KPMG

Banco de la Nación

Financial Statements

December 31, 2018 and 2017

(including Independent Auditors' Report)

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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(Translation of a Report originally issued in Spanish)

INDEPENDENT AUDITORS' REPORT

To the Directors
Banco de la Nación

We have audited the accompanying financial statements of Banco de la Nacion (the Bank), which comprises the statement of financial position as of December 31, 2018, the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards established by Superintendencia de Banca Seguros y Administradoras Privadas de Fondos de Pensiones – SBS (the Banking, Insurance and Pension Plan Agency) for financial institutions in Peru, and for such internal control as management determines is necessary to enable the preparation of the 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 their application in Peru by the Dean's Council of the Peruvian Professional Associations of 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 our 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Banco de la Nación as of December 31, 2018, their financial performance and cash flows for the year then ended in accordance with accounting standards established by SBS for fibnancial institutions in Peru.

Other Matters

The financial statements of Banco de la Nación for the year ended December 31, 2017 were audited by other independent auditors, whose report dated March 7, 2018 expressed an unqualified opinion on those financial statements.

Lima, Peru

March 25, 2019

Countersigned by:

Auditors' report originally issued in Spanish signed by Sussy Sánchez A.

Sussy Sánchez (Partner)
Peruvian Certified Public Accountant
Registration Number 01-28789

Banco de la Nación

Financial Statements

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Banco de la Nación
Statement of Financial Position
As of December 31, 2018 and 2017

In thousands of soles	*Note*	2018	2017
Assets			
Cash and due from banks	*5*		
Cash		1,748,335	1,997,195
Deposits with Banco Central de Reserva del Perú		6,726,480	7,364,364
Deposits in local banks		21,253	13,338
Deposits in foreign banks		101,504	242,910
Clearing		11,904	31,480
Restricted cash and other cash and banks		801	727
Available-for sale investments	*6*	9,160,815	8,109,575
Held-to-maturity investments	*6*	2,050,548	2,237,705
Loan portfolio, net	*7*	8,930,396	8,647,525
Accounts receivable, net	*8*	292,683	492,093
Property, furniture, and equipment, net	*9*	716,192	781,042
Deferred income tax assets, net	*24*	147,979	131,066
Other assets, net	*10*	179,213	197,363
Total assets		**30,088,103**	**30,246,383**
Risks and contingent commitments	*16*	2,720,393	3,214,436

In thousands of soles	*Note*	2018	2017
Liabilities			
Deposits and obligations to the public	*11*	26,473,819	26,403,423
Deposits of financial system and international entities	*12*	217,854	378,741
Securities, bonds, and obligations outstanding	*13*	251,647	251,659
Accounts payable	*14*	354,281	418,352
Other liabilities	*10*	471,348	331,968
Total liabilities		**27,768,949**	**27,784,143**
Equity	*15*		
Share capital		1,200,000	1,200,000
Additional paid in capital		1,452	1,452
Legal reserve		420,000	420,000
Unrealized results		(131,011)	78,995
Retained earnings		828,713	761,793
Total equity		**2,319,154**	**2,462,240**
Total liabilities and equity		**30,088,103**	**30,246,383**
Risks and contingent commitments	*16*	2,720,393	3,214,436

The accompanying notes on pages 5 to 79 are an integral part of these financial statements.

Banco de la Nación
Statement of Comprehensive Income
For the years ended December 31, 2018 and 2017

In thousands of soles	***Note***	**2018**	**2017**
Interest income	*17*	1,593,947	1,530,360
Interest expenses	*17*	(62,889)	(70,424)
Gross financial margin		**1,531,058**	**1,459,936**
Provision for credit losses, net of recoveries	*7*	(60,047)	(21,213)
Net financial margin		**1,471,011**	**1,438,723**
Income and expenses from finance services, net	*18*	576,570	548,721
Net financial margin, net of income and expenses for financial services		**2,047,581**	**1,987,444**
Results from financial transactions:	*19*	97,500	120,966
Operating margin		**2,145,081**	**2,108,410**
Administrative expenses	*20*	(1,027,292)	(961,433)
Depreciation and amortization	*9 and 10*	(106,583)	(107,013)
Net operating margin		**1,011,206**	**1,039,964**
Valuation of assets and provisions	*21*	(53,468)	(110,109)
Operating results		**957,738**	**929,855**
Other income, net	*22*	84,664	4,977
Net profit before income tax		**1,042,402**	**934,832**
Current income tax	*23*	(233,159)	(213,479)
Deferred income tax	*23*	7,141	17,181
Net profit		**816,384**	**738,534**
Other comprehensive income			
Unrealized gains (losses) on available-for-sale investments	*15*	(224,299)	125,748
Deferred income tax	*15*	14,293	4,713
Other comprehensive income of the year, net of income tax		**(210,006)**	**130,461**
Total comprehensive income of the year		**606,378**	**868,995**

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(Translation of Financial Statements Originally Issued in Spanish)

Banco de la Nación
Statement of Changes in Equity
For the years ended December 31, 2018 and 2017

In thousands of soles	***Note***	**Share capital**	**Additional paid in capital**	**Legal reserve**	**Unrealized earnings**	**Retained earnings**	**Total Equity**
Balances as of January 1, 2017		1,200,000	1,452	350,000	(51,466)	932,022	2,432,008
Net profit		-	-	-	-	738,534	738,534
Other comprehensive income:							
Unrealized gain on available-for-sale investments, net	*15.C*	-	-	-	130,461	-	130,461
Total comprehensive income		**-**	**-**	**-**	**130,461**	**738,534**	**868,995**
Adjustment from previous years	*15.D*	-	-	-	-	(3,015)	(3,015)
Allocation to legal reserve	*15.D*	-	-	70,000	-	(70,000)	-
Offsetting debts with Public Treasury	*15.D*	-	-	-	-	(288,089)	(288,089)
Profit distribution to Public Treasury	*15.D*	-	-	-	-	(547,659)	(547,659)
Balances as of December 31, 2017		**1,200,000**	**1,452**	**420,000**	**78,995**	**761,793**	**2,462,240**
Balances as of January 1, 2018		1,200,000	1,452	420,000	78,995	761,793	2462,240
Net profit		-	-	-	-	816,384	816,384
Other comprehensive income:							
Unrealized loss on available-for-sale investments, net	*15.C*	-	-	-	(210,006)	-	(210,006)
Total comprehensive income		-	-	-	(210,006)	816,384	606,378
Adjustment from previous years	*15.D*	-	-	-	-	4,246	4,246
Offsetting debts with Public Treasury	*15.D*	-	-	-	-	(226,113)	(226,113)
Profit distribution to Public Treasury	*15.D*	-	-	-	-	(527,597)	(527,597)
Balances as of December 31, 2018		**1,200,000**	**1,452**	**420,000**	**(131,011)**	**828,713**	**2,319,154**

