	144,193	80,569	22,082	3,070,333
Insurance subscriptions	439,365	-	3,036	30,300	472,701
Time course expenses	(39,268)	(14,788)	13,521	(20,516)	(61,051)
Maturities and recoveries	-	-	(5,947)	-	(5,947)
Exchange differences	52,998	-	2,890	209	56,097
Balances as of September 30	3,276,584	129,405	94,069	32,075	3,532,133

	2013				
	Annuities	**Retirement, disability and survival annuities**	**Life insurance**	**General insurance**	**Total**
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Beginning as of January 1	2,404,319	152,139	63,228	11,357	2,631,043
Insurance subscriptions	324,645	-	2,179	16,444	343,268
Time course expenses	(193,612)	(14,094)	10,195	(9,728)	(207,239)
Maturities and recoveries	-	-	(3,636)	-	(3,636)
Exchange differences	130,794	788	5,676	227	137,485
Balances as of September 30	2,666,146	138,833	77,642	18,300	2,900,921
Balances as of December 31					3,070,333

(c) In Management's opinion, these balances reflect the exposure of life and general insurance contracts as of September 30, 2014 and December 31, 2013 in accordance with IFRS 4.

(d) As of September 30, 2014 and December 31, 2013 the main assumptions used in estimation of retirement, disability and survival annuities and individual life reserves as of those dates, were the following:

	As of September 30, 2014		As of December 31, 2013	
Modality	**Mortality table**	**Technical rates**	**Mortality table**	**Technical rates**
Annuities				
	RV – 2009, B - 2006 and	5.66% (*) (**) in U.S.$	RV – 2009, B - 2006 and	6.28% (*) (**) in U.S.$
	MI – 2006 with improvement factor	5.66% (*) (**)in adjusted US$	MI – 2006 with improvement factor	6.28% (*) (**)in adjusted US$
	for mortality	4.36% (*) (**) in S/.VAC	for mortality	3.78% (*) (**) in S/.VAC
		6.74% (*) (**) in adjusted S/.		7.05% (*) (**) in adjusted S/.
	B – 2006 and		B – 2006 and	
	MI – 2006 with improvement factor		MI – 2006 with improvement factor	
Retirement, disability and survival	for mortality	4.36%	for mortality	3.78%
Individual life insurance contracts (included unit linked insurance contracts)	CS0 80 adjusted	3.00%	CS0 80 adjusted	3.00%

(*) Adjusted for credit risk

(**) In the tranches where there is an asset-liability mismatch, the discount rate is the minimum between the market selling rate published monthly by the SBS and 3%, which is the technical rate established by the SBS.

VAC: Inflation Adjustment Nuevos Soles.

The sensitivity of the estimates used by the Group to measure its insurance risks is represented primarily by the life insurance risks; the main variables as of September 30, 2014 and December 31, 2013, are the interest rates and the mortality and morbidity tables used. The Group has evaluated the changes of the reserves related to its most significant life insurance contracts included in annuities retirement, disability and survival contracts of +/- 100 bps of the interest rates and of +/- 5 bps of the mortality factors, being the results as follows:

	As of September 30, 2014			As of December 31, 2013		
		Variation of the reserve			Variation of the reserve	
Variables	**Amount of the reserve**	**Amount**	**Percentage**	**Amount of the reserve**	**Amount**	**Percentage**
	S/.(000)	S/.(000)	%	S/.(000)	S/.(000)	%
Annuitties -						
Portfolio in S/. and U.S. Dollars - Basis amount						
Changes in interest rates: + 100 bps	3,134,895	(141,689)	(4.32%)	2,712,272	(111,218)	(3.94%)
Changes in interest rates: - 100 bps	3,435,139	158,555	4.84%	2,947,500	124,011	4.39%
Changes in Mortality tables to 105%	3,238,251	(38,334)	(1.17%)	2,790,263	(33,227)	(1.18%)
Changes in Mortality tables to 95%	3,317,113	40,529	1.24%	2,858,612	35,122	1.24%
Retirements, disability and survival -						
Portfolio in S/. – Basis amount						
Changes in interest rates: + 100 bps	124,550	(4,855)	(3.75%)	138,975	(5,218)	(3.62%)
Changes in interest rates: - 100 bps	134,965	5,560	4.30%	150,142	5,950	4.13%
Changes in Mortality tables to 105%	127,926	(1,479)	(1.14%)	142,408	(1,784)	(1.24%)
Changes in Mortality tables to 95%	130,955	1,549	1.20%	146,065	1,872	1.30%

12. Equity

(a) Capital stock -

As of September 30, 2014 and December 31, 2013, IFS's capital stock is represented by 113,110,864 and 93,615,451 shares with a par value of U.S.$9.72 per share (totally paid and issued).

As explained in Note 1.2 in August 2014, Intercorp Perú contributed all of the outstanding shares of Inteligo Group to IFS in exchange of 19,495,413 new shares issued by IFS to Intercorp Perú.

IFS's Board of Directors meeting held on April 7, 2014 agreed to distribute dividends corresponding to 2013 for U.S.$150,000,000 (equivalent to approximately S/.424,056,000).

During the nine-month period ended September 30, 2014, Inteligo Group declared and paid dividends for an amount of U.S.$21,550,000 (equivalent to approximately S/.59,988,000).

During the nine-month period ended September 30, 2013, Inteligo Group declared and paid dividends for an amount of U.S.$15,800,000 (equivalent to S/.40,824,000).

(b) Shareholders' equity for legal purposes (regulatory capital) -

IFS are not required to establish shareholders' equity for legal purposes (regulatory capital).

