Translation of independent auditors' report and financial statements originally issued in Spanish - See Note 25

Banco de la Nación

Financial statements as of December 31, 2015 and 2014, together with the independent auditors' report

Building a better working world

Translation of independent auditors' report and financial statements originally issued in Spanish - See Note 25

Banco de la Nación

Financial statements as of December 31, 2015 and 2014, together with the independent auditors' report

Content

Translation of independent auditors' report originally issued in Spanish - See Note 25

Independent auditors' report

To the Board of Directors of Banco de la Nación

We have audited the accompanying financial statements of Banco de la Nación (hereinafter "the Bank"), which comprise the statements of financial position as of December 31, 2015, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards prescribed by the Superintendencia de Banca, Seguros y AFP (SBS) for Peruvian financial entities, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Translation of independent auditors' report originally issued in Spanish - See Note 25

Independent auditors' report (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Banco de la Nación as of December 31, 2015, and its financial performance and cash flows for the year then ended; in accordance with accounting standards prescribed by the Superintendencia de Banca, Seguros y AFP (SBS) for Peruvian financial entities.

Other issues

The financial statements as of December 31, 2014 and for the year then ended were audited by other independent auditors who, dated February 20, 2015, issued an unqualified opinion.

Lima, Peru,
March 31, 2016

Paredes, Zaldívar, Burga & Asoc.

Countersigned by:

V. Tanaka

Víctor Tanaka
C.P.C.C. Register No.25613

Banco de la Nación

Statements of financial position

As of December 31, 2015 and 2014

	Note	2015 S/(000)	2014 S/(000)
Assets			
Cash and due from banks:	3		
Cash		1,622,933	1,295,445
Clearing		22,619	38,037
Deposits in the Peruvian Central Bank		7,564,926	9,314,882
Deposits in local banks		631,411	4,954
Deposits in foreign banks		159,086	430,942
Other		723	607
		10,001,698	11,084,867
Investments:			
Available-for-sale	4(a)	6,498,542	6,924,330
Held-to-maturity	4(j)	1,164,901	1,369,901
		7,663,443	8,294,231
Loans, net	5	10,257,586	7,685,686
Accounts receivable, net	6	468,237	422,842
Property, furniture and equipment, net	7	714,761	434,397
Net deferred income tax asset	12	144,327	87,518
Other assets, net	8	264,511	266,077
Total assets		29,514,563	28,275,618
Risks and Commitments	15	4,789,404	6,845,520

	Note	2015 S/(000)	2014 S/(000)
Liabilities and equity			
Deposits and obligations with the public	9	26,450,303	25,005,860
Deposits of financial system entities and international financial entities	10	597,056	443,382
Accounts payable	11	330,091	351,233
Other liabilities	8	341,991	514,180
Total liabilities		27,719,441	26,314,655
Equity	13		
Capital stock		1,000,000	1,000,000
Additional capital		1,452	1,452
Legal reserve		350,000	350,000
Unrealized results		(243,028)	(80,687)
Retained earnings		686,698	690,198
Total equity		1,795,122	1,960,963
Total liabilities and equity		29,514,563	28,275,618
Risks and Commitments	15	4,789,404	6,845,520

The accompanying Notes are an integral part of these financial statements.

Translation of financial statements originally issued in Spanish - See Note 25

Banco de la Nación

Statements of comprehensive income

For the years ended December 31, 2015 and 2014

	Note	2015 S/(000)	2014 S/(000)
Interest income	16	1,329,137	1,213,973
Interest expenses	16	(58,334)	(48,790)
Gross financial margin		1,270,803	1,165,183
Provision for loan losses, net of recoveries	5(e)	(45,931)	(21,004)
Net financial margin		1,224,872	1,144,179
Income from financial services	17	666,994	658,700
Expenses from financial service	17	(121,070)	(100,850)
Financial margin, net of income and expenses for financial services		1,770,796	1,702,029
Gain on financial transactions	18	5,889	83,185
Operative margin		1,776,685	1,785,214
Administrative expenses	19	(956,641)	(868,768)
Depreciation and amortization		(62,087)	(52,589)
Net operating margin		757,957	863,857
Valuation of assets and provisions	20	(78,250)	(31,294)
Operating income		679,707	832,563
Other income, net	21	147,020	51,280
Income before income tax		826,727	883,843
Income tax	12(b)	(142,061)	(178,994)
Net income		684,666	704,849
Net unrealized (loss) gain on available-for-sale investments		(189,456)	73,585
Income tax		27,115	(13,424)
Other comprehensive income for the year, net of Income Tax		(162,341)	60,161
Total comprehensive income		522,325	765,010

The accompanying Notes are an integral part of these financial statements.

Banco de la Nación

Statements of changes in equity

For the years ended December 31, 2015 and 2014

	Note	Capital stock S/(000)	Additional capital S/(000)	Legal Reserve S/(000)	Unrealized results S/(000)	Retained earnings S/(000)	Total S/(000)
Balances as of January 1, 2014		1,000,000	1,452	350,000	(140,848)	581,154	1,791,758
Changes in equity for 2014 -							
Net income		-	-	-	-	704,849	704,849
Other comprehensive income		-	-	-	60,161	-	60,161
Total comprehensive income		-	-	-	60,161	704,849	765,010
Prior years adjustments	13(d)	-	-	-	-	(20,642)	(20,642)
Offsetting Debt with Public Treasury	13(d)	-	-	-	-	(172,549)	(172,549)
Distribution of income to Public Treasury	13(d)	-	-	-	-	(402,614)	(402,614)
Balances as of December 31, 2014		1,000,000	1,452	350,000	(80,687)	690,198	1,960,963
Changes in equity for 2015 -							
Net income		-	-	-	-	684,666	684,666
Other comprehensive income		-	-	-	(162,341)	-	(162,341)
Total comprehensive income		-	-	-	(162,341)	684,666	522,325
Prior years adjustments	13(d)	-	-	-	-	(6,729)	(6,729)
Offsetting debt with Public Treasury	13(d)	-	-	-	-	(204,431)	(204,431)
Distribution of income to Public Treasury	13(d)	-	-	-	-	(477,006)	(477,006)
Balances as of December 31, 2015		1,000,000	1,452	350,000	(243,028)	686,698	1,795,122

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

Translation of financial statements originally issued in Spanish - See Note 25

Banco de la Nación

Statements of cash flows

For the years ended December 31, 2015 and 2014

	Note	2015 S/(000)	2014 S/(000)
Cash flows from operating activities			
Net income		684,666	704,849
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	7(a) y 8(d)	62,087	52,589
Provision for loan losses, net of recoveries	5(e)	45,931	21,004
Provision for accounts receivable	20(a)	14,593	10,727
Provision for indirect loans	20(a)	(6,852)	6,863
Provision for litigations and claims	20(a) y 21(a)	54,487	(33,766)
Deferred income tax	12(b)	(29,694)	12,181
Net gain on sale of Orrantia building	21(a)	(51,678)	-
Net loss (gain) on available-for-sale investments	18(a)	6,893	(21,033)
Unrealized loss adjustment on available-for-sale investments	18(a)	48,946	-
Other changes in fixed assets		672	1,383
Changes in asset and liability accounts:			
Net increase in loans		(2,617,831)	(762,800)
Net decrease (increase) in available-for-sale investments		180,493	(1,687,459)
Increase in accounts receivable		(59,988)	(50,581)
Decrease in other assets, net		8,841	40,586
Increase in deposits and obligations with the public		1,444,443	702,421
Increase in financial systems deposits		153,674	85,067
(Decrease) increase in other accounts payable		(21,142)	120,405
(Decrease) increase in other liabilities, net		(219,824)	205,126
Equity adjustments	13(d)	(6,729)	(20,642)
Others		569	81
Net cash used in operating activities		(307,443)	(612,999)

Statements of cash flows (continued)

	Note	2015 S/(000)	2014 S/(000)
Cash flows from investing activities			
Additions of property, furniture and equipment	7(a)	(339,103)	(186,647)
Additions of intangible assets		(21,422)	(26,163)
Sales of property, furniture and equipment	21(c)	61,805	-
Net cash used in investing activities		(298,720)	(212,810)
Cash flows from financing activities			
Distribution of income to Public Treasury		(477,006)	(402,614)
Net cash used in financing activities		(477,006)	(402,614)
Net decrease in cash and cash equivalents		(1,083,169)	(1,228,423)
Cash and cash equivalents at the beginning of year		11,084,867	12,313,290
Cash and cash equivalents at the end of year		10,001,698	11,084,867
Non-cash flows transactions			
Unrealized results in available-for-sale investments		(162,341)	60,161
Offsetting of debt with the Public Treasury		204,431	172,549

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

Translation of financial statements originally issued in Spanish - See Note 25

Banco de la Nación

Notes to the financial statements

As of December 31, 2015 and 2014

1. **Economic activity**

Banco de la Nación (hereinafter "the Bank") was incorporated through Law No.16000 dated January 27, 1966, as an entity of public law belonging to the Economy and Finance Sector that operates with economic, financial and administrative autonomy in the execution of its functions.

Its incorporation Law was updated through Legislative Decree No.199 – Organic Law of the Bank- issued on June 12, 1981, through which the Bank gets exclusive rights concerning functions and powers; however, when issuing the Decree Law No.25907, dated November 27, 1992, were no long in effect the Bank's exclusivity concerning those functions and powers.

Subsequently, Supreme Decree No.07-94-EF was issued on January 26, 1994, whereby: (i) repealed the Legislative Decree No.199, and (ii) approved the Bank's Bylaw as modified by Emergency Decree No.31-94 dated July 11, 1994, Supreme Decree No.81-2004-EF dated June 16, 2004, Supreme Decree No.091-2006-EF dated June 29, 2006, and Supreme Decree No. 099-2012-EF dated June 23, 2012.

Currently, the Bank is governed by its Bylaw and amendments, by Law No.24948 - Government-run Business Activity Law ("Ley de Actividad Empresarial del Estado") and, supplementary, the Law No.26702 "Ley General del Sistema Financiero y de Seguros y Orgánica de la Superintendencia de Banca, Seguros y AFP" –General Law of the Financial and Insurance System and Organic of the SBS y AFP- (hereinafter "SBS", the Spanish acronym).

The Bank's headquarte is located at Av. Republica de Panama No. 3664, San Isidro, Lima, Peru. As of December 31, 2015, the Bank operates through a head office and a network of 618 offices in Peru (one head office and 612 offices as of December 31, 2014).

The Bank provides services to state entities, promotes banking and financial inclusion for the citizens' benefit complementing the private sector, and promotes the country's decentralized growth through efficient and self-sustaining management; also, the Bank is entitled to perform the following functions; none of them will be exclusively performed with respect to the entities of the Peruvian financial system:

(a) Provide banking services to the National Treasury System following instructions given by the General Treasury Directorate. Those services will be provided on an open market basis together with other entities in the Peruvian financial system.

(b) Provide tax collection services on behalf of tax creditor, subject to the prior approval of the Bank and under a specific tax collection agreement.

(c) Conduct, by delegation, transactions with bank subaccounts of the Public Treasury.

(d) Receive resources and funds from Central, Regional and Local Government entities as well as other entities of the National Public Sector.

(e) Act as the Government's financial agent.

(f) Act on behalf of other banks or financial entities in funneling domestic or foreign resources to credit institutions.

(g) Take part in the Government's foreign trade transactions as indicated in its Bylaw. In this case, the Bank will provide bank services and foreign exchange services, under the regulations enacted by the Central Reserve Bank of Peru (Banco Central de Reserva Del Perú).

(h) Receive, on a consignment and custody basis, administrative and judicial deposits.

(i) Provide banking services as a correspondent of financial system entities where financial system entities request it.

(j) Receive demand deposits from individuals and legal corporations for payments, as suppliers, pensioners, as well as Government workers, perceived within the framework of the National Treasury System.

(k) Receive savings and custody deposits from individuals and corporations in those areas of the Peruvian territory in which private banks do not have offices or operations, including the issuance of wire transfers, money orders and other cash transactions ordered or in favor of such parties.

(l) Provide loans and financial facilities to National, Regional and Local Government entities and other public entities, except for granting loans to Government entities under private law; issuing, acquiring, maintaining and selling bonds and other securities, as set forth by law. The issuance of securities will be performed in accordance with an annual schedule approved by the Ministry of Economy and Finance of Peru (hereinafter "MEF") that may be reviewed quarterly.

(m) Perform transactions and banking services with Public Sector entities, domestic and foreign banks and financial institutions in order to comply with the duties established in its Bylaw, as well as the profitability and risk hedging of the resources it manages. These transactions are performed in accordance with the annual schedule approved by the MEF and may be reviewed quarterly.

(n) Grant a single line of credit to workers and pensioners of the Public Sector that, due to their income, have savings accounts in the Bank. Such line of credit may be assigned to the beneficiary for use through loans and/or credit cards. These transactions will be made according with an annual schedule approved by the MEF that may be reviewed annually.

The financial statements as of December 31, 2014 and for the year then ended were approved at the Board of Directors Meeting held on March 9, 2015. The financial statements as of and for the year ended December 31, 2015 were approved by Management on March 31, 2016, and will be submitted to the Board of Directors when Management considers it appropriate. In Management's opinion, the accompanying financial statements will be approved by the Board of Directors without amendments.

2. Accounting principles and practices

Principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis for presentation and accounting changes –

(i) Basis for presentation –

The accompanying financial statements have been prepared in accordance with Peruvian generally accepted accounting principles applicable to financial institutions, which mainly comprise standards issued by the SBS and, in a supplemental manner, in the absence of specific SBS regulations, with International Financial Reporting Standards –IFRS issued by the International Accounting Standards Board (IASB) approved for its application in Peru through resolutions issued by the Consejo Normativo de Contabilidad (Peruvian Accounting Council, hereinafter "CNC" for its Spanish acronym) in force in Peru as of December 31, 2015 and 2014, see paragraph (g.i).

The information contained in these financial statements is responsibility of the Bank's Board who it expressly confirms that it has fully applied the principles and judgments applicable in Peru to financial institutions.

The financial statements derive from the accounting books of the Bank and have been prepared based on the historic cost convention, except for available-for-sale financial assets which are measured at their fair values. The financial statements are expressed in thousands of soles (S/(000)), unless otherwise stated.

(ii) Accounting changes –

Applicable since 2015–

(ii.a) There have not been issued rules, principles and accounting practices that significantly affect the preparation of the reported amounts of assets and liabilities, income and expenses and disclosure of significant events in Notes to the 2015 financial statements.

Applicable since 2014–

(ii.b) On November 27, 2014, SBS issued the Circular Letter No. B-2224-2014, which establishes the deactivation of the pro-cyclical rule for calculating the provision for loan losses, see paragraph (e)(ii) below, whereas the average of the annualized percentage variation of the last thirty months in the Gross Domestic Product (GDP) was lower to 5.00 percent (actual 4.99 percent).

According to this Circular Letter, pro-cyclical provisions recorded until the date of deactivation will be reallocated to mandatory specific provisions or, exceptionally, the SBS may authorize the reallocation to other provisions. In any case shall not generate income for its reversal in the statements of comprehensive income.

This Circular Letter entered into force on November 2014; therefore, the Bank reallocated pro-cyclical provisions amounting to S/54.7 million as voluntary generic provisions.

(b) Significant accounting judgments, estimates and assumptions -

The preparation of the accompanying financial statements requires that Management perform estimates that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of material events in Notes to the financial statements.

As of December 31, 2015 and 2014, the most significant estimates in relation with the accompanying financial statements correspond to the provision for loan losses, the valuation of available–for-sale investments, impairment of available–for-sale and held-to-maturity investments, and the social benefits of workers and pensioners. Likewise, management performs other estimates such as provision for accounts receivable, estimated useful lives and the recoverable value of property, furniture and equipment, intangible assets and deferred income tax assets and liabilities, which accounting criteria used for each estimate are described in this Note.

In Management's opinion, these estimates were made on the basis of their better knowledge of the relevant facts and circumstances at the date of financial statements preparation; however, final results may differ from estimates. The Bank's management expects that variations, if any, will not have a significant effect on the financial statements.

(c) Financial instruments -

Financial instruments are classified as assets, liabilities or equity according to the substance of their respective contractual arrangements that originated them. Interests, dividends, gains and losses generated from a financial instruments classified as assets or liabilities are recorded as income or expense, respectively. Financial instruments are offset when the Bank has a legally enforceable right to offset and Management has the intention to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities reported in the statements of financial position include cash and due from banks, investments available-for-sale and held-to-maturity investments, loan portfolio, accounts receivable, other assets (except for the assets identified as non-financial instruments presented in the caption "Other assets"), and liabilities in general (except for the liabilities identified as non-financial instruments presented in the caption "Other liabilities"), see Note 8. Likewise, all indirect loans are considered to be financial instruments. The specific accounting policies on recognition and measurement of these items are disclosed in the accounting policies described in this Note.

