Translation of independent auditors' report and financial statements originally issued in Spanish - See Note 27

Banco de la Nación

Financial statements as of December 31, 2017 and 2016, together with the independent auditors' report

Building a better working world

Translation of independent auditors' report and financial statements originally issued in Spanish - Note 27

Banco de la Nación

Financial statements as of December 31, 2017 and 2016, together with the independent auditors' report

Content

Translation of independent auditors' report and financial statements originally issued in Spanish - Note 27

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, 2017 and 2016, as well as the related statements of comprehensive income, statements of changes in shareholders' equity and statement of cash flows for the years 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 audits. We conducted our audits 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 opinion.

Building a better
working world

Translation of independent auditors' report and financial statements originally issued in Spanish - Note 27

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, 2017 and 2016, and of its financial performance and its cash flows for the years then ended, in accordance with accounting standards prescribed by the Superintendencia de Banca, Seguros y AFP (SBS) for Peruvian financial entities, see note 2.

Lima, Peru,
March 7, 2018

Paredes, 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, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Assets			
Cash and due from banks:	3		
Cash		1,997,195	1,648,266
Clearing		31,480	23,445
Deposits in the Peruvian Central Bank		7,364,364	7,032,553
Deposits in local banks		13,338	9,266
Deposits in foreign banks		242,910	157,066
Other due from banks		727	755
		9,650,014	8,871,351
Investments:			
Available-for-sale	4(a)	8,109,575	6,916,184
Held-to-maturity	4(k)	2,237,705	1,020,921
		10,347,280	7,937,105
Loans, net	5	8,647,525	10,170,988
Accounts receivable, net	6	492,093	350,498
Property, furniture and equipment, net	7	781,042	839,856
Net deferred income tax asset	13	131,066	109,171
Other assets, net	8	197,363	193,233
Total assets		30,246,383	28,472,202
Risks and commitments	16	3,214,436	4,132,811

	Note	2017 S/(000)	2016 S/(000)
Liabilities and equity			
Deposits and obligations to the public	9	26,403,423	24,741,527
Deposits of financial entities and international financial entities	10	378,741	466,006
Securities, bonds and obligations outstanding	11	251,659	251,725
Accounts payable	12	418,352	414,879
Other liabilities	8	331,968	166,057
Total liabilities		27,784,143	26,040,194
Equity	14		
Capital stock		1,200,000	1,200,000
Additional capital		1,452	1,452
Legal reserve		420,000	350,000
Unrealized results		78,995	(51,466)
Retained earnings		761,793	932,022
Total equity		2,462,240	2,432,008
Total liabilities and equity		30,246,383	28,472,202
Risks and commitments	16	3,214,436	4,132,811

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

Banco de la Nación

Statements of comprehensive income

For the years ended December 31, 2016 and 2017

	Note	2017 S/(000)	2016 S/(000)
Interest income	17	1,530,360	1,491,201
Interest expenses	17	(70,424)	(74,542)
Gross financial margin		1,459,936	1,416,659
Provision for loan losses, net of recoveries	5(e)	(21,213)	(20,693)
Net financial margin		1,438,723	1,395,966
Income from financial services	18	724,579	700,171
Expenses from financial service	18	(175,858)	(170,775)
Financial margin, net of income and expenses for financial services		1,987,444	1,925,362
Gain on financial transactions	19	120,966	26,875
Operative margin		2,108,410	1,952,237
Administrative expenses	20	(961,433)	(886,108)
Depreciation and amortization	7(a) y 8(d)	(107,013)	(71,958)
Net operating margin		1,039,964	994,171
Valuation of assets and provisions	21	(110,109)	(17,656)
Operating income		929,855	976,515
Other income, net	22	4,977	167,400
Income before income tax		934,832	1,143,915
Income tax	13(b)	(196,298)	(208,848)
Net income		738,534	935,067
Net unrealized gain on available-for-sale investments	14(c)	125,748	218,368
Income tax	14(c)	4,713	(26,806)
Other comprehensive income for the year, net of Income Tax		130,461	191,562
Total comprehensive income		868,995	1,126,629

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

Banco de la Nación

Statements of changes in shareholders' equity

For the years ended December 31, 2017 and 2016

	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, 2016		1,000,000	1,452	350,000	(243,028)	686,698	1,795,122
Changes in shareholders' equity for 2016 -							
Net income		-	-	-	-	935,067	935,067
Other comprehensive income		-	-	-	191,562	-	191,562
Total comprehensive income		-	-	-	191,562	935,067	1,126,629
Prior years adjustments	14(d)	-	-	-	-	(3,669)	(3,669)
Capitalization of net income	14(a)	200,000	-	-	-	(200,000)	-
Offsetting debt with Public Treasury	14(d)	-	-	-	-	(145,822)	(145,822)
Distribution of income to Public Treasury	14(d)	-	-	-	-	(340,252)	(340,252)
Balances as of December 31, 2016		1,200,000	1,452	350,000	(51,466)	932,022	2,432,008
Changes in shareholders' equity for 2017 -							
Net income		-	-	-	-	738,534	738,534
Other comprehensive income		-	-	-	130,461	-	130,461
Total comprehensive income		-	-	-	130,461	738,534	868,995
Prior years adjustments	14(d)	-	-	-	-	(3,015)	(3,015)
Constitution of legal reserve	14(b)	-	-	70,000	-	(70,000)	-
Offsetting debt with Public Treasury	14(d)	-	-	-	-	(288,089)	(288,089)
Distribution of income to Public Treasury	14(d)	-	-	-	-	(547,659)	(547,659)
Balances as of December 31, 2017		1,200,000	1,452	420,000	78,995	761,793	2,462,240

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

Banco de la Nación

Statements of cash flows

For the years ended December 31, 2017and 2016

	Note	2017 S/(000)	2016 S/(000)
Cash flows from operating activities			
Net income		738,534	935,067
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	7(a) y 8(d)	107,013	71,958
Provision for loan losses, net of recoveries	5(e)	21,213	20,693
Provision for accounts receivable losses	21(a)	2,844	3,146
Provision for indirect loans	21(a)	(3,805)	(2,064)
Provision for litigations and claims	21(a)	81,835	17,149
Impairment of fixed assets	21(d)	2,003	.
Impairment of intangible assets	21(c)	27,159	.
Deferred income tax	13(b)	(17,182)	8,350
Net gain on sale of properties	22(a)	.	(19,542)
Net (gain) loss on available-for-sale investments	19(a)	(59,278)	35,000
Accrued interest on subordinated bonds	24.2	19,935	1,725
Disposal of fixed asset		1,330	-
Changes in assets and liabilities accounts:			
Net (increase) decrease in loan portfolio		(570,850)	65,905
(Increase) decrease in accounts receivable		(144,439)	114,593
(Increase) decrease in other assets, net		(43,691)	114,439
Increase (decrease) in deposits and obligations to the public		1,661,896	(1,708,776)
Decrease in deposits from financial entities and international financial entities		(87,265)	(131,050)
Increase in accounts payable		3,474	31,531
Increase (decrease) in other liabilities, net		95,515	(191,019)
Equity adjustments	14(d)	(3,015)	(3,669)
Net cash provided by (used in) operating activities		1,833,226	(636,564)

Statements of cash flows (continued)

	Note	2017 S/(000)	2016 S/(000)
Cash flows from investing activities			
Net increase in available-for-sale investments		(440,138)	(236,116)
Additions of property, furniture and equipment	7(a)	(28,644)	(121,637)
Additions of intangible assets		(18,121)	(70,188)
Sales of property, furniture and equipment	22(c)	-	24,410
Net cash used in investing activities		(486,903)	(403,531)
Cash flows from financing activities			
Distribution of income to Public Treasury	14(d)	(547,659)	(340,252)
Subordinated bonds issue	11	-	250,000
Interest payment of subordinated bonds		(20,001)	-
Net cash used in financing activities		(567,660)	(90,252)
Net increase (decrease) in cash and cash equivalents		778,663	(1,130,347)
Cash and cash equivalents at the beginning of year		8,871,351	10,001,698
Cash and cash equivalents at the end of year		9,650,014	8,871,351
Non-cash flows transactions			
Debt clearing with sovereign bonds, note 4(k)(ii)		2,073,100	-
Offsetting debt with the Public Treasury		288,089	145,822
Capitalization of net income		-	200,000

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

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. The Bank has its own equity and indefinite duration.

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 Statute, which has been successively modified by different legal regulations, being the latest Supreme Decree No.189-2016-EF dated July 4, 2016.

Currently, the Bank is governed by its Bylaw and amendments, by Legislative Decree No.1031, that promotes the efficiency of State Business Activity 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 headquarter is located at Av. Javier Prado Este No.2499, San Borja, Lima, Peru. As of December 31, 2017, the Bank operates through a head office and a network of 634 offices in Peru (one head office and 631 offices as of December 31, 2016).

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 Ministerio de Economía y Finanzas (Ministry of Economy and Finance of Peru, hereinafter "MEF" by its acronym in Spanish) 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.

(ñ) Issue electronic money, in accordance with Law No.29985, Law that regulates the basic characteristics of electronic money as instruments of financial inclusion; its Regulation and amendments.

The financial statements as of December 31, 2016 and for the year then ended, were approved by the Board of Directors Meeting held on March 30, 2017. The financial statements as of December 31, 2017 and for the year ended, have been approved by Management on March 7, 2018, 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, 2017 and 2016, see paragraph (s.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 –

On August 2017, the SBS issued Resolution N°3274-2017, through which it modifies the presentation of commissions on credit cards in the income statements, establishing the presentation of such commissions as part of the caption "Income from financial services" of the statements of comprehensive income. Prior to the issuance of that rule, credit cards commissions were presented under "Interest income", see more detail in paragraph (d) below.

(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, 2017 and 2016, 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 losses, 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, are recorded as income on a time proportion basis over the agreement period.

The other revenues and expenses are recorded in the period in which it accrues.

On August 2017, the SBS issued Resolution No.3274-2017, through which it modifies the presentation of the commissions on credit cards in the income statements, establishing the presentation of such commissions as part of the caption "Income from financial services" of the income statements. Prior to the issuance of such rule, credit cards commissions were presented in the caption "Interest income". The amount of these commissions recorded in the years 2017 and 2016 amounts to S/173,742 and S/163,566, respectively.

It is important to note that the impact of this resolution has only been at the level of presentation of the income statements and it has not modified the net income for such years.

(e) Loans and provision for loan losses -

Direct loans are recorded when disbursement of funds to the client is made. In the case of credit card transactions, these are recorded as credits for consumption and/or withdrawals of cash made. Indirect loans (contingent) are recorded when documents supporting such credit 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; and restructured to those credits that are 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, with 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, 2017 and 2016, 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 loans of the borrowers who have been classified in a higher than normal risk category.

As of December 31, 2017 and 2016, 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, 2017, the Bank has procyclical provisions for indirect loans amount to S/6.1 million (S/6.3 million at December 31, 2016).

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).

The provisions of the direct loan portfolio are determined in accordance with the SBS Resolution No.11356-2008, effective from July 2010, as follows:

(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. 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017, the Bank maintains pro-cyclical provisions for indirect loans amounting to S/6.1 million (S/6.3 million as of December 31, 2016).

(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, 2017 and 2016, this provision amounting to S/47.6 million and S/40.0 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 24.3(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 19.

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) 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 Classification 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 (iv) investments in subsidiaries, associates and interest in joint ventures. As of December 31, 2017 and 2016, 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, associates and interest in joint ventures; 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, their amortized cost is updated by applying the effective interest rate method and, bases on the amortized cost obtained, the gains and losses from the variation are recognized at fair value.

  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 shareholders´ 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.

  Subsequently, these investments are 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.

The investment 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.

The investment 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:

(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 (l) 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 (l). 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, 2017 and 2016, the Bank does not have indefinite useful life intangible assets.

(j) Securities, bonds and obligations outstanding -
The liabilities from the issuance of outstanding securities, bonds and obligations are recorded for at their nominal value, recognized accrued interest in the statement of comprehensive income in "interest and commissions from securities, bonds and obligations outstanding" in the caption "Interest expense", Note 17. After the initial recognition, they are measured at amortized cost using the effective interest rate method. The amortized cost is calculated taking into account any discount or premium acquisition and fees that are an integral part of the effective interest rate.