The accompanying notes on pages 5 to 79 are an integral part of these financial statements

(Translation of Financial Statements Originally Issued in Spanish)

Banco de la Nación
Statement of cash flows
For the years ended December 31, 2018 and 2017

In thousands of soles	***Note***	**2018**	**2017**
Cash flows from operating activities			
Net profit		816,384	738,534
Adjustments to reconcile net profit to cash used in operating activities:			
Depreciation	*9*	79,108	76,629
Amortization		27,475	30,384
Provision for doubtful loans, net of recoveries	*7*	60,047	21,213
Provision for doubtful accounts	*21*	11,038	2,844
Provision for indirect loans	*21*	(231)	(3,805)
Provision for litigations and claims	*21*	42,745	81,835
Impairment of fixed assets	*21*	-	2,003
Impairment of intangible assets	*21*	-	27,159
Deferred income tax	*23*	(7,141)	(17,182)
Net gain on available-for-sale investments	*15*	(48,887)	(59,278)
Accrued interests of subordinated bonds	*13 and 26*	19,988	19,935
Disposal of fixed asset		-	1,330
Unrealized earnings		(92,679)	99,041
Net changes in assets and liabilities:			
Loans portfolio		(342,919)	(570,850)
Accounts receivable		188,373	(144,439)
Other assets		18,150	(43,691)
Deposits and obligations		70,396	1,661,896
Deposits of financial system and international entities		(160,887)	(87,265)
Accounts payable		(78,500)	3,474
Other liabilities		(58,487)	292,317
Equity adjustments	*15*	4,246	(3,015)
Net results for the year after net changes in assets liabilities and adjustments		**548,219**	**2,129,069**
Income taxes paid		(240,516)	(196,802)
Net cash flows from operating activities		**307,703**	**1,932,267**
Cash flow from investing activities			
Available-for-sale investments		(863,315)	(440,138)
Acquisition of property, furniture, and equipment		(94,627)	(28,644)
Purchase of intangible assets		(14,530)	(18,121)
Sale of property, furniture, and equipment		79,950	-
Net cash flows from investing activities		**(892,522)**	**(486,903)**
Cash flows from financing activities			
Profit distribution to Public Treasury	*16*	(527,597)	(547,659)
Payment of interest on subordinated bonds	*26*	(20,000)	(20,001)
Net cash flows from financing activities		**(547,597)**	**(567,660)**
Net decrease (increase) in cash and cash equivalents, before the exchange rate fluctuations effect		(1,132,416)	877,704
Effect of exchange rate changes on cash and cash equivalents		92,679	(99,041)
Net decrease (increase) in cash and cash equivalents		(1,039,737)	778,663
Cash and cash equivalents at beginning of year		9,650,014	8,871,351
Cash and cash equivalents at end of year		**8,610,277**	**9,650,014**
Transactions that do not represent cash flows			
Debt swap into sovereign bonds		-	2,703,100
Offsetting debts with Public Treasury	*15*	226,113	288,089

The accompanying notes on pages 5 to 79 are an integral part of these financial statements

1. Reporting Entity

A. Background

Banco de la Nación (hereinafter the Bank) was incorporated by Law 16000 dated January 27, 1966, as a company under public law belonging to the Economy and Finance Sector and operating with economic, financial and administrative autonomy in the performance of its duties. The Bank has an independent capital structure and operates at an indefinite period.

Its Act of Incorporation was updated by means of Legislative Decree 199, Organic Law of Banco de la Nación issued on June 12, 1981 whereby certain duties and powers were exclusively assigned; however, upon issuance of Decree Law 25907 dated November 27, 1992, the Bank's exclusivity on those duties and powers were rendered without effect.

Subsequently, Supreme Decree 07-94-EF dated January 26, 1994 has been issued and stated the following: (I) Legislative Decree 199 has been repealed and (ii) the Statute of the Bank has been subsequently modified through different legal standards. The latter being Supreme Decree 189-2016-EF dated July 4, 2016.

B. Reporting entity

The Bank is governed by its own Statute and amendments, by Legislative Decree 1031 promoting the Efficiency of the Government's Business Activity and supplementarily, by Law 26702, General Act on the Financial and Insurance System, and Organic Law of the Superintendency of Banking, Insurance and Pension Plan Agency (hereinafter SBS).

The head office of the Bank is located at Av. Javier Prado Este N° 2499, San Borja, Lima, Peru. As of December 31, 2008, the Bank operates through a main office and a network of 654 agencies in Peru (one head office and a network of 634 offices as of December 31, 2017).

The Bank provides services to public entities; it promotes access to banking services and financial inclusion for the benefit of the citizens while complementing the private sector, encouraging decentralized growth through an efficient and self-sustainable management. Besides, the Bank is empowered to perform the duties below, none of which will be exclusively performed in respect of financial system companies and entities.

- To provide banking services to the National Treasury System according to the instructions pronounced by the General Treasury Directorate. Such services will be offered in competition with other financial system companies and entities.

- To provide tax collection services on behalf of the tax creditor, that should be approved by the Bank and also there should be a specific tax collection agreement.

- To conduct, by delegation, transactions of subsidiary bank accounts of the Public Treasury.

- To receive the resources and funds managed by Central, Regional and Local Government entities, as well as other entities of the National Public Sector.

- To act as Government's financial agent.

- To act on behalf of other banks or financial entities in funneling domestic or foreign resources on credit institutions.

- To participate in foreign trade operations of the Government, as indicated in the bylaws. In this case, the Bank renders banking and money exchange services, subject to the regulations pronounced by the Central Reserve Bank of Peru.

- To receive under consignment and custody all administrative and judicial deposits.

- To provide banking services as correspondent of financial system entities where financial system entities request it.

- To receive demand deposits from individuals and corporations for payments earned as suppliers, pensioners, as well as Government workers within the framework of the National Treasury System.

- To receive saving and escrow deposits from individuals and corporations in populated centers within the territory of the Republic where private Banks do not have offices, including the issuance of wire transfers, and transfer of funds ordered or in favor of such persons.

- To grant loans and financial facilities to National, Regional and Local Government entities and other entities of the National Public Sector, except for granting loans to State companies incorporated under private law, as well as issuing, acquiring, maintaining and selling bonds and other securities as set forth by law. The issuance of securities will be made according to an annual schedule approved by the Ministry of Economy and Finance that may be reviewed quarterly.

- To conduct with Public sector entities and banking and financial institutions within the country and abroad, transactions and banking services necessary to comply with functions indicated in the bylaws, as well as those destined to profitability and hedging of risks of managed resources. These transactions will be made according to an annual schedule approved by the Ministry of Economy and Finance that can be reviewed quarterly.