(d) Recognition of revenue and expenses –

Financial revenues and expenses are recorded in the income statement of the period in which they are incurred, based on the effective term of the underlying transactions and the interest rates freely agreed upon with customers; except for interest accrued on past due loans, refinanced, restructured or in legal collection as well as loans classified as doubtful or loss, which are recognized as collected. When Management determines that the debtor's financial condition has been improved and the loan is reclassified as current or in the category of normal, potential problem or substandard, such interests are recognized on an accrual basis.

Revenue includes interest on fixed income investments classified as available for sale and held to maturity, as well as income from discounts and premiums on the Bank's financial instruments. Dividends are recognized as income when declared.

Commissions for financial services related to the loans maintenance and to retributions for additional operations and services and/or complementary to such loans, are recognized as income when received.

Commissions and expenses for loan formalization, as well as the granting, analyzing and assessment of direct and indirect loans granted since 2013, are recorded as income on a time proportion basis over the agreement period.

The other revenues and expenses are recorded on an accrual basis.

(e) Loans and provision for loan losses -

Direct loans are recorded when disbursement of funds to the client is made. Operations with credit cards are recorded as loans for the amount consumed and/or withdrawn. Indirect loans (contingent) are recorded when documents supporting such facilities are issued. Loans considered as refinanced are loans or direct financing whose original contractual terms and/or amounts have been modified due to difficulties in the payment capacity of the debtor. Loans considered as restructured are those subject to reprogramming of approved installments under a restructuring process in accordance to Law No 27809 – General Law of the Insolvency System.

Bank Management determines the type of credit, risk classification category categories and provisions according to the guidelines established by the SBS through Resolution SBS N°11356-2008 "Regulation for the evaluation and classification of the debtor and the requirement of provisions" and amendments.

Types of loans –
The Bank classifies its loans as follows: Non- retail (corporate loans, loans to large companies and loans to medium-sized companies) or Retail (loans to small entities, loans to micro-entities, revolving consumer loans, non-revolving consumer loans and residential mortgage loans). These categories take into consideration the nature of the customer (corporate, government or individuals), the purpose of the loan, and business size as measured by income, debt, among other indicators.

Risk categories –
The credit risk classification categories established by SBS are as follows: normal, potential problem, substandard, doubtful and loss. The credit risk classification for the non-retail loan portfolio are mainly determined by the borrower's repayment capability, its cash flow, degree of compliance with its obligations, the borrower's risk classification by other financial institutions, the financial situation of the borrower and the quality of management of the borrower. The credit risk classification for retail loan portfolio is based on how long payments are overdue and the customer's risk classification in other financial institutions.

Required provisions -
As of December 31, 2015 and 2014, the provision for loan losses was determined following guidelines established by SBS Resolutions N°11356-2008 "Regulation for the evaluation and classification of the debtor and the requirement of provisions" and N°6941-2008 "Regulation for Managing the Risk of Retail Debtors with High Leverage Levels". These guidelines establish three types of provision for loan portfolio, as follows:

(i) Provision for loan losses which results from the classification of the loan portfolio –
The Bank establishes two types of provisions for loan portfolios: generic and specific provisions.

Generic provisions include those established on a preventive basis for the debtors classified as normal, in accordance with the SBS requirements. Mandatory generic provisions are based on percentage rates, with a fixed and variable component which vary depending on the type of loan.

The specific provisions are those set up on direct loans and the exposure equivalent to credit risk of the indirect loan s of the borrowers who have been classified in a higher than normal risk category.

As of December 31, 2015 and 2014, the Bank has not recorded provisions for direct loan losses that exceed the minimum established by the SBS standards (voluntary provisions), expect for the provisions that were incorporated under the pro cyclical rule amounted to S/49.7 million, which are still to be assigned to specific mandatory provisions, see paragraph (ii) below. Also, as of December 31, 2015, the Bank has procyclical provisions for indirect loans amount to S/6.4 million (S/5.7 million at December 31, 2014).

Additionally, in compliance with the SBS Resolution No.041-2005, the Bank assesses the exposure to loan exchange risks for loans in foreign currency and makes certain provisions for debtors which have been rated in a higher than normal risk category, as established by the SBS.

The provision is computed considering the risk classifications assigned and using specific percentages, which vary depending upon whether the customer's debts are backed by preferred self-liquidating guarantees – LWPSLG (cash deposits and rights over credit letters) or by preferred guarantees that may be readily liquidated – LWRLPG (treasury bonds issued by the Peruvian National Government, marketable securities listed within the Selective Index of the Lima Stock Exchange, among others) or by other preferred guarantees – LWPG (primary pledge on financial instruments and property, primary pledge on agricultural or mining concessions, insurance on export credits, among others). The guarantees received are considered at their net realizable value as determined by independent appraisers. Likewise, computing of the provision must consider the credit classification of the guarantor or guaranteeing party for credits subject to counterparty substitution by a financial or insurance entity (CAC).

As of December 31, 2015 and 2014, the provisions of the direct loan portfolio are determined in accordance with the SBS Resolution No.11356-2008, effective from July 2010, applying the following percentages:

(i.a) Loans classified into the "Normal" category:

Loan type	**Fixed-rate** %	**Pro-cyclical component (*)** %
Corporate	0.70	0.40
Large-business	0.70	0.45
Mortgage	0.70	0.40
Medium-business	1.00	0.30
Small-business	1.00	0.50
Revolving consumer	1.00	1.50
Non-revolving consumer	1.00	1.00
Micro-business	1.00	0.50

(*) In case the loan has highly liquid preferred guarantees (LWHLPG), the pro-cyclical component shall be 0, 0.25 or 0.30 percent, depending on the loan type. During 2014, the pro-cyclical rule was deactivated by the SBS, see more detail in paragraph (ii) Pro-cyclical component.

(i.b) For loans classified in other categories:

Risk category	Without Guarantees %	With Preferred Guarantees %	With Readily Preferred Guarantees %	With Highly Liquid Preferred Guarantees %
With potential problems	5.00	2.50	1.25	1.00
Substandard	25.00	12.50	6.25	1.00
Doubtful	60.00	30.00	15.00	1.00
Loss	100.00	60.00	30.00	1.00

The provision for indirect loans in determined on the basis of the "Exposure equivalent to credit risk", according to the credit conversion factor. As of December 31, 2015 and 2014, the provision rate for indirect loans can be 0, 25, 50 and 100 percent, depending on the type of credit and is determined over the basis of a loan conversion factor.

When debt is considered as uncollectable it is written-off against the corresponding provision for doubtful loans. The subsequent recovery of amounts previously written-off is recognized as income in the statements of comprehensive income.

Provision for collection risk is maintained at a level that the Bank's Management considers sufficient to cover potential losses in the loan portfolio at the date of the statements of financial position.

(ii) Pro-cyclical component -

The pro-cyclical provision represents an additional component to the rate of the generic provision mentioned above (calculated for loans classified as normal) based on the percentages established by the SBS, however, on November 27, 2014, the pro-cyclical component was deactivated by SBS through Circular Letter B-2224-2014, considering that the average of the annualized percentage variation of the last thirty months in the Gross Domestic Product (GDP) (considering as last information September 2014) was lower than 5.00 percent (actual 4.99 percent).

The SBS has the power to activate or deactivate the application of the pro-cyclical component depending on the behavior of the percentage of the average annual gross domestic product (GDP) if it is above or below 5.00 percent, respectively.

The SBS has established that while the pro-cyclical provision is deactivated, financial institutions are not allowed, under any circumstance, to generate profits from the reversal of such provisions, which should be used only for recording mandatory specific provisions. As of December 31, 2015 and 2014, the Bank maintains a voluntary generic provision amounting to S/49.7 million for doubtful direct loans corresponding to the provision that was determined according pro-cyclical rule that at those dates are still to be assigned to specific mandatory provisions. Likewise, as of December 31, 2015, the Bank maintains pro-cyclical provisions for indirect loans amounting to S/6.4 million (S/5.7 million as of December 31, 2014).

(iii) Provision for excess borrowing of the retail portfolio –
In compliance with SBS Resolution No. 6941-2008, the Bank makes an additional generic provision. Such provision is applicable to direct loans to small entities, loans to micro entities, revolving and non-revolving consumer loans of borrowers classified by the Bank in the category of Normal, as appropriate. As of December 31, 2015 and 2014, this provision amounting to S/37.2 million and S/34.2 million, respectively.

Provisions for direct loans are disclosed deducted from the balance of related asset and provisions for indirect loans are disclosed as liabilities.

(f) Foreign currency -
Functional and presentation currency –
The Bank considers the Sol as its functional and reporting currency, because it reflects the nature of the economic events and the relevant circumstances of the Bank, given that its main operations and/or transactions such as: loans granted, investments, financing obtained, financial revenue and expenses, other revenues, payroll and purchases, are established and settled in soles.

Transactions and balance in foreign currency –
Transactions in foreing currency are those which are made in other currency than the functional currency.

Assets and liabilities in foreign currency are initially recorded at the exchange rate prevailing at the date that the transactions are performed and are translated into the functional currency using the exchange rates prevailing at the date of the statements of financial position, established by the SBS; see Note 23.3(ii). Gains or losses resulting from the translation of monetary assets and liabilities in foreign currency at the exchange rates prevailing at the date of the statements of financial position are recorded in the statements of comprehensive income of the period on the caption "Gain on financial transactions", see Note 18.

Non-monetary assets and liabilities acquired in foreign currency are recorded at the exchange rate for the date of the initial transaction change and are not subsequently adjusted.

(g) Available-for-sale and held-to-maturity investments –
The criteria for the initial recognition and valuation of financial assets applied by the Bank comply with Resolution SBS N° 7033-2012 "Rules for Classilication and Valuation of Financial Assets in the Financial System"; likewise, the Bank classified its investments in the categories defined by the Resolution: (i) investments at fair value through profit or loss, (ii) available-for-sale investments, (iii) held-to-maturity investments, and and (iv) investments in subsidiaries, associates and interest in joint ventures. As of December 31, 2015 and 2014, the Bank only has investments classified into the following categories:

- Available-for-sale investments– The category of available-for-sale investments includes all financial assets that are not classified at fair value through profit or loss, held-to-maturity financial assets or investments in subsidiaries and associates; i.e., it´s a residual category.

  Available-for-sale investments are initially measured at fair value, including transaction costs directly attributable to the acquisition of such securities. These financial assets are subsequently measured at fair value and the gain or loss originated from the change between their initial recognition and fair value is recorded directly in equity in the caption "Unrealized results" net of tax effect, unless an impairment loss is recorded. When the financial instrument is sold, the gain or loss, previously recorded as a part of the equity, is transferred to the income statement of the period.

  In the case of debt securities, previously to the valuation at fair value, the amortized cost is updated in the accounts applying the effective interest rate method, and the variation resulting of the amortized cost is used for the recognition of the gains and losses.

  Any gains or losses from currency exchange differences related to the amortized cost of debt instruments are recorded in the income statement, while those related to the difference between the amortized cost and the fair value are recorded in the statements of changes in equity as part of the unrealized results.

  In the case of equity instruments, they are considered non-monetary items and, consequently, they remain at their historical cost in local currency, which means that any exchange differences are part of their valuation and are recognized as part of the unrealized results in the statements of changes in equity.

- Held-to-maturity investments - Comprises financial assets that represent debt acquired with the intention of holding them to maturity and they are initially recognized at fair value, including costs directly attributable to the transaction and are subsequently measured at amortized cost using the effective interest rate method, less impairment losses.

  In order to classify their investments in this category, financial entities must assess they have the financial capability to hold them until their maturity. This capability must be evaluated at the closing date of each annual period.

Transactions must be recorded using the trading date; that is, the date at which the reciprocal obligations that must be performed within the term established by regulations and the usual practice on the market at which the operation takes place.

Interests are recognized by applying the effective interest rate method, which includes both the receivable interest and the amortization of the premium or discount existing in the acquisition.

The difference between the revenues received from the disposal of these investments and their book value is recognized in the statements of comprehensive income.

Impairment assessment –
SBS Resolution No. 7033-2012 establishes a standard methodology for the identification of the impairment of financial instruments classified as available-for-sale and held-to-maturity. Said methodology comprises a two-filter analysis, as described below:

(i) First filter:
On a quarterly basis the following conditions on the entire portfolio of debt and equity investments must be assessed:

(a) Significant decrease of fair value: In case the fair value at the date of the financial statements has decreased below 50.0 percent of the purchasing cost.

(b) Prolonged decrease of fair value: In case the monthly average fair value decreases consecutively during the last 12 months, and the cumulative fall of the fair value in said period is at least 20.0 percent.

The aforementioned assessment is performed in the original currency of the instrument in order to isolate the exchange rate difference.

(ii) Second filter:
For the instruments that passed the first filter, the following circumstances related to qualitative aspects of the issuer are assessed:

(a) Impairment of the financial position or financial ratios of the issuer or its economic group.

(b) Adverse conditions of the investment and the issuer. Adverse conditions include adverse changes in the economic environment, technological or market in which the issuer or investment operates.

(c) Downgrading of the risk classification as consequence of additional factors to the aforementioned.

(d) Interruption of the interest or principal payments due to financial difficulties of the issuer.

(e) Interruption of transactions or of an active market due to financial difficulties of the issuer.

(f) Forced renegotiation of the contractual conditions of the instrument due to legal or economic factors related to the issuer.

(g) Evidence that the issuer will enter into a forced restructuring or bankruptcy process.

(h) Decrease in value due to legislation changes (taxes, regulatory or other governmental).

(i) The Bank does not have the intention and capacity to hold the investment with losses up until the recovery of its value. In such case, it will be necessary to perform a forecast of the estimated time needed to recover the value and an assessment of the evidence that shows, on the basis of historical information and the financial position of the Bank, whether there is the intention and capacity to maintain the investment all through that period of time.

In accordance with the established in such Resolution, if at least two of the analyzed factors are affirmative, then impairment exists. Once a loss due to impairment is recognized, the following assessments are performed over the book value of the instruments, net of the impairment previously recognized.

The impairment loss corresponding to debt instruments classified as available-forsale will be reversed in profit or loss, if the increase in the fair value of the instrument can be associated proven and objectively to a favorable event occurred after the loss. The impairment loss corresponding to equity instruments are reversed through the "Other comprehensive income".

The impairment loss of held-to-maturity investments will be reversed in profit or loss if it is related to an after recognition of impairment (such as an improvement in the risk rating of the instrument or the issuer) event. The reversal will not result in a carrying amount of the debt instrument exceeding the amortized cost that would have been determined if it had not accounted for the impairment loss on investment in the reversal date.

On the other hand, when the SBS considers necessary to establish any additional provision for any type of investment, such provision must be determined on the basis of each individual instrument, and should be recorded in the income statements of the period in which the SBS requires such provision.

(h) Property, furniture and equipment –
Property, furniture and equipment are recorded at acquisition cost, less accumulated depreciation and accumulated amount of impairment, if applicable, see paragraph (k) below. Maintenance and repair costs are charged to the statements of income and significant renewals and improvements are capitalized when: i) it is probable that future economic benefits will flow from the renewal or improvement; and ii) cost can be measured reliably. The cost and its corresponding accumulated depreciation and any impairment loss of an asset sold or retired are eliminated from the corresponding accounts and the related gain or loss is included in the statements of income.

Work in progress and in transit units are accounted at their acquisition cost. These goods are not depreciated until they are received or finished and placed into service.

Land is not depreciated. Depreciation is calculated using the straight-line method considering the following estimated useful lives:

	Years
Buildings and other constructions	33
Improvements in rented property and installations	5
Furniture and equipment	10
Computer equipment	4
Vehicles	5

The residual values, the useful lives assigned and the selected depreciation method are periodically reviewed to ensure that they are consistent with the economic benefit and useful life expectations of property, furniture and equipment items.

(i) Finite useful life intangible assets -
The intangible assets are included in the caption "Other assets, net" of the statements of financial position and are stated at historical acquisition cost less accumulated amortization and accumulated impairment losses, if applicable, see paragraph (k). These assets are composed principally by acquisition and development of software used by the Bank in its operations.

Amortization of assets with finite useful lives is calculated following the straight-line method over a 4–year period. According to SBS Resolution N°1967-2010, finite useful life intangible assets are amortized in no more than five years.

As of December 31, 2015 and 2014, the Bank does not have indefinite useful life intangible assets.

(j) Income tax -
Current Income Tax is computed based on the taxable income determined for tax purposes, which is determined using criteria that differ from the accounting principles used by the Bank.

Therefore, the Bank recorded deferred income taxes, considering the guidelines of IAS 12 "Income Tax". The deferred Income Tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes.

Deferred income tax is determined using the liability method, on the temporary differences arising between the tax bases of assets and liabilities for accounting and tax purposes.

Deferred tax liabilities are recognized for all taxable temporary differences; while deferred tax assets are recognized for all deductible temporary differences to extent that it is probable that sufficient future profits for the deferred tax assets can be applied.

Deferred tax assets and liabilities are measured using the tax rates expected to be applied to taxable income in the years in which temporary differences are expected to be recovered or settled, on the basis of the tax rates which were approved at the statements of financial position dates.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences which arise from the way in which it is expected to recover or eliminate the carrying amount of its assets and liabilities at the statements of financial position dates.

