(Free translation from the original in Spanish)

BANCO DE LA NACION

FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Gaveglio Aparicio y Asociados Sociedad Civil de Responsabilidad Limitada
Av. Santo Toribio 143, Piso 7, San Isidro, Lima, Perú, T: + 51 (1) 211 6500 F: +51 (1) 211 6565
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FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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S/. = Nuevos Soles
US$ = United States dollar

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Banco de la Nación

February 20, 2015

We have audited the accompanying financial statements of **Banco de la Nación** (hereinafter the Bank) which comprise the statement of financial position as of December 31, 2014 and 2013, and the statements of comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory notes from 1 to 29.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Peru applicable to financial institutions, and such internal control as Management determines is necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Institutes of Peruvian 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 Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

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February 20, 2015
Banco de la Nación

Opinion

In our opinion, the accompanying financial statements referred to above, present fairly, in all material respects, the financial position of **Banco de la Nación** as of December 31, 2014 and 2013, its financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Peru applicable to financial institutions.

Countersigned by

Gaveglio, Aparicio y Asociados

---(partner)
Arnaldo Alvarado L.
Peruvian Certified Public Accountant
Registration No.01-007576

(Free translation from the original in Spanish)

BANCO DE LA NACION

STATEMENT OF FINANCIAL POSITION

ASSETS

	Notes	As of December 31 2014 S/.000	2013 S/.000
Available:	5		
- Cash-in hand		1,295,445	987,245
- Peruvian Central Reserve Bank		9,314,882	11,172,712
- Banks and other entities in the country's financial system		4,954	14,684
- Banks and other foreign financial institutions		430,942	103,364
- Clearing		38,037	34,650
- Interests accrued on cash in-hand and and other cash		607	635
		11,084,867	12,313,290
Available-for-sale and held-to-maturity financial assets	6	8,294,231	6,684,784
Loan portfolio, net	7	7,685,686	6,943,890
Receivables, net	8	422,842	382,988
Property, furniture and equipment, net	9	434,397	290,562
Deferred income tax	25	87,518	113,123
Otros assets, net	10	266,077	291,660
TOTAL ASSETS		28,275,618	27,020,297
OFF-BALANCE SHEET AND CONTINGENT ACCOUNTS	18		
Contingent debtors		6,845,520	4,080,922
Off-balance sheet accounts - debtors		70,431,022	67,835,679
Trusts and comissions on trust, debt		1,508,173	1,252,887
		78,784,715	73,169,488

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	As of December 31 2014 S/.000	2013 S/.000
LIABILITIES			
Borrowings with the public	11	25,005,860	24,303,439
Deposits in financial system companies and international financial entities	12	443,382	358,315
Payables	13	351,233	230,828
Provisions	14	90,901	128,814
Other liabilities	15	423,279	207,143
TOTAL LIABILITIES		26,314,655	25,228,539
EQUITY	16		
Share capital		1,000,000	1,000,000
Additional capital		1,452	1,452
Legal reserve		350,000	350,000
Unrealized results		(80,687)	(140,848)
Retained earnings		690,198	581,154
TOTAL EQUITY		1,960,963	1,791,758
TOTAL LIABILITIES AND EQUITY		28,275,618	27,020,297
OFF-BALANCE SHEET AND CONTINGENT ACCOUNTS	18		
Contingent debtors		6,845,520	4,080,922
Off-balance sheet accounts - debtors		70,431,022	67,835,679
Trusts and comissions on trust, debt		1,508,173	1,252,887
		78,784,715	73,169,488

The accompanying notes from page 7 to 51 are part of the financial statements.

(Free translation from the original in Spanish)

BANCO DE LA NACIÓN

STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the year ended December 31, 2014 S/.000	2013 S/.000
INTEREST INCOME			
Cash in hand		187,366	234,275
Available-for-sale financial assets		219,208	174,397
Held-to-maturity financial assets		87,452	98,490
Direct loan portfolio		719,947	609,586
		1,213,973	1,116,748
INTEREST EXPENSES			
Borrowings with the public		(48,785)	(39,591)
Deposits in financial system companies and international financial organizations		(5)	(5)
		(48,790)	(39,596)
Gross financial margin		1,165,183	1,077,152
Provisions for uncollectible direct loans	7-d)	(27,631)	(28,699)
Income from decrease of provisions		6,627	4,160
		(21,004)	(24,539)
Net financial margin		1,144,179	1,052,613
INCOME FROM FINANCIAL SERVICES			
Income from indirect loans		7,670	4,596
Income from trust and trust commissions		3,081	3,099
Other income		647,949	619,563
	19	658,700	627,258
FINANCIAL SERVICE EXPENSES			
Expenses for indirect loans		(3)	(2)
Expenses from trust and trust commissions		(9)	(6)
Other expenses		(100,838)	(82,276)
	19	(100,850)	(82,284)
Net financial margin for income and expenses for financial services		1,702,029	1,597,587
Result of financial operations			
Available-for-sale financial assets		21,033	62
Net exchange gain		62,112	49,427
Other		40	5,477
		83,185	54,966
Operative margin		1,785,214	1,652,553
ADMINISTRATIVE EXPENSES			
Personnel and board expenses	20	(547,703)	(536,014)
Expenses for third-party services	21	(255,451)	(242,870)
Taxes and contributions		(65,614)	(67,854)
		(868,768)	(846,738)
DEPRECIATION AND AMORTIZATION	22	(52,589)	(47,373)
Net operating margin, net		863,857	758,442
VALUATION OF ASSETS AND PROVISIONS	22		
Provision for indirect loans		(6,199)	(6,402)
Provisions for uncollectible receivables, net of recoveries		(10,727)	9,148
Impairment of financial assets		(2,191)	(716)
Recovery of impairment of fixed assets		-	501
Provision for litigation and claims		(11,407)	(43,816)
Other provisions		(770)	(176)
		(31,294)	(41,461)
Operating profit		832,563	716,981
OTHER INCOME AND EXPENSES	23	51,280	8,046
Results of the period before income tax		883,843	725,027
Income tax	24-g)	(178,994)	(135,680)
Net result for the period		704,849	589,347
Other comprehensive income:			
Unrealized results for available-for-sale financial assets		60,161	(183,924)
Total comprehensive income for the year		765,010	405,423

The accompanying notes from page 7 to 51 are part of the financial statements.

(Free translation from the original in Spanish)

BANCO DE LA NACION

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Share capital (note 16 (a)) S/.000	Additional capital S/.000	Legal reserve (note 16 (b)) S/.000	Unrealized results S/.000	Retained earnings (note 16 (c)) S/.000	Total net equity S/.000
Balances as of January 1, 2013	1,000,000	952	350,000	43,076	668,804	2,062,832
Unrealized results in available-for-sale financial assets	-	-	-	(183,924)	-	(183,924)
Net results of the period	-	-	-	-	589,347	589,347
Total comprehensive income for the year	-	-	-	(183,924)	589,347	405,423
Other prior year adjustments	-	-	-		81	81
Donations	-	500	-	-	-	500
Distributions to the Public Treasury	-	-	-	-	(473,955)	(473,955)
Offsetting debt with Public Treasury	-	-	-	-	(203,123)	(203,123)
Total transactions with shareholders	-	500	-	-	(676,997)	(676,497)
Balances as of December 31, 2013	1,000,000	1,452	350,000	(140,848)	581,154	1,791,758
Balances as of January 1, 2014	1,000,000	1,452	350,000	(140,848)	581,154	1,791,758
Unrealized results in available-for-sale financial assets	-	-	-	60,161	-	60,161
Net results of the period	-	-	-	-	704,849	704,849
Total comprehensive income for the year	-	-	-	60,161	704,849	765,010
Other prior year adjustments					(20,642)	(20,642)
Distributions to the Public Treasury	-	-	-	-	(402,614)	(402,614)
Offsetting debt with Public Treasury	-	-	-	-	(172,549)	(172,549)
Total transactions with shareholders	-	-	-	-	(595,805)	(595,805)
Balances as of December 31, 2014	1,000,000	1,452	350,000	(80,687)	690,198	1,960,963

The accompanying notes from page 7 to 51 are part of the financial statements.

(Free translation from the original in Spanish)

BANCO DE LA NACIÓN

STATEMENT OF CASH FLOWS

	For the years ended December 31,	
	2014	2013
	S/.000	S/.000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net result of the period	704,849	589,347
Adjustments to reconcile the net result of the period with cash flows from operating activities:		
-Depreciation and amortization	52,589	47,373
-Provision for uncollectible direct loans	27,631	28,699
-Return of provisions	(6,627)	(4,160)
-Provision for receivables	10,727	4,982
-Provision for litigations and contingent loans	17,606	50,218
-Deferred income tax	12,181	(19,088)
-Impairment of financial assets	2,191	716
-Impairment of property	-	3,849
-Other changes in fixed assets	(1,540)	(2,454)
-Accrued interest on loan porfolio	(44,261)	(37,764)
-Accrued interest on available-for-sale and held-to-maturity financial assets	(111,812)	(81,922)
Charges and credits for net changes in assets and liabilities:		
-Receivables and other assets	(24,998)	(237,662)
-Payables and other liabilities	222,531	33,750
-Equity adjustments	(20,643)	81
Cash and cash equivalents provided by operating activities	840,424	375,965
CASH FLOWS FROM INVESTING ACTIVITIES		
-Acquisition of property, furniture and equipment	(183,724)	(33,173)
-Acquisition of other non-financial assets	(26,163)	(26,086)
Cash and cash equivalents applied to investing activities	(209,887)	(59,259)
CASH FLOWS FROM FINANCING ACTIVITIES		
-Net increase in deposits and other borrowings	787,488	3,190,426
-Profit share payment to Public Treasury	(402,614)	(473,955)
-Net decrease (increase) in loan portfolio	(725,166)	(1,355,878)
-Net increase in available-for-sale and held-to-maturity financial assets	(1,518,668)	(2,083,270)
-Dividends received	-	1,560
Cash and cash equivalents applied to financing activities	(1,858,960)	(721,117)
Net decrease in cash and cash equivalents	(1,228,423)	(404,411)
Cash and cash equivalent at the beginning of the year	12,313,290	12,717,701
Cash and cash equivalent at the end of the year	11,084,867	12,313,290
Non-monetary transactions:		
Donations received	-	500
Unrealized results and available-for-sale financial assets	60,161	(183,924)
Offsetting debt with Public Treasury	172,549	203,123
		38,680

The accompanying notes from page 7 to 51 are part of the financial statements.

(Free translation from the original in Spanish)

BANCO DE LA NACION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1 INCORPORATION AND BUSINESS PURPOSE

Banco de la Nacion (hereinafter the Bank) was incorporated by Law No.16000 dated January 27, 1966, as an entity ruled by public law belonging to the Economy and Finance Sector with economic, financial and administrative autonomy.

Subsequently, its incorporation Law was updated through Legislative Decree No.199 dated June 12, 1981. Since November 27, 1992, when issuing the Decree Law No.25907 exclusive rights concerning functions and powers contained in section III of the Organic Law then in force, were no long in effect.

The Bank is governed by its Bylaws, approved by Supreme Decree No.07-94-EF dated January 26, 1994, amended by Emergency Decree No.31-94 dated July 11, 1994 by the State Business Activity Act; it is also governed by government-run business activity law ("Ley de Actividad Empresarial del Estado") and supplementary provisions under the Peruvian General Law of the Financial and Insurance System and Organic Law of the Peruvian banking, insurance and pension fund administrators (SBS, the Spanish acronym); and Law No.26702 (hereinafter the Peruvian General Banking Law).

The Bank is entitled to perform the following functions, which none of them will be exclusively performed by entities of the 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 the 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 held by 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 Bylaws. In this case, the Bank will provide bank services and foreign exchange services under to the regulations enacted by the Central Reserve Bank of Peru (Banco Central de Reserva).
h. Receive, on a consignment and custody basis, all 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 within the framework of the National Treasury System.
k. Receive saving and custody deposits from individuals and corporations in those areas of the Peruvian territory in which private banks do not have offices or operations, including the issuance of wire transfers, money orders and other cash transactions ordered or in favor of such parties.

l. Provide loans and financial facilities to National, Regional and Local Government entities and other public entities, except for granting loans to Government entities under private law; issuing, acquiring, maintaining and selling bonds and other securities, as set forth by law. The issuance of securities will be performed in accordance with an annual schedule approved by the Ministry of Economy and Finance of Peru 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 Bylaws, 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 Ministry of Economy and Finance and may be reviewed quarterly.
n. Grant a single line of credit to workers and pensioners of the Public Sector that, due to their level of 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 Ministry of Economy and Finance that may be reviewed annually.

The Bank's head office is located at Av. Republica de Panama No.3664, San Isidro, Lima, Peru. In order to carry out its activities, the Bank operates through its main office, and a network of 612 offices located throughout the country (559 offices in 2013).

As of December 31 the number of Bank's workers is as follows:

	2014	2013
Managers	17	15
Officers	862	901
Staff	3,606	3,522
	4,485	4,438

Reconciliation with the Ministry of Economy and Finance.