The shareholders' equity for legal purposes, required for main IFS's Subsidiaries (Interbank, Interseguro and Inteligo Bank) are as follows:

<u>Interbank</u>

	As of September 30, 2014 (S/. in millions)	As of December 31, 2013 (S/. in millions)
Total Tier I	2,967.7	2,590.9
Total Tier 2	1,722.8	981.2
Total Regulatory Capital	**4,690.5**	**3,572.1**
Risk-weighted assets	29,711.7	26,684.0
Regulatory capital as a percentage of risk-weighted assets	15.8%	13.4%

<u>Interseguro</u>

	As of September 30, 2014 (S/. in millions)	As of December 31, 2013 (S/. in millions)
Solvency equity (solvency margin)	206.1	177.6
Guarantee fund	72.2	62.1
Surplus	**97.3**	**34.5**
Solvency Ratio	**35.0%**	**14.4%**

Inteligo Bank

	As of September 30, 2014 (US$ in millions)	As of December 31, 2013 (US$ in millions)
Total eligible capital	65.0	94.5
Total risk-weighted assets	511.0	509.2
Capital ratio	**12.7%**	**18.6%**

13. Tax situation

(a) IFS and Inteligo Group and their Subsidiaries that are incorporated and domiciled in the Republic of Panama and the Commonwealth of the Bahamas – are not subject to any income tax, or any taxes on capital gains, equity or property. The Group's Subsidiaries incorporated in Peru are subject to Peruvian taxes; hence, they must assess their income tax burden on the basis of separate financial statements. As of September 30, 2014 and December 31, 2013, the statutory corporate income tax rate was 30 percent.

(b) Peruvian Tax Authority – SUNAT -
SUNAT is legally entitled to perform tax audits procedures for up to four years subsequent to the date on which the tax return regarding a taxable period must be filed. SUNAT is also entitled to challenge the income tax assessment performed by taxpayers in their tax returns. Said years will be considered as from January 1st of the next year in which the tax return was filed.
Currently, the following taxable periods are pending to be audited by SUNAT:

- Interbank: income tax regarding fiscal years 2009 to 2013.
- Interseguro: income tax regarding fiscal years 2012 and 2013.

On the other hand, in April 2004, June 2006, February 2007, June 2007, November 2007, October 2008 and December 2010, Interbank was notified with Tax Assessments and Tax Fine Resolutions regarding the income tax borne by Interbank with respect to fiscal years 2000 to 2006, respectively. Interbank has filed Tax Claims and Tax Appeals regarding said Tax Assessments and Tax Fine Resolutions in March 2009, August 2010 and December 2011; SUNAT solved the Tax Claims regarding fiscal years 2000 to 2006; Interbank filed tax appeals against the resolutions that solved such tax claims.

During 2013, SUNAT closed the tax audit procedures regarding the Income Tax borne by Interbank with respect to fiscal years 2007 and 2008. As a result, SUNAT issued several Tax Assessment Resolutions, but no payment was required.

As of September 30, 2014 and December 31, 2013, SUNAT is tax auditing the income tax borne by Interbank with respect to fiscal year 2009.

Since tax regulations are subject to interpretation by SUNAT, it is not possible to determine to date whether such tax audits procedures would result in additional liabilities for the Group's Subsidiaries or not. Therefore, any unpaid tax, penalties or interests that might result from said audit procedures will be expensed in the year in which they are determined. Nevertheless, Management and its legal advisors consider that any additional tax assessments would not have a significant impact on the interim condensed consolidated financial statements as of September 30, 2014 and December 31, 2013.

(c) The Group calculates the period income tax expense using the best estimate of the weighted average annual tax rate expected for the full annual earnings. The table below presents the amounts reported in the interim condensed consolidated income statements for the nine-month periods ended September 30, 2014 and 2013:

	2014	**2013**
	S/.(000)	S/.(000)
Current – Expense	227,460	194,408
Deferred – (income) expense	(25,410)	11,186
	202,050	205,594

14. Interest and similar income and expense

This item is made up as follows:

	For the nine-month period ended September 30,	
	2014	**2013**
	S/(000)	S/(000)
Interest and similar income		
Interest on loans	1,833,482	1,514,024
Interest on investments	207,115	181,082
Interest on due from banks and inter-bank funds	9,994	41,387
Other interest and similar income	18,955	28,151
Total	2,069,546	1,764,644
Interest and similar expense		
Interest on deposits and obligations	264,428	211,216
Interest on bonds, notes and other obligations	191,279	138,465
Interest and fees on due to banks and correspondents	105,669	110,330
Deposits Insurance fund fees	20,042	17,642
Other interest and similar expenses	4,719	4,995
Total	586,137	482,648

15. Fee income from financial services, net

This item is made up as follows:

	For the nine-month period ended September 30,	
	2014	**2013**
	S/(000)	S/(000)
Income		
Maintenance and mailing of accounts, interchange fees, transfers and credit and debit card services	319,423	296,117
Funds management	84,976	79,901
Commissions from banking services	93,258	92,593
Fees for indirect loans	39,235	37,569
Collection services	15,923	14,593
Brokerage and custody services	11,710	6,875
Other	16,637	18,693
Total	581,162	546,342
Expenses		
Insurance	37,558	39,549
Fees paid to foreign banks	6,951	14,288
Brokerage and custody services	1,377	87
Other	25,773	20,691
Total	71,659	74,615
Net	509,503	471,727

16. Other income and expenses

These items are made up as follow:

	2014	2013
	S/.(000)	S/.(000)
Other income		
ATM rental income	14,067	12,502
Other technical income from insurance operations	7,851	3,955
Participation from investments in associates	9,388	10,965
Services granted to third parties	4,563	4,826
Insurance recovery	1,582	3,812
Other income	17,276	26,371
Total other income	54,727	62,431
Other expenses		
Provision for sundry risk	8,355	6,896
Commissions from insurance activities	14,799	10,749
Termination of employees	6,474	5,081
Sundry technical insurance expenses	6,159	4,880
Donations	4,009	3,361
Administrative and tax sanctions	2,019	8,610
Provision for other accounts receivables	999	345
Other expenses	29,905	22,321
Total other expenses	72,719	62,243

17. Net premiums earned

For the nine-month periods ended September 30, 2014 and 2013, this item is made up as follows:

	Premiums assumed		Premiums ceded to reinsurers		Net premiums		Adjustment of technical reserves		Net premiums earned			
	2014	2013	2014	2013	2014	2013	2014	2013	2014		2013	
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	%	S/.(000)	%
Life insurance												
Annuities (**)	362,449	292,446	(2,521)	-	359,928	292,446	(400,097)	(131,033)	(40,169)	(38.31)	161,413	58.56
Group life	67,554	54,106	(1,076)	(2,367)	66,478	51,739	(440)	(280)	66,038	62.98	51,459	18.67
Individual life	24,597	21,099	-	(703)	24,597	20,396	(9,739)	(7,191)	14,858	14.17	13,205	4.79
Retirement, disability and survival	399	108	53	-	452	108	14,787	14,095	15,239	14.53	14,203	5.15
Others	3,060	3,300	(39)	(958)	3,021	2,342	(279)	(979)	2,742	2.61	1,363	0.49
General insurance	55,937	40,888	-	(180)	55,937	40,708	(9,784)	(6,717)	46,153	44.01	33,991	12.33
	513,996	411,947	(3,583)	(4,208)	510,413	407,739	(405,552)	(132,105)	104,861	100.00	275,634	100.00

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

(**) The variation of the adjustment of technical reserves is due to increases in current rates with which the technical reserves are determined and are shown in note 11(d).

18. Earnings per share

The following table reflects basic and diluted earnings per share computations, reflecting the reorganization under common control described in Note 1, as if the equity structure of the Group had been in place for all periods presented:

	IFS Outstanding shares (in thousands)	IFS shares considered in computation (in thousands)	Shares issued in the acquisition of Inteligo Group (in thousands)	Total shares considered in computation (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	19,495	109,995	270	109,995
Sale of treasury stock	38	38	-	38	245	34
Purchase of treasury stock	(10)	(10)	-	(10)	92	(3)
Balance as of September 30, 2013	90,528	90,528	19,495	110,023		110,026
Net earnings attributable to IFS S/.(000)						832,527
Net basic and diluted earnings per share attributable to IFS (Nuevos Soles)						7.567
2014						
Balance as of january 1, 2014	90,300	90,300	-	90,300	270	90,300
Contribution of Inteligo Group Corp.	19,495	19,495	-	19,495	270	19,495
Sale of treasury stock	244	244	-	244	-	94
Purchase of treasury stock	(677)	(677)	-	(677)	-	(484)
Balance as of Setiembre 30, 2014	109,362	109,362	-	109,362		109,405
Net earnings attributable to IFS S/.(000)						687,818
Net basic and diluted earnings per share attributable to IFS (Nuevos Soles)						6.287

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these interim condensed consolidated financial statements.

19. Transactions with related parties and affiliated companies

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

	As of September 30, 2014	As of December 31, 2013
	S/.(000)	S/.(000)
Assets		
Investments available-for–sale, Note 4(a)		
Royalty Pharma	149,176	127,960
InRetail Perú Corp.	155,729	126,022
Corporate Bonds – Intercorp Perú Ltd.	14,356	21,078
Loan portfolio, net (b)	582,687	652,855
Other assets (f)	46,856	53,405
Liabilities		
Deposits and obligations	230,647	457,173
Other liabilities	6,408	10,998
Off-balance sheet accounts		
Indirect loans	96,397	58,453

	For the nine-month period ended September 30,	
	2014	2013
	S/.(000)	S/.(000)
Income (expense)		
Interest income	38,002	18,790
Finance expense	(4,175)	(6,109)
Rental income	6,914	3,595
Profit from sale of investment property, Note 6 (c)	5,027	4,032
Administrative expenses	(11,148)	(22,972)
Other, net	14,187	11,229

(b) As of September 30, 2014 and December 31, 2013, the detail of loans granted to shareholder and related entities is the following:

	As of September 30, 2014	As of December 31, 2013
	S/.(000)	S/.(000)
Supermercados Peruanos S.A.	107,584	115,876
Tiendas Peruanas S.A.	67,837	31,669
Intercorp Perú Ltd.	63,370	111,664
Homecenters Peruanos S.A.	62,146	43,097
Financiera Uno S.A.	40,603	39,149
Nessus Hoteles Perú S.A.	36,713	29,389
Eckerd Perú S.A.	35,082	38,743
Cineplex S.A.	26,822	58,123
Agrícola Don Ricardo S.A.C.	26,683	21,224
Victoria Global Opportunities S.A.C.	21,946	30,953
Domus Hogares del Norte S.A.	18,160	11,946
Club de Socios S.A.	16,529	19,409
Bellavista Global Opportunities S.A.C.	10,675	11,311
Inmobiliaria Puerta del Sol S.A.	1,000	60,000
Other	47,537	30,302
	582,687	652,855

(c) As of September 30, 2014 and December 31, 2013, directors, officers and employees of the Group have been involved, directly and indirectly, in credit transactions with certain subsidiaries of the Group, as permitted by Peruvian Banking and Insurance Law, which regulates and limits certain transactions with employees, directors and officers of a bank or an insurance company. As of September 30, 2014 and December 31, 2013, direct loans to employees, directors and key Management amounted to S/.108,406,000 and S/.105,008,000, respectively; said loans are paid monthly and earn interest at market rates.