The carrying amount of deferred tax assets and deferred tax liabilities may change even though there is no change in the amount of temporary differences, due to a change in the rate of income tax. The effect of the change in deferred tax, corresponding to the tax rate change shall be recognized in the statements of income, except for items previously recognized outside statements of income (either in other comprehensive income or directly in equity).

Assets and liabilities deferred income taxes are offset if there is legal right to offset and deferred taxes relate to the same taxable entity and the same taxation authority.

(k) Impairment of long-lived assets -
When there are events or economic changes to indicate that the value of property, plant and equipment and intangible assets may not be recoverable, the Bank reviews those asset values in order to verify that there is no permanent impairment in their values. When the book value of the asset exceeds its recoverable value, an impairment loss is recognized in the statement of comprehensive income for each caption mentioned above. The recoverable value is the highest between the net sale price and its value in use. The net sale price is the amount that can be obtained from the sale of an asset in a free market, while the value in use is the present value of the estimated future cash flows provided by the continuous use of an asset and its disposal at the end of its useful live. The recoverable amounts are estimated for each asset or, if not possible, for each cash generating unit.

(l) Fiduciary activities –
Assets and cash flows from fiduciary operations in which there is a commitment to return such assets and cash flows to a client and in which the Bank participates as a fiduciary, have been excluded from these financial statements because they are not owned by the Bank and are only recognized in off-balance sheet accounts for control purposes. The commissions for these activities are included in "Other" in the caption "Income from financial services" in the statements of comprehensive income.

(m) Retirement pensions –
The provision for retirement pensions includes mainly the provisional obligations of the Pension Regime under Decree Law 20530. Under IAS 19, "Employee benefits", the provision for retirement pensions is part of a Government Plan of Defined Benefit, and the Bank is obliged to provide benefits according to Decree Law 20530 and complementary standards. Within the defined benefit scheme, actuarial risk is assumed by the Bank and supported by its assets and operations. Based on the life expectations of the beneficiaries of this scheme, Management considers that the amount of this obligation will decreased progressively in the long-term.

The provision for retirement reserve fund for active and retired personnel is recognized in accordance with Supreme Decree NO.043-2003-EF published on March 28, 2003, which establishes that State companies will be governed by the Accounting Resolution NO.159-2003-EF/93.01 published on March 12, 2003, which approved Instruction No.20-2003-EF/93.01 that establishes the accounting procedure to record and control pension reserves, non-pension reserves and reserves for contingencies.

The Bank fully records the results of actuarial calculations for pension reserves as a liability. The total amount of provisional obligations is adjusted based on the amounts obtained from future actuarial calculations in relation to the previous actuarial calculation and the variation is applied directly to the results of corresponding period.

The actuarial calculation of the provisional obligations is made on an annual basis by a qualified actuary of the Planning, Statistics and Rationalization Division of the Social Security Administration Office" (hereinafter ONP) using the technical guidelines of the ONP approved by Resolution No.073-2015-Jelatura/ONP. The carrying amount of the pension, determined in accordance with the actuarial calculation, is measured at the present value of all future pension payments using a discount rate of 4.29 percent, or annual technical interest rate (TITA, for the Spanish acronym) in soles, applied to the actuarial commutation mortality tables for a horizon in the medium and long term (4.50 percent at December 31, 2014); which was set in the Technical Guide and the foundation of it is in a supporting study in the report N° 004/2015-OPG.EE/ONP, which is presented the Technical Guide. The rate is determined based on long-term liabilities and not over return on assets. The interest rate is equivalent to the rate of long-term yield curve relevant for Peru.

(n) Provisions –

Provisions are recognized only when the Bank has a present obligation (legal or implicit) as result of past events, it is probable that an outflow of resources will be required to settle such obligation, and the amount has been reliably estimated. Provisions are reviewed in each period and are adjusted to reflect their best estimate as of the statements of financial position date. When the effect of the time value of money is significant, the amount recorded as a provision is the present value of future payments required to settle the obligation.

(o) Contingencies –

Contingent liabilities are not recorded in the financial statements. They are disclosed in the Notes to the financial statements, unless the possibility of an outflow of economic benefits is remote.

Contingent assets are not recognized in the financial statements; however, they are disclosed when their contingency degree is probable.

(p) Cash and cash equivalents –

Cash and cash equivalents presented in the statements of cash flows correspond to "Cash and due from banks" of the statements of financial position, which includes deposits with less than a three-month maturity as of the acquisition date, BCRP time deposits, funds deposited in the central bank and overnight deposits, excluding restricted funds.

(q) International Financial Reporting Standards (IFRS) -

(q.i) IFRS issued and in force in Peru as of December 31, 2015 –

The CNC through Resolution N° 059-2015-EF/30 issued on August 7, 2015, formalized the adoption of IFRS versions in force on year 2015 to IFRS 1 to 15, IAS 1 to 41, pronouncement 7,10,15, 25,27,29 and 32 of the Standard Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) 1 to 21.

In addition, the CNC through Resolution No. 058-2015-EF/30 issued on March 5, 2015, formalized the amendments to IAS 1, IFRS 7, IAS 34, IFRS 10, IFRS 12 and IAS 28.

The application of these standards begins the following day of the issuance of such resolution or after as stipulated in each specific standard.

(q.ii) IFRS issued but not yet effective as of December 31, 2015 –

- Amendments to IAS 1 "Presentation of Financial Statements". Effective for annual periods beginning on or after January 1, 2016.

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": clarification of the acceptable methods of depreciation and amortization. Effective for annual periods beginning on or after January 1, 2016.

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture: Production Plants". Effective for annual periods beginning on or after January 1, 2016.

- Amendments to IAS 27 "Separate Financial Statements": Equity method in separate financial statements. Effective for annual periods beginning on or after January 1, 2016.

- IFRS 9 "Financial Instruments: Recognition and Measurement". Effective for annual periods beginning on or after January 1, 2018.

- IFRS 14 "Regulatory Deferral Accounts". Effective for annual periods beginning on or after January 1, 2016.

- IFRS 15 "Revenue from Contracts with Customers". Effective for annual periods beginning on or after January 1, 2018.

- IFRS 16 "Leases". Effective for annual periods beginning on or after January 1, 2019.

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures": Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. Effective for annual periods beginning on or after January 1, 2016.

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investments Entities: Applying the consolidation exception. Effective for annual periods beginning on or after January 1, 2016.

- Amendments to IFRS 11 "Joint Arrangements": Accounting for Acquisitions of Interests. Effective for annual periods beginning on or after January 1, 2016.

- Annual Improvements to IFRS (cycle 2012-2014)
  The IASB issued improvements to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee benefits" and IAS 34 "Interim Financial Reporting". Effective for annual periods beginning on or after January 1, 2016.

Given that the standards detailed solely apply in a supplementary manner to the accounting regulation established by the SBS, they will not have any significant effect on the preparation of the accompanying financial statements, unless the SBS adopts them in the future through the modification of its Accounting Manual for Financial Entities or the issuance of specific rules thereon. The Bank has not estimated the effect on its financial statements if such rules were adopted by the SBS.

3. Cash and due from banks

Cash and due from banks include the mandatory reserve that the Bank must maintain for their obligations with the public and are within the limits established by prevailing legislation. The balance of mandatory reserve is made up as follows:

	2015 S/(000)	2014 S/(000)
Deposits in Peruvian Central Bank – BCRP	560,998	1,409,968
Cash in the vaults of the Bank	1,622,933	1,295,445
Total	2,183,931	2,705,413

The reserve funds held in BCRP do not earn interest; except for the part that exceeds the minimum legal reserve. As of December 31, 2015, the excess of minimum legal reserve in foreign currency and local currency accrue interest at annual rates of 0.09 and 0.48 percent, respectively (0.04 percent for foreign currency and 0.35 for local currency, to December 31, 2014)

Furthermore, the Bank maintains the following funds deposited in the Peruvian Central Bank:

	2015 S/(000)	2014 S/(000)
Time deposits (*)	6,925,544	7,620,552
Overnight deposits (**)	68,220	271,726
Special deposit acrrued interest	10,164	12,636
Total	7,003,928	7,904,914

(*) As of December 31, 2015, the deposit denominated in soles bears interest at effective annual rate of 2.50 percent (2.00 percent at December 31, 2014).

(**) As of December 31, 2015, correspond to a deposit amounting to US$20.0 million, equivalent to S/68.2 million, which accrue interest at effective annual rate of 0.30 percent with maturity on January 4, 2016 (as of December 31, 2014, correspond to a deposit amounting to US$91.0 million, equivalent to S/271.7 million which accrued interest at effective annual rate of 0.13 percent with maturity on January 5, 2015)

As of December 31, 2015 and 2014, the Bank maintains deposits in the following local financial entities:

	2015 S/(000)	2014 S/(000)
Current accounts:		
Banco de Crédito del Perú S.A.	7,619	2,565
Banco Internacional del Perú S.A.A. – INTERBANK	4,175	1,377
BBVA Banco Continental S.A.	3,181	950
Scotiabank Perú S.A.A.	40	41
Banco Financiero del Perú S.A.	22	21
Time deposits: (***)		
BBVA Banco Continental S.A.	295,000	-
Scotiabank Perú S.A.A.	271,000	-
Banco Financiero del Perú S.A.	20,000	-
Banco Interamericano de Finanzas S.A.	14,006	-
Accrued interest	16,368	-
Total	631,411	4,954

(***) It corresponds to deposits in soles, which have maturities between May and June 2016 and bear interest at effective annual rates between 4.31 and 4.86 percent.

Current accounts in local Banks and deposits in foreign banks relate mainly to balances in soles and US$ dollars; they are freely available and bear interest at market rates.

During 2015, the Bank recorded accrued interest amounting to approximately S/141.6 million, S/16.4 million and S/0.5 million generated by the special deposit, time deposits and other available, respectively, (approximately S/181.0, S/0.1 and S/6.3 million, respectively, at December 31, 2014) which are recorded under "interest from cash and due from banks" in the caption "Interest income" in of the statements of comprehensive income, note 16.

4. Investments

(a) The available-for-sale investments are made up as follows:

	2015		2014	
Description	Quantity	Estimated fair value S/(000)	Quantity	Estimated fair value S/(000)
BCRP Certificate of deposits (b)	39,165	3,853,648	45,000	4,394,199
Peruvian sovereign bonds (c)	1,183,580	1,058,026	1,003,201	1,020,129
Corporate bonds (d)	296,363	776,796	259,723	674,995
Republic of Peru's Global bonds (c)	146,250	580,742	197,500	741,880
Peruvian treasury notes (e)	1,233,000	121,014	102,000	10,017
Listed equity securities (Bladex) (f)	446,556	39,497	446,556	41,736
Supranational bonds	2,020	16,142	2,000	5,879
Commercial papers - Agrobanco	7,000	6,695	-	-
Asset backed securities and others	3,523	5,308	3,514	5,689
		6,457,868		6,894,524
Accrued interest		41,296		30,665
Country risk provision.		(622)		(859)
Total		6,498,542		6,924,330

(b) The instruments to bearer that are freely negotiable securities and issued at a discount by public auctions carried out by BCRP, are traded in the Peruvian secondary market, and payable in soles. The gain obtained comes from the difference between the discounted price paid to acquire them and the nominal value that are redeemed at maturity.

(c) As of December 31, 2015 and 2014, sovereign bonds are issued in soles and global bonds in US dollars and euros, they are acquired at rates and prices offered in the market at the trade date.

(d) The detail of corporate bonds is made up as follows:

	2015 S/(000)	2014 S/(000)
Transportadora de Gas del Peru	81,743	-
Apple Inc.	66,552	-
Mivivienda	61,759	14,959
Consorcio Transmantaro	51,266	-
Directv Holdings	50,434	-
Citigroup	44,434	43,367
Southern Corp.	37,451	39,911
Comision Federal de Electricidad	30,728	-
Compañia Minera Milpo	25,661	48,368
Luz del Sur S.A.A.	24,082	25,876
Gas Natural de Lima y Callao S.A.	23,411	13,190
Caterpillar Inc.	23,065	-
At&T Inc.	20,409	50,664
Edelnor	20,083	20,960
Mcdonald's Corp.	19,106	-
Red de Energia del Peru Rep.	17,967	19,490
JP Morgan Chase Bank N.A.-New York	17,127	17,122
Scotiabank	16,679	5,033
Viacom Inc.	15,342	-
Wall-Mart Stores Inc.	13,302	-
Home Depot Inc.	10,606	-
Oracle Corp.	10,199	-
Cofide	5,671	39,998
Goldman Sachs	3,014	70,745
Newmont Mining Corp.	-	113,141
Royal Bank of Scotland	-	42,379
Other minor to S/10.0 millions	86,705	109,792
	776,796	674,995

(e) Debt instruments issued by the Treasury on behalf of the Republic of Peru which are acquired at a discount and a nominal unit value of S/100. The gain obtained comes from the difference between the discounted price paid to acquire them and the nominal value that are redeemed at maturity.

(f) As of December 31, 2015 and 2014, it corresponds to the common class "A" shares issued by Bladex, representing 1.1 percent of its share capital. At those dates, the fair value was US $ 25.93 and US $ 31.30, respectively.

(g) As of December 31, 2015 and 2014, the maturities and the internal rates of return on the investments available-for-sale are as follows:

			Internal rates of return									
			2015					2014				
	Maturity		S/		US$		€	S/		US$		€
	2015	2014	Min %	Max %	Min %	Max %	Min/Max %	Min %	Max %	Min %	Max %	Min/Max %
BCRP Certificate of deposits	Jan-16 / Mar-17	Jan-15 / Jun-16	3.23	4.56	-	-	-	3.33	4.00	-	-	-
Peruvian sovereign bonds	Aug-17 / Feb-42	May-15 / Feb-42	3.84	7.04	-	-	-	4.43	6.51	-	-	-
Corporate bonds	Jan-16 / Jun-45	Feb-15 / Jun-45	4.62	7.96	3.48	11.03	-	4.80	6.89	2.97	11.63	0.10 / 0.10
Republic of Peru's Global bonds	May-16 / Nov-50	Feb-15 / Mar-37	-	-	3.13	4.61	2.74 / 2.74	-	-	2.21	4.39	-
Peruvian treasury notes	Jan-16 / Dic-16	Jan-15 / Dic-15	3.39	4.78	-	-	-	3.77	3.93	-	-	-
Supranational bonds	Mar-18 / Nov-34	Nov-34	5.58	5.58	7.25	7.25	-	-	-	7.25	7.25	-
Commercial papers - Agrobanco	Aug-16	-	6.34	6.34	-	-	-	-	-	-	-	-
Assets back securities and others	Jan-17 / Jul-17	Jul-17	6.49	6.49	2.48	2.48	-	-	-	2.50	2.50	

During the years 2015 and 2014, the Bank recorded accrued interest of approximately S /268.2 and S /219.2 million, respectively, which were recorded in "Income from investments available-for-sale" of the caption "Interest income" in the statements of comprehensive income. See note 16.

(h) As of December 31, 2015 and 2014, Management has estimated the market value of available-for-sale investments on the basis of available prices on the market or, in their absence, by discounting expected cash flows at an interest rate that reflects the risk classification of the title.

As of December 31, 2015, the Bank has a deferred income tax asset of approximately S/24.8 million, see note 12 (a), generated by the unrealized loss on certain available-for-sale investments that are affected to the income tax by approximately S/88.6 million (net deferred income tax liability of approximately S/2.3 million, see note 12 (a), and unrealized gains of approximately S/8.2 million, as of 31 December 2014). As of December 31, 2015, the Bank has unrealized losses related to certain investments that are not affected to the income tax of approximately S/179.2 million (approximately S/86.6 million, as of December 31, 2014).

Bank Management has determined that the unrealized losses of its available-for-sale investments as of December 31, 2015 and 2014 are of a temporary nature. Additionally, It has decided and has the ability to hold each one of the available-for-sale investments that have unrealized loss for a period of time sufficient that allows an anticipated recovery in fair value; which can happen in the maturity thereof in the case of debt instruments.

(i) The balance of investments available-for-sale as of December 31, 2015 and 2014 classified by maturity is made up as follows:

	2015 S/(000)	2014 S/(000)
Up to 3 months	1,517,847	761,783
From 3 months to 1 year	2,459,553	2,861,202
From 1 to 3 years	129,252	1,206,346
From 3 to 5 years	233,633	247,093
More than 5 years	2,078,085	1,776,364
Without maturity	39,498	41,736
Total	6,457,868	6,894,524

(j) Investments held-to-maturity

Through Supreme Decree No.002-2007-EF dated January 11, 2007, the MEF repealed the Supreme Decree No.21 0-2006-EF dated December 27, 2006, which established, among other matters, the reconciliation of the reciprocal obligations held by the MEF and the Bank as of September 30, 2006, signing a reciprocal borrowing reconciliation Certificate (hereinafter "Reconciliation Certificate") on December 28, 2006.

The aforementioned Supreme Decree ratified the Reconciliation Certificate, stating that the reconciled obligations as of September 30, 2006 are updated as of January 1, 2007, according to the criteria established in the Reconciliation Certificate. In this regard, it stated that compensation and total cancellation of MEF's obligations in favor of the Bank would be on January 2, 2007.