- Grant a single line of credit to workers and pensioners of the public sector that due to their income, have saving accounts in the Bank. Such line of credit may be assigned to the beneficiary for savings purposes in the Bank. Such line of credit may be assigned to the beneficiary for its use through loans and/ or line of credit card. These transactions will be made according to an annual schedule approved by the Ministry of Economy and Finance that can be reviewed annually.

- To issue electronic fund transfers, as established in Act 29985. This act regulates the basic characteristics of electronic fund transfers as instruments of financial inclusion, its regulations and modifying standards.

C. Approval of the financial statements

Board of Directors' Meeting 2237 held on February 14, 2019 approved the financial statements as of December 31, 2018; and the annual audited financial statements as of December 31, 2018 will be presented to the Board of Directors for their corresponding approval within the terms established by law. In management's opinion, Board of Directors will approve the accompanying financial statements without amendments. The General Shareholders' Meeting, held on March 16, 2018, approved the financial statements as of December 31, 2017.

2. Basis for the Preparation of Financial Statements

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated. These policies have been applied consistently to all years presented, unless otherwise indicated.

A. Statement of Compliance

The accompanying financial statements have been prepared from Bank's accounting records, and are presented in accordance with current legal regulations and accounting principles authorized by the SBS and for situations not foreseen in such standards, International Financial Reporting Standards (IFRS) shall be applied, made official in Peru by the Peruvian Accounting Board (CNC). Such standards comprise the Standards and Interpretations issued or adopted by the International Accounting Standards Board (IASB), which include the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or the former Standing Interpretations Committee (SIC), adopted by the IASB and made official by the Consejo Normativo de Contabilidad – CNC (Peruvian Accounting Board) for their application in Peru.

B. Basis of measurement

The financial statements have been prepared on a historical cost basis, from the accounting records of the Bank, except for available-for-sale investments which are recognized at fair value and held-to-maturity investments which are measured at amortized cost.

C. Functional and presentation currency

These financial statements are presented in soles (S/), according to SBS standards, which is the Bank's functional and presentation currency. The information presented in soles (S/) has been rounded to the nearest thousand, unless as otherwise indicated

D. Use of judgments and estimates

In preparing these financial statements, Management has made judgments and estimates that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively; hence, recording the effects on statements of income and other comprehensive income as of the year when the audit is made.

The most significant judgments and estimates for the preparation of the Bank's financial statements are the following:

- Provision for doubtful loans.
- Provision for doubtful accounts receivable.
- Determination of the fair value of available-for-sale investments
- Impairment testing for available-for-sale and held-to-maturity investments.
- Provision for retirement pension and workers' profit sharing.
- Useful life estimate and recoverable value of property, furniture, equipment and intangible assets.
- Asset recovery assessment for deferred income tax and provision for current income tax.

E. Reclassifications
Certain entries of the financial statements as of December 31, 2017 have been reclassified to make them comparable to those in this period. Management considers that the reclassifications made do not imply changes in decisions taken based on them. Reclassified amounts and affected accounts are summarized as follows:

Statement of Cash Flows for the year ended December 31, 2017.

In thousands of soles	**Balances with no reclassification**	**Reclassification**	**Reclassified balances**
Adjustments to reconcile net profit to net cash used in operating activities			
Unrealized earnings	-	99,041	99,041
Net variation in assets and liabilities:			
Other liabilities	95,515	196,802	292,317
Income of the period after net variation in assets, liabilities and adjustments	**1,833,226**	**295,843**	**2,129,069**
Income taxes paid	-	(196,802)	(196,802)
Net cash flows from operating activities	**1,833,226**	**99,041**	**1,932,267**
Net increase (decrease) in cash and cash equivalents, before the effect of exchange rate fluctuations	**778,663**	**99,041**	**877,704**
Effect of exchange rate changes on cash and cash equivalents	-	(99,041)	(99,041)
Net (decrease) increase in cash and cash equivalents	**778,663**	**-**	**778,663**
Cash and cash equivalents at beginning of the year	8,871,351	-	8,871,351
Cash and cash equivalents at end of year	**9,650,014**	**-**	**9,650,014**

3. Accounting Principles and Practices
The main accounting principles and practices applied to prepare the separate financial statements of the Bank, which have been consistently applied in this period and previous period, unless otherwise indicated, are the following:

A. Financial instruments

i. Financial instruments recognition
A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability, or equity instrument in another.

Financial instruments are recognized on the date when they are originated and are classified as assets, liabilities or equity instruments according to the substance of the contract. The interest, gains, and losses generated by a financial instrument, and classified as asset or liability, are recorded as income or expense in the income statement. The payment to holders of financial instruments is recorded directly against equity.

ii. Classification of financial instruments
The Bank determines the classification of financial instruments at initial recognition and on the basis of instrument by instrument defined in SBS resolution 7033-2012. (i) financial assets and liabilities through profit or loss, (ii) loans and accounts receivable, (iii) available-for-sale investments, (iv) held-to-maturity investments and (v) other financial liabilities.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognized at their fair value plus incremental costs directly attributable to the acquisition or issuance of the instrument, except in the case of financial assets or liabilities held at fair value through profit or loss.

Purchases or sales of financial assets requiring the provision of assets within a time frame established according to regulations or market conventions (regular market terms) are recognized at the contracting date.

iii. Derecognition of financial assets and liabilities

Financial assets
A financial asset or when applicable, a part of a financial asset or a part of a group of similar financial assets is derecognized when: (i) The contractual rights to the cash flows from the asset expire; or (ii) the Bank has transferred its rights to receive cash flows of assets or has assumed an obligation to pay total cash flows to a third party by virtue of a transfer agreement; and (iii) the Bank has substantially transferred all of the risks and rewards of the asset, or they have neither transferred all risks and rewards of the asset nor retained them whether it has relinquished control of the asset or not.

Financial liabilities
A financial liability is derecognized when the payment obligation is discharged, canceled or expires. When an existent financial liability is replaced by other of the same borrower in terms significantly different, or terms are significantly modified, such replacement or modification is treated as a derecognition of the original liability and a recognition of a new liability, recognizing the difference between both of them in the results of the period.

iv. Impairment of financial assets
The Bank evaluates at the end of each period whether there is objective evidence that leads to conclude the impairment of an asset or group of financial assets; and corresponding provisions for impairment are tested and recorded by the Bank pursuant to SBS standards.