There are no loans to the Group’s directors and key personnel guaranteed with any Subsidiaries’ shares.

(d) The Group's key executives' compensation for the nine-month period ended as of September 30, 2014 and 2013, comprised the following:

	2014	2013
	S/.(000)	S/.(000)
Salaries	12,306	12,454
Directors' compensations	759	18,123
Total	13,065	30,577

(e) As of September 30, 2014 and December 31, 2013, IFS and its Subsidiaries participate in domestic and foreign mutual and investment funds, recorded as available-for-sale investments which are managed by Interfondos S.A. Sociedad Administradora de Fondos, that amount to S/.81,698,000 and S/.41,361,000, respectively.

(f) Correspond mainly to (i) prepaid expenses for concession agreements with Supermercados Peruanos S.A. for spaces ceded to Interbank in the stores of Supermercados Peruanos S.A., for the operation of financial stores for a term of 15 years, and for an amount of approximately S/.21,737,000 and S/.25,123,000, as of September 30, 2014 and December 31, 2013, respectively, see Note 7(a); Interbank may renew the term of the agreement for an additional term of 15 years. (ii) an account receivable from Intercorp Perú for an amount of U.S.$8,255,000 (equivalent to S/.23,857,000) and U.S.$3,650,000 (equivalent to S/.10,488,000) as of September 30, 2014 and December 31, 2013, respectively. These accounts receivables generate interest at market rates and mature in the short term.

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

20. Business segments

As explained in Note 1, these interim condensed consolidated financial statements comprise IFS and Subsidiaries for all periods presented.

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

Banking -
Principally handling loans, credit facilities, deposits and current accounts.

Insurance -
Provider of annuities, traditional life insurance products, as well as other retail focused insurance products.

Wealth management -
Provider of financial advisory services and brokerage services.

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

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

	For the nine-month period ended September 30, 2014					For the nine-month period ended September 30, 2013				
	Banking	Insurance	Wealth Management	Corporate and eliminations	Total	Banking	Insurance	Wealth Management	Corporate and eliminations	Total
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Total income	2,548,830	369,719	210,921	(46,599)	3,082,871	2,301,972	542,201	167,206	(15,959)	2,995,419
Inter-segment	(41,530)	(3,454)	(120)	45,104	-	(33,097)	(2,126)	17,968	17,255	-
Third party income (*)	2,507,300	366,265	210,801	(1,495)	3,082,871	2,268,875	540,075	185,174	1,296	2,995,419
Extracts of results										
Interest and similar income	1,863,028	145,873	75,630	(14,985)	2,069,546	1,572,960	126,560	76,086	(10,962)	1,764,644
Interest and similar expenses	(545,069)	(5,407)	(36,007)	346	(586,137)	(451,695)	(954)	(30,741)	742	(482,648)
Net interest and similar income	1,317,959	140,465	39,624	(14,640)	1,483,409	1,121,265	125,606	45,345	(10,220)	1,281,996
Provision for loan losses, net of recoveries	(319,669)	-	-	-	(319,669)	(270,880)	-	-	-	(270,880)
Net interest and similar income after provision for loan losses	998,290	140,465	39,624	(14,640)	1,163,740	850,385	125,606	45,345	(10,220)	1,011,116
Fee income from financial services, net	464,041	(1,605)	71,946	(24,879)	509,503	433,025	(1,280)	59,196	(19,214)	471,726
Other income	221,760	120,590	63,345	(6,734)	398,961	295,987	141,287	31,924	14,217	483,415
Total premiums earned less claims and benefits	-	(27,910)	-	-	(27,910)	-	149,355	-	-	149,355
Depreciation and amortization	(73,944)	(2,262)	(2,427)	-	(78,634)	(67,433)	(1,808)	(1,954)	(137)	(71,332)
Other expenses	(884,631)	(130,927)	(54,440)	13,029	(1,056,970)	(829,626)	(101,263)	(44,716)	(9,723)	(985,328)
Income before translation result and income tax	725,517	98,351	118,046	(33,224)	908,690	682,338	311,897	89,794	(25,077)	1,058,952
Translation result	(14,040)	(5,339)	774	3,266	(15,340)	(25,817)	(4,531)	2,958	9,961	(17,429)
Income tax	(189,140)	(4)	-	(12,907)	(202,050)	(192,135)	-	-	(13,459)	(205,594)
Profit for the year	522,337	93,008	118,820	(42,865)	691,300	464,387	307,366	92,752	(28,575)	835,929
Attributable to:										
Equity holders of the Group	522,337	93,082	118,820	(46,421)	687,818	464,387	307,256	92,752	(31,869)	832,527
Attributable to non-controlling interest	-	(74)	-	3,555	3,482	-	110	-	3,293	3,403
	522,337	93,008	118,820	(42,865)	691,300	464,387	307,366	92,752	(28,576)	835,930

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

	2014				
	Banking	Insurance	Wealth Management	Corporate and eliminations	Total Consolidated
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
As of September 30, 2014					
Total assets	31,549,901	4,440,518	2,803,441	(230,118)	38,563,742
Total liabilities	28,487,983	3,796,279	2,346,956	(95,323)	34,535,894
For the nine-month period ended September 30, 2014					
Impairment loss on available-for-sale investments	-	(259)	(6,871)	6,445	(685)
Capital expenditures (*)	69,664	81,726	4,856	-	156,246

	2013				
	Banking	Insurance	Wealth Management	Corporate and eliminations	Total Consolidated
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
As of December 31, 2013					
Total assets	29,872,998	3,870,084	2,718,713	(282,639)	36,179,156
Total liabilities	27,068,117	3,328,947	2,265,009	(195,363)	32,466,710
For the nine-month period ended September 30, 2013					
Impairment loss on available-for-sale investments	-	-	(9)	-	(9)
Capital expenditures (*)	64,586	68,625	5,974	-	139,185

(*) Includes the purchase of property, furniture and equipment, intangible assets and investment property.