Reciprocal debts reconciled as of September 30, 2006 resulting from the Reconciliation Certificate, signed on December 28, 2006, resulted in debts of the MEF in favor of the Bank for US$31.3 million, and Bank debts in favor of the MEF for US$72.4 million, obtaining a net debt in favor of the MEF for US$41.1 million.

Likewise, in the Reconciliation Certificate signed between the MEF and the Bank updated as of January 1, 2007, determined additional borrowings of the MEF in favor of the Bank for S/64.3 million and US$849.2 million for various borrowing operations approved by explicit legal norms.

As a result of the reciprocal borrowing reconciliation Certificate signed between the MEF and the Bank on December 28, 2006 and January 1, 2007, all compensated reciprocal debt is as follows:

	S/(000)	US$(000)
Debt of the MEF in favor of the Bank (i):		
Certificate - December 28, 2006	-	31,335
Certificate - January 1, 2007	64,338	849,171
Debt of the Bank in favor of the MEF (ii):		
Certificate - December 28, 2006	-	(72,414)
Debt of the MEF in favor of the Bank (I) – (ii)	64,338	808,092

Through Supreme Decree No.002-2007 -EF, amended by the Consolidate, Offset and Settle Borrowings Agreement ("Convenio de Consolidación, Compensación y Cancelación de Obligaciones") signed between the MEF and the Bank on March 26, 2007; the following conditions were established arising from the offsetting of the reciprocal borrowings between the MEF and the Bank:

- MEF compensated the debt in favor of the Bank providing on March 30, 2007 a bond for S/2,644. 6 million; therefore, the debt in US dollars was translated using the selling exchange rate published by the SBS at closing of transactions on January 2, 2007 for S/3.193 per US$1.

- The bond was issued under the following characteristics:
  - Denominated in Soles
  - Non-negotiable
  - Maturity date: 30 years
  - Amortizable annually
  - Yearly interest rate 6.3824 percent, payable quarterly
  - Book-entry in CAVALI SA I.C.L.V.

- Bond annual amortization will be charged to the net profits of the Bank for an amount equivalent to no less than 30.0 percent of the profits which corresponds to the Public Treasury. In any case, the amortization cannot be less than S/60.0 million. If profits corresponding to the Public Treasury are not sufficient to cover this amount, the MEF will provide the difference charging it to budget items allocated to the public debt service.

- If the bond reaches maturity there are outstanding balances, the MEF will settle them.

- Bond's accrued interest will be settled by the MEF.

Because bonds holding issued by the MEF was made under a law (by Supreme Decree No. 002-2007-EF), where interests are canceled with money resources of the MEF and amortization could be made with resources from the MEF itself (if the Bank does not generate profits), the Bank's Management defined it as an investment to be held until maturity, taking into account both the intent and the Bank's ability to hold these bonds to maturity.

The balance of this bond as of December 31, 2015 and 2014 amounted to S/1,164.9 and S/1,369.9 million, respectively; also, during 2015 the bond generated interest for approximately S/73.9 million (approximately S/87.5 million as of December 31, 2014), which were recorded under "Income from investments held-to-maturity" in the caption "Interest income " of the statements of comprehensive income, note 16.

In the Board of Directors Meeting No. 2044 held on March 9, 2015, the Bank approved the distribution of net profits for the year 2014, in favor of the Public Treasury. Consequently, an annual amortization of the Bond was made for approximately S/204.4 million as a result of such distribution, see note 13 (d).

In Board of Directors Meeting No. 1993 held on March 7, 2014, the Bank approved the distribution of net profits for the year 2013, in favor of the Public Treasury. Consequently, an annual amortization of the Bond was made for approximately S/172.5 million as a result of such distribution, see note 13 (d).

5. Loans, net

(a) This item is made up as follows:

	2015 S/(000)	2014 S/(000)
Direct loans		
Current		
Sovereign loan – MEF (b)	5,209,262	2,886,548
Loans to financial system	920,464	1,291,848
Loans to public sector entities	293,158	-
Consumer loans	3,815,009	3,502,683
Mortgage loans	164,255	137,945
Refinanced	1,632	1,189
Past due	28,975	17,510
Legal collection	28,806	25,027
	10,461,561	7,862,750

	2015 S/(000)	2014 S/(000)
Add (less)		
Accrued interest from current loans	60,075	44,261
Deferred interest income on refinanced loans	(486)	(358)
Provision for legal collection loans (e)	(263,564)	(220,967)
Total direct loans, net	10,257,586	7,685,686
Indirect loan, (d) and note 15(a)	1,135,960	1,928,536

(b) It corresponds to loans granted to public sector entities that have allocations by the Public Treasury to specifically pay such exposures; which they are requested exclusively by the MEF through Supreme Decrees.

The net increase in approximately S/2,322.7 million as of December 31, 2015 compared to as of December 31, 2014, corresponds mainly to loans for implementing public investment projects. The main beneficiary institutions were: The Navy of Peru – La Marina de Guerra del Peru - (S/1,717.0 million), the regional governments of the Department of San Martin and Callao (S/432.0 million) and the Air Force of Peru – La Fuerza Aérea del Peru - (S/199.0 million).

Part of the loans is collateralized with guarantees received from customers, which are mainly state employees and pensioners and government agencies. Such guarantees are made up mostly of mortgages, bonds, deposits and securities.

(c) As of December 31, 2015 and 2014, the portfolio of direct loans under segmentation arranged in SBS Resolution No. 11356-2008, is as follows:

	2015 S/(000)	2014 S/(000)
Non-retail loans		
Corporate	6,422,884	4,178,458
Medium-business	6,369	6,112
	6,429,253	4,184,570
Retail loans		
Revolving and non-revolving consumer loans	3,866,564	3,539,511
Mortgage	165,096	138,059
Small-business	610	572
Micro-business	38	38
	4,032,308	3,678,180
Total	10,461,561	7,862,750

(d) According to SBS regulations, as of December 31, 2015 and 2014, the Bank's loan portfolio risk classification is as follows:

	2015						2014					
Risk category	Direct loans		Indirect loans		Total		Direct Loans		Indirect loans		Total	
	S/(000)	%	S/(000)	%	S/(000)	%	S/(000)	%	S/(000)	%	S/(000)	%
Normal	10,302,587	98.5	1,098,956	96.7	11,401,543	98.3	7,730,672	98.3	1,812,292	94.0	9542,964	97.5
Potential problems	28,764	0.3	-	-	28,764	0.2	27,342	0.3	-	-	27,342	0.3
Substandard	21,981	0.2	-	-	21,981	0.2	20,427	0.3	-	-	20,427	0.2
Doubtful	53,035	0.5	37,004	3.3	90,039	0.8	44,391	0.6	116,244	6.0	160,635	1.6
Loss	55,194	0.5	-	-	55,194	0.5	39,918	0.5	-	-	39,918	0.4
	10,461,561	100.0	1,135,960	100.0	11,597,521	100.0	7,862,750	100.0	1,928,536	100.0	9,791,286	100.0

(e) The movement of the provision for loan losses (direct loans) is shown below:

	2015 S/(000)	2014 S/(000)
Balance as of January 1	220,967	199,816
Provision, net of recoveries	45,931	21,004
Recoveries of written-off loans	289	32
Loan portfolio written-off	(3,503)	-
Exchange difference and other	(120)	115
Balance as of December 31	263,564	220,967

As of December 31, 2015 and 2014, the provision for direct doubtful loans includes a voluntary generic provision amounting to S/49.7 million corresponding to the provision that was determined under the procyclical rule.

As of December 31, 2015 and 2014, the provision for indirect loans is approximately S/14.5 million and S/19.5 million, respectively, which are presented under "Other liabilities" in the statements of financial position, note 8 (a).

In management's opinion, the provision for doubtful loans recorded as of December 31, 2015 and 2014 is in accordance with SBS regulations in force on those dates, note 2 (e).

(f) The interests generated by the loan are agreed freely taking into account the interest rates in force in the markets where the Bank operates. As of December 31, 2015 and 2014, the annual effective rates for the main products were:

	2015		2014	
	National currency %	Foreign currency %	National currency %	Foreign currency %
Overdrafts	3.5 – 17.0	12.0	3.5 -17.0	12.0
Corporate loans	7.1 - 13.1	8.0	7.1-13.1	8.0
Consumer loans				
Loans	10.0 - 19.0	-	10.0-19.0	-
Credit card	14.0 - 27.0	-	14.0-27.0	-
Mortgage loans	7.5 – 10.0	-	7.5-10.0	-

The interests, fees and expenses on loans or subscription that are in a situation of arrears, refinanced, in judicial collection, or classified in categories "Doubtful" or "Loss" are recorded as income in abeyance and are recognized as income in the statementsof income when actually collected. Amounts not recognized as income from this source are recorded in the "Income from loans in abeyance" under "suspense accounts".

(g) As of December 31, 2015 and 2014, the direct gross loan classified by maturity, based on the remaining period to repayment date is as follows:

	2015 S/(000)	2014 S/(000)
Outstanding loans -		
Up to 1 month	425,741	217,142
From 1 to 3 months	665,951	493,240
From 3 months to 1 year	2,315,764	1,874,198
From 1 to 3 years	5,873,773	4,176,601
From 3 to 5 years	725,266	612,344
More than 5 years	395,653	445,499
Refinanced	1,632	1,189
Past due and under legal collection loans	57,781	42,537
Total	10,461,561	7,862,750

6. Accounts receivables, net

(a) As of December 31, 205 and 2014, this item is made up as follows:

	2015 S/(000)	2014 S/(000)
Receivables to COFIDE (b)	275,661	257,347
Receivable for sale of securities (c)	63,569	-
Advances to suppliers (d)	46,714	96,949
Claims to third parties (e)	22,504	34,250
Commissions (f)	19,750	19,921
Sale of office Orrantia, note 21(c)	18,402	-
Advances to staff	17,146	14,024
Other receivables	10,347	6,164
	474,093	428,655
Provision for claims to third parties	(5,604)	(5,349)
Provision for other receivables	(252)	(464)
	468,237	422,842

(b) Though Emergency Decree No.024-2009 issued on February 20, 2009, the Business Guarantee Fund was established ("Fondo de Garantía Empresarial - FOGEM") that is an autonomous equity constituted with an amount of US$98.0 million, equivalent to S/300.0 million, executed by the Bank charging to its own resources, and the FOGEM's administration was in charged to the Corporación Financiera de Desarrollo S.A. (COFIDE); under the terms and conditions of the contract signed between the two institutions.

The objective of FOGEM is to guarantee loans that the financial entities, members of the National Financial System, grant for micro and small services, trade and productive company, and for the median company that performs production activities and/or services within chains of non-traditional exports.

The effective period to make use of the FOGEM was 2 years, from the effective date of the Operating Rules; however, Emergency Decree No.058-2011 issued on October 26, 2011, extended such period up to September 30, 2012, and by public-sector budget law ("Ley de Presupuesto del Sector Público") for fiscal year 2014 in its "Centésima Primera Disposición Complementaria Final", the effective period to make use of FOGEM was extended until December 31, 2016.

The opening balance of the account receivable with COFIDE corresponded to the contribution, in dollars, made by the Bank for the constitution of FOGEM. Subsequent to initial recording, these investments were recognized monthly by applying the equity method to reflect in its financial statements all the income generated by the FOGEM ,which includes funds' updating that keeps the FOGEM in US dollars as a result of contribution made by the Bank in that currency. It's worth mentioning at the settlement date, all remaining rights and obligations will be transferred to the Bank.

(c) It corresponds to amounts receivable from the sale of debt securities (sovereign and corporate bonds) made on December 30, 2015; which they were collected in the first days of January 2016

(d) The Bank signed an agreement with the MEF under the Fifty-Fifth Supplementary Provision of Law No. 30114 – Ley del Sector Público 2014, with that agreement, they set out the terms and conditions of expenses' reimbursement for the procurement of goods and services incurred by the Bank at the request of the MEF to perform the "Special Project Board of Governors BM/FMI 2015- Peru". Meanwhile, the MEF undertakes to reimburse to the Bank all expenses incurred and credited of the Project until January 31, 2016; those disbursements amounted to S/41.5 million approximately, as of December 31, 2015. Also, as of December 31, 2015 the building of the Bank's new headquarters is in the final stage, for that reason there are advances granted for approximately S/0.8 million (S/92.5 million as of December 31, 2014) and advances granted to other suppliers for S/4.4 million for the future delivery of goods and services (S/4.5 million as of December 31, 2014).

(e) As of 31 December 2015, the balance mainly corresponds to S/9.1 million of reimbursements receivable to the Executive Units of Social Programs "Pension 65" and "Juntos", mainly due to the payments made by the Bank to securities conveyor Companies for transport and custody services around the nation.

As of December 31, 2014, the balance mainly corresponds to the account receivable to SUNAT for S/19.8 million generated by payments in excess made when transferring it the amount of the third parties' collected tributes on December 2014. With the SUNAT's approval, the Bank debited this amount from its checking account, on February 2015.

(f) As of 31 December 2015, the balance corresponds mainly to: (i). S/13.4 million of commission receivable for judicial and administrative deposits that Judicial Branch keeps in the Bank (S/13.4 million as of December 31, 2014), and (ii) S/4.2 million commission receivable to the Executive Units of Social Programs "Pension 65" and "Juntos" for distribution money services to its beneficiaries around the nation (S/4.6 million as of 31 December 2014).

7. Property, furniture and equipment, net

(a) During 2015 and 2014, the movement of this item is as follows:

	Land S/(000)	Buildings and other constructions S/(000)	Improvements in rented property and Installations S/(000)	Furniture and equipment S/(000)	Computer Equipment S/(000)	Vehicles S/(000)	Work in progress and in transit units S/(000)	2015 S/(000)	2014 S/(000)
Cost (i)									
Balance as of January 1	59,644	398,581	15,292	105,723	198,826	7,753	179,545	965,364	784,991
Additions	1,539	328	621	9,258	39,566	2,810	284,981	339,103	186,647
Sales, note 21(c)	(5,336)	(35,815)	-	-	-	-	-	(41,151)	-
Transfers	-	-	-	99	10,153	-	(10,252)	-	-
Write-offs and other	-	-	-	(2,044)	(5,717)	(1,795)	-	(9,556)	(6,274)
Balance as of December 31	55,847	363,094	15,913	113,036	242,828	8,768	454,274	1,253,760	965,364
Accumulated depreciation (ii)									
Balance as of January 1	-	261,525	10,298	67,549	140,263	6,352	-	485,987	449,449
Depreciation of the year	-	9,762	2,065	8,529	26,993	591	-	47,940	41,429
Sales, note 21(c)	-	(31,024)	-	-	-	-	-	(31,024)	-
Write-offs and other	-	-	-	(1,803)	(5,358)	(1,723)	-	(8,884)	(4,891)
Balance as of December 31	-	240,263	12,363	74,275	161,898	5,220	-	494,019	485,987
Impairment of properties (iii)	12,994	31,986	-	-	-	-	-	44,980	44,980
Net book value (i)-(ii)-(iii)	42,853	90,845	3,550	38,761	80,930	3,548	454,274	714,761	434,397

(b) Work in progress mainly comprises the new headquarter building project. On November 19, 2013, it was signed the Processing Contract of Work's Technical and Execution File between the International Organization for Migration (IOM), on behalf of the Bank, and COSAPI S.A. (contractor). The contract amounts to S/412.5 million approximately (including IGV) and the execution time is 800 calendar days to be carried out in four stages. As of December 31, 2015, according to the work's valuations submitted by the Bank, the construction of the new headquarters has an advance's degree approximately 88.37 percent, equivalent to approximately S/318.7 million.

(c) Banks in Peru are prohibited pledging the assets of its fixed assets.

(d) The Bank maintains insurance on its main assets in accordance with the policies established by management.

(e) Management periodically reviews the assets' residual value, the useful life and the depreciation method used; in order to ensure they are consistent with the economic benefits and life expectancy.

(f) In 2010, the Bank performed the appraisal of its lands and properties; due to these appraisals, the Bank recorded impairment in lands and buildings for approximately S/8.6 million and S/31.4 million, respectively. Also, in 2011, it recorded S/0.4 million for an unrecognized impairment of buildings adjustment that came from year 2010; in 2013, the Bank recorded an impairment of its land due to the incorporation of awarded land, which is located in the Ate district, this amount ascends to S/4.4 million.

8. Other assets, net and other liabilities

(a) This item is made up as follows:

	2015 S/(000)	2014 S/(000)
Other assets, net		
Financial instruments		
Operations in process (b)	34,562	55,174
Head office and branches (c)	48,577	36,893
	83,139	92,067
Non-financial instruments		
Balance in favor of income tax. (f)	94,261	102,352
Intangibles, net (d)	55,530	52,284
Advance payments and Deferred Changes	29,677	18,160
Various items	1,904	1,214
	181,372	174,010
Total	264,511	266,077
Other liabilities		
Financial instruments		
Operations in process (b)	211,213	415,254
Provision for indirect loan, note 5(e)	14,483	19,533
Cash superavit	6,635	4,418
	232,331	439,205
Non-financial instruments		
Provision for litigations y claims (e)	106,543	71,128
Deferred income for interests and comissions of indirect loans	2,391	2,478
Provision for sundry risks	237	240
Other	489	1,129
	109,660	74,975
Total	341,991	514,180

(b) They are transactions made in the month's last days, reclassified the following month to their final accounts for the statements of financial position; these transactions do not affect the Bank's results.