(k) 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; and is recognize using the liability method about such temporary differences.

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.

(l) 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.

(m) 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.

(n) 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 No.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 the retirement reserve fund of active and retired personnel is recorded in accordance with the provisions of Supreme Decree No. 043-2003-EF published on March 28, 2003, which indicates that the Peruvian State companies will be governed by the rules contained in Supreme Decree No. 026-2013-EF and, where applicable, by Accounting Resolution No. 159-2003-EF / 93.01 published on March 12, 2003, which approved Instruction No. 20-2003 -EF / 93.01; which was repealed by Directorial Resolution No. 014-2016-EF / 51.01 of the General Directorate of Public Accounting. Also, by Communiqué No. 002-2017-EF / 51.01 of the General Directorate of Public Accounting of the MEF, which establishes the accounting procedure for the registration and control of 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 "Oficina de Normalización Previsional" (hereinafter "ONP"), using the technical guidelines of the ONP approved by Resolution No.002-2018-Headquarters/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 4.67 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 (4.67 percent at December 31, 2016); which was set in the Technical Guide and the foundation of it is in a supporting study in the report N° 026/2017-OPG.EE/ONP, which is presented the Technical Guide. The rate is determined based on the yield of the US Treasury bond American, adjusted for inflation and exchange rate; according to this, the interest rate is equivalent to the rate of long-term yield curve relevant for Peru.

(o) 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 as a provision is the present value of future payments required to settle the obligation.

(p) 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.

(q) 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.

(r) Financial statements as of December 31, 2016 –
When it is necessary, comparative figures have been reclassified to conform to the current year presentation. In Management's opinion, those reclassifications made in the Bank's financial statements are not significant considering the financial statements as a whole.

(s) International Financial Reporting Standards (IFRS) -

(s.i) IFRS issued and in force in Peru as of December 31, 2017 –
During 2017, the CNC issued the following resolutions, which formalized the following standards:

- Resolution No.001-2017-EF/30 issued on April 13, 2017, which formalized the amendments to IFRS 4 "Insurance Contracts".

- Resolution No.002-2017-EF/30 issued on April 28, 2017, which formalized the amendments to IAS 40 "Investment property", IFRIC 22 "Transactions in foreign currency and advance consideration" and the annual improvements to IFRS Cycle 2014-2016.

- Resolution No.003-2017-EF/30 issued on August 23, 2017, which formalized the 2017 version of the IAS, IFRS, IFRIC and SIC.

- Resolution No.004-2017-EF/30 issued on September 26, 2017, which formalized the application of IFRS 17 "Insurance contracts" and IFRIC 23 "Uncertainty over Income Tax Treatments".

- Resolution No.005-2017-EF/30 issued on December 13, 2017, which delay the application of the International Financial Reporting Standard IFRS 15 Revenue from Contracts with Customers, as of January 1, 2019.

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

(s.ii) IFRS issued internationally but not yet effective as of December 31, 2017

- IFRS 9 - Financial instruments, effective for periods beginning on or after January 1, 2018. Early adoption is permitted.

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

- IFRS 16 - Leases, effective for periods beginning on or after January 1, 2019. Early adoption is permitted, except before an entity applies IFRS 15.

- IFRS 17 - Insurance contracts, effective for periods beginning on or after January 1, 2021, requiring to include comparative figures. Early adoption is permitted, if the entity also applies IFRS 9 and IFRS 15 as of the date on which it applies for the first time IFRS 17.

- IFRIC 22 - Transactions in foreign currency and anticipated consideration, effective for periods beginning on or after January 1, 2018.

- IFRIC 23 - Uncertainty about the treatment of Income Taxes, effective for periods beginning on or after January 1, 2019. Certain exemptions are allowed in the transition.

- Annual improvements to IFRS - Cycle 2014-2016
  IFRS 1 First-time adoption of IFRS - Elimination of short-term exemptions for those who adopt them for the first time and IAS 28 Investments in associates and joint ventures - Clarification that the valuation of investees at fair value with changes in results is a choice separately for each investment. These improvements are effective for periods beginning on or after January 1, 2018.

- Annual improvements to IFRS - Cycle 2015-2017
  IFRS 3 Business combinations - Interest previously held in a joint operation, IFRS 11 Joint arrangements - Interest previously held in a joint operation, IAS 12 Income tax - Consequences of payments of financial instruments classified in equity and IAS 23 Interest costs - Costs for capitalizable interests. These improvements are effective for periods beginning on or after January 1, 2019.

- Amendments to IAS 28 - Long-term investments in associates and joint ventures. These amendments are effective for periods beginning on or after January 1, 2019. Early adoption is permitted.

- Amendments to IAS 40 - Transfers of investment properties. These amendments are effective for periods beginning on or after January 1, 2018. Early adoption is permitted.

- Amendments to IFRS 2 - Classification and valuation of transactions with share-based payments. These amendments are effective for periods beginning on or after January 1, 2018. Early adoption is permitted.

- Amendments to IFRS 4 - Application of IFRS 9 Financial instruments with IFRS 4 Insurance contracts. These amendments are effective for periods beginning on or after January 1, 2018. Early adoption is permitted.

- Amendments to IFRS 9 - Characteristics of prepayments with negative compensation. These amendments are effective for periods beginning on or after January 1, 2019. Early adoption is permitted.

- Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and its associate or joint venture. IASB has delay the date of application of these amendments indefinitely.

- Amendments to IFRS 15 - Clarifications to the standard. These amendments are effective for periods beginning on or after January 1, 2018. Early adoption is permitted.

Due to the standards detailed in the paragraphs (s.i) and (s.ii) 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:

	2017	2016
	S/(000)	S/(000)
Deposits in Peruvian Central Bank – BCRP	384,592	553,079
Cash in the vaults of the Bank	1,997,195	1,648,266
Total	2,381,787	2,201,345

The reserve funds held in BCRP do not earn interest; except for the part that exceeds the minimum legal reserve. As of December 31, 2017, the excess of minimum legal reserve in foreign currency and local currency accrue interest at annual rates of 0.37 and 0.05 percent, respectively (0.18 percent for foreign currency and 1.05 for local currency, to December 31, 2016).

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

	2017	2016
	S/(000)	S/(000)
Special time deposits (*)	6,598,876	5,405,295
Overnight deposits (**)	372,715	1,063,852
Special deposit accrued income	8,181	10,327
Total	6,979,772	6,479,474

(*) As of December 31, 2017, the deposit denominated in soles earn interest at effective annual rate of 2.00 percent (3.00 percent at December 31, 2016).

(**) As of December 31, 2017, correspond to a deposit amounting to US$115.0 million, equivalent to S/372.7 million, which accrue interest at effective annual rate of 1.41 percent with maturity on January 2, 2018 (as of December 31, 2016, correspond to a deposit amounting to US$317.0 million, equivalent to S/1,063.9 million which accrued interest at effective annual rate of 0.70 percent with maturity on January 2, 2017).

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

During 2017, the Bank recorded accrued interest amounting to approximately S/94.0 million, S/0.1 million and S/7.1 million generated by the special deposit in BCRP, time deposits and others available, respectively, (approximately S/135.9, S/11.3 and S/3.9 million, respectively, at December 31, 2016) which are recorded under "interest from cash and due from banks" in the caption "Interest income" in of the statements of comprehensive income, note 17.

4. Investments

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

	2017		2016	
Description	Quantity	Estimated fair value S/(000)	Quantity	Estimated fair value S/(000)
Peruvian Government Sovereign Bonds (b)	3,285,856	3,401,808	1,376,451	1,297,514
BCRP certificate of deposits (c)	17,473	1,735,230	44,986	4,406,392
Treasury Notes (d)	12,663,243	1,255,321	7,167,500	707,533
Peruvian Government Global Bonds (b)	247,200	872,320	62,000	216,031
Supranational bonds (e)	134,001	420,946	2,015	12,425
Corporate bonds (f)	55,528	152,065	77,408	192,465
Mexican Government Global Bonds	25,000	84,115	-	-
Colombian Government Global Bonds	20,000	67,090	-	-
Bladex (g)	446,556	39,150	446,556	44,097
Commercial papers - Agrobanco	-	-	7,500	7,312
Asset backed securities and others	-	-	9	228
		8,028,045		6,883,997
Accrued interest		81,530		32,187
Total		8,109,575		6,916,184

(b) As of December 31, 2017 and 2016, 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.

(c) BCRP Certificate of deposits are instruments to bearer, freely negotiable and issued at a discount by public auctions carried out by BCRP, 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 was redeemed at its maturity.

(d) 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 was redeemed at its maturity.

(e) It corresponds to debt instruments issued by international institutions to obtaining funds directly from the financial markets. As of December 31, 2017, Supranational Bonds correspond to bonds issued by the World Bank and the Inter-American Development Bank in US dollars and by the Central American Bank for Economic Integration in soles. As of December 31, 2016, it corresponded to bonds issued by the World Bank in US dollars and by the Central American Bank for Economic Integration in soles.

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

	2017 S/(000)	2016 S/(000)
Citigroup	33,997	38,228
Edelnor	21,315	21,711
Luz del Sur S.A.A.	21,078	25,862
Red de Energia del Peru Rep.	17,487	16,556
JP Morgan Chase Bank N.A.-New York	13,295	15,570
Scotiabank	10,177	17,127
Alicorp	-	10,126
Other minor to S/10.0 millions	34,716	47,285
	152,065	192,465

(g) As of December 31, 2017 and 2016, 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$26.90 and US$29.43, respectively.

(h) As of December 31, 2017 and 2016, the maturities and the internal rates of return on the investments available-for-sale are as follows:

	Maturity		Fair value of return									
			2017					2016				
			S/		US$		€	S/		US$		€
	2017	2016	Min %	Max %	Min %	Max %	Min/Max %	Min %	Max %	Min %	Max %	Min/Max %
Republic of Peru's Sovereign Bonds	Set-23 / Feb-42	Set-23 /Feb-42	4.21	6.15	-	-	-	5.74	7.20	-	-	-
BCRP Certificate of deposits	Ene-18 / Jun-19	Ene-17 / Ene-18	3.00	3.17	-	-	-	4.25	4.50	-	-	-
Treasury Notes	Ene-18 / Dic-18	Ene-17 / Nov-17	3.11	3.40	-	-	-	6.58	6.79	-	-	-
Republic of Peru's Global Bonds	Ago-27	Ago 27	-	-	3.08	3.08	-	-	-	3.72	3.72	-
Supranational bonds	Mar-18 / Nov-34	Mar-18 / Nov-34	3.89	3.89	2.18	12.65	-	4.83	4.83	10.70	10.70	-
Corporate bonds	Ene-18 / Set-24	Feb-17 / Set-34	3.44	5.80	14.97	17.93	-	4.22	7.01	11.38	16.38	-
Mexican Global Bonds	Ene-26 / Mar-27	-	-	-	3.54	3.71	-	-	-	-	-	-
Colombian Global Bonds	Feb-24 / Abr-27	-	-	-	3.36	3.69	-	-	-	-	-	-
Commercial papers – Agrobanco	-	May-17 / Jun-17	-	-	-	-	-	3.39	4.31	-	-	-
Assets back securities and others	-	Ene-17	-	-	-	-	-	4.92	4.92	-	-	-

During the years 2017 and 2016, the Bank recorded accrued interest of approximately S/348.8 million and S/305.2 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 17.

(i) As of December 31, 2017 and 2016, 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, 2017, the Bank has a deferred income tax asset of approximately S/2.7 million, see note 13(a), generated by the unrealized loss on certain available-for-sale investments that are affected to the income tax by approximately S/9.2 million (net deferred income tax liability of approximately S/2.0 million, see note 13 (a), and unrealized gains of approximately S/6.8 million, as of 31 December 2016). As of December 31, 2017, the Bank has unrealized losses related to certain investments that are not affected to the income tax of approximately S/7.6 million (approximately S/56.5 million, as of December 31, 2016).

The Bank's Management has determined that the unrealized losses of its available-for-sale investments as of December 31, 2017 and 2016 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.