A financial asset or group of financial assets is impaired, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event"), and if such loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be estimated reliably. The evidence of impairment can be an indication that a borrower or group of borrowers are experiencing significant financial difficulties, defaults or delays in payments of interest or principal, the probability that the Company will enter bankruptcy, restructuring or other legal and financial reorganization in which it is shown that there is a significant decrease in expected future cash flows such as changes in circumstances or economic conditions related to non-compliance with payments.

v. Financial instruments offsetting
Financial assets and liabilities are offset and the net amount is presented in the statement of financial position, when, and only when: (i) a current legal right to offset the amounts exists and (ii) there is an intention either to settle them on a net basis or to realize the asset, and settle the liability simultaneously.

B. Loans, classification and provision for loans

Direct loans are recorded when fund disbursements are made in favor of clients. Indirect loans (contingent) are recorded when documents that support such credit facilities are issued and may became direct loans in the event of making a payment to third parties. Likewise, changes in loan payment conditions due to debtors' payment difficulties are considered as refinancing or restructuring.

Risk Management is in charge of conducting, on a permanent basis, the evaluation and rating of the loan portfolio, assigning to each debtor the corresponding credit risk rating according to the guidelines established by the SBS in Resolution 11356-2008 and its amendments.

Loan Classification

The Bank classifies their loan portfolio as: Wholesale Banking (corporate, large, and medium business loans) and Retail Banking (small and micro business loans, revolving consumer loans, non-revolving consumer loans and mortgage loans). These classifications are made considering the nature of the client (corporate, government or individual), the purpose of credit, and business size measured by revenues, indebtedness, among other qualitative or quantitative indicators.

Credit risk rating categories

The categories of credit risk rating established by the SBS are as follows: Standard, Potential Problem, Substandard, Doubtful, and Loss, which are assigned according to the guidelines established in SBS Resolution 11356-2008 and amendments.

For the Wholesale Banking portfolio, the Bank mainly consider the payment capacity of debtor, cash flow, level of compliance with obligations, rating designated by other companies in the financial system, financial position, and quality management. For Retail Banking portfolio, the rating is based mainly on the level of compliance with credit payments, which is reflected by number of delinquent days and their classification in other financial system entities if rating alignment is applicable.

Provisions for doubtful loans

According to current SBS regulations, the Bank determine generic and specific provisions for loans portfolios. The generic provision is recorded in a preventive manner for standard risk direct loans, credit risk equivalent exposure of indirect loans, and additionally the procyclical component when the SBS orders its application. Specific provision is recorded for direct loans and credit risk equivalent exposure of indirect loans for which a specific risk, higher than standard, has been identified.

The equivalent credit risk exposure of indirect loans is determined by multiplying indirect loans by the different types of Credit Conversion Factor (CCF), as follows:

	Description	**CCF (%)**
(a)	Confirmations of irrevocable letters of credit for up to a year, when the issuing bank is a first level entity from a foreign financial system.	20
(b)	Standby letters of credit that support obligations to do or not do.	50
(c)	c) Issuances of guarantees, import letters of credit, and guarantees letters not included in subparagraph "b)" above, and confirmation of letter of credits not included in subparagraph "a)" above, as well as banker´s acceptance.	100
(d)	Granted loans not disbursed and unused credit lines.	-
(e)	Other indirect loans not covered by the previous paragraphs.	100

Provision requirements are determined by considering the risk rating of the debtor, if it is backed by collaterals or not, and depending on the type of collateral.

The Bank applies the following percentages to determine provisions for the loan portfolio:

	Without collateral	**With preferred collateral**	**Preferred easily realizable collaterals**	**Preferred readily realizable collateral**
Standard:				
Corporate loans	0.70%	0.70%	0.70%	0.70%
Large-business loans	0.70%	0.70%	0.70%	0.70%
Medium-business loans	1.00%	1.00%	1.00%	1.00%
Small business loans	1.00%	1.00%	1.00%	1.00%
Micro-business loans	1.00%	1.00%	1.00%	1.00%
Consumer loans (*)	1.00%	1.00%	1.00%	1.00%
Mortgage loans	0.70%	0.70%	0.70%	0.70%
Potential problem	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%

(*) Include revolving consumer loans and non-revolving consumer loans.

The calculation of the provision is made as per the classification granted and considering specific percentages which vary depending on whether the loans are backed up with preferred readily realizable collateral (cash deposits and letter-of-credit-rights), or preferred easily realizable collateral (public debt instruments issued by the Central Government, transferable securities belonging to the Lima Stock Exchange Select Index, among others) or preferred collateral (first pledge on financial instruments or movable or immovable property, first agricultural and mining liens, export credit insurance, among others). Collateral received are considered at their estimated realizable value determined by independent experts. Also, for the calculation of the provision, it is necessary to consider the rating of the guarantor in case that loans have subsidiary liability for a financial or insurance system entity (loans subject to replacement of credit counterparty).

SBS requires financial system entities to establish a risk management system on debt overhang allowing to reduce the risk before and after granting a loan, to constantly monitor the portfolio in order to identify indebted individuals including the periodic rating of used control mechanisms, as well as corrective actions or required improvements, as the case may be. For provision purposes, the companies that do not comply with these SBS provisions shall calculate the credit risk exposure by using a 20% component to the unused amount of the MES revolving line of credit, small business and revolving loans. Provision rates specified in the Debtor Rating Regulation shall be applicable on credit risk exposure.

Procyclical component
As of December 31, 2018 and 2017, procyclical rule for the provision for doubtful loans is deactivated as per SBS Official Letter B-2224-2014.

SBS has established that during the desactivation of the procyclical component, financial institutions cannot, under any circumstances, generate profits caused by the reversals of such provisions, which should only be used to record specific mandatory provisions.

Provisions for direct loans are presented deducting balances from the corresponding asset (note 7), and provisions for indirect loans are presented as liabilities (note 10).

C. Investments
The Bank applies the recording and valuation criteria of investments established in SBS Resolution 7033-2012 "Regulations for Classification and Valuation of Investments of Financial Entities" and amendments. The Bank presents investments classified into the following categories and applies criteria as described below:

i. Available-for-sale investments
Available-for-sale investments are all investment instruments that are not classified as investments at fair value through profit or loss, held-to-maturity investments, or investments in subsidiaries and associates. Likewise, investment instruments will be included in this category when the SBS explicitly requires it.

Available-for-Sale Investments are initially recognized on the trade date and measured at fair value plus direct and incremental transaction costs. They are subsequently re-measured at fair value, and profit or loss are recognized in equity in the ''unrealized earnings'' account until the securities are either sold or impaired. When available-for-sale securities are sold, cumulative gains or losses previously recognized in equity are recognized in the statement of comprehensive income and registered in the state of the year.

For debt securities, prior to fair value measurement, the amortized cost shall be remeasured applying the effective interest method, and based on the resulting amortized cost, gains and losses from the variation in the fair value shall be recognized and registered.