As of 31 December 2015, the balance of passive process operations mainly includes: (i) checks received from other banks outstanding exchange for approximately S/133.9 million (approximately S/369.5 million as of December 31, 2014), which were transferred in the first days of January through the system of the Central Bank, and (ii) transfers abroad for approximately S/47.0 million at the request of its customers (approximately S/5.4 million as of December 31, 2014), which were transferred the first days of January.

(c) The balance of head office and branches corresponds to pending transactions between the Bank's offices located nationwide; the main type of operation is the money remittance transferred from the main to the agencies and offices within the country, via BCRP.

(d) The balance of intangibles corresponds mainly incurred disbursements and advances granted for the acquisition and implementation of the new "Core Banking", according to the provisions in the terms of reference included in the basis and the technical and economic proposals, documents that are part of the contract No. CO-017790-2013-BN signed on January 22, 2014 between the Bank and partnership Nessa Global Banking Solutions S.A. and Rural Servicios Informaticos Sociedad Civil for US$24,854,240, which includes the cost of service, insurance and taxes, and everything that is necessary for the proper execution of the service.

During the years 2015 and 2014, the Bank recorded an amortization of S/14.1 million and S/11.2 million, respectively, in the "Depreciation and amortization" in the statements of comprehensive income.

(e) It corresponds to provisions for labor and social demands; also, for civil and arbitration proceedings filed against the Bank; those demands have been registered on the basis of estimates made by management and its legal advisor. In the management and its legal advisor's opinion, it won't be significant additional liabilities to those already recorded by the Bank.

(f) As of December 31, 2015 and 2014, it corresponds mainly the positive balance of the income tax determined in the 2009 and 2013 annual affidavits for approximately S/42.9 million and S/48.0 million, respectively; which they will be requested as refund to the tax authorities (SUNAT).

9. Deposits and obligations with the public

(a) As of December 31, 2015 and 2014, the balance of obligations by product is as follows:

	2015 S/(000)	2014 S/(000)
Current accounts (b)	14,243,242	12,492,525
Saving deposits	6,591,935	6,583,325
Restricted obligations with the public (c)	2,686,379	2,650,551
Social benefits of workers and pensioners (d)	1,919,323	1,958,142
Time deposits (g)	690,494	1,021,530
Severance indemnity deposits	64,534	51,688
Other obligations with the public (e)	168,984	165,558
	26,364,891	24,923,319
Accrued interest payable (f)	85,412	82,541
Total	26,450,303	25,005,860

The Bank has as a policy to remunerate current accounts, savings deposits, time deposits, bank certificates and judicial and administrative deposits according to an interest rates' increasing scale, depending on the term and average balance maintained in such accounts. Moreover, as part of this policy, it was established that balances under a certain amount, for each account's type, will not generate interest.

Interest rates applied to different obligations and deposit accounts are determined by the Bank taking into account considering mainly the current interest rates in the Peruvian financial market.

(b) Deposits in current account are made up mainly by:

	2015 S/(000)	2014 S/(000)
Private Sector	5,230,167	4,997,508
MEF	2,906,521	1,247,249
Public institutions	1,545,931	1,512,389
Central government	1,442,281	1,925,176
Local government	1,423,244	953,268
Public companies	969,646	1,010,003
Regional government	714,072	834,615
Essalud	11,039	12,272
International organizations and other	341	45
Total	14,243,242	12,492,525

(c) This balance corresponds to judicial and administrative deposits, guarantee deposits, judicial withholdings and immobilized deposits for approximately S/1,823.9 million, S/780.9 million, S/81.5 million y S/0.1 million, respectively (approximately S/1,456.5 million, S/1,126.8 million, S/66.3 million y S/1.0 million, respectively, as of December 31, 2014).

(d) The provision for social benefits represents the obligations assumed for severance rights for active employees, as well as the retirement provision of the Bank's former workers and active workers. As of December 31, 2015 and 2014, it comprises:

	2015 S/(000)	2014 S/(000)
Retirement pensions - Decree Law No.20530	1,914,643	1,954,424
Labor Regime - Law No.4916	4,571	3,599
Labor Regime - Decree Law No.11377	109	119
	1,919,323	1,958,142

Retirement pensions provision mainly correspond to the present value of future payments of retirement pensions of the Bank's workers and former workers, subject to Decree Law No.20530. These are life annuities received by pensioners for unemployment, disability, widowhood and orphanage. Pension operations have traditionally been considered within actuarial life operations. However, they have a distinct objective and designation, due to the economic importance and the actuarial specialization they require. Considering the particularities of the pension-plan operations, they are defined as operations in which the probable risk coverage period is the whole life of the plan participant.

On March 28, 2003 was published the Supreme Decree No.043-2003-EF, in which provisions are established for the registration of government pension-plan obligations of the Pension Regime of the Decree Law No.20530 and amendments, for which funding does not come from resources of the Public Treasury. This Decree modifies the Supreme Decree No.106-2002-EF, incorporating in the actuarial calculation of pensions the standards contained in the Supreme Decree No.026-2003-EF dated February 27, 2003 and, where applicable, those of the Accounting Resolution No.159-2003-EF/93.01 dated March 6, 2003 and other provisions issued by the General Public Accounting Directorate, for the purpose of registration and control of the pension-plan obligations.

The movement in the present value of the retirement provision for pensioners and workers under Decree Law No. 20530 is as follows:

	2015 S/(000)	2014 S/(000)
Balance at the beginning of the year	1,954,424	2,012,390
Additions debited to personnel expenses	136,520	123,006
Provisions, rates and charitable fund	3,157	2,863
Payments to pensioners	(179,458)	(183,835)
Balance at the end of the year	1,914,643	1,954,424

The obligation for retirement pensions decreased as compared to 2014, mainly due to the reduction in the number of pensioners from 5,818 as of December 31, 2014 to 5,659 pensioners as of December 31, 2015.

The main actuarial assumptions at the date of the statements of financial position are as follows:

	2015 S/(000)	2014 S/(000)
Discount rate	4.29%	4.50%
Average life expetancy	18.68 years	19.08 years
Active service period	0 years	0 years
Pensioners with statutory bonuses	710	729
Pensioners with reward	4,743	4,877
Pensioners with no bonus	105	103
Assets with statutory bonuses	101	109

According to the representations by the Bank's management, the discount rate used is 4.29 percent, because it is established in the Technical Guide and the basis for it is in a supporting study to the report N ° 004/2015-OPG.EE/ONP, in which the Technical Guide is presented. The rate’s determination is based on long-term liabilities and not on assets return’s methods. The interest rate is the equivalent of the long-term rate of relevant yield curve for Peru.

The average period and active service period have been calculated based on the definition established in Guideline No.20 of the Resolution of the Peruvian General Accountancy ("Contaduría Pública de la Nación") No.159-2003-EF/93.01. An active service period that is equal to zero implies that the active worker is able to become a pensioner immediately.

Mortality tables used in actuarial calculations are those defined as "Mortality tables - SP 2005 (Peruvian)" for own right and right to healthy living condition and mortality tables denominated MI-85- H and MI-85-M in the case of a disabled person, either man or woman, respectively, approved by the MEF through Ministerial Resolution No.757-2006-EF/15 and incorporated in its annex by Ministerial Resolution No.146-2007-EF/15 dated March 23, 2007.

In the article 3 ° "Maximum amount of pensions" of the law that establishes the new rules of the pension scheme of Legislative Decree N°20530 - Law N°28449 issued on December 30, 2014, it mentions that the maximum amount monthly retirement pensions regulated by the Law N°20530 is two (2) Tax Units – ("UIT", by its Spanish acronyms). In this regard, as of December 31, 2015, the calculation of pension reserves for pensioners has been made with a maximum amount of pension equal to two (2) Tax Units equivalent to S/7,700 (S/7,600, as of December 31, 2014).

(e) The other obligations with the public are made up of cashier checks, transfers payable, certified checks and bank certificates for S/76.6 million, S/67.4 million, S/20.2 million y S/4.8 million, respectively (S/84.0 million, S/63.3 million, S/13.2 million y S/5.1 million, respectively, as of December 31, 2014).

(f) Accrued interest payable correspond to administrative and judicial deposits for approximately S/81.5 million y S/3.9 million, respectively (approximately S/78.9 million y S/3.6 million, respectively, as of December 31, 2014).

(g) The balance of the time deposits classified by maturity is as follows:

	2015 S/(000)	2014 S/(000)
Up to 3 months	82,579	410,950
From 3 months to 1 year	105,970	105,472
From 1 to 3 years	501,637	504,863
From 3 to 5 years	-	-
More than 5 years	-	-
	690,186	1,021,285
Accrued interests for time deposits	308	245
Total	690,494	1,021,530

10. Deposits of financial system companies and international financial institutions

As of December 31, 2015, it includes sight deposits for S/596.3 million and saving deposits for S/0.8 million (S/442.4 million and S/1.0 million, respectively, as of December 31, 2014).

The sight deposits grouped by kind of financial entity are made up as follows:

	2015 S/(000)	2014 S/(000)
COFIDE	286,651	258,858
Fondo mivivienda	186,668	101,957
Bank entities	78,189	37,521
Caja Rural	18,681	9,937
Caja Municipal	17,522	23,223
Financial entities	5,860	8,049
Edpymes	2,567	2,693
Foreign bank entities	190	167
Total	596,328	442,405

The saving deposits are made of deposits constituted by Cajas Municipales.

11. Accounts payable

(a) As of December 31, 2015 and 2014, this item is made up as follows:

	2015 S/(000)	2014 S/(000)
Suppliers	114,766	159,886
Collected and withheld taxes (b)	64,622	75,566
Group performance bonus	33,500	17,804
Other accounts payable (c)	32,473	24,022
Workers' profit sharing payable - legal	32,285	29,266
Vacations payable	21,338	19,703
Other accounts payable to staff	19,096	23,163
Tax payable on own account (d)	11,868	1,698
Other	143	125
	330,091	351,233

(b) As of December 31, 2015, it corresponds to the taxes collected nationally by the Bank at the request of the Tax Administration – SUNAT, which amounted to S/50.9 million (S/71.8 million as of December 31, 2014) and taxes withheld by the Bank as withholding agent which amounted to S/13.7 million (S/3.8 million as of December 31, 2014), which were transferred to the SUNAT in January 2016.

(c) It mainly includes obligations payable derived from transactions made through other banks' ATMs and establishments affiliated to VISA, pending of confirmation for S/3.6 million and S/10.5 million, respectively (S/5.5 million and S/9.5 million as of December 31, 2014, respectively), protection insurance for Multired loans for S/3.0 million (S/2.2 million in the year 2014), transfer FEBAN wellness program for S/1.3 million (S/1.1 million in the year 2014), and reimbursements pending for S/2.7 million (S/2.4 million in the year 2014), among others.

(d) As of December 31, 2015, the balance includes: (i) tax income payable for approximately S/171.8 million, which are net of prepayments for income tax for approximately S/163.5 million, and (ii) other contributions and taxes for approximately S/3.6 million (approximately S/1.7 million, as of 31 December 2014).

12. Deferred income tax asset, net

(a) This item is made up as follows:

	Balances as of December 31, 2013 S/(000)	(Debit) credit to equity S/(000)	(Debit) credit to income S/(000)	Balances as of December 31, 2014 S/(000)	(Debit) credit to equity S/(000)	(Debit) credit to income S/(000)	Balances as of December 31, 2015 S/(000)
Deferred assets							
General provision for direct loans	40,672	-	819	41,491	-	6,135	47,626
Provision for litigations and claims	34,748	-	(14,832)	19,916	-	9,916	29,832
Provision for vacations	6,042	-	(525)	5,517	-	458	5,975
General provision for contingent loans	3,594	-	1,550	5,144	-	(1,192)	3,952
Specific provision for contingent loans	124	-	200	324	-	(220)	104
Provision for fixed asset's devaluation	9,596	-	2,998	12,594	-	-	12,594
Property depreciation	-	-	-	-	-	9,541	9,541
Intangible amortization	-	-	-	-	-	8,975	8,975
Unrealized gain	-	-	-	-	24,808	-	24,808
Other	12,811	-	(1,696)	11,115	-	(10,195)	920
Total deferred asset	107,587	-	(11,486)	96,101	24,808	23,418	144,327
Deferred liabilities							
Property depreciation	(5,581)	-	(695)	(6,276)	-	6,276	-
Unrealized gain	11,117	(13,424)	-	(2,307)	2,307	-	-
Total deferred liabilities	5,536	(13,424)	(695)	(8,583)	2,307	6,276	-
Total deferred asset, net	113,123	(13,424)	(12,181)	87,518	27,115	29,694	144,327

(*) The amounts recognized in the income statements and statements of changes in equity net for the year ended as of December 31, 2014 due to effect of rate income tax exchange, explained in Note 2 (l), It corresponds to losses amounting to S/6,468,000 and S/19,000, respectively.

(b) The composition of the balances presented in the statements of comprehensive income for the years ended December 31, 2015 and 2014 are as follows:

	2015 S/(000)	2014 S/(000)
Current – expenses	171,755	166,813
Deferred – (income) expenses	(29,694)	12,181
	142,061	178,994

(c) Reconciliation of the effective tax rate to the statutory tax rate for the years 2015 and 2014 is as follows:

	2015		2014	
	S/(000)	%	S/(000)	%
Income before income tax	826,727	100.00	883,843	100.00
Theoretical expense	231,484	28.00	265,153	30.00
Effect on taxable income				
Tax effects on additions and deductions for permanent differences	(89,423)	(10.82)	(111,391)	(12.60)
Effect of non-deductible expenses				
Effect of change in Peruvian tax rate, note 14(a)	-	-	25,232	2.85
Income tax, current and deferred	142,061	17.18	178,994	20.25

13. Equity

(a) Capital stock –

The Bank's authorized capital amounts to S/1,000,000 thousand, wholly subscribed and paid by the Peruvian Government, as established in article 5 of the Bank's by-laws. The capital stock of the Bank has been paid by the Peruvian State through the capitalization of profits (50.0 percent of net income to cover the Bank's capital and transferred to the Public Treasury), ending the payment in 2007; after which all net income is transferred to the Public Treasury. The capital of the Bank no shares or securities of any kind are issued.

(b) Legal reserve –

Pursuant to legislation in force, the Bank is required to reach an amount no less than 35 percent of its paid-in-capital. This reserve is made through the annual transfer of at least 10% from its net earnings. As of December 31, 2015 and 2014, the Bank covered such legal request.

(c) Unrealized results -

The unrealized results include the unrealized gains (losses) from the valuation of available-for-sale investments. Changes in the unrealized gains (losses) during the years 2015 and 2014, presented net of their tax effect, and are as follows:

	S/(000)
Balance as of January 1, 2014	(140,848)
Transfer of realized gain from available-for-sale investments, net of realized loss, note 18(b)	(21,033)
Net unrealized gain from available-for-sale investments	94,618
Deferred income tax, note 12(a)	(13,424)
Balance as of December 31, 2014	(80,687)
Transfer of realized loss from available-for-sale investments, net of realized gain, note 18(b)	6,893
Unrealized losses from previous years transferred to profit, note 18(b)	48,946
Net unrealized loss from available-for-sale investments	(245,295)
Deferred income tax, note 12(a)	27,115
Balance as of December 31, 2015	(243,028)

(d) Retained earnings -

The Board of Directors Meeting N° 2044 held on March 9, 2015, approved the distribution in favor of the Public Treasury for approximately S/681.4 million, which was performed as follows: S/204.4 million for the annual amortization of bond issued by the MEF, note 4(j), and the remaining balance by S/477.0 million was deposited in the current account of the Public Treasury.

The Board of Directors Meeting N° 1993 held on March 7, 2014, approved the distribution in favor of the Public Treasury of earnings of the year 2013 for approximately S/575.2 million, which was performed as follows: S/172.5 million for the annual amortization of bond issued by the MEF and the remaining balance by S/402.6 million was deposited in the current account of the Public Treasury.

During 2015, the Bank has recorded under "Retained earnings" various adjustments for regularization of transactions for previous years, for a net credit amount of approximately S/6.7 million (net debt amount of approximately S/20.6 million in 2014). In this regard the Bank, considering the materiality of regularization adjustments made and in coordination with the SBS, recorded such adjustments directly in "Retained earnings" as a movement of the year.

(e) Equity for legal purposes –

According to Legislative Decree N°1028, regulatory capital must be equal to or more than 10.0 percent of total risk weighted assets and contingent operations, represented by the sum of: the regulatory capital requirement for market risk multiplied by 10.0, the regulatory capital requirement for operational risk multiplied by 10.0 and assets and contingent credits weighted by credit risk.