(j) The balance of investments available-for-sale as of December 31, 2017 and 2016 classified by maturity is made up as follows:

	2017 S/(000)	2016 S/(000)
Up to 3 months	2,082,965	1,384,312
From 3 months to 1 year	881,767	3,251,744
From 1 to 3 years	114,766	561,899
From 3 to 5 years	331,690	29,624
More than 5 years	4,577,707	1,612,321
Without maturity (shares)	39,150	44,097
Total	8,028,045	6,883,997

(k) Investments held-to-maturity

	2017 S/(000)	2016 S/(000)
Bonds D.S. N°002-2007 (i)	773,254	1,020,921
Subordinated bonds BS12FEB2029 (ii)	1,432,599	-
Accrued interest BS12FEB2029 (ii)	31,852	-
	2,237,705	1,020,921

(i) Through Supreme Decree No.002-2007-EF dated January 11, 2007, the MEF repealed the Supreme Decree No.210-2006-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, 2017 and 2016 amounted to S/773.3 and S/1,020.9 million, respectively; also, during the year 2017 the bond generated interest for approximately S/51.0 million (approximately S/67.0 million during 2016), which were recorded under "Income from investments held-to-maturity" in the caption "Interest income " of the statements of comprehensive income, note 17.

In Board of Directors Meeting No.2151 held on April 12, 2017, the Bank approved the distribution of net profits for the year 2016, in favor of the Public Treasury. Consequently, an annual amortization of the Bond was made for approximately S/250.7 million (includes approximately S/3.0 million of interest earned), as a result of such distribution, see note 14 (d).

In Board of Directors Meeting No.2099 held on March 11, 2016, the Bank approved the distribution of net profits for the year 2015, in favor of the Public Treasury. Consequently, an annual amortization of the Bond was made for approximately S/145.8 millions, as a result of such distribution, see note 14(d).

(ii) During the years 2013 and 2014, the Bank and the MEF entered into various loan agreements and debt management agreements in order to establish Debt Management operations under the modality of refinancing of the obligations arising from the Loans granted to the MEF for financing: (ii) The first stage of seven (7) projects executed by the Ministerio de Defensa (Ministry of Defense) (DS No. 267-2013), (ii) a set of additional requirements of the Ministry of Defense (DS No. 358-2013-EF), (iii) part of components of eight (8) investment projects to be implemented by the Ministry of Defense (DS No. 359-2013), (iv) investment portfolios projects of the Municipalidad Provincial de Chincheros (Provincial Municipality of Chincheros) (DS No. 331-2014-EF) and (v) The project of recovery of the basic flight instruction service with fixed wing aircraft in Fuerza Aérea del Perú (Peru's Air Force) - Division N°51" (DS No. 211 -2012-EF); whose maturity period was agreed for July 2017. Under this modality, the MEF would deliver, at the end of the payment period, in Bank's property sovereign bonds for a total amount of S/2,073.1 million, within the framework of the Reconciliation Certificate of disbursements of the aforementioned Supreme Decrees.

Accordingly, in July 2017, the Bank classified the bonds received in payment from the Debt Management agreement between the Bank and the MEF, as follows:

- Available-for-sale investments. Bonds delivered on July 4, 2017 – BS12AGO2026 for the amount of S/606.8 million; and

- Held-to-maturity investments. Bonds delivered on July 6, 2017 BS 12FEB2029 for the amount of S/1,466.3 million (which included accrued interest to the date of approximately S/33.6 million). As of December 31, 2017, the balance of these bonds amounted to S/1,464.5 (including accrued interest).

Regarding to 12FEB2029 sovereign bond, 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.. Such bond was issued under the following characteristics:

- Denominated in Soles.
- Freely negotiable.
- Sovereign bond with a maturity on 12 February 2029.
- Amortizable annually
- Coupon rate of 6.0 percent per year with semi-annual interest payment
- Bookkeeping in CAVALI SA I.C.L.V.

Finally, it should be noted that from July to December 2017 this bond generated interest for approximately S/41.6 million that were recorded in the account "Interest from held-to-maturity investments" of the caption "Interest income".

5. Loan portfolio, net

(a) As of December 31, 2017 and 2016, this item is made up as follows:

	2017 S/(000)	2016 S/(000)
Direct loans		
Current		
Sovereign loan – MEF (b)	3,239,166	5,156,037
Loans to financial system	369,585	589,569
Loans to public sector entities	84,017	278,122
Consumer loans	4,874,152	4,111,030
Mortgage loans	237,699	186,639
Refinanced	6,656	4,471
Past due	54,063	38,299
Legal collection	33,053	32,506
	8,898,391	10,396,673
Add (less)		
Accrued interest from current loans	54,981	59,628
Deferred interest income on refinanced loans	(1,345)	(934)
Provision for loan losses (e)	(304,502)	(284,379)
	8,647,525	10,170,988
Indirect loans, (d) and Note 16(a)	248,815	811,950

(b) It corresponds to credits granted to public sector entities that possess items allocated by the public treasury to pay specifically for such exposures; which are requested exclusively by the MEF through Supreme Decrees. The decrease amount to approximately S/1,916.8 million is due to the net effect of the loans disbursed in the year 2017 for approximately S/446.4 million and the debt clearing made with the MEF by S/2,073.1 million, see note 4 (k)(ii). It also corresponds to the payments made by the MEF of DS No. 126-14, DS No. 143-08, DS No. 235-13, DS No. 204-09, DS No. 218-07 and other minors by S/90.5 million, S/62.8 million, S/47.4 million, S/42.4 million, S/41.3 million and S/5.7 million, respectively.

(c) As of December 31, 2017 and 2016, the portfolio of direct loans under segmentation arranged in SBS Resolution No. 11356-2008, is as follows:

	2017 S/(000)	2016 S/(000)
Non-retail loans		
Corporate	3,692,767	6,023,728
Medium-business	6,266	6,337
	3,699,033	6,030,065
Retail loans		
Revolving and non-revolving consumer loans	4,959,410	4,178,174
Mortgage	239,316	187,794
Small-business	594	602
Micro-business	38	38
	5,199,358	4,366,608
Total	8,898,391	10,396,673

A part of the loan's portfolio is support with guarantees received from customers, which are mainly employees and pensioners of the State and government agencies. Such guarantees are shaped in its majority by mortgages, bonds, deposits and securities.

(d) According to SBS regulations, as of December 31, 2017 and 2016, the Bank's loan portfolio risk classification is as follows:

	2017						2016					
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	8,687,268	97.6	203,112	81.6	8,890,380	97.2	10,209,437	98.2	749,738	92.3	10,959,175	97.8
With potential problems	31,104	0.4	-	-	31,104	0.4	32,435	0.3	-	-	32,435	0.3
Substandard	29,536	0.3	-	-	29,536	0.3	26,733	0.3	-	-	26,733	0.2
Doubtful	68,138	0.8	45,703	18.4	113,841	1.2	61,025	0.6	62,212	7.7	123,237	1.1
Loss	82,345	0.9	-	-	82,345	0.9	67,043	0.6	-	-	67,043	0.6
	8,898,391	100.0	248,815	100.0	9,147,206	100.0	10,396,673	100.0	811,950	100.0	11,208,623	100.0

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

	2017 S/(000)	2016 S/(000)
Balance as of January 1	284,379	263,564
Provision, net of recoveries	21,213	20,693
Recoveries of written-off loans	3	588
Loan portfolio written-off	(1,014)	(428)
Exchange difference and other	(79)	(38)
Balance as of December 31	304,502	284,379

As of December 31, 2017 and 2016, the provision for direct doubtful loans includes a voluntary generic provision amounting to S/49.6 million corresponding to the provision that was determined under the procyclical rule.

As of December 31, 2017 and 2016, the provision for indirect loans is approximately S/8.0 million and S/12.2 million, respectively, which are presented under "Other liabilities" in the statements of financial position, note 8 (a).

In management's opinion, the provision for loan losses recorded as of December 31, 2017 and 2016 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, 2017 and 2016, the annual effective rates for the main products were:

	2017		2016	
	National currency %	Foreign currency %	National currency %	Foreign currency %
Overdrafts	6.0 - 17.0	12.0	3.5 - 17.0	12.0
Corporate loans	6.0 - 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	7.0 - 9.25	-	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 statements of comprehensive 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, 2017 and 2016, the direct gross loan classified by maturity, based on the remaining period to repayment date is as follows:

	2017 S/(000)	2016 S/(000)
Outstanding loans -		
Up to 1 month	214,376	310,742
From 1 to 3 months	489,706	409,439
From 3 months to 1 year	3,828,670	3,864,426
From 1 to 3 years	3,067,044	4,701,153
From 3 to 5 years	1,046,437	770,706
More than 5 years	158,385	264,931
Refinanced	6,656	4,471
Past due and under legal collection loans	87,117	70,805
Total	8,898,391	10,396,673

6. Accounts receivables, net

(a) As of December 31, 2017 and 2016, this item is made up as follows:

	2017 S/(000)	2016 S/(000)
Receivables to COFIDE – FORPRO (b)	176,173	-
Receivable for sale of securities (c)	153,920	258
Receivables to COFIDE - FOGEM (d)	67,540	256,650
Advances to staff	44,610	19,701
Claims to third parties (e)	22,798	17,689
Commissions (f)	22,467	16,455
Advances to suppliers	1,967	1,278
Receivables to MEF (g)	106	36,887
Other receivables	8,031	7,382
	497,612	356,300
Provision for claims to third parties	(5,264)	(5,554)
Provision for other receivables	(255)	(248)
	492,093	350,498

(b) The Fondo para el Fortalecimiento Productivo de las MYPE-FORPRO (Fund to Develop Micro-Business, hereinafter "FORPRO" by its acronym in Spanish) was incorporated under Emergency Decree (ED) No.008-2017 issued dated April 22, 2017 with uncommitted resources that were transferred from the following funds: (i) Fondo MIPYME (MIPYME Fund), incorporated by Law N°30230, (ii) Fondo de Respaldo para la pequeña y mediana empresa (Fund to Develop Small and Medium Businesses) – ED No. 050-2002 and (iii) Fondo de Garantía Empresarial – FOGEM, incorporated by ED No. 024-2009.

Regarding, the MEF and the Bank were authorized to transfer uncommitted resources from FOGEM, see paragraph (d) below, to FORPRO for the amount of S/176.2 million. The Bank ownership in such Fund is approximately 24.9%.

The objective of FORPRO is to facilitate and develop the financing, reactivate and strengthen the productive development of the small business, through: (i) Financing to the acquisition or renewal of fixed assets and working capital and (ii) granting guarantees and financing through other financial instruments. FORPRO expires on December 31, 2018, according to paragraph 9.5 of article 9 of ED N°008-2017.

The administration of FORPRO was commissioned to Corporación Financiera de Desarrollo S.A. (COFIDE) through the Dirección General de Endeudamiento y Tesoro Público (General Direction of Indebtedness and Public Treasury); under terms and conditions of the contract signed between both institutions.

The opening balance of the account receivable to COFIDE corresponds to the contribution, in soles, made by the Bank for the incorporation of FORPRO. Subsequently to its initial recording, these investments were accounted for under the equity method to reflect in its financial statements all the income and expenses generated by FORPRO. It's worth mentioning that at the settlement date, all remaining rights and obligations of FORPRO will be transferred to the Bank.

(c) As of December 31, 2017, it corresponds to accounts receivables for the sale of seven (7) sovereign bonds issued by MEF for a total amount of S/153.9 million. Such account was collected during first days of January 2018.

As of December 31, 2016, corresponded to receivables for the sale of debt instruments (sovereign bonds) made on December 30, 2016; which were collected during first days of January 2017.

(d) 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 and, by Legislative Decree No.1282 that modifies Law No.29623, Law that promotes the financing trhough commercial invoice and to extend the period to make use of FOGEM, will extend this period until December 31, 2021.

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.

As of December 31, 2017, due to the Emergency Decree No. 008-2017, see paragraph (a) above, the amount of US$54.7 million, equivalent to S/176.2 million, was transferred from FOGEM's equity to FORPRO trust, generating the decrease in the account receivable to COFIDE.