By Supreme Decree No.002-2007-EF dated January 11, 2007, the Ministry of Economy and Finance (hereinafter the MEF) repealed the Supreme Decree No.210-2006-EF dated December 27, 2006, which established, among other matters, the reconciliation of other reciprocal obligations held by the MEF and the Bank as of September 30, 2006, signing a reconciliation agreement on December 28, 2006.

Supreme Decree No.002-2007-EF, dated December 28, 2006, ratified the reconciliation settlement agreement certificate of reciprocal obligations between the MEF and the Bank and established that the offsetting and complete settlement of the MEF's borrowings in favor of the Bank would be made on January 2, 2007; therefore, all borrowings should have been reconciled as of January 1, 2007, including other reciprocal debts that were updated applying the same criteria established in the agreement signed on December 28, 2006.

Reciprocal debts reconciled as of January 1, 2007 resulting from the Reconciliation Agreement Certificate, signed on February 28, 2007, resulted in debts of the MEF in favor of the Bank for US$31,335 thousand and Bank debts in favor of the MEF for US$72,414 thousand, obtaining a net debt in favor of the MEF for US$41,079 thousand.

Likewise, the reconciliation agreement certificate signed by the MEF and the Bank on January 1, 2007, determined additional borrowings of the MEF in favor of the Bank for S/.64,338 thousand and US$849,171 thousand from various borrowing operations approved by explicit legal norms.

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

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

As per Supreme Decree No.002-2007-EF, amended by the Agreement to Consolidate, Offset and Settle Borrowings ("Convenio de Consoildación, 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:

a) MEF compensated the debt in favor of the Bank providing on March 30, 2007 a bond for S/.2,644,571 thousand; 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.

   Bond's balance as of December 31, 2014 and 2013 amounts to S/.1,369,901 thousand and S/.1,542,531 thousand, respectively (Note 6).

b) The bond was issued under the following characteristics:

   - Denominated in Nuevos Soles
   - Non-negotiable
   - Maturity date: 30 years
   - Amortizable annually
   - Yearly interest rate of 6.3824%, payable on a quarterly basis
   - Book-entry form in CAVALI S.A. I.C.L.V.

c) Bond annual amortization is an amount equivalent to no less than 30% of the Bank's profits which corresponds to the Public Treasury. In any case, the amortization cannot be less than S/.60,000 thousand; if profits corresponding to the Public Treasury is not sufficient to cover this amount, the MEF will provide the funds for the difference charging it to budget items allocated to the public debt service

d) If when the bond reaches maturity there are outstanding balances, the MEF will settle them.

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

Approval of the Financial Statements -

The financial statements for the year ended December 31, 2013 were approved in Board Meeting No.1993 on March 7, 2014. The financial statements as of December 31, 2014 were approved by Management on January 31, 2015 and will be submitted to the Board when Management considers it appropriate. In Management's opinion, the accompanying financial statements will be approved by the Board of Directors without amendments.

2 SIGNIFICANT ACCOUNTING POLICIES

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 of preparation -

The Bank's financial statements have been prepared in accordance with Peruvian generally accepted accounting principles applicable to financial institutions. Accounting principles mainly comprise standards issued by the SBS and, on a complementary basis, the International Financial Reporting Standards (IFRS) approved by the "Contaduría Pública de la Nación" through resolutions of the Peruvian standard setter "Consejo Normativo de Contabilidad", IFRS issued by the International Accounting Standards Board (IASB), in a supplementary manner, the generally accepted accounting principles effective in United States issued by the Financial Accounting Standards Board (FASB).

The information contained in these financial statements is responsibility of the Bank's Board and it expressly confirms that it has fully applied the principles and judgments of the IFRS as issued by IASB.

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 value. The financial statements are expressed in thousands of Nuevos Soles, unless otherwise stated.

The preparation of financial statements in accordance with the generally accepted accounting principles in Peru requires the use of certain critical accounting estimates. It also requires that Management applies its judgment in the process of application of the accounting policies of the Bank. Areas that involve a higher degree of judgment or complexity or areas in which assumptions and estimates are significant for the financial statements are described in Note 3.

The financial statements are presented in Nuevos Soles (S/.) and all amounts are rounded off to the next thousand (S/.000), except otherwise stated.

b) Foreign currency translation -

Functional and presentation currency -

The items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates. The bank's functional and presentation currency is Nuevos Soles.

Transactions and balances -

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions, established by the SBS.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income, except for the exchange difference caused by equity instruments classified as available-for-sale investments and provided that they are not hedging instruments that will be recognized in equity accounts.

Foreign exchange gains and losses resulting from monetary items are presented in the statement of income in financial income and expenses accounts.

c) Cash and cash equivalents -

Cash and cash equivalent comprise interbank funds and other short-term highly liquid investments easily convertible to cash and subject to insignificant risks of changes in value, of which maturity dates do not exceed 90 days from the acquisition date.

d) Financial instruments -

Financial instruments are defined as any contract that gives rise, simultaneously, to a financial asset in one enterprise and a financial liability or equity instrument in another enterprise.

Financial instruments are classified as asset, liability or equity according to the substance of the contractual agreement that gave rise to them. The Interest, dividends, gains and losses generated by a financial instrument classified as liability are recorded as expenses or income in the statement of comprehensive income. Payments to holders of financial instruments classified as equity are recognized directly in net shareholders' equity.

Financial instruments are offset when there is a legally enforceable right to offset and the Bank's Management has the intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The accounting policies on the recognition and valuation of these items are disclosed in the related accounting policies in each note.

e) Loans and provision for doubtful loans -

Direct loans are recognized when funds are draw down by borrowers. Indirect loans (contingent) are stated when documents supporting the credit facilities are issued. Also, refinanced or restructured loans are those with changed repayment timetables due to the debtor's financial difficulties.

The Loan Portfolio Evaluation Division of the Bank's Risk Department is responsible for performing the ongoing evaluation and classification of the loan portfolio, assigning to each debtor a risk rating based on the guidelines established in SBS Resolution No.11356-2008, and amendments.

Types of loans -

In accordance with SBS Resolution No.11356-2008, and its amendments, the Bank classifies its loans as follows: Non- retail (corporate loans, loans to large companies, loans to medium-sized companies) or Retail (loans to small entities, loans to micro-entities, revolving consumer loans, non-revolving consumer loans and residential mortgage loans). These categories take into consideration the nature of the customer (corporate, government or individuals), the purpose of the loan, and business size as measured by income, debt, among other indicators.

Risk categories -

The credit risk classification categories established by SBS are as follows: normal, potential problem, substandard, doubtful or loss which, for the non-retail loan portfolio (corporate, large-sized companies and medium-sized companies), are mainly determined by the borrower's repayment capability, his cash flow, degree of compliance with his obligations, the borrower's risk classification by other financial institutions, the financial situation of the borrower and the quality of management of the borrower. For Retailers (small-sized company loans, micro-enterprise loans, revolving and non-revolving consumer loans and residential mortgage loans), the classification is based on how long payments are overdue and the customer's risk classification in other financial institutions.

Required provisions -

According to laws currently in force, 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.

Additionally, in compliance with the SBS Resolution No.041-2005, the Bank assesses the exposure to loan exchange risks for loans in foreign currency and makes certain provisions for debtors which have been rated in a higher than normal risk category, as established by the SBS. The determination of the exposure to credit risk of indirect loans takes into account the following loan conversion factors (FCC, the Spanish acronym):

Description of FCC	**(%)**
(i) Confirmations of irrevocable letters of credit for up to one year, when the issuing bank is a first level entity from a foreign financial system.	20
(ii) Stand-by letters of credit that support obligations to do or not to do.	50
(iii) Issuance of guarantees, import letters of credit and performance bonds not included in (ii) above; as well as bank acceptances and confirmations of letters of credit not included in (i) above;	100
(iv) Granted loans not disbursed and unused lines of credit.	-
(v) Other indirect loans not included in any of the items above.	100

Determination of the required provisions is made considering the debtor credit rating, whether or not the loan has been secured with a guarantee, and the type of the established guarantees.

As of December 31, 2014 and 2013, the provisions of the direct loan portfolio are determined in accordance with the SBS Resolution No.11356-2008, effective from July 2010, applying the following percentages:

Risk category	Without guarantees %	With preferred guarantees %	With preferred, highly realizable guarantee %	With preferred self- liquidating guarantees %
Standard				
Mortgage loans	0.70	0.70	0.70	0.70
Corporate loans	0.70	0.70	0.70	0.70
Large-sized company loans	0.70	0.70	0.70	0.70
Medium-sized company loans	1.00	1.00	1.00	1.00
Small-sized company loans	1.00	1.00	1.00	1.00
Micro-enterprise loans	1.00	1.00	1.00	1.00
Revolving consumer loans	1.00	1.00	1.00	1.00
Non-revolving consumer loans	1.00	1.00	1.00	1.00
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

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 statement 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 statement of financial position.

Pro-cyclical component -

The pro-cyclical provision is required by the SBS for the loan portfolio classified in the normal risk category. This is an additional component to the above-mentioned rate of the generic provision and is recorded subject to the condition of the "pro-cyclical rule" being activated.

From July 2012 to October 2014, the pro-cyclical component of the provisions of direct and contingent loans and finance leasing operations of the borrowers whose credits are classified as normal by the Bank is as follows:

Type of Loans	Provision rate
Corporate loans	0.40
Large-sized company loans	0.45
Medium-sized company loans	0.30
Small-sized company loans	0.50
Micro-enterprise loan	0.50
Revolving consumer loans	1.50
Non-revolving consumer loans	1.00
Mortgage loans	0.40

For corporate loans, large-sized company loans and mortgage loans with preferred, self-liquidating guarantees, the pro-cyclical component was 0.3% for the portion covered by such guarantees. For other loans with preferred, self-liquidating guarantees, the pro-cyclical component rate was 0% for the part covered by such guarantees. For consumer loans with payroll discount agreements, the pro-cyclical component rate was 0.25%, provided they comply with the requirements of the Resolution.

Since November 27, 2014, by Circular No.B-2224, the SBS authorized the deactivation of the pro-cyclical provision; it must be noted that during such deactivation of the pro-cyclical component application, financial institutions are not allowed, under any circumstance, to make profits from the reversal of such provisions, which should be used only for recording mandatory specific provisions.

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%.

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.

Provision for excess borrowing of the retail portfolio -

In compliance with SBS Resolution No. 6941-2008, the Bank makes an additional generic provision of 1% on direct loans. 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.

Provisions for direct loans are disclosed deducted the balance from related asset (Note 7) and provisions for indirect loans are disclosed as liabilities (Note 14).

f) Financial assets -

The criteria for the initial recognition and valuation of financial assets applied by the Bank comply with SBS Resolution No.7033-2012 "Rules for Classification and Valuation of Financial Assets in the Financial System" ("Reglamento de Clasificación y Valorización de las Inversiones de las Empresas del Sistema Financiero") which classifies financial assets in four categories: (i) at fair value through profit or loss, (ii) available-for-sale, (iii) held-to-maturity and (iv) investments in subsidiaries, associates and interest in joint ventures.

In all cases, they are initially recognized using the "trade-date" methodology stated in IFRS 39; that is, the date on which the Bank and the seller assume the reciprocal obligations arising from the transaction.

The Bank presents financial assets classified in the following categories:

Available-for-sale financial assets -

The category of available-for-sale financial assets includes all financial assets that are not classified at fair value through profit or loss, held-to-maturity financial assets or investments in subsidiaries and associates.

Available-for-sale financial assets 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 variations are recognized in the equity under "Unrealized results" unless there is evidence of permanent impairment. When the instrument is sold or realized, the gain or loss that was previously recognized in equity will be transferred and recognized to the results of the period.

For debt instruments, before they are stated at fair value, entities are required to account at amortized cost under the effective interest rate method; once such amortized cost has been obtained, any profit or loss resulting from changes in fair value must be recognized.

Held-to-maturity financial assets -

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

Interest is recognized using the effective interest rate method.

In cases of impairment, the carrying amount of the financial asset will be and the loss will be recognized in the statement of comprehensive income.

g) Impairment of financial assets -

The Bank evaluates, on a quarterly basis, whether there is evidence that a financial asset classified as available-for-sale and held-to-maturity has been impaired. For that purpose, the Bank monitors the following conditions:

First filter:

At each quarter-end, for the entire financial asset portfolio, the Bank assesses the following conditions:

a) Significant decrease in fair values: if the fair value at the closing date decreases by more than 50% of its cost.
b) Prolonged decrease in fair value: if the monthly average fair value decreases consecutively for the last twelve months and the cumulative decrease in fair value for that period is at least 20%.

That analysis is performed in the original currency of the financial asset; however, if there is impairment, it is accounted for in the functional currency (Nuevo Sol).

In the event that at least one of the above-mentioned conditions (a or b) is met, an assessment should be made whether they are justified by the conditions included in the second filter below:

Second filter:

For those instruments that passed the first filter, the Bank assesses the following conditions:

1) Deterioration of the financial condition or financial ratios of the issuer and its economic group.
2) Adverse conditions of the financial asset and issuer.
3) Downgraded risk rating resulting from additional matters to those indicated in the referred filter.
4) Interruption of payment of interest or the principal due to the issuer's financial difficulties.
5) Interruption of transactions or an active market due to the issuer's financial difficulties.
6) Forced re-negotiation of the instrument contractual conditions due to legal or economic reasons related to the issuer.
7) Evidence that the issuer will enter bankruptcy or forced restructuring.
8) Decline in carrying amounts due to changes in the regulations and standards.
9) The Bank does not have the intention and capacity to maintain the investment with losses until value is recovered.