As of December 31, 2015 and 2014, pursuant to legislative Decree N°1028 and amendments, the Bank maintains the following amounts related to assets and contingent credits weighted by total risk and regulatory capital (basic and supplementary), in millions of Soles:

	2015	2014
Total risk weighted assets and credits	7,410,811	6,864,758
Regulatory capital	1,405,721	1,396,522
Regulatory capital – basic	1,331,704	1,330,584
Regulatory capital – supplementary	74,017	65,938
Global regulatory capital ratio	13.33%	13.92%

As of December 31, 2015 and 2014, the Bank has fulfilled the requirements of Resolutions N°2115-2009, N°6328-2009 and N°14354-2009, Regulations for the Requirement of Regulatory Capital by Operational Risk, Market Risk and Credit Risk Regulations, respectively, and amendments. Those resolutions establish, mainly, the methodology to be applied by financial entities in order to calculate assets and credits weighted for each type of risk.

On July 20, 2011, the SBS issued Resolution N°8425–2011 requiring an additional regulatory capital, which is the sum of each of the following components: economic cycle risk, concentration risk, market concentration risk, interest rates risk and others. Likewise, it established a gradual adoption period of five years starting in July 2012. As of December 31, 2015, the level of adoption established by SBS is 85.0 percent, as a result, the additional required estimated regulatory capital amounts to approximately S/211.3 million (S/171.9 million equivalent to an adaptation level of 75.0 percent, which was established by SBS as of December 31, 2014).

In Management’s opinion, the Bank is carrying out the requirements established by the resolution mentioned above.

14. Tax situation

(a) The Bank is subject to the Peruvian tax legislation. As of December 31, 2015 and 2014, the statutory Income Tax rate was 28.0 and 30.0 percent, respectively, on the taxable income.

In attention to Act N°30296, approved on December 31, 2014, the Income tax rate applicable on the taxable income, after deducting the workers' profit sharing, is as follows:

- Years 2015 and 2016: 28.0 percent.
- Years 2017 and 2018: 27.0 percent.
- Years 2019 onwards: 26.0 percent.

Legal entities not domiciled in Peru and individuals are subject to retention of an additional tax on dividends received. In this regard and in attention to Act N°30296, the additional tax on dividend income generated is as follows:

- For the profits generated from 2015 onwards, whose distribution is made after that date, the percentages will be the following:

    - Years 2015 and 2016: 6.8 percent.
    - Years 2017 and 2018: 8.0 percent.
    - Years 2019 onwards: 9.3 percent.

(b) Since 2011, with the amendment introduced by Act N°29645 on the Income Tax Act, interest and other income generated by foreign loans granted to the Peruvian National Public Sector must also be included as an item exempted from the Income Tax.

On the other hand, the Law N°29663, subsequently amended by the Law N°29757 established that are considered Peruvian source income to those obtained by the indirect transfer of shares or interests representing the capital of companies domiciled in the country.

For that purpose, it must be considered that there is an indirect sale when capital stock or representatives capital stock of a legal entity not domiciled in Peru is sold and; at the same time, said entity is owner, directly or through one or more entities, of capital stock or representatives capital stock of an entity domiciled in Peru, provided that certain conditions are met. In this regard, it also defines the circumstances in which the issuer is jointly liable.

Currently, the Income Tax Act establishes that a case of indirect transfer of shares occurs when, in any of the twelve (12) months prior to the disposal, the market value of the shares or ownership interests of the domiciled legal entity is equivalent to 50.0 percent or more of the market value of the shares or ownership interests of the non-domiciled legal entity.

Additionally, as a concurrent condition, it is established that a case of indirect transfer of shares also occurs when, in any period of twelve (12) months, the disposal of shares or ownership interests representing 10.0 percent or more of the capital stock of a non-domiciled legal entity is performed.

With regard to the IGV, said tax is not levied on the interest accrued on securities issued by public or private offering by legal entities incorporated or established in Peru; as well as the interest accrued on securities not placed by public offering, when such securities have been acquired through any of the centralized trading mechanisms referred to in the Stock Exchange Act.

(c) For the purpose of determining the Income Tax, the transfer prices agreed for transactions between related entities, or for transactions conducted with or through entities domiciled in low or zero tax countries must be supported by documentation containing information on the valuation methods applied and criteria used in the determination of such prices. In the opinion of Management and its internal legal advisors, the application of these tax standards will not have any material consequences on the Bank's financial statements as of December 31, 2015 and 2014.

(d) The Tax Authority ("SUNAT", by its Spanish acronym) is legally entitled to review and, if necessary, adjust the Income Tax computed by the Bank during a term of four years following the year in which a tax return was filed.

The Bank's Income Tax for the year 2011, 2012, 2013, 2014 and 2015 are pending review by SUNAT.

As of December 31, 2015, the Tax Authority is reviewing the Income Tax for the years 2008 and 2009.

Due to tax regulations are subject to interpretation by the Tax Authorities it is not possible to determine up to date whether the reviews will generate additional liabilities for the Bank. Therefore, any unpaid tax, penalties or interests that might result from said reviews will be expensed in the year in which they are determined. Nevertheless, Management of the Bank and their legal advisors consider that any additional tax assessments would not have a significant impact on the financial statements.

15. Risks and Commitments

(a) This item is made up as follows:

	2015 S/(000)	2014 S/(000)
Contingent operations (indirect loans) (b) -		
Bank letters of guarantee	462,779	699,540
Letters of credit	673,181	1,228,996
	1,135,960	1,928,536
Responsibilities under credit line agreements (c)	3,652,900	4,915,603
Other contingent operations	544	1,381
Total contingent operations	4,789,404	6,845,520

(b) In the normal course of its operations, the Bank performs contingent operations (indirect loans). These transactions expose the Bank to additional credit risk beyond the amounts recognized in the statements of financial position. The Bank's exposure to credit losses from letters of credit and guarantees (indirect loans) is represented by the contractual amounts specified in the related contracts.

The Bank applies the same credit policies for granting direct loans when performing contingent operations, including obtaining guarantees when it deems it necessary. Guarantees vary and include deposits in financial institutions, securities or other assets.

Because most of the contingent operations are expected to expire without any performance being required, the total committed amounts do not necessarily represent future cash requirements.

(c) Responsibilities under credit line agreements do not correspond to commitments to grant credits and include lines of credit of consumer credit and corporate business, which are cancellable upon notification to the client.

16. Interest income and expenses

These items are made up as follows:

	2015 S/(000)	2014 S/(000)
Interest income		
Interest from loan portfolio	828,463	719,947
Interest from available-for-sale investments	268,218	219,207
Interest from held-to-maturity investments	73,927	87,453
Interest from cash and due from banks	158,529	187,366
	1,329,137	1,213,973
Interest expense		
Interest and commissions on deposits and obligations	(58,334)	(48,790)
Gross financial margin	1,270,803	1,165,183

17. Income and expenses from financial services

(a) These items are made up as follows:

	2015 S/(000)	2014 S/(000)
Fee income from financial services		
Income from cash management (b)	326,752	334,736
Income from transfer services (c)	60,707	62,180
Income from services of tax collection	62,702	56,338
Income from savings accounts – Commission credit Notes	20,563	20,432
VISA commission income	23,881	20,761
Income from insurance sales commission	25,881	18,832
Income from ATMs – Multired	17,866	15,648
Income from savings accounts – Commission on withdrawal of credit Notes	14,907	15,042
Income from collection	10,344	9,027
Income from – checks received of other banks - Clearing	5,475	8,460
Income from commission on SUNAT repossessions	6,274	8,333
Income from contingent operations	6,915	7,670
Income from commission on new Mutired card	7,748	6,882
Income from penalties payments to suppliers	2,341	6,352
Services from shared premises	3,846	5,479
Income from services commission - FISE	5,656	3,978
Income from certificates commission	2,843	2,538
Others (d)	62,293	56,012
Total	666,994	658,700

	2015 S/(000)	2014 S/(000)
Expenses relating to financial services		
Other financial services	95,830	81,661
Credit and debit cards	19,314	14,448
Other	5,926	4,741
Total	121,070	100,850

(b) As of December 31, 2015, income from cash management mainly comprises commissions for the management of the fund collected by the Bank on behalf of the General Treasury Directorate for S/293.1 million, correspondent bank services for S/30.9 million and cash services for S/2.8 million (S/303.5 million, S/27.8 million and S/3.4 million, respectively, as of December 31, 2014).

(c) As of December 31, 2015, income from transfer services mainly corresponds to commissions for the services of transfer of funds for S/11.6 million, tele-money order system for S/28.7 million and tele-money order correspondent service for S/20.4 million (S/12.9 million, S/29.1 million and S/20.2 million, respectively, as of December 31, 2014).

(d) As of December 31, 2015, other income from financial services mainly comprises commissions on services to Peruvian Government - run pension plan (“ONP”) for S/7.9 million, commissions on social services program for S/12.5 million, commissions on interbank transfers for S/5.1 million, commissions for protection insurance for S/11.0 million, other commissions on checking and saving accounts for S/22.6 million (S/7.5 million, S/12.6 million, S/4.9 million, S/7.4 million and S/23.5 million, respectively, as of December 31, 2014); among others.

18. Gain of financial transactions

(a) These items are made up as follows:

	2015 S/(000)	2014 S/(000)
Net exchange difference gain	61,711	62,112
Unrealized losses from previous years (b)	(48,946)	-
Net loss (gain) on available-for-sale investments	(6,893)	21,033
Others	17	40
Total	5,889	83,185

(b) During 2015, the Bank held in the account "Unrealized results" of the statements of changes in equity unrealized losses on available-for-sale investments for approximately S/48.9 million, which corresponded to sales transactions made in previous years that must be transferred to the income statement at the time they were made. According to the established in the Accounting Manual for Financial System Companies issued by the SBS, error correction is performed in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", retroactively; except for correcting errors relating to investment, which is recognized in the statements of comprehensive income. In this regard, in December 2015, the Bank transferred this unrealized loss amounting to S/48.9 million in the caption "Net (loss) gain on available-for-sale investments" in the statements of comprehensive income.

19. Administrative expenses

(a) This item is made up as follow:

	2015 S/(000)	2014 S/(000)
Personal and Board of Directors expenses (b)	(621,978)	(547,703)
Services provided by third parties (c)	(266,937)	(255,451)
Taxes and contributions	(67,726)	(65,614)
Total	(956,641)	(868,768)

(b) The table below shows the personal and Board of Directors expenses:

	2015 S/(000)	2014 S/(000)
Remuneration	(211,117)	(205,346)
Retirement, note 9(d)	(136,520)	(123,006)
Legal gratifications	(43,270)	(43,013)
Allowances	(33,898)	(26,484)
Group performance bonus	(33,500)	(33,500)
Legal employees´ profit sharing	(32,285)	(29,266)
Severance indemnities	(23,292)	(22,223)
Social security	(21,789)	(20,963)
Other expenses	(86,307)	(43,902)
Total	(621,978)	(547,703)
Average number of employees	4,463	4,538

(c) The table below shows the expenses for services provided by third parties:

	2015 S/(000)	2014 S/(000)
Repair, maintenance and cleaning services	(73,503)	(76,241)
Communications and other utilities	(56,264)	(50,550)
Professional fees	(49,602)	(47,786)
Security and insurance	(38,981)	(31,405)
Leases of proporty and other assets	(18,335)	(19,661)
Professional services	(9,591)	(7,717)
Transport, mobility and courier services	(3,098)	(3,198)
Other services	(17,563)	(18,893)
Total	(266,937)	(255,451)

20. Valuation of assets and provisions

(a) This item is made up as follows:

	2015 S/(000)	2014 S/(000)
Provisions for litigation and claims (b)	(67,855)	(11,407)
Provision for uncollectable receivables	(14,593)	(10,727)
Provision (recovery of provision) for contingent loans	6,852	(6,863)
Others	(2,654)	(2,297)
	(78,250)	(31,294)

(b) As of December 31, 2015, this category includes provisions for labor and civil cases for an amount of S/62.0 and S/5.8 million, respectively (S/8.1 and S/3.3 million, respectively, as of December 31, 2014).

21. Other income, net

(a) This item is made up as follows:

	2015 S/(000)	2014 S/(000)
Other income:		
Return of taxes and interest (b)	79,143	-
Net gain on sale of Orrantia building (c)	51,678	-
Reversal of provision for litigations and claims	13,368	45,173
Severance claims	4,782	726
Reversal of provision for country risk	3,097	2,729
Income from leases	1,533	2,261
Other income	3,320	3,069
	156,921	53,958
Other expenses:		
Losses and claims not covered by issurance	(7,263)	(964)
Administrative and fiscal penalties	(860)	(246)
Donations	(674)	(868)
Depreciation for obsolescence	(317)	(500)
Other expenses	(787)	(100)
	(9,901)	(2,678)
Other income, net	147,020	51,280

(b) Through Resolution of Intendance N°012-180-0007906 / SUNAT issued on March 13, 2015, SUNAT returned to the Bank the income tax paid in excess corresponding to the annual period 2007 which was generated as a result of an error in quantifying the tax payable.

c) On January 15, 2015, the Bank and the Tribunal Constitucional signed the contract "Compra-venta con reserva de propiedad" of the building located at the intersection of Arequipa Avenue and Javier Prado Oeste Avenue (Orrantia building) for an amount of S/61.8 million and for which payment was agreed on three tranches. The property reservation remained until the cancellation of the second tranch, date on which the ownership of the property was transferred to the Tribunal Constitucional. In January and April 2015, the Bank collected S/25.0 million and S/18.4 million, respectively, as of December 31, 2015 it was in process the payment of the third tranch for an amount of S/18.4 million, see Note 6(a), which will be canceled on March 30, 2016. The net cost of sale of the property amounted to S/10.1 million, which is composed by the book value of the building for an amount of S/41.1 million (buildings and facilities for an amount of S/35.8 million and land for an amount of S/5.3 million) and depreciation for an amount of S/31.0 million, Note 7 (a).

Through the Board of Director's agreement of FONAFE N° 01-2014 / 007-FONAFE held on June 30, 2014, and in recognition of the authorization of the General Manager of the Bank, issued in accordance with Regulation "Sale and exchange of movable and immovable properties of the Bank" approved in Board of Director's Meeting N° 2001 held on May 7, 2014 and amended at Board of Director's Meeting N°2033 held on December 17, 2014, it is authorized the transfer of the property to the Tribunal Constitucional.

22. Financial instruments classification

The following are the carrying amounts of the financial assets and liabilities captions in the statements of financial position, by categories as defined under IAS 39:

	As of December 31, 2015					As of December 31, 2014				
	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Liabilities at amortized cost S/(000)	Total S/(000)	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Liabilities at amortized cost S/(000)	Total S/(000)
Financial Assets										
Cash and due from banks	10,001,698	-	-	-	10,001,698	11,084,867	-	-	-	11,084,867
Available-for-sale investments	-	6,498,542	-	-	6,498,542	-	6,924,330	-	-	6,924,330
Held-to-maturity investments	-	-	1,164,901	-	1,164,901	-	-	1,369,901	-	1,369,901
Loans, net	10,257,586	-	-	-	10,257,586	7,685,686	-	-	-	7,685,686
Accounts receivable, net	468,237	-	-	-	468,237	422,842	-	-	-	422,842
Other assets, net, Note 8	83,139	-	-	-	83,139	92,067	-	-	-	92,067
	20,810,660	6,498,542	1,164,901	-	28,474,103	19,285,462	6,924,330	1,369,901	-	27,579,693
Financial Liabilities										
Deposits and obligations with the public	-	-	-	26,450,303	26,450,303	-	-	-	25,005,860	25,005,860
Deposits of financial system companies and international financial entities.	-	-	-	597,056	597,056	-	-	-	443,382	443,382
Accounts payable	-	-	-	330,091	330,091	-	-	-	351,233	351,233
Other liabilities, Note 8	-	-	-	232,331	232,331	-	-	-	439,205	439,205
	-	-	-	27,609,781	27,609,781	-	-	-	26,239,680	26,239,680

23. Financial risk management

By the nature of its activities, the Bank is exposed to market risks which arise from positions in interest rates and exchange rates; as well as liquidity risks, operational and credit risks, all of which are exposed to general and specific market movements. These risks are managed through the process of identification, measurement and continuous monitoring, and they are subject to risk limits and other controls.

The Bank’s overall risk management program focuses on credit risk and the Bank tries to minimize its potential adverse effects on the Bank’s financial performance.

The Bank's management is aware of the conditions in the market and based on their knowledge and experience it controls the aforementioned risks following the policies approved by the Board of Directors. The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the strategic planning process of the Bank.

(a) Risk management structure and organization -

The Bank maintains policies for risk management which include coverage and mitigation policies based on the risk management rules. Thus, the Bank has policies to manage credit, operational, market, liquidity and country risk. The Bank also has specialized committees which are informed regarding the Bank’s management of each of the risks to which it is exposed.