(e) As of December 31, 2017, the balance corresponds mainly to S/9.2 million for the deposits under guarantee that the Bank carried out in the collection account of the Poder Judicial (Judiciary) for those trials declared as remote, accounts receivable for "Juntos" and "Pension 65" Social Programs for S/3.4 million (these amounts correspond to reimbursement by executing units of social programs), claims of ex-workers by S/2.2 million, claims to banks in liquidation by S/2.1 million and various claims for S/5.9 million.

As of December 31, 2016, corresponds mainly to S/3.6 million for reimbursement of insurance provided by claims against third parties, claims to CAFAE for S/2.2 million and several claims for S/5.4 million.

(f) As of December 31, 2017, the balance corresponds mainly to: (i) S/12.6 million of commission receivable for judicial and administrative deposits that the Poder Juicial (Judiciary) keeps in the Bank, (ii) S/4.5 million of commissions to insurance companies, (iii) trust for S/ 2.0 million, (iv) S/1.9 million in ONP's commissions, (v) S/1.3 million in fees receivable to executive units of "Pension 65" and "Juntos" Social Programs for distribution of money services to its beneficiaries around the country and (vi) S/0.2 million for others minors.

As of December, 31 2016, the balance corresponds mainly to: (i). S/13.3 million of commission receivable for judicial and administrative deposits that Judiciary keeps in the Bank, (II) trust for S/1.9 million and (iii) S/1.3 million in fees receivable to the executive units of "Pension 65" and "Juntos" Social Programs for distribution of money services to its beneficiaries around the country .

(g) The Bank signed an agreement with the MEF under the "Quincuagésima Quinta Disposición Complementaria" of Law No. 30114 – 2014 Public Sector Budget Act, 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. However, through Ministerial Resolution No.114-2016-EF/10 is extended the period of closing of the Project Special until May 15, 2016, which involved delay in the determination of the amount pending to pay in favor of the Bank.

On April 17, 2017, through the letter EF/92.200 No. 90 – 2017, the compensation of part of this debt was effected with charge to profits of the Public Treasury by S/37.4 million, as agreed in the Board of Directory No.2151 held on April 12, 2017, see note 14 (d). As of December 31, 2017, there is an outstanding balance of approximately S/106 thousand for this concept.

7. **Property, furniture and equipment, net**

(a) During 2017 and 2016, 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 (b) S/(000)	Total S/(000)
Cost								
Balance as of January 1, 2016	55,847	363,094	15,913	113,036	242,828	8,768	454,274	1,253,760
Additions	4,040	-	-	3,108	25,699	-	88,790	121,637
Sales, note 22(c)	(6,172)	(26,984)	-	-	-	-	-	(33,156)
Transfers (b)	-	-	-	2,132	28,007	-	(30,139)	-
Disposals	-	-	-	(339)	(13,104)	(627)	-	(14,070)
Other changes (c)	-	-			-	-	55,320	55,320
Balance as of December 31, 2016 (i)	53,715	336,110	15,913	117,937	283,430	8,141	568,245	1,383,491
Additions	-	5,728	-	6,285	12,620	324	3,687	28,644
Transfers (b)	5,248	398,407	-	70,313	25,365	-	(499,333)	-
Disposals	-	-	-	(2,314)	(1,743)	-	-	(4,057)
Other changes (c)	-	679	648	-	-	-	1,964	3,291
Balance as of December 31, 2017 (iv)	58,963	740,924	16,561	192,221	319,672	8,465	74,563	1,411,369
Depreciation								
As of January 1, 2016	-	240,263	12,363	74,275	161,898	5,220	-	494,019
Depreciation for the year	-	8,253	1,746	8,090	25,907	934	-	44,930
Sales, note 22(c)	-	(20,213)	-	-	-	-	-	(20,213)
Disposal and others	-	(9)	-	(322)	(11,078)	(597)	-	(12,006)
Balance as of December 31, 2016 (ii)	-	228,294	14,109	82,043	176,727	5,557	-	506,730
Depreciation for the year	-	19,573	1,090	12,833	42,144	988	-	76,628
Disposal and others	-	2,023	-	(1,090)	7,127	-	-	8,060
Balance as of December 31, 2017 (v)	-	249,890	15,199	93,786	225,998	6,545	-	591,418
Impairment as of December 31, 2016 (iii)	9,547	27,358	-	-	-	-	-	36,905
Impairment as of December 31, 2017 (vi)	9,547	27,358	-	2,003	-	-	-	38,908
Net book value								
As of December 31, 2016 (i)-(ii)-(iii)	44,168	80,458	1,804	35,894	106,703	2,584	568,245	839,856
As of December 31, 2017 (iv)-(v)-(vi)	49,416	463,675	1,362	96,432	93,674	1,920	74,563	781,042

(b) During 2017, final work and documentation were completed for the construction of the new institutional headquarters; accordingly, such fixed assets initially classified as "Work in progress and in transit units" were transferred to their respective items: (i) Buildings and other constructions for S/397.7 million, (ii) Furniture and equipment for S/49.0 million and (iii) Computer equipment for S/18.4 million; totaling an amount of S/465.2 million. The remaining balance of transfers of "Work in progress and in transit units" for S/34.1 million corresponds to other goods, machinery and furniture received during the year 2017.

As of December 31, 2017, the balance for approximately S/74.6 million of "Work in progress and in transit units" mainly corresponds to the following: (i) acquisition of 3 real estate units amounting to S/36.5 million, (ii) acquisition of furniture and outstanding equipment to be received by approximately S/15.3 million and (iii) disbursements of approximately S/24.6 million related to other smaller projects in progress.

As of December 31, 2016, it corresponded to the valuations of works presented by the Bank for the construction of the new institutional headquarters that represented a percentage of advance of 99.84 percent and the amount of the investment arose to S/462.2 million. Likewise, they corresponded to the acquisition of (i) 3 real estate units (319 parking lots) that amounted to approximately S/37.8 million, (ii) acquisition of furniture and outstanding equipment to be received by approximately S/43.4 million and (iii) disbursements of S/18.2 million, related to other smaller projects in execution.

(c) As of December 31, 2017, corresponds to goods and furniture outstanding to be receive and to provisions of smaller projects pending of valorization.

As of December 31, 2016, corresponds to provisions of goods and services in progress, it due to such services had being in the situation of "pending payment" to that date. Services and goods outstanding to be receive include, mainly, services of supervision of works, services of expansion and remodeling of agencies, acquisition of several furniture and equipment, among other minor disbursements.

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

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

(f) 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.

(g) 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/31.6 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. As of December 31, 2016, the Bank made the sale of 2 land, see note 22(c), which involved a decrease on the impairment balance.

As of December 31, 2017, the bank recorded an impairment of computer equipment acquired for the execution of the project "Core banking", see note 8(d), and which were in possession of Consorcio Nessa for an amount of S/2.0 million, see note 21(d). As of December 31, 2017 and 2016 the movement is a follow:

	2017 S/(000)	2016 S/(000)
Balance as of January 1	36,905	44,980
Decrease for sale of assets, note 22(c)	.	(8,075)
Additions	2,003	-
Balance as of December 31	38,908	36,905

8. Other assets, net and other liabilities

(a) As of December 31, 2017 and 2016, this item is made up as follows:

	2017 S/(000)	2016 S/(000)
Other assets, net		
Financial instruments		
Operations in process (b)	66,360	50,023
Head office and branches (c)	17,801	9,812
	84,161	59,835
Non-financial instruments		
Recoverable balance of income tax (f)	38,281	15,196
Intangibles, net (d)	59,129	98,690
Advance payments and deferred Changes	13,890	17,616
Various items	1,902	1,896
	113,202	133,398
	197,363	193,233
Total		
Other liabilities		
Financial instruments		
Operations in process (b)	176,063	61,214
Cash surplus	11,038	8,985
	187,101	70,199
Non-financial instruments		
Provision for litigations y claims (e)	135,651	81,184
Provision for indirect loan losses, note 5(e)	8,005	12,195
Deferred income for interests and fees of indirect loans	516	1,764
Provision for sundry risks	234	234
Other	461	481
	144,867	95,858
Total	331,968	166,057

(b) Transactions in process are transactions carried out during the last days of the month, which are reclassified to their definite accounts in the statement of financial position in the following month, these transactions do not affect the income statements of the Bank.

As of December 31, 2017, the balance of asset operations in process mainly includes: (i) out of business hours operations for approximately S/37.4 million, this amount is due to the closing of operations carried out at the end of the year that were settled in the first days of January 2018, (ii) purchases transactions made with credit cards for approximately S/14.7 million, and (iii) withdrawal of cash with credit cards for approximately S/6.0 million that were settled in the computer system of the Bank during the first days of January 2018. On the other hand, the balance of liability operations in process mainly includes: (i) out of business hours operations by approximately S/80.8 million, such amount is due to the closing of operations carried out at the end of the year that were settled in the first week of January 2018, (ii) checks received from other banks pending of exchange for approximately S/25.8, which were transferred through the BCRP computer system in the first days of January, and (iii) transfers abroad for approximately S/47.7 million at the request of clients, which were transferred the first days of January 2018.

As of December 31, 2016, the balance of asset operation in process mainly includes: (i) out of business hours operations for approximately S/16.7 million, this amount is due to the closing of operations carried out at the end of the year that were settled in the first week of January, 2018, (ii) purchases transactions made with credit cards for approximately S/13.6 million, and (iii) withdrawal of cash with credit cards for approximately S/5.5 million that were settled in the computer system of the Bank during the first days of January. On the other hand, the balance of liability operation in process mainly includes: (i) out of business hours operations for approximately S/17.3 million, this amount is due to the closing of operations carried out at the end of the year that were settled in the first week of January 2017, (ii) checks received from other banks pending of exchange for approximately S/13.5, which were transferred through the BCRP computer system in the first days of January, and (iii) transfers abroad for approximately S/4.4 million at the request of clients, which were transferred the first days of January 2017.

(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 in the country through the services of the transport companies of values.

(d) As of December 31, 2016, the limited-life intangible assets maintained by the Bank mainly comprised: (i) software developments and acquisitions of software licenses used by the Bank in its operations and (ii) disbursements incurred and advances granted by the acquisition and implementation of the new "Core banking", in accordance with the terms of reference included in the bases and the technical and economic proposals, documents that are part of the contract No. CO-017790-2013-BN signed on 22 January 2014 between the Bank and the consortium composed of Nessa Global Banking Solutions S.A. and Rural Computing Services Civil Society by US$24,854,240, which included the cost of the service, insurance and taxes, as well as all necessary for the execution of the service.

As of December 31, 2017, the decrease of the balance of intangible assets mainly corresponds to the record of an impairment of S/27.2 million of the software "Core banking", destined to the renewal of its digital platforms; due to the non-compliance by Nessa Global Banking Solutions S.A. and Rural Computer Services Civil Society reported in the notarial letter EF/92.2628 No.1125-2017, that involved the non-compliance with the main obligation of execute the "implementation of "Core banking" in form (various obligations in charge) and deadlines (3 years and 2 days) established in the contract. See note 21 (c) and (d).

During the years 2017 and 2016, the Bank recorded an amortization by S/30.4 million and S/27.0 million, respectively, in the "Depreciation and amortization" caption in of the statements of comprehensive income.

(e) It corresponds to the provisions for labor and pension claims, as well as by civil and arbitral proceedings filed against the Bank that have been registered on the basis of the estimates made by the management and its internal legal advisers. In the opinion of the Management and its internal legal advisers, there will be no significant additional liabilities to those already registered by the bank. As of December 31, 2017, the increase corresponds to the record of the provision related to the resolution issued by the arbitral tribunal in charge of the process with a workers' union related to the negotiation of certain requirements during year 2016.

(f) As of December 31, 2017, it corresponds to advance payments of the income tax and other income tax credits by S/251.7 million, which are presented net of the income tax of the year by S/213.5 million.

As of December 31, 2016, it corresponds to advance payments of the income tax and other income tax credits by S/215.3 million, which are presented net of the income tax of the year by S/200.1 million.