If at least two of the above conditions are met, the Bank will determine the amount of any impairment loss and will record it depending on the type of the instrument, as described below:

Available-for-sale financial assets -

When financial instruments classified in this category suffer impairment, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit for the year as a reclassification adjustment.

The amount of the cumulative loss that had been reclassified from equity to profit or loss for the year will be the difference between the acquisition cost and the present fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Held-to-maturity financial assets -

The amount of the impairment loss incurred will be the difference between the asset's carrying amount (amortized cost) at the time impairment is detected and the present value of the future cash flows expected to be recovered, discounted at the original effective interest rate (buying IRR). The carrying amount of the instrument will be reduced and the impairment loss will be recognized in the results of the period.

h) Property, furniture and equipment -

Property, furniture and equipment are recognized at acquisition cost, less accumulated depreciation and accumulated amount of any impairment loss during their useful lives. Expenses subsequent to the acquisition are only recognized as an asset when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred. The cost and accumulated depreciation of disposed premises, furniture and equipment are de-recognized from the corresponding accounts and the resulting gain or loss is recognized in the results of the period in which it occurs.

Work in progress and in-transit items are recognized at acquisition cost. These items are not depreciated until the relevant assets are terminated and/or received and are operative.

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

	Years
Buildings	33
Premises, furniture and equipment	10
Vehicles and improvements to leasehold	5
Computer equipment	4

Useful life and depreciation method are periodically reviewed by Management to ensure their consistency with the economic benefit pattern of items related to property, furniture and equipment.

i) Impairment of non-financial assets -

Whenever events or changes in economic conditions occur which indicate that the value of long-lived assets might not be recoverable, Management reviews the carrying amount of such assets.

If after such evaluation, the assets' carrying amounts exceed their recoverable amount, an impairment loss is recognized in the income statement, by an amount equivalent to the excess carrying amount, as long as the SBS has not established a specific accounting treatment. The recoverable amounts are estimated for each asset or, if this is not possible, for each cash-generating unit

The recoverable amount of a long-lived asset or a cash generating unit is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal of a long-lived asset or a cash generating unit is the expected amount to be obtained from the sale of an asset will be sold in a free market; while the value in use is the present value of the estimated future cash flows that will result from the continuous use of the asset, as well as its final disposal at the end of its useful life. Recoverable amounts are estimated for each asset or, if that is not possible, for cash-generating unit.

j) Workers' and Pensioner's Social benefits -

Workers' and Pensioner's Social benefits are comprised of:

Workers' profit sharing -

The Bank recognizes a liability and an expense for workers' profit sharing based on 5% of taxable income determined in accordance with current tax legislation.

Vacation and other personnel benefits -

The employees' annual vacation leave, other paid absences and other personnel benefits are recognized on an accrual basis.

Bonuses -

The Bank recognizes an expense for statutory bonuses and the related liability based on applicable laws and regulations effective in Peru. Statutory bonuses comprise two additional one-month salary paid in July and December every year.

Employees' severance indemnities -

The provision for employees' severance indemnities comprises all employees' rights to indemnities in accordance with the current legislation and must be settled by making deposits in bank accounts designated by employees. The calculation of employee's severance indemnities which must be settled at the date of the statement of financial position is included in the account provision for social benefits for employees and is presented in the statement of financial position under obligations with the public.

Retirement pensions -

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

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

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

The actuarial calculation of the provisional obligations is made on an annual basis by a qualified actuary of the Planning, Statistics and Rationalization Division of the Social Security Administration Office" (hereinafter ONP) using the technical guidelines of the ONP approved by Resolution No.082-2013-Jefatura/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 4.5% because the financial instruments held by the Bank ensure profitability rates above 4% (annual technical interest rate – TITA, the Spanish acronym) for a medium- and long-term.

k) Provisions and contingencies -

Provisions -

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are reviewed and adjusted in each period to reflect the best estimate available at the date of the statement of financial position.

Contingencies -

Contingent liabilities are not recognized in the financial statements. They are only disclosed in notes to the financial statements unless the possibility of an outflow of economic resources is remote.

Contingent assets are not recognized in the financial statements and they are only disclosed if an inflow of economic benefit is probable.

l) Revenue and expense recognition -

Interest revenue and expenses are recorded in the results of the period as they are accrued based on the period of the operations that give rise to them and the interest rates agreed with clients; except interests resulting from loans that have been defaulted, refinanced, restructured and in legal collection, as well as interests on loans classified as doubtful or losses, which ones are recognized as revenue as they are collected. Commissions for banking services are recognized as income when received.

When Management determines that the debtor's financial position has improved and the loan is reclassified at the current situation and/or in the normal, potential problems or substandard, interests are recognized on the accrual basis.

Interest income includes yield on fixed income investments and held-for-trade securities, as well as the recognition of discount and the premium on financial instruments. Dividends are recognized as income when declared.

Other income and expenses are recorded in the period they are accrued.

m) Income tax -

Current income tax is calculated based on the taxable income and recorded in accordance to tax legislation applicable to the Bank.

Deferred income tax is determined using the liability method, on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using current tax rates and laws; and that are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are recognized regardless the temporary differences estimated will disappear. Deferred income tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be offset.

Deferred income tax is recognized as an expense or income for the year or is charged or credited directly to equity when related to items that have been charged or credited directly to equity.

n) Exchange gains and losses -

Foreign exchange transactions are translated to the functional currency at the exchange rate established by SBS, at the date they occur.

Foreign exchange gains and losses resulting from settlement of monetary assets denominated in foreign currencies or adjustment of assets and liabilities from changes in exchange rates after initial recognition are recognized as income or expense, in the statement of comprehensive income in the period in which they are generated.

o) Trust Activities -

Assets and cash flows arising from trust transactions which include a commitment to return such assets and cash flows to clients and in which the Bank acts as a trustee, are not included in the financial statements because they are not owned by the Bank and are only recognized in off-balance sheet accounts for control purposes.

p) International Financial Reporting Standards (IFRS) issued but not yet effective -

The standards issued but not yet effective at the date of the Bank's financial statements are listed below. The listing includes Standards and interpretations issued which the Bank reasonably foresees will be applicable in the future. The Bank has the intention to adopt such standards when they become effective:

- IFRS 9 - Financial instruments -

  IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the measurement model of financial assets and requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The bases of classification will depend on the entity's business model and the contractual characteristics of the cash flow of the financial assets. The guidance in IAS 39 on impairment of financial assets and hedge contracts continues to apply.

- IFRS 15 - Revenue from contracts with customers -

  Establishes principles that an entity applies for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

IASB has released amendments and improvements to IFRS. Amendments have not been adopted because their effective date is for annual periods beginning on or after January 1, 2015.

The Bank is in process to assess the impact of these standards on the preparation of its financial statements. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the financial statements of the Company.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and judgments -

The preparation of the financial statements requires Management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the recognition of income and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. If in the future such estimates and assumptions are modified because of changes in the circumstances on which they were based, the effect of the change will be included in the determination of the profit or loss in the year in which the change occurs, and of future periods, if required. Significant estimates related to the financial statements are: the provision for loan losses, other receivables and contingent credits; the useful life assigned to property, furniture and equipment; the recording of contingent liabilities, and the calculation of current and deferred income tax.

Provision for loan portfolio losses -

The Bank makes specific and generic provisions for its loan portfolio following criteria established by the SBS. Provisions for the classification of loan portfolio is based on the a review carried out by Bank's Management into the following categories: normal, with potential problems, substandard, doubtful or loss, depending on the indebtedness level related to each client.

Income tax -

Determination of the tax liabilities and expenses requires interpretations of the applicable tax laws and regulations. The Bank seeks professional tax advice to take the best decision. Even though Management considers that its estimates are prudent and appropriate, differences of interpretation may arise from the interpretation made by Peruvian tax authorities that may affect future tax charges.

Others -

See Notes 2-g) fair value of available-for-sale financial assets, 2-h) property, furniture and equipment, 2-j) workers' and pensioner's social benefits and 2-k) provisions and contingencies.

4 FINANCIAL INSTRUMENTS BY CATEGORY

The classification of this item is as follows:

	Financial assets				Financial liabilities	
	Loans and receivables S/.000	Available-for sale S/.000	Held-to-maturity S/.000	Total S/.000	Loans S/.000	Total S/.000
As of December 31, 2014						
Assets and liabilities as per the statement of financial position:						
Available funds	11,084,867	-	-	11,084,867	-	-
Available-for-sale financial assets	-	6,924,330	-	6,924,330	-	-
Held-to-maturity financial assets	-	-	1,369,901	1,369,901	-	-
Loan portfolio	7,685,686	-	-	7,685,686	-	-
Receivables	422,842	-	-	422,842	-	-
Other assets	110,227	-	-	110,227	-	-
Borrowings with the public	-	-	-	-	23,047,718	23,047,718
Deposits with local and international financial institutions	-	-	-	-	443,382	443,382
Payables	-	-	-	-	351,233	351,233
Other liabilities	-	-	-	-	422,790	422,790
	19,303,622	6,924,330	1,369,901	27,597,853	24,265,123	24, 265,123
As of December 31, 2013						
Assets and liabilities as per the statement of financial position:						
Available funds	12,313,290	-	-	12,313,290	-	-
Available-for-sale financial assets	-	5,142,253	-	5,142,253	-	-
Held-to-maturity financial assets	-	-	1,542,531	1,542,531	-	-
Loan portfolio	6,943,890	-	-	6,943,890	-	-
Receivables	382,988	-	-	382,988	-	-
Other assets	153,630	-	-	153,630	-	-
Borrowings with the public	-	-	-	-	22,287,198	22,287,198
Deposits with local and international financial institutions	-	-	-	-	358,315	358,315
Payables	-	-	-	-	230,828	230,828
Other liabilities	-	-	-	-	206,654	206,654
	19,793,798	5,142,253	1,542,531	26,478,582	23,082,995	23,082,995

5 CASH AND CASH EQUIVALENTS

As of December 31 this item comprises:

	2014 S/.000	2013 S/.000
Cash:		
Main Office	524,955	440,733
Branches and agencies	508,460	310,587
Offices	131,168	128,394
In-transit cash	130,714	107,383
Gold and silver bullion	148	148
	1,295,445	987,245
Banco Central de Reserva del Perú:		
Ordinary account	1,409,968	2,711,812
Special account	7,620,552	8,295,967
Overnight deposit	271,726	148,135
Interest accrued on cash in hand	12,636	16,798
	9,314,882	11,172,712
Banks and other entities in the country's financial system	4,954	14,684
Banks and other foreign financial institutions	430,942	103,364
Clearing	38,037	34,650
Interest accrued on cash in-hand and other cash	607	635
	474,540	153,333
	11,084,867	12,313,290

As of December 31, 2014, the available balance in BCRP includes US$53,543 thousand and S/.1,250,000 thousand (US$40,004 thousand and S/.2,600,000 thousand at December 31, 2013), intended to meet the requirement that the Bank has to maintain a legal cash reserve for third-party deposits, under the limits required by regulations currently in force.

The legal cash reserve requirement funds held in BCRP are non-interest-bearing except for the payable portion of the legal reserve that exceeds the minimum legal reserve. At December 31, 2014, the surplus of the minimum legal cash reserve, in foreign and local currency, accrues interest at annual rates of 0.36% and 2.27% (annual rate of 0.04% and 1.45%, respectively at December 31, 2013).

As of December 31, 2014 and 2013 overnight transactions deposited in BCRP amounted to US$91,000 thousand and US$53,000 thousand, respectively.

Deposits in banks within the country and abroad mainly comprise balances in Nuevos Soles and US dollars, as well as other currencies for smaller amounts; these deposits are free availability and bear interest at market rates.

In 2014, the interest income on cash-in hand amounted to S/.187,366 thousand (S/.234,275 thousand in 2013) and is included in financial income in the statement of comprehensive income.