If an available-for-sale investment is impaired, the accumulated loss (measured as the difference between the asset's acquisition cost, net of any principal repayments and amortization, and its current fair value, less any impairment loss on that asset previously recognized in the statement of income) is removed from equity and recognized in the statement of income. In the case of unquoted equity shares, the impairment loss shall be the difference between the carrying amount and the present value of estimated future cash flows, discounted using current market rates for similar assets.

Until September 30, 2018, Resolution SBS 7033-2012 details a standard methodology for the identification of impairment of instruments classified as available-for-sale investments, which considers two filters; the first one contains two conditions: i) significant decrease in the fair value up to under 50% of the cost or, ii) a decrease exceeding the 20% consecutively during the last twelve months; in the event of meeting any of these two conditions of the first filter, it will be necessary to evaluate if these conditions are justified at least concerning two of the qualitative aspects of the issuer indicated in the second filter of such resolution.

For assessment of debt securities

- Weakening of financial position of the issuer and its business group.
- Reductions in any the credit ratings of the instrument or issuer.
- Interruption of a transaction or of an active market due to financial difficulties of the issuer.
- Observed data indicate that from initial recognition of a group of financial assets with characteristics similar to the assessed instrument, there is a measurable decrease in estimated future cash flows.
- Value decrease due to regulatory changes.
- Significant decrease in the fair value less than the 40$ of its amortized cost.
- Long-term decrease in the fair value on a consecutive basis during the last 12.month period, and the cumulative decline of the fair value in that period is at least less than 20%.

For assessment of capital instruments

- When risk rating of the debt security of an issuer is reduced.
- Significant changes in the technological, market, economic or legal environment in which the issuer operates that may have adverse effects on investment recovery.
- Weakening of financial ratios or financial position of the issuer and its business group.
- Interruption of a transaction or of an active market due to financial difficulties of the issuer.
- Observed data indicate that from initial recognition of a group of financial assets with characteristics similar to the assessed instrument, there is a measurable decrease in estimated future cash flows.
- Value decrease due to regulatory changes.

In case of complying any of these two situations, in each case, it is considered that there is impairment.

Gains or losses from foreign exchange differences related to equity shares shall be recognized in equity in the “unrealized earnings” account while those related to debt instruments shall be recognized in the income statement.

Interest income is recognized on available-for-sale securities using the effective interest rate method, calculated over the asset’s expected life. Premiums and/or discounts originated on the investment purchase date are included in the calculation of its effective interest rates. Dividends are recognized in the statement of income when the right to receive the payment has been established.

ii. Held-to-maturity investments

Held-to-maturity investments are debt securities that the Bank has the firm intent and ability to hold to maturity. They are initially recorded at fair value plus any cost directly attributable to the transaction costs. Subsequently, these investments are measured at amortized cost using the effective interest method, less impairment, if applicable.

Besides, a financial entity will be able to classify investments under this category after assessing whether it has financial capacity to maintain investment instruments until maturity. These assessment must also be made at the closing of each annual period.

Transactions with investments must be recorded on their trading date, that is, the date at which the reciprocal obligations must be fulfilled within the term established by regulations and practices in the market in which the operation takes place.

Investment interest income is recognized using the effective interest method which includes receivable interests and the amortization of the existing premium or discount in its acquisition.

The difference between income received from the disposal of investments and carrying amount is recognized in the statement of comprehensive income and other comprehensive income.

D. Property, Furniture, and Equipment

Property, furniture, and equipment are recorded at the historical acquisition cost, less accumulated depreciation and impairment losses. Disbursements incurred after acquisition for property, furniture, and equipment are only recognized as assets when there are probable future economic benefits associated with the Bank's asset and their cost can be reliably measured.

Maintenance and repair expenses are charged to income in the period they are incurred. Work-in-progress and in-transit goods are recorded at acquisition cost. These goods are not depreciated until relevant assets are finished and/or received, and are in operative condition.

Depreciation is determined based on the straight-line method using the following estimated useful lives:

	Years
Buildings and other constructions	33
Improvements in leased properties and facilities	5
Furniture and equipment	10
IT equipment	4
Vehicles	5

Cost and accumulated depreciation of assets disposed of or sold are eliminated from their respective accounts, and any resulting gain or loss is included to results in the period they are incurred.

Residual value, useful life and depreciation method selected are reviewed on a periodic basis to guarantee that the method and the depreciation period are consistent to the economic benefit and life expectations of items of property, plant and equipment.

The application of the revaluation model is not allowed for banks, with the cost model being the only accepted posterior recognition model. Also, banks are prohibited from giving as security the assets of their fixed assets, except those acquired in financial leasing operations.

E. Intangible assets

Intangible assets are mainly related to the acquisition and development cost of computing software shown in the "Other assets" item and are amortized using the straight-line method over a period of 4 years. It is worth noting that pursuant to SBS Resolution 1967-2010, limited-life useful assets are amortized at a maximum five-year term.

Costs related to the development or maintenance of computing software are recognized in the income statement when they are incurred. However, costs that are directly related to a single and identifiable computing software, package or program, controlled by the Bank and that will give future economic benefits higher than their cost in a period exceeding one year, are considered as an intangible asset. Direct costs related to the development of computing programs include personnel costs of the development team and a fractional part of general expenses.

F. Impairment of non-financial assets

When there are events or circumstantial economic changes indicating that the value of a long-lived asset might not be recoverable, Management reviews on each date of statement of financial position, the carrying amount of the asset to determine if there is impairment. When the carrying amount exceeds its recoverable value, an impairment loss is recognized in the statement of income for an amount equivalent to the excess in carrying amount, net of tax effects. Recoverable amounts are estimated for each asset or, if it is not possible, for the cash-generating unit.

The recoverable amount of a long-lived asset or a cash-generating unit is the higher of the asset's fair value less costs to sell and its value in use.

Fair value less cost to sell of a long-lived asset or cash-generating unit, is the amount obtainable from its sale, in an arm's length transaction, between knowledgeable parties, less corresponding costs to sell. Value in use is the present value of the future cash flows expected to arise from an asset or a cash-generating unit.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows (cash-generating units) from continuing use that are largely independent of the cash inflows of other assets.

G. Securities, bonds, and obligations issued

This includes the liability for the issuance of redeemable subordinated bonds; those are measured at their amortized cost using the effective interest method. Discounts granted or income generated during the bonds issuance is amortized during the terms of these instruments.

Interest is recognized in results when accrued.

H. Income tax

Current and deferred income tax is recognized as income or expense and included in the Statement of Income and Other Comprehensive Income, unless such amounts are related to items recognized in equity accounts. In this case, the current or deferred income tax is also recognized in equity accounts.

Pursuant to current tax legislation, current income tax is determined by applying the tax rate on the taxable net income of the period, and it is recognized as expense.