9. Deposits and obligations to the public

(a) As of December 31, 2017 and 2016 the balance of obligations by product is as follows:

	2017 S/(000)	2016 S/(000)
Current accounts (b)	13,483,218	12,762,725
Saving deposits	8,305,954	7,198,265
Restricted obligations with the public (c)	2,373,543	2,488,648
Social benefits of workers and pensioners (d)	1,722,768	1,802,189
Time deposits (g)	172,668	174,260
Severance indemnity deposits	74,222	71,499
Other obligations with the public (e)	182,567	154,569
	26,314,940	24,652,155
Accrued interest payable (f)	88,483	89,372
Total	26,403,423	24,741,527

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:

	2017 S/(000)	2016 S/(000)
Private Sector	4,259,454	4,650,929
MEF	2,692,476	2,424,723
Central government	2,466,581	1,631,158
Public institutions	1,872,567	1,489,120
Local government	1,184,298	1,254,579
Public companies	598,689	733,291
Regional government	374,452	562,673
Essalud	33,783	15,578
International organizations and other	918	674
Total	13,483,218	12,762,725

(c) This balance corresponds to judicial and administrative deposits, guarantee deposits, judicial withholdings and immobilized deposits for approximately S/2,086.6 million, S/214.3 million, S/72.6 million y S/0.03 million, respectively (approximately S/1,986.1 million, S/434.1 million, S/68.3 million y S/0.1 million, respectively, as of December 31, 2016).

(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, 2017 and 2016, it comprises:

	2017 S/(000)	2016 S/(000)
Retirement pensions - Decree Law No.20530	1,719,254	1,798,568
Labor Regime - Law No.4916	3,436	3,525
Labor Regime - Decree Law No.11377	78	96
	1,722,768	1,802,189

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. In this sense, on January 30, 2017, is issued the statement N° 002-2017-EF/51.01 of the Dirección General de Contabilidad Pública (General Directorate of Public Accounting) of MEF, which establishes the accounting treatment of its pension obligations.

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

	2017 S/(000)	2016 S/(000)
Balance at the beginning of the year	1,798,568	1,914,643
Additions debited to personnel expenses, note 20(b)	93,778	58,689
Provisions, rates and charitable fund	2,575	2,369
Payments to pensioners	(175,667)	(177,133)
Balance at the end of the year	1,719,254	1,798,568

The obligation for retirement pensions decreased as compared to 2016, mainly due to the reduction in the number of pensioners from 5,523 as of December 31, 2016 to 5,375 pensioners as of December 31, 2017.

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

	2017 S/(000)	2016 S/(000)
Discount rate	4.67%	4.67%
Average life expetancy	17.81 years	18.20 years
Active service period	0 years	0 years
Pensioners with statutory bonuses	676	699
Pensioners with reward	4,537	4,626
Pensioners with no bonus	131	121
Assets with statutory bonuses	31	77

As of December 31, 2017, the discount rated used is 4.67 percent, according to the technical guide and the basis for it is in a supporting study of the report No.026/2017-OPG.EE/ONP, in which is presented the technical guide (4.67 percent as of December 31, 2016, according to the technical and the basis for it is in a supporting study of the report No.025/2016-OPG.EE/ONP). . The rate is determined based on the yield of the US Treasury bond American, adjusted for inflation and exchange rate; according to this, the interest rate is equivalent to the rate of long-term yield curve relevant for Peru.

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, 2017, the calculation of pension reserves for pensioners has been made with a maximum amount of pension equivalent to S/8,100 (S/7,900, as of December 31, 2016).

(e) The other obligations with the public are made up of cashier checks, transfers payable, certified checks and bank certificates for S/92.8 million, S/79.5 million, S/5.7 million y S/4.6 million, respectively (S/69.6 million, S/72.6 million, S/7.7 million y S/4.7 million, respectively, as of December 31, 2016).

(f) Accrued interest payable correspond to administrative and judicial deposits for approximately S/84.3 million y S/4.2 million, respectively (approximately S/85.1 million y S/4.3 million, respectively, as of December 31, 2016).

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

	2017 S/(000)	**2016** S/(000)
Up to 3 months	66,367	68,466
From 3 months to 1 year	106,239	105,747
	172,606	174,213
Accrued interests for time deposits	62	47
Total	172,668	174,260

10. Deposits of financial entities and international financial entities

As of December 31, 2017, it includes sight deposits for S/378.6 million and saving deposits for S/0.1 million (S/465.7 million and S/0.3 million, respectively, as of December 31, 2016).

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

	2017 S/(000)	2016 S/(000)
Fondo Mivivienda	176,083	68,917
Banks	86,998	96,440
COFIDE	75,143	269,008
Cajas Municipales de Ahorro y Crédito	24,182	19,108
Financial entities	7,623	7,290
Cajas Rurales de Ahorro y Crédito	6,566	3,572
Edpymes	1,809	1,160
Foreign banks	180	186
Total	378,584	465,681

The saving deposits are made of deposits constituted by municipal savings and loans banks.

11. Bonds, securities and obligations outstanding

(a) In the year 2016, the Bank realized its first issuance of the First Subordinated Bonds Programme for an amount of S/250 million, which had a date of placement on November 29, 2016. The composition of this item is as follow:

	2017 S/(000)	2016 S/(000)
Subordinates bond (b)	250,000	250,000
Interests payable	1,659	1,725
	251,659	251,725

(b) These bonds are only supporting by the Banks equity (issuer) and have a term of 15 years, being the expiration date on November 30, 2031.The bonds accrued an annual and fixed interest rate of 8 percent, the period of payment of such interest is 6 months, being the first payment date (first coupon) of May 30, 2017. All of the principal of the bond be amortized in a single payment, on the maturity date of the respective series. Subordinated bonds do not have specific guarantees and according to the established by the SBS rules qualify as second tier equity ("Tier 2") in the determination of the regulatory capital.

During 2017, accrued interest on subordinated bonds amounts to S/19.9 million. It should be noted that for year 2016, the Bank only accrued interest as of November 30, 2016 (date on which the bonds were issued). See note 17 (b).

The payment of principal and interest will be made through CAVALI.

12. Accounts payable

(a) As of December 31, 2017 and 2016, this item is made up as follows:

	2017 S/(000)	2016 S/(000)
Suppliers	146,321	195,805
Collected and withheld taxes (b)	121,568	80,402
Workers' profit sharing payable - legal	38,087	37,688
Other accounts payable (c)	38,033	36,936
Group performance bonus	40,000	33,500
Vacations payable	19,496	18,702
Other accounts payable to staff	12,947	14,388
Other contributions	1,764	(2,683)
Others	136	141
	418,352	414,879

(b) As of December 31, 2017, it corresponds to the taxes collected nationally by the Bank at the request of the Tax Administration – SUNAT, which amounted to S/117.7 million (S/77.2 million as of December 31, 2016) and taxes withheld by the Bank as withholding agent which amounted to S/3.9 million (S/3.2 million as of December 31, 2016), which were transferred to the SUNAT in January 2018.

(c) Other accounts payable mainly includes obligations payable derived from transactions made through other banks' ATMs and establishments affiliated to VISA, pending of confirmation for S/6.0 million and S/14.8 million, respectively (S/5.5 million and S/13.7 million as of December 31, 2016, respectively), protection insurance for Multired loans for S/4.2 million (S/3.8 million in the year 2016), accounts payable by AFP´s for S/2.0 million, transfer FEBAN wellness program for S/1.1 million (S/1.0 million in the year 2016), and reimbursements pending for S/2.9 million (S/2.8 million in the year 2016), among others.

13. Deferred income tax asset, net

(a) As of December 31, 2017 and 2016, this item is made up as follows:

	Balances as of December 31, 2015 S/(000)	(Debit) credit to equity S/(000)	(Debit) credit to income S/(000)	Balances as of December 31, 2016 S/(000)	(Debit) credit to equity S/(000)	(Debit) credit to income S/(000)	Balances as of December 31, 2017 S/(000)
Deferred assets							
General provision for direct loans	47,626	-	3,449	51,075	-	(236)	50,839
Provision for litigations and claims	29,832	-	(5,883)	23,949	-	16,068	40,017
Provision for vacations	5,975	-	(458)	5,517	-	234	5,751
General provision for contingent loans	3,952	-	(538)	3,414	-	(1,187)	2,227
Specific provision for contingent loans	104	-	80	184	-	(49)	135
Provision for fixed asset's devaluation	12,594	-	(1,707)	10,887	-	591	11,478
Property depreciation	9,541	-	(6,041)	3,500	-	(1,436)	2,064
Intangible amortization	8,975	-	3,803	12,778	-	2,522	15,300
Unrealized gain	24,808	(24,808)	-	-	2,715	-	2,715
Other	920	-	(473)	447	-	93	540
Total deferred asset	144,327	(24,808)	(7,768)	111,751	2,715	16,600	131,066
Deferred liabilities							
Property depreciation	-	-	(582)	(582)	-	582	-
Unrealized gain	-	(1,998)	-	(1,998)	1,998	-	-
Total deferred liabilities	-	(1,998)	(582)	(2,580)	1,998	582	-
Total deferred asset, net	144,327	(26,806)	(8,350)	109,171	4,713	17,182	131,066

(b) The composition of the balances presented in the statements of comprehensive income for the years ended December 31, 2017 and 2016 are as follows:

	2017 S/(000)	2016 S/(000)
Current – expenses	213,480	200,498
Deferred – (income) expenses	(17,182)	8,350
	196,298	208,848

(c) Reconciliation of the effective tax rate to the statutory tax rate for the years 2017 and 2016 is as follows:

	2017		2016	
	S/(000)	%	S/(000)	%
Income before income tax	934,832	100.00	1,143,915	100.00
Theoretical expense	275,776	29.50	320,296	28.00
Effect on taxable income				
Tax effects on additions and deductions for permanent differences	(79,478)	(8.50)	(105,795)	(9.25)
Effect of non-deductible expenses				
Adjustment to deferred income tax for a rate change	-	-	(5,653)	(0.49)
Income tax, current and deferred	196,298	21.00	208,848	18.26

14. Shareholders' Equity

(a) Capital stock –

As of December 31, 2017 and 2016, the Bank's authorized capital amounts to S/1,200,000 million; 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; except for the capitalization of net income for the year 2016 explained in the following paragraph. By the capital stock of the Bank no shares or securities of any kind are issued.

In Board of Directors Meeting No.2096 held on March 10, 2016, The Bank approved to request the MEF an increase in the Bank's capital to strengthen its equity and attend to the growth of its loan portfolio. In April 2016, the profits' capitalization was made for S/200.0 million according to D.S. No.078-2016-EF, which modifies article 5 of the Bank's By-Laws increasing the capital stock from S/1,000.0 million to S/1,200.0 million.

(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.

Board of Directors Meeting No. 2151 held on April 12, 2017, approved to increase the legal reserve in S/70.0 million in order to comply with article 67 of the current legal regulation – Law No. 26702, and in this way reach 35 percent of the share capital to be assigned as a legal reserve. As of December 31, 2017 amounts to S/420.0 million (S/350.0 million as of December 31, 2016).

(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 2017 and 2016, presented net of their tax effect, and are as follows:

	S/(000)
Balance as of January 1, 2016	(243,028)
Transfer of realized loss from available-for-sale investments, note 19(b)	35,000
Net unrealized gain from available-for-sale investments	183,368
Deferred income tax, note 13(a)	(26,806)
Balance as of December 31, 2016	(51,466)
Transfer of realized gain from available-for-sale investments, note 19(b)	(59,278)
Net unrealized gain from available-for-sale investments	185,026
Deferred income tax, note 13(a)	4,713
Balance as of December 31, 2017	78,995

(d) Retained earnings -

Board of Directors Meeting N° 2151 held on April 12, 2017, approved the distribution to the Public Treasury of net income of the year 2016 for approximately S/905.8 million, detailed as follows: S/250.7 million for the annual amortization of bond issued by the MEF, note 4(k), S/37.4 million for compensation of payments related to the Junta de Gobernadores (Board of Governors) 2015, S/70.0 million to constitute legal reserve, and the remaining balance by S/547.7 million was deposited in the current account of the Public Treasury.

Board of Directors Meeting N° 2099 held on April 11, 2016, the Bank approved the distribution in favor of the Public Treasury of net income of the year 2015 for approximately S/686,2 million, which was performed as follows: S/145.8 million for the annual amortization of bond issued by the MEF, note 4(k), S/200.0 million for capitalization of net income and the remaining balance by S/340.3 million was deposited in the current account of the Public Treasury.