6 AVAILABLE-FOR-SALE AND HELD-TO-MATURITY FINANCIAL ASSETS

As of December 31 this item comprises:

	2014 S/.000	2013 S/.000
Available-for-sale financial assets -		
Securities issued by the Peruvian government:		
Certificate of deposits held for trade - BCRP (a)	4,313,121	2,707,723
Sovereign bonds (b)	1,020,129	864,359
Global bonds (b)	741,880	914,866
Commercial paper	9,949	3,234
Country Investment Grade (c)	-	8,221
	6,085,079	4,498,403
Accrued interest	105,590	73,781
Provision for country risk	(859)	(1,012)
	6,189,810	4,571,172
Securities issued by other entities (d):		
Corporate bonds	680,874	520,728
Shares	41,736	35,584
Securitized bonds	5,688	6,558
	728,298	562,870
Accrued interest	6,222	8,211
	734,520	571,081
	6,924,330	5,142,253
Held-to-maturity financial assets		
National Public Treasury Bonds:		
Bonds - D.S. No.002-2007(e)	1,369,901	1,542,531
	1,369,901	1,542,531
	8,294,231	6,684,784

a) The certificates of deposits are freely negotiable securities to bearer with current maturity, acquired in public auctions carried out by BCRP and are traded in the Peruvian secondary market. As of December 31, 2014, internal rates of return in local currency range from 3.3287% to 3.9997% (from 3.6439% to 4.1570% as of December 31, 2013), and the interest rates in each auction are determined by BCRP.

b) Sovereign and global bonds are acquired at rates and prices offered in the market at the date of the transaction. As of December 31, 2014, sovereign bonds generate yields at annual interest rates in local currency that range from 4.4264% to 6.5060% (from 4.1288% to 6.6821% as of December 31, 2013) and mature between the years 2015 y 2042. Additionally, at the end of the period, global bonds generate yields at internal rates of return that range from 2.2147% to 4.3850% (from 0.3622% to 4.7743% in 2013) and mature between the years 2015 y 2037.

c) Country Investment Grade mainly comprises bonds acquired from the US Department of the Treasury. As of December 31, 2013, the annual interest rate is 2.7267 % and it matured in 2014.

d) Securities issued by other entities at December 31 are distributed in the following economic sectors:

	2014 S/.000	2013 S/.000	2014 %	2013 %
Financial entities	274,772	226,529	37	40
Industrial entities	382,265	254,242	52	44
Power entities	66,326	61,855	9	11
Telephony entities	4,935	20,244	1	4
	728,298	562,870	99	99
Interest accrued and provision for country risk	6,222	8,211	1	1
	734,520	571,081	100	100

Corporate bonds mainly comprise instruments acquired from first-rate entities. As of December 31, 2014, annual interest rates range between 0.0952% to 11.6324% (between 2.3043% to 6.8578% as of December 2013).

e) As of December 31, 2014 and 2013, held-to-maturity financial assets comprise Supreme Decree Bond No.002-2007 issued by MEF to offset and consolidate reciprocal debt between MEF and the Bank (Note 1). Said bond bears interests at a coupon rate of 6.3824% payable on a quarterly basis, with annual amortization and with maturity at 30 years. During 2014, this bond generated interest for S/.87,452 thousand (S/.98,490 thousand in 2013), which is recognized in the item income from held-to-maturity financial assets in the statement of comprehensive income.

   In Board of Directors Meeting No.1993 held on March 7, 2014, the Bank approved the distribution of net profit for year 2013, in favor of the Public Treasury. Accordingly, an annual amortization was made of Supreme Decree Bond No.002-2007-EF for S/.172,549 thousand as a result of said distribution (Note 16-b).

   In Board of Directors Meeting No.1994 held on March 13, 2013, the Bank approved the distribution of net profit for year 2012, in favor of the Public Treasury. Accordingly, an annual amortization was made of Supreme Decree Bond No.002-2007-EF for S/.203,123 thousand as a result of said distribution (Note 16-b).

As of December 31, 2014 and 2013, the accrued interest of available-for-sale and held-to-maturity financial assets amounted to approximately S/.306,660 thousand and S/.272,887 thousand, respectively and are included in finance income in the statement of comprehensive income.

7 LOAN PORTFOLIO, NET

a) As of December 31 this item comprises:

	2014		2013	
	S/.000	%	S/.000	%
Direct loans:				
Current	7,819,024	102	7,068,016	102
Refinanced	1,189	-	773	-
Past due	17,510	-	13,783	-
Legal collection	25,027	-	23,607	-
	7,862,750	102	7,106,179	102
Income from deferred interest on refinanced loan	(358)		(237)	-
Interest accrued on current loans	44,261	1	37,764	1
Provision for loans	(220,967)	(3)	(199,816)	(3)
Total direct loans, net	7,685,686	100	6,943,890	100
Indirect loans (Note 18)	1,928,536		1,179,084	

The loan portfolio (direct and indirect) is secured with guarantees provided by clients, mainly government pensioners, individuals who work in government-run agencies that maintain deposits in the Bank.

As of December 31 the annual effective rates for main products were as follows:

	2014		2013	
	Local currency %	Foreign currency %	Local currency %	Foreign currency %
Overdrafts	7 - 17	12	7 - 17	12
Corporate loans	7 - 13	8	7 - 13	8
Personal loans	10 - 19	-	10 - 19	-
Mortgage loans	7 - 10	-	7 - 10	-

b) Under the standards currently in force, published by the SBS, as of December 31 the Bank's loan portfolio is classified by risk category as follows (not including income from deferred interest on refinanced loans):

Risk Category	Corporate loans		Personal loans		Mortgage loans		Total	
	S/.000	%	S/.000	%	S/.000	%	S/.000	%
Year 2014								
Normal	4,178,397	99.84	3,415,673	96.51	136,596	98.94	7,730,666	98.40
PP	-	-	26,938	0.76	391	0.28	27,329	0.35
Substandard	63	-	19,780	0.56	569	0.41	20,412	0.26
Doubtful	-	-	43,920	1.24	410	0.30	44,330	0.57
Loss	6,720	0.16	32,843	0.93	92	0.07	39,655	0.42
	4,185,180	100.00	3,539,154	100.00	138,058	100.00	7,862,392	100.00
Año 2013								
Normal	3,807,059	99,83	3,085,119	96.76	103,350	99,40	6,995,528	98.45
PP	-	-	19,904	0.62	121	0.12	20,025	0.28
Substandard	-	-	13,857	0.43	92	0.09	13,949	0.20
Doubtful	-	-	41,500	1.30	315	0.30	41,815	0.59
Loss	6,598	0.17	27,934	0.89	93	0.09	34,625	0.48
	3,813,657	100.00	3,188,314	100.00	103,971	100.00	7,105,942	100.00

c) As of December 31 direct loans are distributed in the following economic sectors:

	2014		2013	
	S/.000	%	S/.000	%
Personal loans	3,539,511	45	3,188,551	45
Public administration and defense	2,886,611	37	2,467,823	35
Financial intermediary	1,291,849	16	1,141,735	16
Mortgage loans	138,058	2	103,971	1
Transportation, storage and communication	3,196	-	3,100	-
Other community service activities	1,872	-	1,856	-
Manufacturing industry	1,591	-	1,581	-
Others	50	-	50	-
Trade	12	-	12	-
Mining	-	-	197,500	3
	7,862,750	100	7,106,179	100

Direct loans have the following contractual maturities as of December 31:

	2014	2013
	S/.000	S/.000
Up to 1 month	217,142	394,921
From 1 month to 6 months	1,490,070	1,413,797
From 6 months to 1 year	877,369	1,095,266
Over 1 year	5,101,105	4,039,906
	7,685,686	6,943,890

d) The movement of the provision for uncollectible direct loans is as follows:

	Specific S/.000	Generic S/.000	Total S/.000
Balances as of December 31, 2012	60,951	114,208	175,159
Additions debited to results	4,103	24,596	28,699
Exchange differences	222	124	346
Recovery of provisions	(816)	(3,344)	(4,160)
Write-offs and transfers	(228)	-	(228)
Balances as of December 31, 2013	64,232	135,584	199,816
Additions debited to results	9,161	18,470	27,631
Exchange differences	164	(7)	157
Recovery of provisions	(770)	(5,857)	(6,627)
Write-offs and transfers	(10)	-	(10)
Balances as of December 31, 2014	72,777	148,190	220,967

Bank Management considers that the provision for loans recorded as of December 31, 2014 and 2013, complies with the standards issued by the SBS in force at those dates.

As of December 31, the generic provision includes to S/.49,658 thousand that corresponds to pro-cyclical provisions (S/.46,412 thousand as of December 31, 2013). Since November 27, 2014, by means of Circular No.B-2224, the SBS authorized the deactivation of the pro-cyclical provision rule; it should be noted that during such deactivation of the pro-cyclical component application, financial institutions are not allowed, under any circumstance, to make any profits on the reversal of such provisions, which should be used only for recording mandatory specific provisions.

8 RECEIVABLES, NET

As of December 31 this item comprises:

	2014 S/.000	2013 S/.000
Receivables from COFIDE (a)	291,170	274,020
Other receivables (b)	171,308	136,053
	462,478	410,073
Provision for doubtful accounts (c)	(39,636)	(27,085)
	422,842	382,988

(a) By Emergency Decree No.024-2009 dated February 19, 2009, the Business Guarantee Fund was established ("Fondo de Garantía Empresarial – FOGEM") with an amount of S/.300,000 thousand, whose purpose is to secure loans that entities within the National Financial System grant in favor of micro and small productive businesses, in services and trade, as well as mid-sized businesses engaged in production activities and/or services in non-traditional export chains.

Based on that Emergency Decree, the Bank was authorized to use its own resources to provide FOGEM a contribution as a trustee amounting to S/.300,000 thousand.

FOGEM is managed in a trust by Corporación Financiera de Desarrollo S.A. (COFIDE) under the terms and conditions of the agreement signed between both institutions.

The effective period to make use of FOGEM was 2 years, from the effective date of the Operating Rules; however, by Emergency Decree No.058-2011 dated October 26, 2011, said period was extended 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.

As of December 31, 2014 y de 2013, receivables from COFIDE correspond to the amount transferred to FOGEM amounting to US$97,512 thousand and US$98,039 thousand respectively, (equivalent to S/.291,170 thousand as of December 31, 2014 and S/.274,020 thousand as of December 31, 2013).

(b) The balance of Other receivables includes advances to suppliers for S/.92,461 thousand for the construction project of the new institutional office.

9 PROPERTY, FURNITURE AND EQUIPMENT, NET

The movement in the cost and accumulated depreciation of the property, furniture and equipment account for the year ended December 31, 2014 and 2013 is as follows:

	Balances as of December 31, 2013 S/.000	Additions S/.000	Write-offs S/.000	Transfers S/.000	Other S/.000	Balances as of December 31, 2014 S/.000
Year 2014:						
Cost:						
Land	59,644	-	-	-	-	59,644
Buildings and premises	399,160	-	(255)	459	(783)	398,581
Furniture and equipment	98,525	6,203	(335)	694	636	105,723
Computer equipment	177,514	21,424	(3,302)	2,388	802	198,826
Vehicles	8,895	-	(1,185)	-	43	7,753
Work in progress	9,879	141,535	-	(1,922)	-	149,492
In-transit items	18,305	14,562	-	(2,814)	-	30,053
Premises and improvements to leasehold	13,069	-	(414)	1,195	1,442	15,292
	784,991	183,724	(5,491)	-	2,140	965,364
Depreciation:						
Buildings and premises	251,234	11,251	-	-	(960)	261,525
Furniture and equipment	60,072	7,764	(274)	-	(13)	67,549
Computer equipment	124,296	19,267	(2,800)	-	(500)	140,263
Vehicles	6,731	800	(1,179)	-	-	6,352
Premises and improvements to leasehold	7,116	2,347	(48)	-	883	10,298
	449,449	41,429	(4,301)	-	(590)	485,987
Impairment of properties	44,980	-	-	-	-	44,980
	290,562					434,397

	Balance at December 31, 2012 S/.000	Additions S/.000	Disposals S/.000	Transfers S/.000	Adjustments S/.000	Balances at December 31, 2013 S/.000
Year 2013:						
Cost:						
Land	54,795	-	-	4,349	500	59,644
Buildings and premises	394,615	135	-	7,755	(3,345)	399,160
Furniture and equipment	92,947	4,141	(265)	1,705	(3)	98,525
Computer equipment	145,671	21,896	(307)	10,281	(27)	177,514
Vehicles	6,935	1,975	(57)	-	42	8,895
Work in progress	22,080	5,526	-	(17,010)	(717)	9,879
In-transit items	24,681	-	-	(11,082)	4,706	18,305
Premises and improvements to leasehold	7,871	-	-	8,351	(3,153)	13,069
	749,595	33,673	(629)	4,349	(1,997)	784,991
Depreciation:						
Buildings and premises	240,851	6,252	-	-	4,131	251,234
Furniture and equipment	52,626	7,627	(66)	-	(115)	60,072
Computer equipment	107,821	16,620	(278)	-	133	124,296
Vehicles	6,158	613	(40)	-	-	6,731
Premises and improvements to leasehold	4,044	7,568	-	-	(4,496)	7,116
	411,500	38,680	(384)	-	(347)	449,449
Impairment of properties	41,131	-	(500)	4,349	-	44,980
	296,964					290,562

Work in progress mainly comprises the new head office building project. At November 19, 2013 the contract drafting technical file and execution of work between the International Organization for Migration (IOM), on behalf of the Bank, and COSAPI S.A. (contractor) was signed. The contract amounts to S/.412,502 thousand (including VAT) and the execution time is 800 calendar days to be carried out in four stages.

10 OTHER ASSETS, NET

	2014 S/.000	2013 S/.000
Current taxes (a)	102,352	102,566
Head Office and Branches (b)	36,893	65,647
Operations in process (c))	55,174	73,860
Intangibles	52,284	34,280
Advance payments and Deferred Charges	18,160	14,123
Other	1,214	1,184
	266,077	291,660

As of December 31, this item comprises:

(a) The balance of current taxes mainly comprises balances in favor of the Bank regarding income tax from prior years.