21. Financial instruments classification

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

	As of September 30, 2014				
	Financial assets at fair value through profit or loss held for trading or hedging	**Loans and receivables**	**Investment available-for-sale**	**Financial liabilities at amortized cost**	**Total**
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Financial Assets					
Cash and due from banks	-	6,110,716	-	-	6,110,716
Inter-bank funds	-	40,004	-	-	40,004
Trading securities	122,448	-	-	-	122,448
Investments available-for-sale	-	-	7,414,964	-	7,414,964
Loans, net	-	22,336,428	-	-	22,336,428
Due from customers on acceptances	-	23,649	-	-	23,649
Accounts receivables and other assets, net	129,911	574,946	-	-	704,857
	252,359	29,085,743	7,414,964	-	36,753,066
Financial liabilities					
Deposits and obligations	-	-	-	22,419,444	22,419,444
Inter-bank funds	-	-	-	60,007	60,007
Due to banks and correspondents	-	-	-	2,891,387	2,891,387
Bonds, notes and other obligations	-	-	-	4,469,309	4,469,309
Due from customers on acceptances	-	-	-	23,649	23,649
Insurance contract liabilities	-	-	-	3,581,543	3,581,543
Accounts payables, provision and other liabilities	169,939	-	-	818,807	988,746
	169,939	-	-	34,264,146	34,434,086

	As of December 31, 2013				
	Financial assets at fair value through profit or loss held for trading or hedging	**Loans and receivables**	**Investment available-for-sale**	**Financial liabilities at amortized cost**	**Total**
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Financial Assets					
Cash and due from banks	-	7,401,096	-	-	7,401,096
Inter-bank funds	-	204,905	-	-	204,905
Trading securities	126,692	-	-	-	126,692
Investments available-for-sale	-	-	5,550,994	-	5,550,994
Loans, net	-	20,467,161	-	-	20,467,161
Due from customers on acceptances	-	22,310	-	-	22,310
Accounts receivables and other assets, net	125,816	339,801	-	-	465,617
	252,508	28,435,273	5,550,994	-	34,238,775
Financial liabilities					
Deposits and obligations	-	-	-	22,067,459	22,067,459
Inter-bank funds	-	-	-	100,022	100,022
Due to banks and correspondents	-	-	-	2,762,116	2,762,116
Bonds, notes and other obligations	-	-	-	3,424,955	3,424,955
Due from customers on acceptances	-	-	-	22,310	22,310
Insurance contract liabilities	-	-	-	3,137,183	3,137,183
Accounts payables, provision and other liabilities	159,269	-	-	698,846	858,115
	159,269	-	-	32,212,891	32,372,160

22. Financial risk management

It comprises the management of the main risks that the Group is exposed to because of the nature of its operations: credit risk, market risk, liquidity risk and insurance.

In order to manage said risks, each Subsidiary has a specialized structure and organization in the management, measurement, mitigation and coverage processes that considers the specific needs and regulatory requirements to develop their business. The Group and its Subsidiaries, mainly Interbank, Interseguro and Inteligo Bank operate independently but in coordination with the general provisions issued by the Board and management of IFS Group.

Following is presented main financial information related to credit risk management for the loan portfolio, offsetting of financial assets and liabilities and foreign exchange risk.

(a) Credit risk management for loan placements -

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

Normal (Class A): Debtors of commercial loans that fall into this category have complied on a timely basis with their obligations and at the time of evaluation do not present any reason for doubt with respect to repayment of interest and principal on the agreed dates and there is no reason to believe that the status will change before the next evaluation. To place a loan in Class A, a clear understanding of the use to be made of the funds and the origin of the cash flows to be used by the debtor to repay the loan is required. Consumer and micro-business loans are categorized as Class A if payments are current or up to 8 days past-due. Residential mortgage loans warrant Class A classification if payments are current or up to 30 days past-due.

Potential problems (Class B): Debtors of commercial loans included in this category are those that at the time of the evaluation demonstrate certain deficiencies, which, if not corrected on a timely manner, imply risks with respect to the recovery of the loan. Certain common characteristics of loans or credits in the category include: delays in loan payments which are promptly covered, a general lack of information required to analyze the credit, out-of-date financial information, temporary economic or financial imbalances on the part of the debtor which could affect its ability to repay the loan and market conditions that could affect the economic sector in which the debtor is active. Consumer and micro-business loans are categorized as Class B if payments are between 9 and 30 days late. Residential mortgage loans become Class B when payments are between 31 and 60 days late.

Substandard (Class C): Debtors of commercial loans included in this category demonstrate serious financial weakness, often with operating results or available income insufficient to cover financial obligations on agreed upon terms, with no reasonable short-term prospects for a strengthening of their financial capacity. Debtors demonstrating the same deficiencies that warrant classification as category B warrant classification as Class C if those deficiencies are such that if they are not corrected in the near term, they could impede the recovery of principal and interest on the loan on the originally agreed terms. In addition, commercial loans are classified in this category when payments are between 61 and 120 days late. Consumer and micro-business loans are categorized as Class C if payments are between 31 and 60 days late. Residential mortgage loans are classified as Class C when payments are between 61 and 120 days late.