During 2017, the Bank has recorded under "Retained earnings" various adjustments for regularization of transactions for previous years, for a net credit amount of approximately S/3.0 million (net debt amount of approximately S/3.7 million in 2016). 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, 2017 and 2016, 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 thousands of Soles:

	2017	2016
Total risk weighted assets and credits	11,668,160	9,376,130
Regulatory capital	1,906,863	1,816,232
Regulatory capital – basic	1,581,960	1,505,255
Regulatory capital – supplementary	324,903	310,977
Global regulatory capital ratio	16.34%	19.37%

As of December 31, 2017 and 2016, 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.

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

As of December 31, 2017, the additional required estimated regulatory capital amounts to approximately S/208.2 million (S/207.8 million as of December 31, 2016).

In Management's opinion, the Bank has filled with the requirements established by the resolution mentioned above.

15. Tax situation

(a) The Bank is subject to the Peruvian tax legislation. As of December 31, 2017, the income tax rate was 29.5 percent on the taxable income (28.0 percent as of December 31, 2016).

In attention to Legislative Decree No.1261, published on December 10, 2016, the rate applicable to dividends and any other form of distribution of Peruvian source income was modified and established at 5 percent. Said rate is applicable starting on January 1, 2017. Retained earnings or other items likely to generate taxable dividends referred in Article 24- A of the Income Tax Act, obtained between January 1, 2015 and December 31, 2016, which are part of the distribution of dividends or any other form of distribution of profits, will be subject to the rate of 6.8 percent, except for the assumption established in subsection g) of Article 24-A, to which the rate of 4.1 percent will be applied.

(b) From the fiscal year 2010, capital gains pay income tax. For this purpose, has been established, among others, the tax cost of securities whose disposal was exempted until December 31, 2009 to perform in stock exchange, it will be given by: (i) the market value as of December 31, 2009, or (ii) the acquisition cost or (iii) the value of entrance to the Equity, whichever is greater, according to the procedure indicated by Supreme Decree No.011-2010-EF. This regulation is applicable to legal people when the securities are disposed of inside or outside of a centralized mechanism for negotiation of Peru.

On the other hand, as of January 1, 2010, the interests and capital gains from bonds issued by the Peru Republic only are unaffected: (i) in the framework of Supreme Decree No.007-2002-EF, (ii) under the Market Maker Program or the mechanism that replaces it, (iii) in the international market from year 2002, as well as interest and capital gains from BCRP's obligations; and those arising from securities' the direct or indirect disposal that form or underlie the Exchange Traded Fund (ETF) that reply indexes constructed with reference in national investment instruments, when such disposal is made for the constitution, cancellation or management of the ETF's investment portfolio. Likewise, interest and capital gains from corporate bonds prior to March 11, 2007, under certain conditions, are unaffected.

It should be noted that, with the amendments introduced by the Securities Market Promotion Law (Law No.30050), as of January 1, 2014, the Public Treasury Bills issued by the Republic of Peru are incorporated on the said unaffected concepts.

(c) From fiscal year 2016, through Law No.30341, income from the sale of shares and other representing securities of shares made through a centralized mechanism for negotiation supervised by the Superintendence of Stock Market (hereinafter "SMV", the Spanish acronym) are exempt of income tax.

In addition, through Legislative Decree No.1262, which amended Law No.30341, it's extended the exemption's validity provided on this last law until December 31, 2019; and it's included inside scope of the exemption to sale gains through a centralized trading mechanism supervised by SMV, of debt securities, certificates of participation in mutual funds of investment in securities, certificates of participation in the Investment Fund in Real Estate Rent (FIRBI, the Spanish acronym) and certificates of participation in Securitization Trust for Investment in Real Estate Rent (FIBRA, the Spanish acronym) and, negotiable invoices.

For such effects, depending on the value disposed of, it is necessary to comply with certain requirements, according to the following detail:

1. Shares, other shares securities and bonds convertible into shares:
   - In a period of twelve (12) months, the taxpayer and its related parties do not transfer ownership of ten percent (10%) or more of the total shares issued by the company or securities of them through one or more simultaneous or successive transactions, percentage that is determined according the conditions indicated in the Regulation.

     If this requirement is not achieved, the taxable basis will be determined considering all transfers that would have been exempted during the twelve (12) months prior to the disposal.

     The relationship will be qualified according clause b) of article 32-A of the Income Tax Law establishes.

   - The shares with a stock market presence. To determine if a stock has a stock market presence, it's necessary to take in account the following:

     a. Within one hundred and eighty (180) business days prior to the transfer, the number of days in which the daily negotiated amount has exceeded the limit established in the Regulation shall be determined.

        This limit cannot be less than four (4) UIT and it will be established considering the volume of transactions carried out in the centralized negotiation mechanisms.

     b. The number of days determined in accordance with the indicated into the previous paragraph, will be divided between one hundred and eighty (180) and shall be multiplied by one hundred (100).

     c. The result may not be less than the limit established by the Regulation. This limit may not exceed of thirty five percent (35%).

2. Debt securities, ETF that have as underlying shares and/or debt securities, Certificates of Participation of Mutual Funds in Securities Investment, Certificates of Participation of Investment Funds in Real Estate Rent (FIRBI) and Certificates of participation in Securitization Trusts for Investment in Real Estate Rent (FIBRA):

   The securities disposed have a stock market presence and the sale is made through centralized local trading mechanisms (i.e. Lima Stock Exchange).

3. Negotiable invoices:
   The disposal of securities is carried out through centralized local negotiation mechanisms.

(d) With regard to the IGV (Value Added Tax – "IGV" by its acronym in Spanish), 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.

(e) For purposes of the Income tax's determination, the prices and amounts of the remunerations that had been agreed in transactions between related parties or made from, to or through countries or territories of low or zero taxation, should count with documentation and information that supports the valuation methods and criteria applied in its determination. The Tax Administration is empowered to request this information from to the Bank. Based on the analysis of the Bank's operations, Management and its legal consultants opine that, as a result of the application of these standards, there are no contingencies of importance to the Bank as of December 31, 2017 and 2016.

According to Legislative Decree N°1312, published on December 31, 2016, the formal obligations are amended for the entities included within the scope of extension of the prices of transfers, incorporating three new informative affidavit; first the local reporting, second the master report and third the country-by-country report. The first effective as of 2017 for the operations that occurred during 2016 and the last two as of 2018 for the operations that have occurred since 2017.

(e) The Tax Authority has the power to review and, if applicable, correct the Income Tax calculated by the Bank in the four years following to the year of the tax return.

The annual tax income for the years 2013, 2014, 2015, 2016 and 2017 are pending to review by the Tax Administration.

Due to the possible interpretations that the Tax Authority may give to the legislation in effect, up to date it is not possible to determine whether or not any review to be conducted would result in liabilities for the Bank; any increased tax or surcharge that could arise from possible tax reviews would be applied to the results of the period in which such tax increase or surcharge may be determined. However, in the opinion of Management and its internal legal advisors, any eventual additional tax settlement would not be significant for the Bank's financial statements.

16. Risks and Commitments

(a) As of December 31, 2017 and 2016, this item is made up as follows:

	2017 S/(000)	2016 S/(000)
Contingent operations (indirect loans) (b) -		
Bank letters of guarantee	123,756	335,650
Letters of credit	125,059	476,300
	248,815	811,950
Responsibilities under credit line agreements (c)	2,965,621	3,320,766
Other contingent operations	-	95
Total contingent operations	3,214,436	4,132,811

(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.

17. Interest income and expenses

(a) These items are made up as follows:

	2017 S/(000)	2016 S/(000)
Interest income		
Interest from loan portfolio	987,698	967,904
Interest from available-for-sale investments, note 4(h)	348,824	305,170
Interest from cash and due from banks, note 3	101,240	151,116
Interest from held-to-maturity investments, note 4(k)(i) and (ii)	92,598	67,011
	1,530,360	1,491,201
Interest expense		
Interest and commissions on deposits and obligations	(50,400)	(72,440)
Interest and commissions on securities, bonds and obligations outstanding (b)	(20,024)	(2,100)
Interest and commissions on financial entities and international financial entities	-	(2)
	(70,424)	(74,542)
Gross financial margin	1,459,936	1,416,659

(b) As of December 31, 2017, the interest and commissions on securities, bonds and other obligations outstanding corresponds mainly to accrued interest in securities bonds and obligations outstanding for S/19.9 million with a nominal and fixed rate of 8.0 percent, see note 11. Should be noted that as of December 31, 2016 the Bank only accrued interest as of November 30, 2016 (date on which the bonds were issued).

18. Income and expenses from financial services

(a) These items are made up as follows:

	2017 S/(000)	2016 S/(000)
Fee income from financial services		
Income from cash management (b)	345,569	334,224
Income from services of tax collection (c)	66,845	66,615
Income from transfer services (d)	58,532	59,334
Income from insurance sales commission	48,318	34,598
VISA commission income	30,655	27,024
Income from savings accounts – Commission credit Notes	20,000	20,036
Income from ATMs – Multired	16,136	17,005
Income from savings accounts – Commission on withdrawal of credit notes	15,489	14,759
Income from collection	13,653	12,473
Income from commission on new Multired card	9,570	8,810
Income from commission on SUNAT repossessions	2,465	8,004
Income from contingent operations	5,424	7,799
Income from services commission - FISE	7,691	7,455
Income from – checks received of other banks - Clearing	4,681	5,620
Income from certificates commission	2,818	3,256
Services by shared premises	2,601	2,982
Income from penalties payments to suppliers	1,790	942
Others (e)	72,342	69,235
Total	724,579	700,171
Expenses relating to financial services		
Transportes, custodia y administración de efectivo y valores	(97,826)	(90,816)
Credit and debit cards	(62,211)	(65,466)
Cell banking	(10,578)	(9,254)
Other financial services	(5,243)	(5,239)
Total	(175,858)	(170,775)

(b) As of December 31, 2017, income from cash management mainly comprises commissions for revenue services of the fund collected by the Bank on behalf of the General Treasury Directorate for S/309.0 million, and correspondent banking services for S/34.1 million (S/298.0 million and S/33.4 million, as of December 31, 2016).

(c) As of December 31, 2017, income from services of tax collection correspond to the collection of taxes administered by SUNAT for S/33.2 million and the collection of charges corresponds an other entities (Policía Nacional del Perú, Poder Judicial, ONP, among others) for S/33.6 million (S/33.1 million and S/33.5 million, respectively, as of December 31, 2016).

(d) As of December 31, 2017, income from transfer services mainly corresponds to tele-money order system for S/28.1 million, tele-money order correspondent service for S/18.6 million and services of transfer of funds for S/11.8 million (28.2 million, S/19.4 million and S/11.7 million, respectively, as of December 31, 2016).

(e) As of December 31, 2017, other income for financial services corresponds mainly to fees for services to the ONP for S/9.2 million, commissions for services to social programs for S/12.0 million, fees for interbank transfers via Cámara de Compensación Electrónica (Electronic Clearing House, CCE by its Spanish acronyms) for S/6.5 million, commissions for withdrawals at ATMs of local banks for S/11.9 million, fees for interbank transfers for S/6.6 million, commissions for FONAVI benefits for S/4.6 million, fees for current account for S/4.8 million (S/8.5 million, S/12.0 million, S/6.1 million, S/13.8 million, S/6.2 million, S/4.6 million, S/1.9 million, respectively, as of December 31, 2016); among others.