(b) The balance of head office and branches corresponds to transactions in process between the Bank's offices nation-wide. The main kind of transaction is money remittances transferred from head office via the Peruvian Central Reserve Bank to the agencies and offices within the country.

(c) Operations in process are transactions carried out in the last days of the month, reclassified in the following month to their definitive accounts of the statement of financial position. These transactions do not affect the Bank's profit or loss.

11 BORROWINGS WITH THE PUBLIC

As of December 31 this item comprises:

	2014 S/.000	2013 S/.000
Borrowings at sight (a)	12,653,025	14,588,449
Borrowings for savings accounts (b)	6,583,325	4,979,569
Borrowings for time deposits (c)	1,078,276	236,142
Other borrowings (d)	4,608,693	4,414,773
Expenses payable for borrowings	82,541	84,506
	25,005,860	24,303,439

The effective annual interest rate for savings deposits and time deposits, applicable for 2014 and 2013, ranged from 0.20% to 0.79% in local currency and from 0.07% to 0.13% in foreign currency.

(a) Borrowings at sight comprise:

	2014 S/.000	2013 S/.000
Deposits in checking accounts	12,492,525	14,383,801
Certified checks	13,190	19,935
Cashier's checks	83,993	127,097
Transfers payable	63,267	57,571
Collections to be liquidated	50	45
	12,653,025	14,588,449

Deposits in checking accounts mainly comprise those made by:

i) Private companies for approximately S/.4,550,387 thousand and US$24,974 thousand (S/.2,981,004 thousand and US$20,188 thousand in 2013).
ii) Ministry of Economy and Finance for S/.1,158,214 thousand and US$41,613 thousand (S/.1,538,097 thousand and US$38,325 thousand in 2013).
iii) Local Governments for approximately S/.947,972 thousand and US$5,573 thousand (S/.1,340,647 thousand and US$2,204 thousand in 2013).
iv) Regional Governments for approximately S/.744,439 thousand and US$41,076 thousand (S/.1,126,178 thousand and US$10,175 thousand in 2013).
v) Presidency of the Council of Ministers for S/.7,600 thousand and US$64 thousand (S/.7,793 thousand and US$411 thousand in 2013).
vi) COFIDE for S/.5,185 thousand and US$84,955 thousand (S/.8,571 thousand and US$8,720 thousand in 2013).

Said deposits represent approximately 63% of deposits in checking accounts as of December 31, 2014 (52% of deposits in checking accounts as of December 31, 2013).

(b) Obligations for savings accounts correspond to opened accounts for the payment of salaries and pensions to public-sector workers and pensioners.

(c) Obligations for fixed-term accounts consist of bank certificates, fixed-term deposits and severance indemnity deposits for S/.1,021,530 thousand; S/.5,058 thousand and S/.51,688 thousand, respectively (S/.164,588 thousand; S/.4,978 thousand and S/.66,576 thousand, respectively as of December 31, 2013).

(d) The balance of other obligations comprises:

	2014 S/.000	2013 S/.000
Social benefits of workers and pensioners	1,958,142	2,016,241
Restricted obligations with the public	2,650,551	2,398,532
	4,608,693	4,414,773

Social benefits of workers and pensioners:

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, subject to the pension regime of Decree Law No. 20530. As of December 31, it comprises:

	2014 S/.000	2013 S/.000
Retirement pensions - Decree Law No.20530	1,954,424	2,012,390
Labor Regime - Law No.4916	3,599	3,719
Labor Regime - Decree Law No.11377	119	132
	1,958,142	2,016,241

Retirement pension - Decree Law No.20530.

Retirement pensions 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 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 sense and distinguishing 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.

Supreme Decree No. 043-2003-EF was published in March 28, 2003, in which provisions are established for the registration of government-plan pension-plan obligations of the Pension Regime of 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 Supreme Decree No.026-2003-EF dated February 27, 2003 and, where applicable, those of the Accounting Resolution No.159-2003-EF/93.01 dated March 6, 2003 and other provisions issued by the General Public Accounting Directorate, for the purpose of registration and control of the pension-plan obligations.

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

	2014 S/.000	2013 S/.000
Balance at the beginning of the year	2,012,390	2,094,061
Additions debited to personnel expenses	123,006	98,845
Provisions, aliquot and charitable fund	330	3,587
Payments to pensioners	(181,302)	(184,103)
Balance at the end of the year	(1,954,424)	2,012,390

The duty for retirement pensions decreased as compared to 2013, mainly due to the reduction in the number of pensioners from 5,941 as of December 31, 2013 to 5,818 pensioners as of December 31, 2014.

Actuarial assumptions -

The most important actuarial assumptions at the date of the statement of financial position are as follows:

	2014	2013
Discount rate as of December 31	4.50%	4.50%
Average life period	19 years	19 years
Active service period	0 years	0 years
Pensioners with statutory bonuses	729	773
Pensioners with reward	4,877	4,940
Pensioners with no bonus	103	101
Assets with statutory bonuses	109	127

According to Bank Management, the discount rate of 4.50% is the rate used because the Bank's financial instruments ensure rates of return over 4% for a long-term horizon.

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

Mortality tables used in actuarial calculations are those defined as "Mortality tables – SP 2005 (Peruvian)" for own right and right to healthy living condition and mortality tables denominated MI-85-H and MI-85-M in the case of a disabled person, either man or woman, respectively, approved by the Ministry of Economy and Finance 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.

The calculation of pension reserves for pensioners has been made with a maximum amount of pension equivalent to two (2) Applicable Tax Units (equivalent to S/.7,600).

12 DEPOSITS WITH FINANCIAL SYSTEM COMPANIES AND INTERNATIONAL FINANCIAL INSTITUTIONS

As of December 31, 2014, it includes sight deposits for S/.442,405 thousand and savings deposits for S/.977 thousand (sight deposits for S/.101,686 thousand and US$91,482 thousand and savings deposits for S/.937 thousand as of December 31, 2013).

13 PAYABLES

As of December 31 this item comprises:

	2014 S/.000	2013 S/.000
Suppliers	159,886	87,544
Profit sharing and salaries payable	89,935	73,864
Other payables	24,022	30,361
Contributions to Deposit Insurance Fund	77,264	38,942
Others	126	117
	351,233	230,828

Other payables mainly include obligations payable derived from a final judgment against the Bank brought by the Union of Retirees ANPEBAN for S/.336 thousand (S/.7,092 thousand at December 31, 2013) and transactions carried out through ATMs of other Banks and establishments affiliated to VISA, pending confirmation for S/.5,281 thousand and S/.9,538 thousand, respectively (S/.5,374 thousand and S/.9,073 thousand at December 31, 2013, respectively), payment protection insurance ("seguro de desgravamen") to secure Multired loans for S/.2,153 thousand (S/.977 thousand in 2013), transfer to FEBAN wellness program for S/. 1,060 thousand (S/.1,014 thousand in 2013), reimbursements pending for S/.2,359 thousand (S/.1,800 thousand in 2013), among others.

14 PROVISIONS

As of December 31, this item comprises:

	2014 S/.000	2013 S/.000
Provision for contingent loans:		
Generic provision	18,371	11,979
Specific provision	1,162	418
	19,533	12,397
Other provisions:		
Provision for litigation and court actions	71,128	115,825
Contingency for loans	240	592
	71,368	116,417
	90,901	128,814

The provision for litigation and court actions comprises provisions for work and pension-plan lawsuits and for civil and arbitration proceedings against the Bank for S/.64,093 thousand and S/.7,035 thousand, respectively (S/.106,020 thousand and S/.9,805 thousand, respectively, as of December 31, 2013).

15 OTHER LIABILITIES

As of December 31 this item comprises:

	2014 S/.000	2013 S/.000
Operations in process	415,254	200,898
Cash surplus	4,418	2,497
Income for interest and commissions/indirect loans	2,478	2,193
Agencies and branches in provinces	640	1,066
Deferred income for interest on awarded goods and commissions for contingent transactions	489	489
	423,279	207,143

Operations in process are transactions carried out in the last days of the month, reclassified the next month to their definitive accounts in the statement of financial position. As of December 31, 2014, this account mainly includes checks received from other banks pending clearing for S/.369,473 thousand (S/.132,192 thousand at December 31, 2013).

16 EQUITY

Share capital -

The Bank's authorized capital comprises S/.1,000,000 thousand, wholly subscribed and paid by the Peruvian Government, as established in article 5 of the Bank's by-laws. For the Bank's share capital, neither shares nor securities of any kind are issued.

a) Legal Reserve -

Pursuant to the Peruvian General Banking Law, the legal reserve is required to reach an amount no less than 35% of its share capital. This reserve is made through the annual transfer of at least 10% from its net earnings. The legal reserve at December 31, 2014 and 2013 amounts to S/.350,000 thousand, the minimum amount required by the Peruvian General Banking Law.

b) Retained earnings -

As per the Bank's by-laws, article 40, 50% of the net profit is intended to cover the Bank's authorized capital and the remaining amount goes to the Public Treasury. When the authorized capital is reached, the whole net profit will be allocated to the Public Treasury. At December 31, 2014 and 2013 the Bank's authorized capital is a 100% covered.

In 2014, at Board of Directors Meeting No.1993 dated March 7, 2014, the application was approved of the Bank's net profits for fiscal 2013 in favor of the Public Treasury. S/.575,163 thousand were distributed to the Public Treasury as follows: S/.172,549 thousand for the annual amortization of the Supreme Decree Bonus No.002-2007-EF and the remaining balance of S/.402,614 thousand was credited to the Public Treasury's current account.

In 2013, at Board of Directors Meeting No.1944 dated March 13, 2013, the application was approved of the Bank's net profits for fiscal 2012 in favor of the Public Treasury. S/.677,078 thousand were distributed to the Public Treasury as follows: S/.203,123 thousand for the annual amortization as per Supreme Decree Bonus No.002-2007-EF and the remaining balance of S/.473,955 thousand was credited to the Public Treasury's current account.

17 REGULATORY CAPITAL AND LEGAL LIMITS

The detail of regulatory capital calculated and required as of December 31, 2014 y 2013 is shown below; this is used to calculate certain limits and legal restrictions in accordance with the Peruvian Banking Law.

	2014 **S/.000**	**2013** **S/.000**
Regulatory capital calculated:		
Regulatory capital level 1		
Paid capital	1,000,000	1,000,000
Legal reserve	350,000	350,000
Donations	1,452	1,452
Other deductions	(20,868)	(17,791)
	1,330,584	1,333,661
Regulatory capital level 2		
Generic provisions for loans	86,806	76,338
Other deductions	(20,868)	(17,792)
	65,938	58,546
Total regulatory capital calculated (a)	1,396,522	1,392,207
Regulatory capital required:		
By credit risk	686,476	603,578
By market risk	116,362	99,647
By operational risk	200,709	175,806
Sub Total (b)	1,003,547	879,031
Additional Regulatory capital (*)	171,914	121,502
Total Regulatory capital required (c)	1,175,461	1,000,533
Surplus Global regulatory capital (a) – (c)	221,061	391,674
Global Capital Ratio (a) / ((b) x 10) (**)	13,92%	15.84%

(*) This corresponds to the requirement of regulatory capital calculated for the components of economic cycle, concentration risk, market concentration risk, interest rate risk in the banking book and other risks.

(**) Under the Peruvian General Banking Law, Global Capital Ratio should be equal to or greater than 10%.

As of December 31, 2014, credit risk-rated contingent assets and contingent loans determined by the Bank according to the legislation applicable to financial institutions amounts to S/.6,864,758 thousand (S/.6,035,776 thousand as of December 31, 2013).

As of December 31, 2014 and 2013, Management considers that the Bank has complied with the current regulation.

18 CONTINGENT ACCOUNTS AND OFF-BALANCE SHEET ACCOUNTS

As of December 31 this item comprises:

	2014 S/.000	2013 S/.000
Contingent transactions:		
Indirect loans (a):		
Performance bonds granted	699,540	618,205
Letters of credit	1,228,996	560,879
	1,928,536	1,179,084
Unused lines of credit and loans granted but not disbursed	4,915,603	2,900,493
Unresolved litigation and court actions and other contingencies	1,381	1,345
	6,845,520	4,080,922
Off-balance sheet accounts:		
Bad-debts written-off (b)	51,931,604	51,896,836
Own securities under collection	4,604,435	4,420,547
Yield on loans and interest in suspense	3,859,642	2,467,056
Guarantees received for loan transactions	2,266,618	1,959,358
Payment authorization - Public Treasury	1,158,744	1,302,621
Government guarantees on external debt (c)	1,135,624	1,183,939
Portfolio, guarantees and loan transfer MEF/Banco Latino	699,862	660,434
D.U. No.065-2002 Fixed savings	100,423	105,198
Guarantees received for services	100,831	82,265
Own securities and properties in custody	14,128	13,162
Consignments received	912	619
Other off-balance-sheet accounts, debit	1,013,975	783,431
Other off-balance-sheet accounts, credit	3,544,224	2,960,213
	70,431,022	67,835,679
Trusts (d)	1,508,173	1,252,887
	78,784,715	73,169,488

(a) Indirect loans -

In the ordinary course of its transactions, the Bank performs contingent transactions that expose it to additional credit risks to the amounts recognized in the statement of financial position. The credit risk in contingent transactions is defined as the possibility of a loss, due to one of the parties in a contingent transaction does not comply with the terms of the agreement.