Liability for deferred income tax is recognized for all taxable temporary differences arising from the comparison between the asset and liability carrying amount and its tax basis, without considering the estimated moment when originating temporary differences will be reversed. The deferred income tax asset is recognized for the deductible temporary differences between the asset and liability carrying amount and their tax basis, to the extent that it is probable that sufficient future taxable profit will be available for the Bank against which the reversed temporary differences can be utilized. Liabilities and assets are measured at income tax rate that is expected to be applied to taxable income in the year when this liability is settled or the asset is realized, based on the income tax rate enacted or substantially effective as of the date of the Statement of Financial Position.

I. Trust Funds

Assets and income from trust operations, where there is an obligation to return the assets to clients and the Bank acts as trustee, are not included in the financial statements since they do not belong to the Bank, but are recorded in memoranda accounts for corresponding control. Commissions on those activities are included in income from finance services and recorded as they accrue (note 18).

J. Retirement pensions

The provision for retirement pensions includes mainly pension fund obligations of the Pension System by Decree Law 20530. In conformity with IAS 19 *Employee Benefit*, the provision for retirement pensions represents a Government Plan of Defined Benefits, in which the Bank's obligations consists on supplying benefits agreed by Decree Law 20530 and complementary standards. In the assumed benefits plan, the actuarial risk is assumed by the Bank and supported by its assets and operations. Based on life expectations of the beneficiaries of this system, it is estimated that the amount of this obligation will be reduced progressively on a long-term basis.

The provision for the retirement reserve fund of the working and retired personnel is recorded according to Supreme Decree 043-2003-EF published on March 28, 2003, which states that State companies will be governed by standards of Supreme Decree 026-2013 and applicable through Accounting Resolution 159-2003-EF/93.01 published on March 12, 2003, which approved the Chart of Accounts 20-2003-EF/93.01 which was repealed through Director's Resolution 014-2016-EF/51.01 of the Directorate General of Public Accounting. Also, through Communication 002-2017-EF/51.01 of the Directorate General of Public Accounting of the Ministry of Economy and Finance establishing the accounting procedure for the recording and control of pension reserves, non-pension reserves and reserves for contingencies.

The Bank fully records the result of actuarial calculations for pension reserves as a liability. The total amount of pension fund obligations is adjusted for the amounts obtained in future actuarial calculations related to the former actuarial calculation and the variation is directly applied to results of the corresponding period.

The actuarial calculation of pension fund obligations is made by a competent actuary of the Planning, Statistics and Rationalization Division of the Social Security Administration Office (hereinafter ONP) using the technical guide of the ONP approved by Resolution 132-2018-Jefatura/ONP dated November 13, 2018. The value of pension reserves determined based on the actuarial calculation is measured at the present value of all future pension payments using a discount rate of 4.67% or an annual prime rate (annual technical interest rate, TITA, for its Spanish acronym) applied to soles for the actuarial switching of the mortality table on a medium and long-term horizon basis (4.67 % as of December 31, 2017); It is established in the Technical Guide and its foundations are approved as per Administrative Decree 002/2018-Jefatura/ONP. Rate determination is based on long-term liabilities instead of profitability method of assets. Therefore, interest rate is equivalent to the long-term rate of the relevant yield curve in the case of Peruvians.

K. Provisions and Contingencies

i. Provisions

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

The provision for severance payment (CTS) is calculated according to current legislation, on the total employees' indemnities and should be paid through deposits in authorized financial entities accounts chosen by them in May and November, each year. Calculation is made for the amount that should have to be paid as at the date of the statement of financial position and it is included in the "Provision for fringe benefits" account. It is presented in the statement of financial position under "Other provisions".

ii. Contingencies

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

Contingent assets are not recognized in financial statements, and they are only disclosed when an inflow of economic benefits is probable.

L. Income and Expense Recognition

Interest income and expenses are recognized in profit or loss corresponding fiscal year on an accrual basis, depending on the effectiveness of the generating transactions and the interest rate agreed with the clients. Commissions for banking services are recognized as income when earned.

SBS Resolution 7036-2012 establishes that this income from commission of indirect loans shall be recognized on an accrual basis during the term of such indirect loans. Likewise, commissions and expenses for formalization of loans, as well as opening, study and evaluation of direct and indirect loans, are recognized as income based on the accrual within the term of the corresponding contracts.

When management considers that there are reasonable doubts about the collectability of the principal of a loan, the Bank suspends the recognition of interest in the income statement. Interest in suspense is recorded in memoranda accounts and recognized as earned when collected. When management considers that the financial situation of the debtor has improved and that the doubt about the collectibility of the principal has dissipated, the recording on accrual basis is restated.

Interest income includes return on fixed-income investments classified as investments at fair value through profit or loss and available-for-sale investments, as well as recognition of discounts and premiums on financial instruments.

Likewise, commissions and expenses for formalization of loans, as well as opening, study and evaluation of direct and indirect loans, are recognized as income based on the accrual within the term of the corresponding contracts.

The Bank's other income and expenses are recorded in the period in which they are accrued.

M. Cash and cash equivalents

Cash and cash equivalents considered in the statement of cash flows correspond to cash and due from bank balances of the statement of financial position which include deposits with a maturity of less than three months from the acquisition date, time deposits at BCRP, funds deposited at central banks and overnight deposits excluding restricted funds.

N. New accounting pronouncements

i. New accounting pronouncements not yet adopted

The following new standards, amendments and interpretations have been issued or adapted by the International Accounting Standards Board - IASB, but are effective for annual periods beginning on or after January 1, 2019. The Bank does not plan to adopt these standards early.

New IFRS, amendments and interpretations	Effective date
IFRS 16: Leases	Annual periods beginning on or after January 1, 2019. Early adoption was permitted for entities applying IFRS 15 beginning on or before the initial application date of IFRS 16.
IFRIC 23: Uncertainty over Income Tax Treatments	Annual periods beginning on or after January 1, 2019. Early adoption is permitted.
Prepayment features with negative compensation (amendments to IFRS 9). Financial instruments	Annual periods beginning on or after January 1, 2019.
Long-term interests in Associates and Joint Ventures (amendments to IAS 28: Investments in associates and joint ventures).	Annual periods beginning on or after January 1, 2019.
Annual improvements to IFRS, 2015-2017 cycle-various standards.	Annual periods beginning on or after January 1, 2019.
Amendments to references to Conceptual Framework in IFRS Standards.	Annual periods beginning on or after January 1, 2020.
Sale or approval of assets between an Investor, Associate or Joint Venture (amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures).	Indefinite deferral of effective date.

ii. Resolutions and Standards issued by CNC and the Peruvian Securities Market Regulator concerning the approval and adoption of IFRS in Peru.