19. Gain of financial transactions

These items are made up as follows:

	2017 S/(000)	2016 S/(000)
Gain on exchange difference and exchange operations, net	59,745	61,865
Net gain (loss) on available-for-sale investments, note 14(c)	59,278	(35,000)
Others	1,943	10
Total	120,966	26,875

20. Administrative expenses

(a) This item is made up as follow:

	2017 S/(000)	2016 S/(000)
Personal and Board of Directors expenses (b)	(579,180)	(512,245)
Services provided by third parties (c)	(312,281)	(310,061)
Taxes and contributions	(69,972)	(63,802)
Total	(961,433)	(886,108)

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

	2017 S/(000)	2016 S/(000)
Remuneration	(210,825)	(207,533)
Retirement, note 9(d)	(93,778)	(58,689)
Legal gratifications	(42,976)	(43,287)
Legal employees´ profit sharing	(38,087)	(37,688)
Allowances	(41,935)	(35,304)
Group performance bonus	(40,000)	(33,500)
Social security	(21,609)	(21,655)
Severance indemnities	(22,502)	(21,566)
Overtime	(17,291)	(19,540)
Travel allowance	(7,461)	(7,584)
Incentive	(8,423)	(5,499)
Work uniforms	(3,892)	(4,500)
Extraordinary bonuses	(18,602)	(1,486)
Other expenses	(11,799)	(14,414)
Total	(579,180)	(512,245)
Average number of employees	4,807	4,653

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

	2017 S/(000)	2016 S/(000)
Repair, maintenance and cleaning services	(96,626)	(87,497)
Communications and other utilities	(73,400)	(67,611)
Professional fees	(50,119)	(52,279)
Security and insurance	(33,557)	(40,013)
Leases of proporty and other assets	(19,511)	(21,935)
Professional services	(17,073)	(17,342)
Printing services	(4,750)	(5,780)
Transport, mobility and courier services	(2,814)	(3,208)
Other services	(14,431)	(14,396)
Total	(312,281)	(310,061)

21. Valuation of assets and provisions

(a) This item is made up as follows:

	2017 S/(000)	2016 S/(000)
Provisions for litigation and claims (b)	(81,835)	(17,149)
Provision for uncollectable receivables	(2,844)	(3,146)
Provision for contingent loans	3,805	2,064
Impairment of intangible asset (c)	(27,159)	-
Impairment of fixed asset (d)	(2,003)	-
Others	(73)	575
	(110,109)	(17,656)

(b) As of December 31, 2017, provisions for litigations and claims includes provisions for labor and civil trials for an amount of S/74.5 million and S/8.6 million, respectively, net of a reversal of S/1.3 million (S/21.5 million and S/0.5 million, respectively, net of a reversal of S/4.8 million, as of December 31, 2016). The increase in labor trial is due mainly to the record of a provision for S/41.7 million related to resolution issued by the arbitral tribunal in charge of the process with a workers' union r elated to the negotiation of certain requirements during year 2016.

(c) As of December 31, 2017, the Bank has recorded an impairment for S/27.2 million from "Core banking" software for the renewal digital platforms (Core banking project), due to certain contractual compliance issues involving the supplier in charge of development of such computer system, see note 8(d).

(d) Correspond entirely to impairment of computers equipment that were acquired for the implementation of the project "Core banking" and which were in possession of the Consorcio Nessa Global Banking Solution S.A, who failed in its primary duty to execute the "implementation of the Core banking solution" within the time-limit and format set out in the agreement No. CO-017790-2013-BN.

22. Other income, net

(a) This item is made up as follows:

	2017 S/(000)	2016 S/(000)
Other income:		
Return of taxes and interest (b)	-	147,913
Net gain on sale of properties (c)	-	19,542
Income from leases	1,216	1,199
Severance claims	2,072	699
Other income	8,326	2,925
	11,614	172,278
Other expenses:		
Losses and claims not covered by inssurance	(3,687)	(2,393)
Donations	(1,057)	(1,360)
Administrative and fiscal penalties	(289)	(538)
Depreciation for obsolescence	(554)	(147)
Other expenses	(1,050)	(440)
	(6,637)	(4,878)
Other income, net	4,977	167,400

(b) Through Resolution of Intendency No.012-180-0009331/SUNAT and No.012-180-0010064/SUNAT issued on January 5, 2016 and May 4, 2016, respectively, SUNAT made the return to the Bank that corresponds to the third category income tax paid in excess corresponding to the annual tax declaration of the period 2008 for S/95.8 million; In addition, through Resolution of Intendency No.012-180-0007861/SUNAT and No.012-180-0011896/SUNAT, issued on October 7, 2016 and November 29, 2016, respectively, SUNAT made the return to the Bank corresponds to the third category income tax paid in excess corresponding to the annual tax declaration of the period 2009 for S/52.1 million, both returns were generated as a result of an error in the quantification of the above mentioned tax.

(c) On July 8, 2016, the Bank and the National Jury of Elections signed the purchase-sale agreement for a building located at the intersection of the Avenue Nicolas de Pierola and Jr. Lampa (Cercado de Lima) for US$6.8 million, equivalent to S/22.3 million, and whose payment was made in that month. The net cost of the sale of this property amounted to S/4.8 million, which is comprised of the book value of the building for S/32.9 million (buildings and facilities for S/26.8 million and land for S/6.1 million), its depreciation for S/20.1 million and for the land's impairment for S/8.0 million, see Note 7 (a). Also, through Public Auction No.001-2016-BN dated on April 14, 2016, the Bank granted the Good Pro to the Mrs Sonia Mejia Sandoval by the transfer of real estate located in Jr. Andahuaylas No.1430 and Jr.Montevideo No.899 for the amount of US$0.5 million, equivalent to S/2.1 million, which were cancelled in that month. The net cost of the sale of this property amounted to S/0.1 million, which is comprises of the book value of the building for S/0.3 million (buildings and facilities for S/0.2 million and land for S/0.1 million), its depreciation for S/0.1 million and for the land's impairment for S/0.1 million, see Note 7 (a).

23. 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, 2017					As of December 31, 2016				
	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	9,650,014	-	-	-	9,650,014	8,871,351	-	-	-	8,871,351
Available-for-sale investments	-	8,109,575	-	-	8,109,575	-	6,916,184	-	-	6,916,184
Held-to-maturity investments	-	-	2,237,705	-	2,237,705	-	-	1,020,921	-	1,020,921
Loans, net	8,647,525	-	-	-	8,647,525	10,170,988	-	-	-	10,170,988
Accounts receivable, net	492,093	-	-	-	492,093	350,498	-	-	-	350,498
Other assets, net, note 8	84,161	-	-	-	84,161	59,835	-	-	-	59,835
	18,873,793	8,109,575	2,237,705	-	29,221,073	19,452,672	6,916,184	1,020,921	-	27,389,777
Financial Liabilities										
Deposits and obligations with the public	-	-	-	26,403,423	26,403,423	-	-	-	24,741,527	24,741,527
Deposits of financial system companies and international financial entities.	-	-	-	378,741	378,741	-	-	-	466,006	466,006
Securities, bonds and obligations outstanding	-	-	-	251,659	251,659	-	-	-	251,725	251,725
Accounts payable	-	-	-	418,352	418,352	-	-	-	414,879	414,879
Other liabilities, note 8	-	-	-	187,101	187,101	-	-	-	70,199	70,199
	-	-	-	27,639,276	27,639,276	-	-	-	25,944,336	25,944,336

24. 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. 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, Central Manager of Business and 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, 2017 and 2016, before the effect of mitigation through any collateral, is the book value of each class of financial assets indicated in Note 23 and the contingent transactions detailed in Note 16(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:

- 97.6 percent of the gross loan portfolio (direct and indirect) is categorized in the top two grades of the internal rating system establish by the SBS as of December 31, 2017 (98.1 percent as of December 31, 2016);

- 97.8 percent of the loan portfolio is considered neither past due nor impaired as of December 31, 2017 (98.5 percent as of December 31, 2016);

- 82.8 percent of the commercial loan portfolio has a sovereign risk as of December 31, 2017 (78.4 percent as of December 31, 2016).

- 100.0 percent of the investments have at least investment credit rating (BBB- or higher) or are debt securities issued by BCRP or by the Central Government of Peru as of December 31, 2017 (100.0 percent as of December 31, 2016);

- 20.7 percent and 76.3 percent of the cash and due from banks represent amounts deposited in the Bank and in the BCRP, respectively, as of December 31, 2017 (18.6 percent and 79.3 percent, respectively, as of December 31, 2016).

(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) with 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) With 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 of their loans from 9 to 30 days due and from 31 to 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 121 days past due. On the other hand, retail and mortgage borrowers are included into this category when payments are from 31 to 60 days past due and from 61 to 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 366 days late. On the other hand, retail and mortgage borrowers are included into this category when payments are from 61 to 120 days past due from 121 to 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 comprehensive 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, 2017						As of December 31, 2016					
	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	3,692,767	-	4,759,144	235,343	8,687,254	101.1	6,023,728	-	4,001,065	184,312	10,209,105	100.9
Potential problem	-	-	30,255	845	31,100	0.4	-	-	31,641	790	32,431	0.3
Past due but not impaired -												
Normal	-	-	14	-	14	-	-	-	332	-	332	-
Potential problem	-	-	1	3	4	-	-	-	-	4	4	-
Impaired -												
Substandard	-	-	29,330	206	29,536	0.3	-	-	25,917	816	26,733	0.3
Doubtful	-	-	65,842	2,296	68,138	0.8	-	-	59,541	1,484	61,025	0.6
Loss	6,266	632	74,824	623	82,345	0.9	6,337	640	59,678	388	67,043	0.7
Gross	3,699,033	632	4,959,410	239,316	8,898,391	103.5	6,030,065	640	4,178,174	187,794	10,396,673	102.8
Less: Provision for loan losses	(46,745)	(632)	(252,856)	(4,269)	(304,502)	(3.5)	(63,132)	(640)	(217,989)	(2,618)	(284,379)	(2.8)
Total, net	3,652,288	-	4,706,554	235,047	8,593,889	100.0	5,966,933	-	3,960,185	185,176	10,112,294	100.0

As of December 31, 2017 and 2016, refinanced loans amounted to approximately S/6.7 million and S/4.5 million, respectively, of which S/2.6 million and S/2.4 million, respectively, are classified as neither past due nor impaired, and S/4.1 million and S/2.1 million impaired, respectively.

As of December 31, 2017 and 2016, past due but not impaired loans up to 30 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, 2017					As of December 31, 2016				
	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	6,266	632	169,995	3,124	180,019	6,337	640	145,136	2,688	154,801
Collateral	-	-	-	2,193	2,193	-	-	-	7,718	7,718
Provision for loan losses	6,266	632	121,663	2,051	130,611	6,337	640	101,882	780	109,639

As of December 31, 2017 and 2016, the exposure to this loan portfolio risk is distributed in the following economic sectors:

	2017 S/(000)	2016 S/(000)
Public administration and defense	3,323,183	5,234,159
Financial intermediation	369,585	589,569
Mining and oil	-	200,000
Transport, storage and communications	3,325	3,383
Other community services	1,920	1,923
Manufacturing industry	1,604	1,610
Commerce	-	12
Others	48	49
Sub – Total	3,699,665	6,030,705
Consumer loans	4,959,410	4,178,174
Residential mortgage loans	239,316	187,794
Total	8,898,391	10,396,673

(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, 2017		As of December 31, 2016	
	S/(000)	%	S/(000)	%
Instruments rated in Peru:				
AAA	80,273	0.9	103,215	1.5
AA- to AA+	15,338	0.3	25,721	0.4
Short-term instruments (non-listed)				
Certificate of deposits BCRP	1,735,230	21.4	4,406,392	63.7
Treasury notes	1,255,321	15.4	707,533	10.2
Commercial paper	-	-	7,312	0.1
Subtotal	3,086,162	38.0	5,250,173	75.9
Instruments rated abroad:				
AAA	420,446	5.4	4,861	0.1
A- to A+	3,422,432	42.2	30,408	0.4
BBB- to BBB+	1,059,855	13.0	1,554,458	22.5
Non-listed shares	39,150	0.4	44,097	0.6
Subtotal	4,941,883	61.0	1,633,824	23.6
Accrued incomes	81,530	1.0	32,187	0.5
Total	8,109,575	100.0	6,916,184	100.0

As of December 31, 2017, the Bank maintained as held-to-maturity investment two (2) bonds issued in Soles by MEF, which has a sovereign risk classification of "A-"on that date.

As of December 31, 2016, the Bank maintained as held-to-maturity investment a bond issued in Soles by MEF, which has a sovereign risk classification of "A-"on that date.