The Bank's credit risk for performance bonds and letters of credit, are represented by the amounts stipulated in the agreement of these instruments. Considering that most of the contingent transactions should reach maturity without the Bank having to respond for these transactions, the total of the contingent operations does not necessarily represent future cash needs for the Bank.

Performance bonds and letters of credits are contingent commitments acquired by the Bank to guarantee compliance of obligations from a client to a third party. Letters of credit are mainly issued as guarantees of trade transactions with external entities. The risks associated with these credits are reduced because they are guaranteed with deposits in guarantees made by the client in the Bank.

(b) Bad debt write offs -

The balance of this item mainly comprises bad-debts written-off from the portfolio of Ex-Surmeban that could not be sold in the bad-debt auctions called by FONAFE, approved at the Board of Directors Meeting No.1761 held on June 4, 2009, of S/.51,343 thousand.

Government guarantees on external debt -

Government guarantees and obligations for external debt record operations in which the Bank intervenes as the Government's financial agent for the implementation of loans between Peru and other countries, mainly for bilateral refinancing agreements and Paris Club, as well as financial entities and suppliers under local laws and regulations.

(c) The Bank, as trustee, manages the following trust assets -

Trust assets are not included in the financial statements of the Bank. However, the Bank is responsible for the adequate management of such trusts up to the limit established by applicable law and the respective agreements.

	2014	**2013**
	S/.000	**S/.000**
Equity trust fund No.036-2000 and RM 099-2000-EF/10	633,393	598,860
MINDES - FONCODES-BN Trust	185,295	178,938
Arequipa Regional Government - Majes II	163,373	93,092
CHAVIMOCHIC – BN	147,632	-
Cajamarca Regional Government- Agua Potable y Alcantarillado	77,964	78,573
Olmos Tinajones	57,691	4,951
Loreto Regional Government - – Banco de la Nación	46,472	35,829
D.U. No.034-99 Trust fund	45,013	53,567
EMPSSAPAL Trust	34,305	47,089
FINVER Cañete - Cañete Provincial Municipality	26,698	53,223
Cajamarca Regional Government – PAFE III	25,117	40,462
Urban Transport MML-BIRF-BID	14,860	11,536
SEDAPAR Pampa Escalerilla	11,640	13,329
Huamanga Provincial Municipality – MINAM – BN	6,943	-
Loreto Regional Government – PAFE III	4,304	24,575
Moyobamba/Other Solid waste management system	3,916	3,749
Ciudad San Juan Bautista Solid waste management system	3,844	1,840
EPS-SEDACAJAMARCA –BN	3,789	4,645
SEDACUSCO – BN	1,674	2,128
PMRI I EPS Moquegua S.A.	1,472	1,573
EPS SEDA LORETO-BN Trust	900	-
PMRI I EPS Sierra Central S.R.Ltda.	805	1,070
PMRI I MAPA Huaral S.A.	619	1,183
PMRI I SEDA Huánuco S.A.	545	576
PMRI I Cañete S.A.	520	541
PMRI I EPS Selva Central S.A.	383	407
Ministry of Justice DDHH-BN	364	336
PMRI I EPS Chavín S.A.	144	482
Others	8,498	333
	1,508,173	1,252,887

Assets held in trust are not included in the Bank's financial statements. However, the Bank is responsible for the adequate management of said trusts up to the limit established by applicable law and the respective agreements.

19 INCOME AND EXPENSES FOR FINANCIAL SERVICES

Income for financial services for the years ended December 31, 2014 and 2013 comprises:

	2014	2013
	S/.000	S/.000
Income from cash management (a)	334,736	317,107
Income from transfer services (b)	62,180	61,795
Income from services of tax collection	56,338	54,396
Income from credit and debit card commissions	-	28,542
Income from savings accounts – Commission on Credit Notes	20,432	19,787
Income from commission - VISA	20,761	15,763
Income from insurance sale commissions	18,832	15,041
Income from ATMs - Multired	15,648	29,963
Income from savings accounts – Commission on withdrawal of credit notes	15,042	14,193
Income from collections	9,027	9,784
Income from – checks received of other banks – Clearing	8,460	10,438
Income from commission on SUNAT repossessions	8,333	570
Income for contingent operations	7,670	4,596
Income from commission on new Multired card	6,882	7,641
Income from penalties on payment to suppliers	6,352	1,643
Services for shared premises	5,479	7,206
Income from service commission - FISE	3,978	5
Income from commission on certificates - records	2,538	690
Others (c)	56,012	28,098
	658,700	627,258

(a) Income from cash management mainly comprises commissions for the management of the funds collected by the Bank on behalf of the Public Treasury (General Treasury Directorate) for S/.303,464 thousand; correspondent bank services for S/.27,840 thousand and ATM services for S/.3,432 thousand (S/.287,828 thousand, S/.25,397 thousand and S/.3,882 thousand, respectively in 2013).

(b) Income from transfer services mainly corresponds to commissions for the service of transfer of funds for S/.12,962 thousand, tele-money order system for S/.29,056 thousand and tele-money order correspondent service for S/.20,162 thousand (S/.11,327 thousand, S/.29,579 thousand and S/.20,889 thousand, respectively for 2013).

(c) Other income from financial services mainly comprises commissions on services to Peruvian government-run pension plan ("ONP") for S/.7,511 thousand (S/.6,571 thousand in 2013), commissions on social services program for S/.12,644 thousand (S/.9,557 thousand in 2013), commissions on interbank transfers for S/.4,908 thousand (S/.4,774 in 2013), commissions on payment protection insurance for S/.7,430 thousand (S/.4,739 thousand in 2013), other commissions on checking and saving accounts for S/.23,519 thousand (S/.2,457 thousand in 2013), among others.

Expenses for financial services for the year ended December 31 comprise:

	2014 S/.000	2013 S/.000
Other financial services	81,661	67,193
Credit and debit cards	14,448	10,659
Other minor expenses	4,741	4,432
	100,850	82,284

20 PERSONNEL AND BOARD EXPENSES

Personnel and board expenses for the years ending December 31 comprise:

	2014 S/.000	2013 S/.000
Basic	205,346	205,379
Retirement	123,006	98,845
Allowances	59,984	60,961
Statutory bonuses	43,013	42,697
Workers' profit sharing	29,266	27,152
Severance indemnities	22,223	22,487
Insurance and social welfare	20,963	20,993
Other expenses	43,902	57,500
	547,703	536,014
Remuneration of Key management and directors		
Remuneration and other short-term services	419	539
Bonuses	548	505

21 EXPENSES FOR THIRD-PARTY SERVICES

Expenses for third-party services for the years ending December 31 comprise:

	2014 S/.000	2013 S/.000
Other services	78,381	74,804
Repair, maintenance and cleaning services	43,681	35,429
Communications	30,068	26,208
Insurance	24,205	23,740
Surveillance and protection	22,448	21,860
Leases	19,661	17,924
Advertising, events and others	4,089	14,715
Other supplies	10,112	8,894
Other service expenses	22,806	19,296
	255,451	242,870

22 DEPRECIATION AND AMORTIZATION, VALUATION OF ASSETS AND PROVISIONS

Depreciation and amortization expenses for the years ended December 31 comprise:

	2014 S/.000	2013 S/.000
Depreciation of property, furniture and equipment	41,429	38,680
Amortization of intangible	11,160	8,693
	52,589	47,373

Expenses for valuation of assets and provisions for years ended December 31 comprise:

	2014 S/.000	2013 S/.000
Provisions for litigation and court actions	11,407	43,816
Provisions (recovery) for doubtful accounts	10,727	(9,148)
Provision for contingent loans	6,863	6,402
Others	2,297	391
	31,294	41,461
	83,883	88,834

Provisions for litigations and court actions comprise provisions for labor-related lawsuits for S/.3 thousand and civil lawsuits amounting to S/.11,404 thousand (provisions for labor-related lawsuits amounted to S/.43,810 thousand and civil lawsuits amounted to S/.6 thousand in 2013).

23 OTHER INCOME AND EXPENSES, NET

For the years ended December 31 other income and expenses, net, comprises:

	2014 S/.000	2013 S/.000
Other income:		
Reversal of provision for litigations and court actions	45,173	8,182
Reversal of provision for country risk	2,729	-
Moving and custodian services	3,122	-
Income from leases	2,261	1,988
Claims - incidents	-	5,480
Recognition of interest on goods	-	1,239
Commissions (insurance)	10	1,086
Others	4,049	3,648
	57,344	21,623
Other expenses:		
Administrative and Fiscal penalties	(245)	(1,348)
Loss not covered by insurance	(174)	1,019)
Donations made	(867)	(881)
Result of income tax assessment	-	(6,469)
Depreciation for obsolescence	(500)	(2,924)
Net expenses to recover loans	(4,278)	(936)
	(6,064)	(13,577)
Other income, net	51,280	8,046

24 TAX SITUATION

a) Fiscal 2006, 2009, 2011, 2012 and 2014 are open for audit by the Peruvian tax authorities; except for fiscal 2008 and 2013 which is currently under audit. During fiscal 2014 and 2013, the Bank has applied for tax refunds for fiscal years 2009 and 2008 to the Peruvian Tax Authorities, respectively.

Any additional tax, late interest and other expenses, if any, will be charged to the results of the years in which the difference of interpretation with the Tax Administration is resolved. Management considers that no significant liabilities will arise as a result of these possible tax audits.

As established under Peruvian laws, income tax of legal entities is determined for fiscal 2014 and 2013 at a 30% rate on their net taxable profit.

The Bank has determined income tax for the years ended December 31 as follows:

	2014 S/.000	2013 S/.000
Profit before income tax	883,843	725,027
Plus:		
Non-accepted expenses	334,107	325,661
Less:		
Prior-year tax-exempt and taxed income	(674,730)	(535,852)
Taxable income – Peruvian source	543,220	514,836
Taxable income – Foreign source	12,824	1,057
Taxable income	556,044	515,893
Current income tax	166,813	154,768

b) Temporary tax on net assets

A temporary tax on net assets affects those corporate income-earners subject to the Peruvian income tax general regime. The applicable rate is 0.4% applicable to the amount of the assets exceeding S/.1 million.

The amount effectively paid may be used as a fiscal credit against payments on account of income tax under the General Regime or against the regularization payment of the income tax of the related period.

c) Since 2010, capital gains are subject to income tax. In this regard, the tax expense of securities, among others, the disposal of which was tax-exempt until December 31, 2009 since they were traded in the stock exchange will be the higher of: (i) market value at December 31, 2009, or (ii) the acquisition cost; or (iii) the initial entry value in equity, as per the procedure contained in Supreme Decree No 011-2010-EF. This rule is applicable to legal entities when securities are disposed of inside or outside of a centralized trading mechanism in Peru.

On the other hand, with effect from January 1, 2010, interest and capital gains on bonds issued by the Republic of Peru are only tax-exempt: (i) within the Framework of Supreme Decree No.007-2002-EF, (ii) under the program of market creators ("Programa de Creadores de Mercado") or superseding mechanisms; or (iii) in the international market with effect from 2002, as well as interest and capital gains derived from obligations of the Peruvian Central Reserve Bank, except for the legal reserve deposits made by lending institutions; and those derived from direct or indirect disposal of securities comprising or underlying the Exchange Traded Fund (ETF), reflecting indexes based on local investment instruments, when said disposal is carried out for the establishment, cancellation or management of the ETF portfolio.

d) Furthermore, the income tax withholding rate of 15% is applicable to technical assistance rendered by non-domiciled entities, regardless of the place in which the service is performed as long as the Income Tax law requirements are met.

e) As of December 31, 2014 and 2013, the rate of the tax on financial transactions has been set at 0.005% and it is applied to the credits and debits in bank accounts or movements of funds through the financial system, except for those operations specifically exempted.

f) The income tax expense stated in results comprises:

	2014 S/.000	2013 S/.000
Current	166,813	154,768
Deferred	12,181	(19,088)
	178,994	135,680

g) Reconciliation of the income tax effective rate with the tax rate is as follows:

	2014 S/.000	2014 %	2013 S/.000	2013 %
Profit before income tax	883,843	100.00	725,027	100.00
Income tax calculated at theoretical rate	265,153	30.00	217,508	30.00
Tax effect on additions and deductions for permanent differences	(111,391)	(12.60)	(77,273)	(10.66)
Other adjustments	-	-	(4,555)	(0.63)
Exchange rate effect	25,232	2.85	-	-
Current and deferred income tax stated at effective rate	178,994	20.25	135,680	18.71

h) Regulatory framework – Amendments to Income Tax law -

By means of Law No.30296 enacted on December 31, 2014 amendments to Income Tax Law have been made, which are effective starting in fiscal year 2015 onwards.