The Bank’s Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks, as further explained bellow:

(i) Board of Directors -

The Board of Directors is the most senior organic unit whose mission is the management and all control over the financial and administrative operations of the Bank.

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

(ii) Risk Committee -

The Risk Committee is responsible for the strategy used for mitigating risks; and the approval of the objectives, guidelines, policies, procedures and methodologies for the identification and management of risks, among others. Also, it is responsible for supporting the actions that ensure the financial economic viability of the Bank to address the risks to which it is exposed.

The Risk Committee depends of the Board of Director and is composed by a member of the Board of Directors, which leads this committee, General Manager and Risk Manager, who meet at least twice a month or upon request of any of them.

(iii) Audit Committee -
The Audit Committee is the coordinating unit between the Board of Directors and the Internal Control Unit ("OCI" by its acronyms in Spanish). This Committee is established with the objective of monitoring the proper functioning of the internal control system.

The Audit Committee depends of the Board of Directors and its main purpose is to monitor that the accounting process and financial report are appropriate, and shall report to the Board of Directors about the implementation of recommendations issued by the SBS, inspectorate of MEF and Comptroller General of the Republic, and other recommendations of Bank's audit, verifying the implementation of actions. The Committee meets periodically at least once a month.

The Audit Committee is composed by three members of the Board of Directors who do not perform management activities in the bank, one of whom presides, appointing another member as Vice-president.

(iv) Assets and Liabilities Committee–
The Assets and Liabilities Committee is established in order to define and manage the structure of Assets and Liabilities of the Bank's statements of financial position and monitoring liquidity risk, by analyzing indicators that reflect the result of business strategies and investment, with the objective of maximizing the profitability considering the level of risk and ensuring that the company has sufficient resources to deal with a set of unexpected events affecting the its liquidity, such as the loss or reduction of funding sources.

This committee is composed by the Chief Executive Officer (CEO), General Manager, Finance and Accounting Manager, State Bank and Retail Banking Manager, Risk Manager and Deputy Manager of Economic and Financial Studies; who meet at least once a month to discuss issues related to the management of assets and liabilities.

(v) Investment Committee -
The Investment Committee is responsible for promoting and monitoring the conditions of transparency, safety, efficiency and liquidity with which the Bank's investments are developed in order to maximize the profitability of funds while minimizing the risks of them.

This Committee is composed by the CEO, General Manager, Finance and Accounting Manager, Risk Manager, the Money Market Assistant Manager and Credit Risk and Financial Assistant Manager; who conduct regular meetings at least once a month, to assess the state of the investment portfolio and analyze the market situation.

(vi) Credit Committee -
The Credit Committee is responsible for reviewing the tolerance level, limits of exposure, the objective, guidelines and policies for managing credit risk, the delegation of authority and the supervision and establishment of autonomy for taking credit risks and the metrics for measuring the performance incorporating new risk variables. Also, it is responsible for approving the methodologies, models, parameters, scenarios, processes, stress tests and manuals to identify, measure, treat, monitor, control and report all the market risks to which the Bank is exposed. Furthermore, it proposes the approval of any change to the functions described above and reports any finding to the Board of Directors.

The Credit Committee is mainly composed by the CEO, the General Manager and the Manager of State and Retail Banking; who meets according to the needs of analyzing the proposals submitted.

(vii) General Management -
The General Manager has the mission of managing the Bank's activities, and to resolve matters that require its intervention, according to the Board’s resolutions, taking judicial and Bank management representation.

Also, one of the functions and main duties of the General Manager is to plan, schedule, organize and supervise the activities and operations of the Bank’s dependencies, according to the policies established by the Board, of this way, it can delegate in part its authority in other management officials of the Main Office or in the Heads of decentralized agencies (Regional Managers).

(b) Risk measurement and reporting systems -
Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Management is willing to accept. Likewise, The Bank monitors and measures the overall risk bearing capacity in relation to total risk exposure and with all types of risk.

Information compiled from all the Bank is examined and processed in order to analyze, control and identify early any risks. This information is presented and explained to the Risk Management Committee, ALM Risk Committee and Credit Committee. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR (Value at Risk), liquidity ratios and risk profile changes. Management assesses the fair value of the investments and the appropriateness of the provision for credit losses periodically.

(c) Risk mitigation and d risk coverage -

The Bank, in order to mitigate the risks to which it is exposed and concentrations thereof, has established a series of measures among which are the following: (i) Policies, procedures, methodologies, models and parameters aimed to allow to identify, measure, control and report credit risk, (ii) Review and assessment of risk concentrations, through the Risk Committee, (iii) Timely monitoring and tracking of credit risk and its maintaining within a defined tolerance level and, (iv) Compliance with regulatory limits and establishment of internal limits for the exposure concentrations to debtors and counterparties.

The Bank does not use derivatives or other financial instruments to manage exposures resulting from changes in interest rates and foreign currency, since, as indicated below, Management considers that the Bank is not significantly exposed to such risks. Additional, the Bank features specialized committees in which the management of each of the risks in which the Bank is exposed are reported.

(d) Risk concentration –

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

23.1 Credit Risk -

(a) The Bank takes on exposure to credit risk, which is the risk that counterparty causes a financial loss by failing to discharge an obligation. Credit risk is the most important risk for the Bank business; therefore, Management carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans.

The Bank grants loans to its customers, mainly workers and pensioners of the Public Sector, Local and Regional Governments, financial institutions (Banks, Finance Companies, Rural and Municipal Banks and small businesses "Edpymes") and public sector entities. Loans are mainly granted to workers and pensioners of the Public Sector.

The Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, and to geographical segments. Such risks are monitored on a revolving basis and subject to frequent reviews. Limits in the level of credit risk by product and by geographic segment are approved by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below:

(i) Collateral

The Bank uses a range of policies and practices to mitigate credit risk. The most traditional of these is taking of collateral for loans granted. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The main types of collateral obtained are as follows:

- For consumer loans aimed at workers and pensioners of the Public Sector, the Bank mitigates the credit risk by requesting a signed promissory note and receiving as a deposit the salary of these debtors.

- For residential mortgage loans, guarantees include mortgages on real estate.

- For financial intermediary's loans, the Bank requests collateral a signed promissory note and a loan portfolio classified in category "Normal", which is equivalent to the amount of credit granted.

- For commercial loans, the Bank requests deposits in guarantee, stand-by letters of credit, regular budget resources; as appropriate the existing legal framework.

Collaterals are classified in self-liquidating preferred, highly liquid preferred and preferred in accordance with SBS Resolution No 11356-2008, see Note 2(e).

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for impairment losses. It is a Bank policy to dispose off repossessed properties in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank do not use repossessed properties for its own business.

At the same time, the Bank has a Risk Management, which establishes the overall credit policies for each and all the businesses in which the Bank decides to take part in.

(b) The maximum exposure to credit risk as of December 31, 2015 and 2014, before the effect of mitigation through any collateral, is the book value of each class of financial assets indicated in Note 22 and the contingent transactions detailed in Note 15(a).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan portfolio and investments based on the following:

- 98.6 percent of the gross loan portfolio is categorized in the top two grades of the internal rating system establish by the SBS as of December 31, 2015 (98.7percent as of December 31, 2014);

- 99.4 percent of the loan portfolio is considered neither past due nor impaired as of December 31, 2015 (97.5 percent as of December 31, 2014);

- 70.0 percent of the commercial loan portfolio has a sovereign risk as of December 31, 2015 (69.0 percent as of December 31, 2014).

- 97.4 percent of the investments have at least investment credit rating (BBB- or higher) or are debt securities issued by BCRP (unrated) as of December 31, 2015 (98.9 percent as of December 31, 2014);

- 4.8 percent and 75.4 percent of the cash and due from banks represent amounts deposited in the Bank and in the BCRP, respectively, as of December 31, 2015 (5.8 percent and 84.0 percent, respectively, as of December 31, 2014).

(c) Credit risk management for loans -

The Bank classified their loan portfolio into one of five risk categories according with numeral 2, Chapter II of SBS Resolution N°11356-2008, which considers the degree of risk of non-payment of each borrower. The categories used are: (i) normal, (ii) potential problems, (iii) substandard, (iv) doubtful and (v) loss, which have the following characteristics:

(i) Normal: Non-retail borrowers are classified into this category, when their financial situation is liquid, their debt-to-equity ratio is low and their ability to generate benefits and cash flows allow to fulfill their obligations timely. On the other hand, retail and mortgage borrowers are included into this category when payments are current or up to 8 days past due and are current or up to 30 days past due.

(ii) Potential problems: Non-retail borrowers are classified into this category, when their financial situation is solid, their debt-to-equity ratio is moderate and their cash flows are sufficient to pay off notional and interest, however, such cash flows could fall off in the following twelve months. On the other hand, retail and mortgage borrowers are included into this category when payments are between 9 and 30 days past due and 31 and 60 days past due, respectively.

(iii) Substandard: Non-retail borrowers are classified into this category, when their financial situation is weak and their cash flows do not allow to pay off neither notional nor interest and payments are between 60 and 120 days past due. On the other hand, retail and mortgage borrowers are included into this category when payments are between 31 and 60 days past due and 61 and 120 days past due, respectively.

(iv) Doubtful: Non-retail borrowers are classified into this category, when the financial situation does not allow them to pay off neither notional nor interest, their debt-to-equity ratio is high and they are forced to sell their significant assets or payments are between 120 and 365 days late. On the other hand, retail and mortgage borrowers are included into this category when payments are between 61 and 120 days past due and 121 and 365 days past due, respectively.

(v) Loss: Non-retail borrowers are classified into this category, when the financial situation does not allow them to deal with refinancing agreements the entity is not in operation or is in liquidation or payments are more than 365 days past due. On the other hand, retail and mortgage borrowers are included into this category when payments are more than 120 days past due and more than 365 days past due, respectively.

Regarding the assessment of loan portfolios, the Bank classified borrowers into the risk categories established by SBS and according to the classification criteria set out for each loan type, that is, for the borrowers belonging to the non-retail, consumer and mortgage portfolio. The classification of borrowers into their corresponding categories is determined by following the criteria set out by SBS Resolution N°11356-2008, see note 2(e).

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 and the write-off have been approved by the Board of Directors, in accordance with the SBS Resolution No. 11356-2008. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statements of income.

The following is a summary of the direct loans classified in three major groups:

(i) Loans neither past due nor impaired, comprising those direct loans having presently no delinquency characteristics and related to clients ranked as normal or potential problems; ii) Past due but not impaired loans, comprising past due loans of clients classified as normal or with potential problems and iii) Impaired loans, or those past due loans of clients classified as substandard, doubtful or loss; presented net of the provision for loan losses for each of the loan classifications:

	As of December 31, 2015						As of December 31, 2014					
	Commercial loans S/(000)	Micro-Business loans S/(000)	Consumer loans S/(000)	Residential mortgage loans S/(000)	Total S/(000)	%	Commercial loans S/(000)	Micro-Business loans S/(000)	Consumer loans S/(000)	Residential mortgage loans S/(000)	Total S/(000)	%
Neither past due nor impaired -												
Normal	6,422,884	-	3,717,197	162,506	10,302,587	101.0	4,178,396	-	3,415,680	136,596	7,730,672	101.0
Potential problem	-	-	-	-	-	-	-	-	-	-	-	-
Past due but not impaired -												
Normal	-	-	-	-	-		-	-	-	-	-	-
Potential problem	-	-	28,097	667	28,764	-	-	-	26,951	391	27,342	-
Impaired -												
Substandard	-	-	21,337	644	21,981	-	62	-	19,796	569	20,427	-
Doubtful	-	-	51,956	1,079	53,035	1.0	-	-	43,981	410	44,391	1.0
Loss	6,369	648	47,977	200	55,194	1.0	6,112	610	33,103	93	39,918	1.0
Gross	6,429,253	648	3,866,564	165,096	10,461,561	103.0	4,184,570	610	3,539,511	138,059	7,862,750	103.0
Less: Provision for loan losses	(65,960)	(648)	(194,752)	(2,206)	(263,564)	(3.0)	(50,005)	(610)	(168,600)	(1,752)	(220.967)	(3.0)
Total, net	6,363,293	-	3,671,812	162,890	10,197,997	100.0	4,134,565	-	3,370,911	136,307	7,641,783	100.0

As of December 31, 2015 and 2014, refinanced loans amounted to approximately S/1.6 million and S/1.2 million, respectively, of which S/0.2 million and S/0.0 million, respectively, are classified as neither past due nor impaired, and S/1.4 million and S/1.2 million impaired, respectively.

As of December 31, 2015 and 2014, past due but not impaired loans are between 30 and 60 days.

The breakdown of the gross amount of impaired loans by class, along with the fair value of related collateral and the amounts of their provision for loan losses is as follows:

	As of December 31, 2015					As of December 31, 2014				
	Commercial loans S/(000)	Micro-Business loans S/(000)	Consumer loans S/(000)	Residential mortgage loans S/(000)	Total S/(000)	Commercial loans S/(000)	Micro-Business loans S/(000)	Consumer loans S/(000)	Residential mortgage loans S/(000)	Total S/(000)
Impaired loans	6,369	648	121,270	1,923	130,210	6,173	610	96,881	1,072	104,736
Collateral	-	-	-	-	-	-	-	-	-	-
Provision for loan losses	6,369	648	121,270	1,923	130,210	6,173	610	96,881	1,072	104,736

As of December 31, 2015 and 2014, the exposure to this loan portfolio risk is distributed in the following economic sectors:

	2015 S/(000)	2014 S/(000)
Public administration and defense	5,302,420	2,886,611
Financial intermediation	920,464	1,291,848
Mining and oil	200,000	-
Transport, storage and communications	3,411	3,196
Other community services	1,931	1,872
Manufacturing industry	1,612	1,591
Others	50	50
Commerce	13	12
Sub – Total	6,429,901	4,185,180
Consumer loans	3,866,564	3,539,511
Residential mortgage loans	165,096	138,059
Total	10,461,561	7,862,750

(d) Credit risk management on investments available-for-sale and held-to-maturity -
The Bank evaluates the credit risk identified of each of the financial instruments in these categories, considering the risk rating granted to them by a risk rating agency. For investments traded in Peru, the risk ratings used are those provided by the three most prestigious Peruvian rating agencies (authorized by the Peruvian government regulator) and for investments traded abroad, the risk-ratings used are those provided by the three most prestigious international rating agencies.

The following table shows the analysis of the risk-rating of investments available-for-sale provided by the institutions referred to above:

	As of December 31, 2015		As of December 31, 2014	
	S/(000)	%	S/(000)	%
Instruments rated in Peru:				
AAA	100,366	1.6	56,932	0.8
AA- a AA+	31,766	0.5	25,463	0.4
A- a A+	964,356	14.9	1,762,009	25.6
BBB- a BBB+	946,138	14.7	166,590	2.4
BB- a BB+	25,661	0.4	-	-
Unrated				
BCRP certificates of deposit	3,853,648	59.7	4,394,199	63.7
Other instruments	127,709	2.0	35,903	0.5
Subtotal	6,049,644	93.8	6,441,096	93.4
Instruments rated abroad:				
AAA	6,194	0.1	5,879	0.1
AA- a AA+	79,854	1.2	8,509	0.1
A- a A+	79,516	1.2	116,718	1.7
BBB- a BBB+	242,659	3.7	322,321	4.7
Unrated				
Non-listed shares	1	-	1	-
Subtotal	408,224	6.2	453,428	6.6
Total	6,457,868	100.0	6,894,524	100.0

As of December 31, 2015 and 2014, the Bank maintained as held-to-maturity investment a bond issued in Soles by Ministerio de Economía y Finanzas (MEF) which has a sovereign risk classification of "A-" on those dates.

As of December 31, 2015 and 2014, the financial instruments with exposure to credit risk were distributed by the following geographical areas:

	As of December 31, 2015				As of December 31, 2014			
	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)
Peru	20,651,574	6,085,796	1,164,901	27,902,271	18,854,516	6,468,382	1,369,901	26,692,799
United States of America	44,650	313,562	-	358,212	71,105	305,516	-	376,621
Chile	-	-	-	-	-	2,852	-	2,852
Colombia	-	9,952	-	9,952	-	25,981	-	25,981
Mexico	-	31,496	-	31,496	-	29,361	-	29,361
Panama	-	39,497	-	39,497	44,790	41,736	-	86,526
England	57,026	-	-	57,026	148,236	42,384	-	190,620
Germany	44,121	-	-	44,121	89,470	-	-	89,470
Other countries	13,389	18,861	-	32,250	77,690	8,977	-	86,667
Country risk	(100)	(622)	-	(722)	(345)	(859)	-	(1,204)
Total	20,810,660	6,498,542	1,164,901	28,474,103	19,285,462	6,924,330	1,369,901	27,579,693

23.2 Liquidity risk -

The liquidity risk is the inability of the Bank to meet the maturity of their obligations which can result in losses that has a significant effect in its financial position. This risk can occur as a result of various events, such as: the unexpected reduction of funding sources, the inability to liquidate assets quickly, among others.