Doubtful (Class D): Debtors of commercial loans included in this category present characteristics that make doubtful the recovery of the loan. Although the loan recovery is doubtful, if there is a reasonable possibility that in the near future the creditworthiness of the debtor might improve, a Class D categorization is appropriate. These credits are distinguished from Class E credits by the requirement that the debtor remain in operation, generate cash flow and make payments on the loan, although at a rate less than that specified in its contractual obligations. In addition, commercial loans are classified in this category when payments are between 121 and 365 days late. Consumer and micro-business loans are categorized as Class D if payments are between 61 and 120 days late. Residential mortgage loans are Class D when payments are between 121 and 365 days late.

Loss (Class E): Commercial loans which are considered unrecoverable or which for any other reason should not appear on the Group's books as an asset based on the originally contracted terms fall into this category. In addition, commercial loans are classified in this category when payments are more than 365 days late. Consumer and micro-business loans are categorized as Class E if payments are more than 120 days late. Residential mortgage loans are Class E when payments are more than 365 days late.

The Group reviews its loan portfolio on a continuing basis in order to assess the completeness and accuracy of its classifications.

All loans considered impaired (the ones classified as substandard, doubtful or loss) are analyzed by the Group's Management, which addresses impairment in two areas: individually assessed allowance and collectively assessed allowance, as follows:

- Individually assessed allowance -
  The Group determines the appropriate allowance for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve its performance once a financial difficulty has arisen, projected cash flows and the expected payout should bankruptcy happens, the availability of other financial support, including the realizable value of collateral and the timing of the expected cash flows.

  The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group in order to reduce any differences between loss estimates and actual loss experience.

- Collectively assessed allowance -
  Allowance requirements are assessed collectively for losses on loans and advances that are not individually significant (including consumer, micro-business and residential mortgages) and for individually significant loans and advances where there is not yet objective evidence of individual impairment (included in categories A and B).

  The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by Management to ensure alignment with the Group's overall policy.

The methodology includes three estimation scenarios: base, upper threshold and lower threshold. These scenarios are generated by modifying some assumptions, such as collateral recovery values and adverse effects due to changes in the political and economic environments. The process to select the best estimate within the range is based on Management´s best judgment, complemented by historical loss experience and the Group's strategy (e.g. penetration in new segments).

Impairment losses are evaluated at each reporting date as to whether there is any objective evidence that a financial asset or group of assets is impaired.

Financial guarantees and letter of credit (indirect loans) are assessed and a provision estimated following a similar procedure as for loans.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary legal procedures have been completed. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the consolidated statements of income.

The table below presents three groups of direct loans: (i) Non-past-due and non-impaired loans, which comprise direct loans that currently do not present delinquency characteristics and are related to clients classified as "Normal" and "with Potential problems"; (ii) Past-due but non impaired loans, which comprise past-due loans of clients classified as "Normal" or "with Potential problems"; and (iii) impaired loans, those past-due loans classified as "Substandard", "Doubtful" or "Loss". Also, it is presented the allowance for loan loss for each loan type.

	As of September 30, 2014					
	Commercial loans	Mortgage loans	Consumer loans	Micro-business loans	Total	%
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	
Neither past due nor impaired						
Normal	10,432,060	3,569,474	6,366,748	747,896	21,116,178	96
Potential problems	84,714	19,547	44,616	2,418	151,295	1
	10,516,774	3,589,021	6,411,364	750,314	21,267,473	97
Past due but not impaired						
Normal	145,223	212,863	24,734	12,467	395,287	2
Potential problems	44,427	60,504	168,714	9,110	282,755	1
	189,650	273,367	193,448	21,577	678,042	3
Impaired						
Substandard	45,614	52,620	139,862	6,155	244,251	1
Doubtful	28,615	56,176	254,727	7,778	347,296	1
Loss	48,615	80,771	197,069	23,052	349,507	2
	122,844	189,567	591,658	36,985	941,054	4
Total loan portfolio, gross	10,829,268	4,051,955	7,196,470	808,876	22,886,569	104
Less: Allowance for loan losses	117,529	29,218	570,176	74,046	790,969	4
Total, net	10,711,739	4,022,737	6,626,294	734,830	22,095,600	100

	As of December 31, 2013					
	Commercial loans	**Mortgage loans**	**Consumer loans**	**Micro-business loans**	**Total**	**%**
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	
Neither past due nor impaired						
Normal	10,229,133	3,143,320	5,157,763	489,438	19,019,654	93
Potential problems	119,010	25,957	47,928	4,536	197,431	1
	10,348,143	3,169,277	5,205,691	493,974	19,217,085	94
Past due but not impaired						
Normal	198,192	356,114	14,097	13,570	581,973	3
Potential problems	55,352	68,083	175,032	12,514	310,981	2
	253,544	424,197	189,129	26,084	892,954	5
Impaired						
Substandard	26,426	55,722	130,223	6,645	219,016	1
Doubtful	27,837	48,112	255,778	6,738	338,465	2
Loss	32,540	48,100	179,301	19,734	279,675	2
	86,803	151,934	565,302	33,117	837,156	5
Total loan portfolio, gross	10,688,490	3,745,408	5,960,122	553,175	20,947,195	104
Less: Allowance for loan losses	100,194	24,132	510,854	59,195	694,375	4
Total, net	10,588,296	3,721,276	5,449,268	493,980	20,252,820	100

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

As of September 30, 2014 and December 31, 2013, loans amounting to approximately S/.678,042,000 and S/.892,954,000, respectively, were not impaired and were past due mainly for less than 30 days.