Among these amendments, it should be noted the reduction on the Peruvian third-category income earners, from 30% to 28% for fiscal years 2015 and 2016; then a reduction to 27% for fiscal years 2017 and 2018; and a final reduction to 26% from fiscal year 2019 onwards.

25 DEFERRED INCOME TAX

The Bank applied the liability method for the determination of deferred income tax as of December 31, 2014 and 2013.

Movement on deferred income tax net asset and the underlying items is as follows:

	Balances at December 31, 2013 S/.000	Adjust-ments S/.000	Equity S/.000	Results S/.000	Balances at December 31, 2014 S/.000
Provision for litigation and court actions	34,748	-	-	(14,832)	19,916
Generic provision for direct loans	40,672	-	-	819	41,491
Provision for impairment of properties	9,596	-	-	2,998	12,594
Provision for vacation leave	6,042	-	-	(525)	5,517
Generic provision for contingent loans	3,594	-	-	1,550	5,144
Specific provision for contingent loans	124	-	-	200	324
Others	12,811	-	-	(1,696)	11,115
Unrealized earnings	11,117	-	(13,424)		(2,307)
Depreciation of properties	(5,581)	-	-	(695)	(6,276)
Total deferred asset	113,123	-	(13,424)	(12,181)	87,518

	Balances at December 31, 2012 S/.000	Adjust-ments S/.000	Equity S/.000	Results S/.000	Balances at December 31, 2013 S/.000
Provision for litigation and court action	25,709	-	-	9,039	34,748
Generic provision for direct loans	34,262	-	-	6,410	40,672
Provision for impairment of properties	9,746	-	-	(150)	9,596
Provision for vacation leave	5,863	-	-	179	6,042
Generic provision for contingent loans	1,480	-	-	2,114	3,594
Specific provision for contingent loans	218	-	-	(94)	124
Others	9,379	592	-	2,840	12,811
Unrealized earnings	(20,939)	-	32,056	-	11,117
Depreciation of properties	(1,366)	(2,965)	-	(1,250)	(5,581)
Total deferred asset	64,352	(2,373)	32,056	19,088	113,123

As of December 31, 2014 and 2013, the Bank shows the deferred income tax resulting from unrealized earnings on available-for-sale financial assets, net.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the amount for which an asset could be exchanged purchase and a seller properly informed, or a liability may be settled between a debtor and a creditor with sufficient information, in an arm's length transaction.
When a financial instrument is traded in an active and liquid market, its estimated market price in an actual transaction provides evidence of its fair value. Fair value is not the amount that the Bank may receive or settle in a forced transaction, in an involuntary liquidation or in the case of financial difficulties.

The methodologies and assumptions used depend on the terms and risks characteristic of the different financial instruments which include the following:

- Cash on hand and inter-bank funds represent cash and short-term deposits that do not represent to be a significant credit risk. Therefore, their carrying amount is similar to their fair value.
- Fair value of available-for-sale financial assets (debt and equity financial instruments) are valued and recorded at market value, as a result of which their carrying amount is equal to their market value.
- In the case of held-to-maturity financial assets that do not have a market value due to their non-negotiable status, they are recorded at amortized cost.
- The carrying amounts of loans are affected by the establishment of generic and specific provisions. Management has not determined market values for loans because it considers that the net carrying amount for loans is lower than their market value and is considered as the best estimate of the amount to be recovered at the date of the financial statements.
- Financial obligations accrue interest at variable and preferential rates, considering that their carrying amounts are similar to their corresponding market values.
- The Bank performs various contingent transactions such as granting guarantees, standby letters, letters of credit and others. These transactions expose it to additional credit risks to the amounts recognized in the financial statements. Based on the level of commissions actually charged for the approval of such contingent credits and taking into consideration the maturity and interest rates, together with the current solvency of the counterparties, the difference between the carrying amount and fair value is not material. Due to the uncertainty regarding valuation, likelihood and timing of their execution and the lack of a specific market, the Bank considers it is not feasible to determine the estimated fair value of guarantees granted.
- Management considers that the fair values of the Bank's financial instruments do not significantly differ from their carrying amounts.

Fair value and carrying amount	Year 2014 Carrying amount S/.000	Fair value S/.000	Year 2013 Carrying amount S/.000	Fair value S/.000
Assets				
Cash in hand	11,084,867	11,084,867	12,313,290	12,313,290
Debt instruments	6,883,452	6,883,452	5,107,681	5,107,681
Available-for-sale financial assets				
Equity instruments	41,737	41,737	35,584	35,584
Country risk	(859)	(859)	(1,012)	(1,012)
Held-to-maturity financial assets	1,369,901	1,369,901	1,542,531	1,542,531
Loan portfolio	7,685,686	7,685,686	6,943,890	6,943,890
Receivables	422,842	422,842	382,988	382,988
Other assets	110,227	110,227	153,630	153,630
Total	27,597,853	27,597,853	26,478,582	26,478,582
Liabilities				
Borrowings with the public	23,047,718	23,047,718	22,287,198	22,287,198
Deposits by entities in the financial system and international financial organizations	443,382	443,382	358,315	358,315
Payables	351,233	351,233	230,828	230,828
Total	23,842,333	23,842,333	22,876,341	22,876,341

The table below analyses the financial instruments carried at fair value, by the valuation method. The different levels of definition of fair value have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (level 3).

The table below shows the Bank's financial assets that are measured at fair value in the statement of financial position as of December 31, 2013 and 2012:

	Level 1 S/.000	Level 2 S/.000	Total S/.000
As of December 31, 2014:			
Assets			
Cash in hand	11,084,867	-	11,084,867
Available-for-sale financial assets	6,924,330	-	6,924,330
Held-to-maturity financial assets	-	1,369,901	1,369,901
Total assets	18,009,197	1,369,901	19,379,098
As of December 31, 2013:			
Assets			
Cash in hand	12,313,290	-	12,313,290
Available-for-sale financial assets	5,142,253	-	5,142,253
Held-to-maturity financial assets	-	1,542,531	1,542,531
Total assets	17,455,543	1,542,531	18,998,074

During 2014 and 2013 no transfers were carried out between levels 1 and 2.

The fair values of financial instruments traded in active markets are based on the quoted prices at the date of the statement of financial position. A market is considered active if the quoted prices are regularly available in the stock market, trader and broker and represent real and regular transactions on an arm's length basis.

Quotes used for financial assets held by the Bank are the effective bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on the Bank's specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealers' quotes for similar instruments.

27 CONTINGENCIES

At December 31, 2014, the Bank has court actions currently in progress comprising civil, proceedings and arbitration processes as well as administrative claims (INDECOPI) amounting to approximately S/.31,281 thousand and US$ 8,669 thousand; it also has some labor-related proceedings currently in progress for approximately S/. 27,693 thousand, for which provisions have not been made because legal counsel in charge of these lawsuits consider they are possible contingencies.

28 FINANCIAL RISK MANAGEMENT

By the nature of its activities the Bank is exposed to a variety of financial risks: credit risk, interest rate risk, liquidity risk, exchange rate risk and operational risks, which are managed through a continuous process of identifying, measuring and monitoring, based on risk limits and other controls. The Bank's overall risk management program focuses on credit risk and the Bank seeks to minimize its potential adverse effects on the Bank's financial performance.

Structure and organization of the risk management function.

The Bank's risk management is framed within the scope of the Rules for Comprehensive Risk Management ("Reglamento de Gestión Integral de Riesgos" – SBS Resolution No.037-2008), which is carried out with the full involvement of Executive Management implementing an adequate internal environment, specifically through the Risk Committee and Risk Department, which facilitates and integrates risk management with other departments of the Bank in order to maintain the expected risk profile; taking actions to assist them in actually meeting the business targets and strategic objectives of the Bank.

The Bank's Organization and Function Rules determine the functions of the department in relation to Overall Risk Management and particularly the Risk Department's function; additionally, the Bank has rules for the Risk Committee as required by the SBS provisions and internal risk management policies. The Risk Committee depends on the Board and it has a Board member, who chairs the Committee. This member's functions include approving objectives, guidelines, policies, procedures and methodologies to identify and manage risks, among others. The Risk Department depends on General Management and is considered as a support organ for risk management. Its principal functions include: proposing adequate policies, procedures and methodologies for Comprehensive Risk Management in the Bank, among others.

Risk coverage and mitigation policies.

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.

Policies and procedures to avoid excessive credit risk concentration.

The Bank has policies in place that include procedures to manage excessive risk concentration for assets as well as liabilities. The Bank follows up on certain indicators that are reported to the SBS through Exhibits and Reports such as Report 13 "Control of global and individual limits" and Exhibit 16 A "Liquidity Table per maturity periods – Indicators". It should be noted that this information is reported to the Risk Committee in order to carry out periodic follow-up.

The table below shows credit concentration per type of counterparty and financial assets per geographical location:

	2014		2013	
	S/.000	%	S/.000	%
Consumer loans	3,539,511	45	3,188,551	45
Public management and defense	2,886,611	37	2,467,823	35
Financial intermediation	1,291,849	16	1,141,735	16
Mining	-	-	197,500	3
Residential mortgages	138,058	2	103,971	1
Transportation, storage and communication	3,196	-	3,100	-
Other activities related to community services	1,872	-	1,856	-
Manufacturing industry	1,591	-	1,581	-
Others	50	-	50	-
Trade	12	-	12	-
	7,862,750	100	7,106,179	100

	Financial instruments assets				Financial instruments liabilities	
	Loans and receivables	Available-for sale	Held to maturity	Total	Loans	Total
	S/.000	S/.000	S/.000	S/.000	S/.000	S/.000
2014						
Peru	18,872,676	6,468,382	1,369,901	26,710,959	23,842,333	23,842,333
United States	71,105	305,516	-	376,621	-	-
Chile	-	2,852	-	2,852	-	-
Colombia	-	25,981	-	25,981	-	-
Mexico	-	29,361	-	29,361	-	-
Panama	44,790	42,048	-	86,838	-	-
England	148,236	42,384	-	190,620	-	-
Germany	89,470		-	89,470	-	-
Other countries	77,690	8,665	-	86,355	-	-
Country risk	(345)	(859)	-	(1,204)	-	-
Total	19,303,622	6,924,330	1,369,901	27,597,853	23,842,333	23,842,333
2013						
Peru	19,690,666	5,018,086	1,542,531	26,251,283	22,876,341	22,876,341
United States	32,989	8,247	-	41,236	-	-
Chile	-	40,884	-	40,884	-	-
Colombia	-	14,543	-	14,543	-	-
Brasil	-	19,935	-	19,935	-	-
Mexico	-	5,737	-	5,737	-	-
Panama	-	35,583	-	35,583	-	-
England	34,528	-	-	34,528	-	-
Germany	29,428	-	-	29,428	-	-
Other countries	6,461	-	-	6,461	-	-
Country risk	(24)	(1,012)	-	(1,036)	-	-
Total	19,794,048	5,142,003	1,542,531	26,478,582	22,876,341	22,876,341

Measurement systems and risk reports.

The Bank has different measurement systems in place depending on the type of risk being assessed; for market risk, it uses the Value at risk (VaR) methodology to assess the exchange and interest rate risks. For the credit risk, on the other hand, the assessment is based on the application of its respective policies, performance of harvest analysis, among others. For Operational risk management, it applies the COSO-ERM methodology.

Information on market, credit and operational risk management is provided through the generation of reports that are submitted both to the SBS as well as the specialized committees of the Bank (Risk Committee, Asset and Liability Committee, Credit Committee).

Credit risk -

The Bank, acting as a financial intermediary, grants loans to customers, mainly workers and pensioners of the Public Sector, as well as Local and Regional Governments and Financial Institutions (Caja Rural, Municipalities and small businesses "Edpymes") as well as other entities in the public sector. Loans are mainly granted to Workers and Pensioners of the Public Sector.

In the Bank, Credit risk is managed assessing and analyzing individual transactions. In 2014 the principal component of the loan portfolio was individual loans for workers and pensioners of the Public Sector which have a low credit risk because their salaries are paid to them through deposits in accounts with the Bank. A portfolio analysis is disclosed in Note 7. Information regarding deposits and other obligations is disclosed in Note 11.

Also, the Bank manages the credit risk through periodic reviews and the formal analysis of individual transactions of the loan portfolio. For this purpose, an assessment is performed of the debtor's financial condition, financial analysis and guarantee requirements.

Risk management also follows up on individual risk concentrations, by industry, type of asset and exchange rate credit risk.

The table below shows the maximum exposure to credit risk:

	As of December 31,	
	2014	2013
	S/.000	S/.000
Cash in hand	11,085,217	12,313,314
Available-for-sale financial assets	734,521	571,081
Held-to-maturity financial assets	1,369,901	1,542,531
Loan portfolio	14,676,845	11,158,624
Receivables	422,842	382,988
Other assets	754,011	614,253
Total	29,043,336	26,582,791

Note: Net exposures have been taken into consideration.