As of December 31, 2017 and 2016, the financial instruments with exposure to credit risk were distributed by the following geographical areas:

	As of December 31, 2017				As of December 31, 2016			
	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	18,630,883	7,436,668	2,237,705	28,303,534	19,295,606	6,794,623	1,020,921	27,111,150
United States of America	100,167	473,116	-	173,090	96,977	62,328	-	159,305
Colombia	-	67,975	-	67,975	-	-	-	-
Mexico	-	85,145	-	85,145	-	-	-	-
Panama	-	39,150	-	39,150	-	44,097	-	44,097
England	93,195	-	-	93,195	26,909	-	-	26,909
Germany	14,782	-	-	14,782	8,709	-	i-	8,709
Other countries	34,955	7,521	-	479,472	24,597	15,136	-	39,733
Country risk	(189)	-	-	(189)	(126)	-	-	(126)
Total	18,873,793	8,109,575	2,237,705	29,256,154	19,452,672	6,916,184	1,020,921	27,389,777

24.2 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 Internal historic LAR (Liquidity at Risk) 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 (not including future interest payments If applicable) 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, 2017					As of December 31, 2016				
	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	2,248,789	2,241,677	1,075,410	20,837,547	26,403,423	2,039,036	2,028,510	1,123,354	19,550,627	24,741,527
Deposits of financial system companies and international financial entities	371,839	3,086	-	3,816	378,741	204,116	162,391	98,641	858	466,006
Securities, bonds and obligations outstanding	-	-	1,659	250,000	251,659	-	-	1,725	250,000	251,725
Accounts payable	241,110	78,087	27,683	71,472	418,352	234,326	124,259	45,148	11,146	414,879
Other liabilities	187,101	-	-	-	187,101	70,199	-	-	-	70,199
Total liabilities	3,048,839	2,322,850	1,104,752	21,162,835	27,639,276	2,547,677	2,315,160	1,268,868	19,812,631	25,944,336

The following table presents the changes in liabilities from financing activities as indicated by IAS 7:

	January 1, 2017 S/(000)	Cash flows S/(000)	Approval of profit sharing S/(000)	Interest payable S/(000)	December 31, 2017 S/(000)
Distribution of income to Public Treasury	-	(547,659)	547,659	-	-
Subordinated bonds issue	251,725	(20,001)	-	19,935	251,659
Total liabilities from financing activities	251,725	(567,659)	547,659	19,935	251,659

	January 1, 2016 S/(000)	Cash flows S/(000)	Approval of profit sharing S/(000)	Interest payable S/(000)	December 31, 2016 S/(000)
Distribution of income to Public Treasury	-	(340,252)	340,252	-	-
Subordinated bonds issue	-	250,000	-	1,725	251,725
Total liabilities from financing activities	-	(90,252)	340,252	1,725	251,725

24.3 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, 2017 and 2016, the Bank introduced a VPR of 2.9 and 10.4 percent, respectively, and obtained a GER of 1.9 and 1.8 percent for the periods 2017 and 2016, 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, 2017							
	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	7,267,756	-	-	-	-	660	2,381,598	9,650,014
Available-for-sale investments	961,197	338,328	912,722	491,443	403,904	4,962,831	39,150	8,109,575
Held-to-maturity investment	-	31,851	-	60,000	-	2,145,854	-	2,237,705
Loans, net	248,850	220,491	259,754	509,339	3,272,106	4,136,985	-	8,647,525
Accounts receivable and other assets	184,269	3,684	6,261	221	2,321	524,309	880,499	1,601,564
Total assets	8,662,072	594,354	1,178,737	1,061,003	3,678,331	11,770,639	3,301,247	30,246,383
Liabilities								
Deposits and obligations with the public	5,559,820	3,019,088	2,545,550	2,779,587	2,834,061	7,578,518	2,465,540	26,782,164
Securities, bonds and obligations outstanding	-	-	-	1,659	-	250,000	-	251,659
Accounts payable and other liabilities	232,412	-	-	2,324	4,121	263,280	248,183	750,320
Shareholders' equity	-	-	-	-	-	-	2,462,240	2,462,240
Total liabilities and shareholders' equity	5,792,232	3,019,088	2,545,550	2,783,570	2,838,182	8,091,798	5,175,963	30,246,383
Marginal gap	2,869,840	(2,424,734)	(1,366,813)	(1,722,578)	840,149	3,678,852	(1,874,716)	-
Accumulated gap	2,869,840	445,106	(921,707)	(2,644,285)	(1,804,136)	1,874,716	-	-

	As of December 31, 2016							
	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	5,680,432	-	-	41	32	657	3,190,189	8,871,351
Available-for-sale investments	418,265	974,843	93,051	1,388,978	1,876,799	2,120,151	44,097	6,916,184
Held-to-maturity investment	-	-	-	60,000	-	960,921	-	1,020,921
Loans, net	237,728	171,713	239,616	768,039	3,099,160	5,654,732	-	10,170,988
Accounts receivable and other assets	375,752	1,641	6,969	13	4,329	80,184	1,023,870	1,492,758
Total assets	6,712,177	1,148,197	339,636	2,217,071	4,980,320	8,816,645	4,258,156	28,472,202
Liabilities								
Deposits and obligations with the public	4,705,424	2,528,232	2,443,285	2,632,349	2,935,114	7,440,455	2,522,674	25,207,533
Securities, bonds and obligations outstanding	-	-	-	-	1,725	250,000	-	251,725
Accounts payable and other liabilities	236,117	32	476	2,299	12,094	11,142	318,776	580,936
Shareholders' equity	-	-	-	-	-	-	2,432,008	2,432,008
	4,941,541	2,528,264	2,443,761	2,634,648	2,948,933	7,701,597	5,273,458	28,472,202
Marginal gap	1,770,636	(1,380,067)	(2,104,125)	(417,577)	2,031,387	1,115,048	(1,015,302)	-
Accumulated gap	1,770,636	390,569	(1,713,556)	(2,131,133)	(99,746)	1,015,302	-	-

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, 2017, the weighted average market exchange rate published by the SBS for transactions in U.S. Dollars was S/.3.238 for buying and S/3.245 for selling (S/3.352 for buying and S/3.360 for selling, as of December 31, 2016). As of December 31, 2017, the exchange rate established by the SBS to record assets and liabilities in foreign currencies was S/3.241 for each U.S. Dollar (S/3.356 for each U.S. Dollar, as of December 31, 2016).

Below is the detail of the assets and liabilities of the Bank by type of currency, expressed in thousands of soles:

	2017				2016			
	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	710,694	8,796,604	142,716	9,650,014	1,432,228	7,375,000	64,123	8,871,351
Available-for-sale investments	1,556,651	6,552,924	-	8,109,575	332,994	6,583,190	-	6,916,184
Held-to-maturity investment	-	2,237,705	-	2,237,705	-	1,020,921	-	1,020,921
Loans, net	-	8,647,525	-	8,647,525	-	10,170,988	-	10,170,988
Accounts receivable, net	68,212	423,881	-	492,093	93,174	257,324	-	350,498
Other assets, net, note 8	27,582	56,440	139	84,161	1,845	57,923	67	59,835
Total monetary assets	2,363,139	26,715,079	142,855	29,221,073	1,860,241	25,465,346	64,190	27,389,777
Monetary liabilities								
Deposits and obligations with the public	2,214,199	24,117,704	71,520	26,403,423	1,630,295	23,062,136	49,096	24,741,527
Deposits of financial system companies and international financial entities	79,634	299,078	29	378,741	265,366	200,611	29	466,006
Securities, bonds and obligations outstanding	-	251,659	-	251,659	-	251,725	-	251,725
Accounts payable	1,054	417,298	-	418,352	1,124	413,661	94	414,879
Other liabilities, note 8	21,918	100,014	65,169	187,101	16,240	46,941	7,018	70,199
Total monetary liabilities	2,316,805	25,185,753	136,718	27,639,276	1,913,025	23,975,074	56,237	25,944,336
Net monetary position	46,334	1,529,326	6,137	1,581,797	(52,784)	1,490,272	7,953	1,445,441

As of December 31, 2017, the Bank has contingent operations (indirect loans) in foreign currency for approximately US$38.6 million, equivalent to approximately S/125.1 million (approximately US$141.9 million, equivalent to approximately S/476.3 million, as of December 31, 2016), see Note 16(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, 2017 and 2016 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**	**2017**	**2016**
	%	S/(000)	S/(000)
Devaluation -			
U.S. Dollar	5	(2,206)	2,514
U.S. Dollar	10	(4,212)	4,799
Revaluation -			
U.S. Dollar	5	2,439	(2,778)
U.S. Dollar	10	5,148	(5,865)

24.4. 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, 2017 and 2016 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, 2017					
Financial assets					
Available-for-sale investments:					
Sovereign bonds		3,264,224	137,584	-	3,401,808
BCRP Certificates of deposit		-	1,735,230	-	1,735,230
Global bonds		872,320	-	-	872,320
Corporate bonds		56,453	95,612	-	152,065
Other instruments		572,151	1,255,321	-	1,827,472
Equity securities		39,150	-	-	39,150
Total financial assets	4(a)	4,804,298	3,223,747	-	8,028,045
Accrued incomes	4(a)				81,530
Country risk allowance					-
Total activos financieros					8,109,575
As of December 31, 2016					
Financial assets					
Available-for-sale investments:					
Sovereign bonds					
BCRP Certificates of deposit		1,152,154	145,360	-	1,297,514
Global bonds		-	4,406,392	-	4,406,392
Corporate bonds		216,031	-	-	216,031
Other instruments		42,997	149,468	-	192,465
Equity securities		12,425	715,073	-	727,497
		44,097	-	-	44,097
Total financial assets	4(a)	1,467,704	5,416,293	-	6,883,996
Accrued income	4(a)				32,187
Country risk allowance					-
Total activos financieros					6,916,183

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, 2017					As of December 31, 2016				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	9,650,014	-	9,650,014	9,650,014	-	8,871,351	-	8,871,351	8,871,351
Held-to-maturity investments	-	2,202,292	-	2,202,292	2,237,705	-	1,020,921	-	1,020,921	1,020,921
Loans, net	-	8,647,525	-	8,647,525	8,647,525	-	10,170,988	-	10,170,988	10,170,988
Accounts receivable	-	492,093	-	492,093	492,093	-	350,498	-	350,498	350,498
Other assets, net	-	84,161	-	84,161	84,161	-	59,835	-	59,835	59,835
Total	-	21,076,085	-	21,076,085	21,111,498	-	20,473,593	-	20,473,593	20,473,593
Liabilities										
Deposits and obligations with the public	-	26,403,423	-	26,403,423	26,403,423	-	24,741,527	-	24,741,527	24,741,527
Deposits of financial system companies	-	378,741	-	378,741	378,741	-	466,006	-	466,006	466,006
Securities, bonds and obligations outstanding		285,157		285,157	251,659	-	251,725	-	251,725	251,725
Accounts payable	-	418,352	-	418,352	418,352	-	414,879	-	414,879	414,879
Other liabilities	-	187,101	-	187,101	187,101	-	70,199	-	70,199	70,199
Total	-	27,672,774		27,672,774	27,639,276	-	25,944,336	-	25,944,336	25,944,336

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.

25. Contingencies

As of December 31, 2017 and 2016, the Bank has certain civil, administrative, labor and other related to its activities claims which, in opinion of the Management and its legal advisors no additional liabilities will result that should be recorded by the Bank, see note 8(e).

26. Subsequent events

From December 31, 2017 until the date of this report, no significant events have occurred that affect the financial statements.

27. Prevailing Applicable Language

The accompanying translated financial statements were originally issued in Spanish and are presented on the basis of accounting standards prescribed by the Superintendence of Banking, Insurance and Private Pension Funds Administrators for Peruvian financial entities, as described in Note 2. Certain accounting practices applied by the Bank that conform to those accounting principles may not conform to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.

Nº 0064271

COLEGIO DE CONTADORES PÚBLICOS DE LIMA

AV. AREQUIPA Nº 998 Y AV. ALEJANDRO TIRADO Nº 181 - SANTA BEATRIZ - LIMA
TELEF.: 230-3000

R.U.C. 20106620106

Nº

63910

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, BURGA & ASOCIADOS SOC. CIVIL DE RESPONSABILIDAD LIMITADA

MATRICULA : S0761

FECHA DE COLEGIATURA : 05/11/2002

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

31/03/2018

Lima,

16 de Febrero de 2017

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: 102-00001005

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

EY I Assurance I Tax I Transactions I Advisory

About
EY

EY is the global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies over the world. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

For more information, please visit ey.com/pe