As of the date of the financial statements, the CNC issued

- Resolution 001-2019-EF/30 issued on January 19, 2019 making official the amendments to Conceptual Framework References in the IFRS; amendments to International Financial Reporting Standards 3: Business Combinations, IAS 1: Presentation of Financial Statements and IAS 8: Accounting policies, Changes in Accounting Estimates, and Errors

- Resolution 002-2018-EF/30 issued on August 29, 2018 making official version 2018 of IFRS; amendments to IAS 19 Employee Benefits and the Conceptual Framework in Financial Reporting.

- Resolution 001-2018-EF/30 issued on April 27, 2018 making official amendments to IFRS 9 Financial Instruments, IAS 28 Investments in Associates and Joint Ventures and annual improvements to IFRS standards 2015-2017 cycle.

Application of Resolutions is based on the effectiveness established on each specific standard, except for IFRS 15 which effective date was delayed by the CNC until January 1, 2019 pursuant to Resolution N° 005-2017 EF/30.

As indicated in Note 2.A., standards and interpretations previously detailed in i. and ii. They will only be applicable to the Bank, in absence of applicable SBS regulations for situations not covered in the Accounting Manual. The Bank's management has not determined the effect on the preparation of its financial statements in case such standards were adopted by the SBS. Also, by means of Official Letter 467-2019-SBS dated January 7, 2019, the Superintendency stated that IFRS 16 Leases shall not be applied to supervised companies until pertinent provisions are established; therefore, supervised companies shall continue applying IAS 17 Leases.

iii. Main pronouncements issued by SBS during 2018

- By means of SBS Resolution 2755-2018 dated July 16, 2018, SBS approved the Regulation on Infraction and Sanctions of SBS with effective date on July 17, 2018.

- By means of SBS Resolution 2610-2018 dated July 4, 2018, SBS amended the Regulation on the Classification and Valuation of Investments of Financial System Entities with effective date on October 1, 2018.

4. Foreign Currency Balances

Monetary assets and liabilities denominated in foreign currency are translated at the spot exchange rate at the transaction date and subsequently adjusted to the functional currency using the current exchange rate as of the date of the statement of financial position, stated by the SBS. Gains or losses from restatement of monetary assets and liabilities denominated in foreign currency at the exchange rates prevailing at the date of the statement of financial position are recorded in the income of the year in the "Income from financial transactions item" (note 19).

Non-monetary assets and liabilities in foreign currencies are recorded using the spot exchange rate at the date of the transaction and they are not subsequently adjusted.

The statement of financial position includes balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in soles (S/.) at the exchange rate established by the SBS. As of December 31, 2018 and 2017, these rates were US$ 1 = S/ 3.373 and US$ 1 = S/ 3.241, respectively.

Foreign currency transactions in the country and international trade transactions referred to the concepts authorized by Central Reserve Bank of Peru - BCRP (Central Bank), are channeled through an interbank foreign exchange market. As of December 31, 2018, buy and sell exchange rates used were US$ 1 = S/ 3.369 and US$ 1 = S/ 3.379, respectively (US$ 1 = S/ 3.238 buy and US$ 1 = S/ 3.245 sell, as of December 31, 2017).

As of December 31, foreign currency balances equivalent in thousands, are summarized as follows:

	2018			2017		
In thousands of US	**In U.S dollars**	**Other currencies**	**Total**	**In U.S dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	88,595	17,538	106,133	219,282	44,035	263,317
Available-for-sale investments	575,241	-	575,241	480,300	-	480,300
Accounts receivable, net	17,686	-	17,686	21,047	-	21,047
Other assets, net	2,269	44	2,313	8,510	43	8,553
	683,791	**17,582**	**701,373**	**729,139**	**44,078**	**773,217**
Liabilities						
Deposits and obligations and other obligations	669,235	14,683	683,918	707,755	22,076	729,831
Other liabilities	2,232	261	2,493	7,088	20,108	27,196
	671,467	**14,944**	**686,411**	**714,843**	**42,184**	**757,027**
Asset position, net	**12,324**	**2,638**	**14,962**	**14,296**	**1,894**	**16,190**

In 2018 and 2017, the Bank recorded net gains on exchange difference for various transactions amounting to S/ 46,927 thousand and S/ 59,745 thousand, respectively in the Income from Financial Transactions item of the statement of income and other comprehensive income (note 19).

As of December 31, 2018, the Bank holds contingent operations in foreign currency amounting to US$ 262,828 thousand, EUR 54,516 thousand and GBP 246 thousands equivalent to S/ 1,098,041 thousand (US$ 298,725 thousand and EUR 56,137 thousand, equivalent to S/ 1,186,741 thousand as of December 31, 2017).

5. Cash and due from banks

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Cash (a)	1,748,335	1,997,195
Banco Central de Reserva del Perú (a)	6,726,480	7,364,364
Deposits with domestic banks and other financial system entities (b)	21,253	13,338
Deposits with foreign banks and other financial system entities (b)	101,504	242,910
Clearing	11,904	31,480
Restricted cash, other cash and due from banks	801	727
	8,610,277	**9,650,014**

(a) As of December 31, 2018, funds held in Cash and BCRP mainly include US$ 72,796 thousand and S/ 8,215,371 thousand; these funds destined to cover the legal cash reserves that the Bank must set aside to cover deposits from third parties according to limits established by current legislation. These funds are held at BCRP and in the Bank's vault.

The cash reserves held at BCRP do not accrue interest, with regard to the legal cash reserve in connection with the minimum legal cash reserve in local and foreign currency as per Official Communications 0023-2018-BCRP and 0024-2018-BCRP, respectively.

Additionally, the Bank holds the following funds in the Banco Central de Reserva del Perú a special demand deposit stated in soles, which generates interests at an annual effective rate of 1.55 % (2.0 %, as of December 31, 2017).

(b) Deposits in local and foreign banks correspond mainly to balances in soles, U.S. Dollars and euros, and lower amounts in other currencies, with free withdrawal option and accrue interest at market rates. As of December 31, 2018, deposits in foreign banks include mainly deposits held in Citibank N.A. (New York) amounting to US$ 10,756 thousand and Citibank (London) amounting to € 8,738 thousand (amounting to US$ 24,635 thousand and € 23,936 thousand as of December 31, 2017). As of December 31, 2018 and 2017, the Bank concentrates 69% and 71% in deposits to foreign banks, in two financial entities, respectively.

During year 2018, the Bank recorded accrued interests for S/ 61,555 thousand, S/ 5,998 thousand and S/ 5,128 thousand, arising from the deposit in BCRP, time deposits and other cash and due from banks, respectively, (as of December 31, 2017, an amount of S/ 94,101 thousand and S/ 7,139 thousand arising from the special deposit in BCRP and other cash and due from banks, respectively) which were recorded in the account "Interest on cash and due from banks" of the item "Interest income and expenses" of the statement of income and other comprehensive income (note 17).