The table below shows the analysis of direct and indirect loans based on credit ratings but not including accrued interest:

	Non-retail loans S/.000	Loans for small and micro businesses S/.000	Consumer loans S/.000	Mortgages S/.000	Total S/.000	Percentage %
Year 2014						
Current and unimpaired loans						
Normal	5,990,690	-	3,415,674	136,596	9,542,959	97.47
	5,990,690	-	3,415,674	136,596	9,542,959	97.47
Past due loans – not impaired						
CPP	-	-	26,938	391	27,329	0.28
	-	-	26,938	391	27,329	0.28
Impaired loans						
Substandard	63		19,779	569	20,412	0.21
Doubtful	116,244		43,920	410	160,574	1.64
Loss	6,111	609	32,843	92	39,655	0.41
	122,418	609	96,542	1,071	220,641	2.25
Portfolio - gross	6,113,108	609	3,539,154	138,058	9,790,929	100.00
Less provisions	(69,539)	(609)	(134,446)	(1,752)	(206,346)	2.15
Total net	6,043,569	-	3,404,708	136,306	9,584,583	97.85
Year 2013						
Current and unimpaired loans						
Normal	4,944,323	1	3,085,119	103,350	8,132,792	100.74
	4,944,323	1	3,085,119	103,350	8,132,792	100.74
Past due loans – not impaired						
CPP	-	-	19,904	121	20,025	0.25
	-	-	19,904	121	20,025	0.25
Impaired loans						
Substandard	-	-	13,857	92	13,949	0.17
Doubtful	41,820	-	41,500	315	83,635	1.04
Loss	5,995	603	27,934	93	34,626	0.43
	47,815	603	83,291	500	132,210	1.64
Portfolio - gross	4,992,138	604	3,188,314	103,971	8,285,027	102.63
Less provisions	(60,270)	(603)	(150,031)	(1,309)	(212,213)	(2.63)
Total net	4,931,868	1	3,038,283	102,662	8,072,814	100.00

Liquidity risk -

The Bank has an internal model which is based on expected maturities and the use of methodological assumptions for asset and liability account balances. Therefore, for asset accounts, expected cash flows from financial assets and loans are taken into consideration and distribution criteria are assumed for receivables.

For liability accounts with uncertain maturity the amended methodology of the Maximum Probable Withdrawals ("Máximos Retiros Probables Modificada") is applied, which is based on the review of historical data of accounts and the volatility of their variations to estimate their expected maturity. Also, for accounts payable certain criteria are assumed for their distribution and for the remaining liabilities, their cash flows are distributed according to their contractual maturity.

Liquidity risk exposure	Up to 1 month S/.000	Over 1 and up to 3 months S/.000	Over 3 and up to 12 months S/.000	Over 1 year S/.000	Total S/.000
2014					
Liabilities					
Obligations with the public	2,064,630	2,219,177	1,794,703	19,274,558	25,353,068
Deposits of financial system entities and international financial institutions	91,255	66,118	-	27,151	184,524
Payables	86,623	101,699	48,638	37,008	273,968
Other liabilities	-	-	-	-	-
Total	2,242,508	2,386,994	1,843,341	19,338,717	25,811,560
2013					
Liabilities					
Obligations with the public	1,250,566	1,046,697	1,241,124	21,017,236	24,555,623
Deposits of financial system entities and international financial institutions	23,270	16,709	-	66,490	106,469
Payables	37,927	47,372	57,636	48,952	191,887
Other liabilities	-	-	-	-	-
Total	1,311,763	1,110,778	1,298,760	21,132,678	24,853,979

Market risk -

Market risk comprises the Foreign exchange risk and the Interest Rate Risk. The Bank manages market risk within the framework of a defined model.

Interest rate risk -

Apart from the regulatory models, the Bank manages its interest rate risk using its internally-developed models both for the Trading Book and for Banking Book. For the case of the investment portfolio, the model makes simulations using the Monte Carlo Method seeking to capture the uncertainty (interest rate sensitivity) that may impact the interest rates during the periods in which the receipt of coupons and/or amortizations is expected. The method used is the VaR (Value at risk) with a level of confidence of 95% which is calculated for a period of 10 days for the Bank's entire non-structural Trading Book.

It should be noted that this methodology has no impact on the capital requirements or business margin since these are models for internal business performance management.

With respect to the Banking Book; in addition to the regulatory indicators of profit at risk (GER, the Spanish acronym) and Equity at risk (VPR), the Bank also has internally-developed models to manage said indicators. The model makes simulations using the Monte Carlo Method seeking to capture the impact of variations in interest rates on the structure of the Bank's balance sheet. The most representative asset and liability balances are included in the simulation to observe how they are impacted by changes in interest rates on the financial margin and Regulatory Capital of the Bank.

The method used is the VaR (Value at risk) with a level of confidence of 95% and calculated on a monthly basis.

It should be noted that this methodology has no impact on the capital requirements (regulatory capital) or the business margin of the company, since they are models used for internal management of the Bank's financial performance but are neither approved nor required by the SBS.

Exposure to Market Risk interest rate risk	Up to 1 month S/.000	From 1 to 2 months S/.000	From 2 to 3 months S/.000	From 3 to 6 months S/.000	From 6 to 12 months S/.000	Over 12 months S/.000	Total S/.000
Year 2014							
ASSETS							
Cash in hand	7,672,484	-	-	18	-	518	7,673,020
Available-for-sale and held-to-maturity financial assets	26, 819	111,723	6,453	113,321	6,840	1,797,219	2,062,375
Current loans	244,801	200,443	295,619	1,003,343	877,479	5,241,600	7,863,285
Sensitive receivables and other sensitive receivables	40,339	1,059	2,232	1,499	50,909	397,354	493,392
TOTAL ASSETS	7,984,443	313,225	304,304	1,118,181	935,228	7,436,691	18,092,072
LIABILITIES							
Borrowings with the Public	5,022,790	3,191,187	1,298,102	2,344,288	2,723,766	7,688,917	22,269,050
Deposits by Financial system entities and international financial institutions	443,382	-	-	-	-	-	443,382
Sensitive payables and other sensitive liabilities	468,400	48,009	24,425	58	7,140	37,008	585,040
TOTAL LIABILITIES	5,934,572	3,239,196	1,322,527	2,344,346	2,730,906	7,725,925	23,297,472
Margin gap	2,049,871	(2,925,971)	(1,018,223)	(1,226,165)	(1,795,678)	(289,234)	(5,205,405)
Accumulated gap	2,049,871	(876,100)	(1,894,323)	(3,120,488)	(4,916,166)	(5,205,400)	

Exposure to Market Risk interest rate risk	Up to 1 month S/.000	From 1 to 2 months S/.000	From 2 to 3 months S/.000	From 3 to 6 months S/.000	From 6 to 12 months S/.000	Over 12 months S/.000	Total S/.000
Year 2013							
ASSETS							
Cash in hand	11,325,501	-	-	-	4	564	11,326,069
Available-for-sale and held-to-maturity financial assets	2,815	3,512	577	61,976	822	2,008,076	2,077,778
Current loans	405,607	272,337	313,133	868,964	1,126,864	4,118,874	7,105,779
Receivables from Trust	-	-	-	-	-	274,020	274,020
TOTAL ASSETS	11,733,923	275,849	313,710	930,940	1,127,690	6,401,534	20,783,646
LIABILITIES							
Borrowings with the Public	6,362,337	1,526,628	1,864,367	2,495,896	3,926,379	5,640,944	21,816,551
Deposits by Financial system entities and international financial institutions	358,315	-	-	-	-	-	358,315
TOTAL LIABILITIES	6,720,652	1,526,628	1,864,367	2,495,896	3,926,379	5,640,944	22,174,866
Margin gap	5,013,272	(1,250,779)	(1,550,657)	(1,564,956)	(2,798,689)	760,590	(1,391,220)
Accumulated gap	5,013,272	3,762,492	2,211,835	646,879	(2,151,810)	(1,391,220)	-

Foreign exchange risk -

The Bank has its own internal model for managing this risk, which seeks to monitor the changes that may occur in both the balance sheet asset and liability accounts denominated in foreign currency (currencies other that the Nuevos Soles) and their impact on the Bank's regulatory capital.

The method used is VaR (Value at risk) with a level of confidence of 99% that is calculated on a daily basis.

It should be noted that this methodology has no impact on the capital requirements (regulatory capital) or the business margin, which are models used for internal management of the Bank's financial performance but are neither approved nor required by the SBS.

The Bank enters into transactions in foreign currency basically in United States dollars, mainly related to financing activities; accordingly, it is exposed to the risk of fluctuations in exchange rates.

The general balance sheets include foreign currency transaction balances, mostly in U.S. dollars (US$), which are recorded at the exchange rate of Nuevos Soles (S/.) established by the Peruvian banking and insurance regulator (SBS). As of December 31, 2014 and 2013, the exchange rate was US$1 = S/.2.986 and S/.2.795, respectively.

Foreign currency transactions in Peru and foreign trade transactions as authorized by the Central Reserve Bank of Peru are channeled via the banking open market. As of December 31, 2014, buying and selling exchange rates used were US$1 = S/.2.981 and US$1 = S/.2.989, respectively (US$ 1 = S/.2.794 and US$1 = S/.2.796, buying and selling, respectively, at December 31, 2013).

Balances in foreign currency in thousands of U.S. dollars as of December 31 are summarized as follows:

Exposure to market risk/ Exchange rate risk	2014 New US dollars S/.000	Nuevos soles S/.000	Other currencies S/.000	Total S/.000	2013 New US dollars S/.000	Nuevos soles S/.000	Other currencies S/.000	Total S/.000
MONETARY ASSETS								
Cash in hand	590,130	10,169,979	325,108	11,085,217	329,124	11,875,287	108,879	12,313,290
Held-to-Maturity and held-for-trading	1,266,444	6,918,261	110,384	8,295,089	1,248,962	5,278,995	156,827	6,684,784
Loans		7,686,044	-	7,686,044	20,815	6,923,075	-	6,943,890
Receivables	258,879	163,606	357	422,842	253,959	129,028	-	382,987
Other assets	7,667	347,800	17,795	373,262	27,073	216,183	2	243,258
TOTAL MONETARY ASSETS	2,123,120	25,285,690	453,644	27,862,454	1,879,933	24,422,568	265,708	26,568,209
MONETARY LIABILITIES								
Borrowings with the public	1,689,972	22,870,698	445,191	25,005,861	1,588,750	22,455,420	259,269	24,303,439
Deposit from financial institutions	260,672	182,684	27	443,383	255,664	102,623	28	358,315
Payables	1,048	361,267	1	362,316	753	230,039	36	230,828
Provisions	19,276	72,483	350	92,109	11,925	116,865	24	128,814
Other liabilities	25,782	405,658	778	432,218	30,986	175,854	303	207,143
TOTAL MONETARY LIABILITIES	1,996,750	23,892,790	446,347	26,335,887	1,888,078	23,080,801	259,660	25,228,539
MONETARY POSITION, NET	126,370	1,392,900	7,296	1,526,567	(8,145)	1,341,767	6,048	1,339,670

The table below shows the sensitivity in the results of fiscal years 2014 and 2013 if the United States dollar had devalued/revalued by 5% (which is considered a reasonable variation) against the Nuevos Soles , assuming all other variables remained constant.

Years	Revaluation/devaluation of exchange rate	Results for the period before income tax S/.000
2014	+5%	3,106
	- 5%	(3,106)
2013	+5%	2,471
	- 5%	(2,471)

Operational risk -

Operational risk management is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commision) methodology. Considering the provisions in Resolution SBS No.2116-2009 "Reglamento para la Gestión de Riesgo Operacional, the Operational Risk Matrix was redesigned on the basis of qualitative ranges to probability and impact levels and the identification of inherent risks per unit, service and departments in the Bank. Additionally, a methodology has been designed for the program to encourage good operational risk practices.

The management of the information security risk is carried out by the Operational Risk Division - Information Security ("División Riesgos de Operación - Seguridad de la Información"), which is charged with adequately safeguarding and protecting the confidentiality, integrity and availability of the information assets which support the Bank's products and services.

Business Continuity Management -

The business continuity policies implemented by the Bank establish the basic principles and necessary framework to guarantee that the business will continue operating in a reasonable manner in the event of any disruption or instability due to the occurrence of internal or external events.

Management of business continuity has to be consistent with the policies and procedures in place for risk management which is governed by the standards set by SBS, specifically Circular SBS No G 139-2009 Business Continuity Management ("Gestión de la Continuidad del Negocio"), which is also aligned with British Standard 25999 (BS-25999).

The business continuity management in place meets the requirements of Circular SBS No G 139-2009, which establishes that General Management and the Risk Committee should be informed of any business continuity matters that are relevant for timely decision-making on the effective attention and responses involving the bank businesses in the event of any disruption of the Bank's operations.

29 SUBSEQUENT EVENTS

At December 31, 2014 a Purchase-Sell agreement was signed between Banco de la Nación and the Peruvian Constitutional Court ("Tribunal Constitucional") comprising the property located at the intersection of Av. Arequipa and Javier Prado Oeste, which was registered with the Record of Properties of Lima under electronic file No. 07002983; this purchase-sell agreement involved an agreement of Property Reservation until full cancellation of the total price of S/.61,905 thousand under the agreement terms and conditions. The first installment was received on January 14, 2015.