As of September 30, 2014 and December 31, 2013, refinanced loans (current, past due and under legal collection) amounted to S/.160,123,000 and S/.144,363,000, respectively, out of which S/.22,752,000 and S/.16,897,000, respectively, are classified as non-past-due and non-impaired; S/.2,914,000 and S/.2,859,000, are past-due but non – impaired and S/.134,457,000 and S/.124,607,000, are impaired, respectively.

(b) Offsetting financial assets and liabilities

The disclosures set out in the tables below include financial assets and liabilities that:

- are offset in the Group consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial statements, irrespective of whether they are offset in the consolidated statement of financial position.

Similar arrangements of the Group include derivatives clearing agreements. Financial instruments such as loans and deposits are not described in the following tables unless they are offset in the consolidated statement of financial position.

The offsetting framework agreement issued by the International Swaps and Derivatives Association Inc. (“ISDA”) and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position because such agreements were created in order for both parties to have an enforceable offsetting right in cases of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle such instruments on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and gives collateral in the form of cash in respect of derivatives transactions.

Financial assets subject to offsetting, enforceable master netting arrangement and similar agreement:

Assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities and offset in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not offset in the interim condensed combined statement of financial position		Net amount
				Financial instruments (including non-cash collateral)	Cash collateral received (pledged)	
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
As of September 30, 2014						
Derivatives, Note 7(b)	129,911	-	129,911	(1,857)	-	128,054
Total Assets	129,911	-	129,911	(1,857)	-	128,054
As of December 31, 2013						
Derivatives, Note 7(b)	125,816	-	125,816	(6,755)	-	119,061
Total	125,816	-	125,816	(6,755)	-	119,061

Liabilities	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
As of September 30, 2014						
Derivatives, Note 7(b)	169,939	-	169,939	(1,857)	(13,989)	154,093
Total Liabilities	169,939	-	169,939	(1,857)	(13,989)	154,093
As of December 31, 2013						
Derivatives, Note 7(b)	159,269	-	159,269	(6,755)	(145,792)	6,722
Total Liabilities	159,269	-	159,269	(6,755)	(145,792)	6,722

(c) Foreign exchange risk-

The Group is exposed to the effects of fluctuations in the exchange rates of foreign currency prevailing on its financial position and cash flows. Management 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 U.S. dollars. Transactions in foreign currency are accounted for by using exchange rates prevailing on the market.

As of September 30, 2014, the market exchange rate published by the SBS for transactions in US Dollars was S/.2.888 per U.S.$1.00 bid and S/.2.892 per U.S.$1.00 ask (S/.2.794 and S/.2.796 as of December 31, 2013, respectively). As of September 30, 2014, the exchange rate for the accounting of asset and liability accounts in foreign currency set by the SBS was S/.2.890 per U.S.$1.00 (S/.2.795 as of December 31, 2013).

The table below presents a detail of the Group´s currency position:

	As of September 30, 2014				As of December 31, 2013			
	U.S. Dollars	Nuevos soles	Other currency	Total	U.S. Dollars	Nuevos soles	Other currency	Total
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Assets								
Cash and due from bank	4,945,780	829,358	335,578	6,110,716	5,945,428	1,201,689	253,979	7,401,096
Inter-bank funds	-	40,004	-	40,004	69,875	135,030	-	204,905
Trading security	96,471	25,977	-	122,448	102,758	23,934	-	126,692
Investment available-for-sale	4,699,362	2,676,714	38,888	7,414,964	3,248,251	2,258,384	44,359	5,550,994
Loans, net	9,482,359	12,854,069	-	22,336,428	9,041,462	11,425,699	-	20,467,161
Due from customers on acceptances	23,649	-	-	23,649	22,310	-	-	22,310
Accounts receivables and other assets, net	185,971	399,278	119,608	704,857	134,417	327,570	3,630	465,617
	19,433,592	16,825,400	494,074	36,753,065	18,564,501	15,372,306	301,968	34,238,775
Liabilities								
Deposits and obligations	10,538,655	11,637,665	243,124	22,419,444	11,000,145	10,897,173	170,141	22,067,459
Inter-bank funds	-	60,006	-	60,006	-	100,022	-	100,022
Due to banks and correspondents	1,400,868	1,490,519	-	2,891,387	1,691,210	1,070,906	-	2,762,116
Bonds, notes and other obligations	4,044,379	424,930	-	4,469,309	3,001,426	423,529	-	3,424,955
Due from customers on acceptances	23,649	-	-	23,649	22,310	-	-	22,310
Insurance contract liabilities	1,791,535	1,790,008	-	3,581,543	1,692,563	1,444,620	-	3,137,183
Accounts payables, provision and other liabilities	275,069	568,621	145,056	988,746	230,587	752,401	(124,873)	858,115
	18,074,155	15,971,749	388,180	34,434,084	17,638,241	14,688,651	45,268	32,372,160
Forward position, net	(529,410)	541,908	(12,498)	-	(276,061)	364,439	(88,378)	-
Currency swaps position, net	(7,845)	7,845	-	-	18,660	(18,660)	-	-
Cross currency swaps position, net	(170,100)	170,100	-	-	(164,509)	164,509	-	-
Foreign currency options, net	(6,717)	6,717	-	-	-	-	-	-
Net monetary position	645,365	1,580,221	93,396	2,318,981	504,350	1,193,943	168,322	1,866,615

As of September 30, 2014, the Group granted indirect loans (contingent operations) in foreign currency for approximately U.S.$1,079,537,000, equivalent to S/.3,119,862,000 (U.S.$836,518,000ib, equivalent to S/.2,338,069,000 as of December 31, 2013).