The Bank's liquidity is managed by the Asset and Liability Committee ("ALCO") where the positions, movements, indicators and limits on liquidity management are presented. Liquidity risk is in turn monitored by the Risk Committee, where the appetite for risk is defined to be proposed to the Board of Directors and indicators, limits and related controls are reviewed.

Likewise, the Bank has a set of indicators that are monitored and reported frequently, these indicators establish the minimum liquidity levels allowed. The indicators reflect different aspects of risk such as: concentration, stability, currency position, availability of liquid assets, etc.

The process used for matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. However, it is unusual for banks to be completely matched, as transacted business is often based on uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and their exposure to changes in interest rates and exchange rates.

The Bank has an internal model which is based on expected maturities and the use of methodological assumptions for asset and liability accounts. Therefore: (i) for asset accounts, it is considered the expected cash flows of investment and loans accounts and it is assumed the distribution criteria for receivables accounts; and, (ii) for liability accounts with uncertain maturity methodology Maximum Probable Withdrawals Modified ("Máximos Retiros Probables Modificada" in Spanish) is applied. This methodology is based on the review of historical data of accounts and the volatility of their variations in order to estimate their expected maturity. In addition, criteria for the distribution of accounts payable and the remaining liabilities are assumed and their cash flows are distributed according to their contractual maturity.

The table below presents the cash flows payable by the Bank by remaining contractual maturities (including future interest payments) at the date of the statements of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows:

	As of December 31, 2015					As of December 31, 2014				
	Up to a month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	Over 1 year S/(000)	Total S/(000)	Up to a month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	Over 1 year S/(000)	Total S/(000)
Financial liabilities by type -										
Deposits and obligations with the public	2,330,067	2,254,121	1,509,469	20,713,547	26,807,204	2,064,630	2,219,177	1,794,703	19,274,558	25,353,068
Deposits of financial system companies and international financial entities	217,651	269,626	108,295	3,128	598,700	91,255	246118	79,928	27,151	444,452
Accounts payable	130,764	151,771	39,346	9,207	331,088	86,623	179,813	48,638	37,008	352,082
Other liabilities	211213	-	-	-	211,213	415,254	-	-	-	415,254
Total liabilities	2,889,695	2,675,518	1,657,110	2,0725,882	27,948,205	2,657,762	2,645,108	1,923,269	19,338,717	26,564,856

23.3 Market Risk –

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and the level of volatility of prices such as interest rates, foreign exchange rates, commodities and equity prices; all of which are exposed to general and specific market movements. Due to the nature of the Bank current activities, commodity price risk is not applicable.

(i) Interest rate risk -

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Cash flows interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The impact of changes in interest rates can occur in two ways: first, that translates into an impact on expected earnings, directly related to the reinvestment risk and the risk that generates when the movements in rates interest expose the firm to higher costs in financing operations (deposit rates); or lower returns in its investment operations (lending rates). The second is related to the valuation of assets and liabilities of the entity and therefore the economic value or actual value of the Patrimony of the same. This mode occurs when interest rates change the market, used for the recovery of the various instruments that are part of the statements of financial position of the Bank.

The SBS defines these two impacts as Earnings at Risk ("GER" its acronym in Spanish) and Equity Value at Risk ("VPR" its acronym in Spanish), establishing a maximum regulatory limit of 5.0 percent for the first, and demanding an increase of additional cash equity in case the second exceeds the 15.0 percent.

As of December 31, 2015 and 2014, the Bank introduced a VPR of 6.9 and 9.9 percent, respectively, and obtained a GER of 4.2 and 3.4 percent for the periods 2015 and 2014, respectively.

The Board sets limits on the level of imbalance of interest rate repricing that may have, which is monitored by Risk Management.

Re-pricing gap –

The analysis of the repricing gap comprises determining the amount of assets and liabilities that reprice interest rates in each time gap, considering the maturity of the operation and the period of repricing of interest rate for the next period. This analysis focuses on measuring the impact of changes in interest rates on expected earnings.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates:

	As of December 31, 2015							
	Up to 1 month S/(000)	1 to 2 months S/(000)	2 to 3 months S/(000)	3 to 6 months S/(000)	6 to 12 months S/(000)	More than 12 months S/(000)	Non-interest bearing S/(000)	Total S/(000)
Assets								
Cash and due from banks	7,779,645	-	-	-	126	530	2,221,397	10,001,698
Available-for-sale investments	532,362	404,449	674,395	1,699,927	840,291	2,307,620	39,498	6,498,542
Held-to-maturity investment	-	-	-	-	-	1,164,901	-	1,164,901
Loans	456,362	200,365	470,515	705,186	1,614,134	6,811,024	-	10,257,586
Accounts receivable and other assets	71,327	354,528	6,434	1,002	13,911	96,940	7,234	551,376
	8,839,696	959,342	1,151,344	2,406,115	2,468,462	10,381,015	2,268,129	28,474,103
Liabilities								
Deposits and obligations with the public	6,128,656	3,246,661	1,412,297	2,536,616	2,919,354	7,430,249	3,373,526	27,047,359
Accounts payable and other liabilities	361,081	50	-	2,671	8,064	9,167	291,049	672,082
	6,489,737	3,246,711	1,412,297	2,539,287	2,927,418	7,439,416	3,664,575	27,719,441
Marginal gap	2,349,959	(2,287,369)	(260,953)	(133,172)	(458,956)	2,941,599	(1,396,446)	754,662
Accumulated gap	2,349,959	62,590	(198,363)	(331,535)	(790,491)	2,151,108	754,662	-

	As of December 31, 2014							
	Up to 1 month S/(000)	1 to 2 months S/(000)	2 to 3 months S/(000)	3 to 6 months S/(000)	6 to 12 months S/(000)	More than 12 months S/(000)	Non-interest bearing S/(000)	Total S/(000)
Assets								
Cash and due from banks	7,672,484	-	-	18	-	518	3,411,847	11,084,867
Available-for-sale investments	309,280	293,422	188,999	1,511,135	1,402,388	3,177,370	41,736	6,924,330
Held-to-maturity investment	-	-	-	-	-	1,369,901	-	1,369,901
Loans	244,801	200,443	295,619	1,003,343	877,479	5,064,001	-	7,685,686
Accounts receivable and other assets	40,339	1,059	2,232	1,499	50,909	397,354	21,517	514,909
	8,266,904	494,924	486,850	2,515,995	2,330,776	10,009,144	3,475,100	27,579,693
Liabilities								
Deposits and obligations with the public	5,466,172	3,191,187	1,298,102	2,344,288	2,723,766	7,688,917	2,736,810	25,449,242
Accounts payable and other liabilities	468,400	48,009	24,425	58	7,140	37,008	280,373	865,413
	5,934,572	3,239,196	1,322,527	2,344,346	2,730,906	7,725,925	3,017,183	26,314,655
Marginal gap	2,332,332	(2,744,272)	(835,677)	171,649	(400,130)	2,283,219	457,917	1,265,038
Accumulated gap	2,332,332	(411,940)	(1,247,617)	(1,075,968)	(1,476,098)	807,121	1,265,038	-

The Bank's exposure to this risk is given by changes in interest rates, basically for its financial obligations and debtors. The Bank does not use derivative financial instruments to hedge this risk, which is minimized by maintaining its financial obligations at fixed interest rates.

As it stated above, management believes that fluctuations in interest rates will not affect the Bank's results.

(ii) Foreign exchange risk -

The Bank is exposed to foreign currency exchange rates on their financial position and cash flows. Management sets limits on the level of exposure by currency and in total intra-day positions, which are monitored daily.

The foreign currency transactions are made at the free market exchange rates.

As of December 31, 2015, the weighted average market exchange rate published by the SBS for transactions in U.S. Dollars was S/.3.408 for buying and S/3.413 for selling (S/2.981 for buying and S/.2.989 for selling, as of December 31, 2014). As of December 31, 2015, the exchange rate established by the SBS to record assets and liabilities in foreign currencies was S/3.411 for each U.S. Dollar (S/2.986 for each U.S. Dollar, as of December 31, 2014).

As of December 31, 2014 and 2013, the Bank assets and liabilities by currencies were as follows:

	2015				2014			
	U.S. Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)	U.S. Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Monetary assets								
Cash and due from banks	396,522	9,480,988	124,188	10,001,698	590,130	10,169,979	324,758	11,084,867
Available-for-sale investments	1,273,866	5,205,582	19,094	6,498,542	1,265,586	5,548,360	110,384	6,924,330
Held-to-maturity investment	-	1,164,901	-	1,164,901	-	1,369,901	-	1,369,901
Loans, net	-	10,257,586	-	10,257,586	-	7,685,686	-	7,685,686
Accounts receivable, net	294,447	173,790	-	468,237	258,879	163,606	357	422,842
Other assets, net, note 8	8,938	74,201	-	83,139	7,210	67,062	17,795	92,067
Total monetary assets	1,973,773	26,357,048	143,282	28,474,103	2,121,805	25,004,594	453,294	27,579,693
Monetary liabilities								
Deposits and obligations with the public	1,694,677	24,645,387	110,239	26,450,303	1,689,972	22,870,698	445,190	25,005,860
Deposits of financial system companies and international financial entities	284,135	312,891	30	597,056	260,672	182,684	26	443,382
Accounts payable	1,161	328,830	100	330,091	1,048	350,184	1	351,233
Other liabilities, note 8	26,042	163,803	42,486	232,331	42,411	396,016	778	439,205
Total monetary liabilities	2,006,015	25,450,911	152,855	27,609,781	1,994,103	23,799,582	445,995	26,239,680
Net monetary position	(32,242)	906,137	(9,573)	864,322	127,702	1,205,012	7,299	1,340,013

As of December 31, 2015, the Bank has contingent operations (indirect loans) in foreign currency for approximately US$197.4 million, equivalent to approximately S/673.2 million (approximately US$360.3 million, equivalent to approximately S/1,229.0 million, as of December 31, 2014), see Note 15(a).

The Bank manages foreign exchange risk by monitoring and controlling the position value due to changes in exchange rates. The Bank measures their performance in Peruvian currency, so if the net foreign exchange position (e.g. U.S. Dollar) is an asset, any depreciation of the Peruvian currency with respect to this currency would affect positively the Bank statements of financial position. The current position in a foreign currency comprises exchange rate-linked assets and liabilities in that currency. An institution's open position in individual currencies comprises assets, liabilities and off-balance sheet items denominated in the respective foreign currency for which the institution itself bears the risk; any appreciation/depreciation of the foreign exchange would affect the statements of comprehensive income.

The Bank net foreign exchange balance is the sum of its positive open non-Peruvian currency positions (net long position) less the sum of its negative open non-Peruvian currency positions (net short position); and any devaluation/revaluation of the foreign exchange position would affect the statements of comprehensive income. A currency mismatch would leave the Bank statements of financial position vulnerable to a fluctuation of the foreign currency (exchange rate shock).

The table below shows the sensitivity analysis of the U.S. Dollar, the currency to which the Bank has significant exposure as of December 31, 2015 and 2014 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Peruvian currency, with all other variables held constant on the statements of comprehensive income, before income tax. A negative amount in the table reflects a potential net reduction in statements of comprehensive income, while a positive amount reflects a net potential increase:

Sensitivity Analysis	**Change in currency rates** %	**2015** S/(000)	**2014** S/(000)
Devaluation -			
U.S. Dollar	5	1,535	(6,081)
U.S. Dollar	10	2,931	(11,609)
Revaluation -			
U.S. Dollar	5	(1,697)	6,721
U.S. Dollar	10	(3,582)	14,189

23.4. Fair values -

(a) Financial instruments recorded at fair value and fair value hierarchy -

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value as of December 31, 2015 and 2014 hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statements of financial position:

	Note	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
As of December 31, 2015					
Financial assets					
Available-for-sale investments:					
Debt securities					
BCRP Certificates of deposit		-	3,853,648	-	3,853,648
Sovereign bonds		927,208	156,021	-	1,083,229
Corporate bonds		653,720	133,379	-	787,099
Global bonds		586,332	-	-	586,332
Other instruments		16,340	132,396	-	148,736
Equity securities		39,497	1	-	39,498
Total financial assets	4(a)	2,223,097	4,275,445	-	6,498,542
As of December 31, 2014					
Financial assets					
Available-for-sale investments:					
Debt securities					
BCRP Certificates of deposit		-	4,394,199	-	4,394,199
Sovereign bonds		856,067	181,655	-	1,037,722
Corporate bonds		571,275	109,576	-	680,851
Global bonds		748,730	-	-	748,730
Other instruments		5,925	15,167	-	21,092
Equity securities		41,735	1	-	41,736
Total financial assets	4(a)	2,223,732	4,700,598	-	6,924,330

Financial instruments included in the Level 1 category are those that are measured on the basis of quotations obtained in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial instruments included in the Level 2 category are those that are measured on the basis of observed markets factors. This category includes instruments valued using: quoted prices for similar instruments, either in active or less active markets and other valuation techniques (models) where all significant inputs are directly or indirectly observable based on market data.

Following is a description of how fair value is determined for the main Bank financial instruments where valuation techniques were used with inputs based on market data which incorporate the Bank's estimates on the assumptions that market participants would use for measuring these financial instruments:

- Valuation of debt securities -
  Valuation of BCRP certificates of deposit, corporate and sovereign bonds are estimated calculating their Net Present Values (NPV) through discounted cash flows, using appropriate and relevant zero coupon rate curves to discount cash flows in its respective currency and considering observable current market transactions. Other debt instruments are valuated using valuation techniques based on assumptions supported by prices from observable current market transactions, obtained via pricing services. Nevertheless, when prices have not been determined in an active market, fair values are based on broker quotes and assets that are valued using models whereby the majority of assumptions are market observable.

(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 financial instruments, which are not measured at fair value, presented in the statements of financial position by level of the fair value hierarchy:

	As of December 31, 2015					As of December 31, 2014				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	10,001,698	-	10,001,698	10,001,698	-	11,084,867	-	11,084,867	11,084,867
Held-to-maturity investments	-	1,164,901	-	1,164,901	1,164,901	-	1,369,901	-	1,369,901	1,369,901
Loans, net	-	10,257,586	-	10,257,586	10,257,586	-	7,685,686	-	7,685,686	7,685,686
Accounts receivable	-	468,237	-	468,237	468,237	-	422,842	-	422,842	422,842
Other assets, net	-	83,139	-	83,139	83,139	-	92,067	-	92,067	92,067
Total	-	21,975,561	-	21,975,561	21,975,561	-	20,655,363	-	20,655,363	20,655,363
Liabilities										
Deposits and obligations with the public	-	26,450,303	-	26,450,303	26,450,303	-	25,005,860	-	25,005,860	25,005,860
Deposits of financial system companies	-	597,056	-	597,056	597,056	-	443,382	-	443,382	443,382
Accounts payable	-	330,091	-	330,091	330,091	-	351,233	-	351,233	351,233
Other liabilities	-	232,331	-	232,331	232,331	-	439,205	-	439,205	439,205
Total	-	27,609,781	-	27,609,781	27,609,781	-	26,239,680	-	26,239,680	26,239,680

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) 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.

(ii) Financial instruments at fixed rate – The fair value of the financial liabilities at fixed rate and at amortized cost is determinate by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. 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. The fair value of the loan portfolio and deposits and obligation, according to SBS Multiple Official Letter N°1575-2014, correspond to its book value.

24. Contingencies

As of December 31, 2015 and 2014, the Bank is not exposed to contingencies and has made commitments that could have a significant impact on the financial statements or require disclosure.

25. Explanation added for translation into English

The accompanying financial statements are presented on the basis of the generally accepted accounting principles in Peru for financial entities. Certain accounting practices applied by the Bank, that conform to generally accepted accounting principles in Peru for financial entities, may differ in certain significant respects from generally accepted accounting principles in other countries. In the event of any discrepancy, the Spanish-language version prevails.

Nº 0055420

COLEGIO DE CONTADORES PÚBLICOS DE LIMA

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TELEF.: 230-3000

R.U.C. 20106620106

Nº 55298

Constancia de Habilitación

La Decana y el Director Secretario del Colegio de Contadores Públicos de Lima, que suscriben, declaran que en base a los registros de la institución, se ha verificado que

PAREDES, ZALDIVAR, BURGA & ASOCIADOS SOC. CIVIL DE RESPONSABILIDAD LIMITADA
MATRICULA : S0761
FECHA DE COLEGIATURA : 06/11/2002

Se encuentra, hábil a la fecha, para el ejercicio de las funciones profesionales que le faculta la Ley Nº 13253 y su modificatoria Ley Nº 28951 y conforme al Estatuto y Reglamento Interno de este Colegio; en fe de lo cual y a solicitud de parte, se le extiende la presente constancia para los efectos y usos que estime conveniente. Esta constancia tiene vigencia hasta el

31/03/2017

Lima,

19 de Febrero de 2016

Elsa R. Ugarte V.

CPCC Elsa Rosario Ugarte Vásquez
Decana

Penadillo C.

CPCC Moisés Manuel Penadillo Castro
Director Secretario

Verifique su validez en: www.ccpl.org.pe

Comprobante de Pago: 019-00059325

Verifique la validez del comprobante de pago en: www.sunat.gob.pe

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