23. Fair value

(a) Determination of fair value and fair value hierarchy of financial instruments

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the interim condensed consolidated statement, of financial position:

	As of September 30, 2014				As of December 31, 2013			
	Level 1 S/.(000)	Level 2 S/.(000)	Level 3 S/.(000)	Total S/.(000)	Level 1 S/.(000)	Level 2 S/.(000)	Level 3 S/.(000)	Total S/.(000)
Assets								
Investments at fair value through profit or loss	106,150	16,298	-	122,448	91,922	34,770	-	126,692
Available-for-sale investments								
Debt instruments	3,987,904	2,184,531	-	6,172,435	3,430,084	1,164,796	-	4,594,880
InRetail Perú Corp.	155,729	-	-	155,729	126,022	-	-	126,022
Royalty Pharma	-	-	149,176	149,176	-	-	127,960	127,960
Mutual funds and investments participations	157,703	200,942	220,513	579,157	118,244	25,378	250,270	393,892
Peruvian and foreign entities and other shares	299,671	470	-	300,141	193,013	63,583	-	256,596
Derivatives receivable	-	129,911	-	129,911	-	125,816	-	125,816
	4,707,157	2,532,152	369,689	7,608,998	3,959,285	1,414,343	378,230	5,751,858
Accrued interest				58,327				51,644
				7,667,324				5,803,502
Liabilities								
Derivatives payable	-	169,939	-	169,939	-	159,269	-	159,269

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

Financial instruments included in Level 2 are valued with the market prices of other instruments 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.). The Group uses this method mainly to value derivative financial instruments.

Financial assets included in Level 3 are valued by using assumptions and data that do not correspond to prices of operations traded on the market. Fair value is estimated using a discounted cash flow (DCF) model. The valuation requires Management to make certain assumptions about the model inputs, including forecast cash flow, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in Management's estimate of fair value for these unquoted investments.

(b) Financial instruments not measured at fair value -

Set out below is the disclosure of the comparison between the carrying amounts and fair values of the Group´s financial instruments, that are not measured at fair value, presented by level of the fair value hierarchy:

	As of September 30, 2014					As of December 31, 2013				
	Level 1	**Level 2**	**Level 3**	**Fair Value**	**Book value**	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Book value**
	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)	S/.(000)
Assets										
Cash and due from banks	-	6,110,716	-	6,110,716	6,110,716	-	7,401,096	-	7,401,096	7,401,096
Inter-bank funds	-	40,004	-	40,004	40,004	-	204,905	-	204,905	204,905
Loans, net	-	22,805,831	-	22,805,831	22,336,428	-	20,347,161	-	20,347,161	20,467,161
Due from customers on acceptances	-	23,649	-	23,649	23,649	-	22,310	-	22,310	22,310
Accounts receivables and other assets	-	574,946	-	574,946	574,946	-	339,801	-	339,801	339,801
Total	-	29,555,146	-	29,555,146	29,085,743	-	28,315,273	-	28,315,273	28,435,273
Liabilities										
Deposits and obligations	-	22,454,294	-	22,454,294	22,419,444	-	22,017,965	-	22,017,965	22,067,459
Inter-bank funds	-	60,007	-	60,007	60,007	-	100,022	-	100,022	100,022
Due to banks and correspondents	-	2,908,915	-	2,908,915	2,891,387	-	2,769,038	-	2,769,038	2,762,116
Bonds, notes and notes issued	-	4,766,308	-	4,766,308	4,470,936	-	3,483,218	-	3,483,218	3,424,955
Insurance contract liabilities	-	3,581,543	-	3,581,543	3,581,543	-	3,137,183	-	3,137,183	3,137,183
Due from customers on acceptances	-	23,649	-	23,649	23,649	-	22,310	-	22,310	22,310
Accounts payable and other liabilities	-	818,807	-	818,807	818,807	-	698,846	-	698,846	698,846
Total	-	34,613,523	-	34,613,523	34,265,773	-	32,228,582	-	32,228,582	32,212,891

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

(i) Long-term fixed-rate and variable-rate loans are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these loans. As of September 30, 2014 and December 31, 2013, the carrying amounts of loans, net of allowances, were not materially different from their calculated fair values.

(ii) Assets for which fair values approximate their carrying value - For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

(iii) Fixed rate financial instruments - The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments for the remaining term to maturity. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for financial instruments with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. When quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

24. Fiduciary activities and management of funds

The Group provides custody, trustee, investment management and advisory services to third parties; therefore, the Group makes allocations and purchase and sale decisions in relation to a wide range of financial instruments. Assets that are held in a fiduciary capacity are not included in these consolidated financial statements. These services give rise to the risk that the Group will be accused of poor administration or under-performance.

The assigned value of the financial assets under administration is as follows:

	As of September 30, 2014	**As of December 31, 2013**
	S/.(000)	S/.(000)
Investments funds	8,635,735	7,259,794
Mutual Funds	2,454,756	2,444,515
Equity managed	8,839,633	4,926,965
Total	19,930,124	14,631,274

25. Contingencies

As of September 30, 2014 Inteligo Bank has been named as a defendant in litigation matters involving the Bernie Madoff cases, with each of the claims below involving approximately U$11 million:

- Fairfield Case (Madoff Liquidator) filed September 2, 2010; and
- Irving Picard (Madoff Trustee) filed October 6, 2011

In the Group's external legal advisor opinion, it is likely and probable that Inteligo Bank will prevail in said litigations.