6. Investments

This caption comprises the following:

	2018		2017	
In thousands of soles	**Quantity**	**Fair Value**	**Quantity**	**Fair Value**
Available-for-sale investments				
Sovereign bonds of the Republic of Peru (a)	3,069,743	3,114,614	3,285,856	3,464,675
BCRP certificates of deposit (b)	25,376	2,516,329	17,473	1,735,230
Treasury bills (c)	15,175,983	1,505,853	12,663,243	1,255,321
Global bonds of the Republic of Peru (a)	250,000	883,542	247,200	884,254
Supranational bonds (d)	134,000	438,641	134,001	423,075
Corporate bonds (e)	63,868	187,223	55,528	154,751
Global bonds of the Republic of Mexico (a)	92,000	298,163	25,000	85,145
Global bonds of the Republic of Colombia (a)	56,000	190,121	20,000	67,975
Bladex shares (f)	446,556	26,329	446,556	39,149
		9,160,815		**8,109,575**

(a) As of December 31, 2018 and 2017, sovereign bonds are issued in local currency by the Ministry of Economy and Finance of Peru, and global bonds issued by Peru, Mexico and Colombia in U.S. Dollars are acquired at rates and prices offered in the market in the trading date.

(b) They are bearer securities freely negotiable and issued at discount through public bids of BCRP and traded in the Peruvian secondary market and payable in soles. Gains arise from the difference between the discounted price paid at acquisition and the redeemed par value at maturity.

(c) They are debt instruments issued by Public Treasury on behalf of the Republic of Peru which are acquired at discount and at a unit par value of S/ 100. Gains arise from the difference between the discounted price paid at acquisition and the redeemed par value at maturity.

(d) Debt instruments issued by international institutions in order to obtain funding directly from financial markets. As of December 31, 2018 and 2017, supranational bonds correspond to bonds issued by the World Bank and Inter-American Development Bank in U.S. Dollars and the Central American Bank for Economic Integration in soles.

(e) The detail of corporate bonds is as follows:

In thousands of soles	**2018**	**2017**
Citigroup	33,225	34,567
Edelnor S.A.A.	21,447	21,636
Luz del Sur S.A.A.	21,206	21,342
Red de energía del Perú S.A.	17,203	17,731
JP Morgan Chase Bank N.A.-New York	12,861	13,589
Scotiabank Perú S.A.A.	-	10,412
Other minor amounting to S/ 10,000 thousand	81,281	35,474
	187,223	**154,751**

(f) As of December 31, 2018 and 2017, it corresponds to class A common shares issued by Bladex, representing 1.1% of its capital stock. As of those dates, fair value per share amounted to US$ 17.48 and US$ 27.05, respectively.

(g) As of December 31, 2018 and 2017, maturities and internal rates of return of available-for-sale investments in instruments representative of debt are:

	Maturity		Fair value rates									
			2018					2017				
			S/		US$		EUR	S/		US$		EUR
	2018	2017	Min	Max	Min	Max	Min/Max	Min	Max	Min	Max	Min/Max
Sovereign bonds of the Republic of Peru	Sep-23 / Feb-42	Set-23 / Feb-42	3.85	5.98	-	-	-	4.21	6.15	-	-	-
BCRP certificates of deposit	Jan-19 / Dec-19	Jan-18 / Jun-19	2.55	2.94	-	-	-	3.00	3.17	-	-	-
Treasury bills	Jan-19 / Nov-19	Jan-18 / Dec-18	2.33	2.47	-	-	-	3.11	3.40	-	-	-
Global bonds of the Republic of Peru	Aug-27	Aug-27	-	-	3.03	3.03	-	-	-	3.08	3.08	-
Supranational bonds	Aug-20 / Nov-34	Mar-18 / Nov-34	-	-	0.07	2.05	-	3.89	3.89	2.18	12.65	-
Corporate bonds	Apr-19 / Jul-34	Jan-18 / Sep-24	4.00	6.89	0.01	6.12	-	3.44	5.80	14.97	17.93	-
Global bonds of the Republic of Mexico	Jan-26 / Feb-48	Jan-26 / Mar-27	-	-	3.55	5.25	-	-	-	3.54	3.71	-
Global bonds of the Republic of Colombia	Feb-24 / Jan-41	Feb-24 / Apr-27	-	-	3.46	5.07	-	-	-	3.36	3.69	-

During years 2018 and 2017, the Bank recorded accrued interests for S/ 329,036 thousand and S/ 348,824 thousand, respectively, which were recorded in the account "Income from available-for-sale investments" of the item "Interest income" of the statement of income and other comprehensive income, note 17.

(h) As of December 31, 2018 and 2017, Management has estimated the market value of available-for.sale investments based on available market quotations or, in their absence, by discounting expected cash flows at an interest rate reflecting risk rating of the instrument.

As of December 31, 2018, the Bank holds net deferred income tax assets for S/ 17,008 thousand (note 24), arising from the unrealized net loss of certain available-for-sale investments that are subject to income tax for S/ 57,658 thousand (deferred asset amounting to S/ 2,715 thousand (note 24) and unrealized net loss for S/ 9,203 thousand, as of December 31, 2017).

The Bank’s Management has determined that unrealized losses of available-for-sale investments as of December 31, 2018 and 2017 have temporary nature.

Also, it has decided and it is in the capacity to hold each available-for sale investment presenting unrealized losses for an adequate period of time; thus, allowing a recovery of the fair value.

(i) Below, balance of available-for-sale investments is presented as of December 31, 2018 and 2017, classified as per maturity:

In thousands of soles	**2018**	**2017**
Up to 3 months	2,096,557	2,082,965
From 3 to 12 months	1,892,314	881,767
1 - 3 years	152,643	114,766
From 3 to 5 years	1,653,479	331,690
More than 5 years	3,220,199	4,577,707
Without maturity (shares)	26,329	39,150
	9,041,521	**8,028,045**

(j) Held-to-maturity investments

In thousands of soles	**2018**	**2017**
S.D. bonds 002-2007	555,591	773,254
Sovereign bonds BS12FEB2029 (ii)	1,488,495	1,432,599
Accrued interests BS12FEB2029 (ii)	6,462	31,852
	2,050,548	**2,237,705**

i. Pursuant to Supreme Decree 002-2007-EF published on January 11, 2007, the Ministry of Economy and Finance repealed Supreme Decree 210-2006-EF published on December 27, 2006; which stated, among others, the reconciliation of reciprocal obligations held by the Ministry of Economy and Finance and the Bank as of September 30, 2006; thus, signing a Settlement Agreement on Reciprocal Obligations (hereinafter the "Settlement Agreement") dated December 28, 2006.

The above mentioned Supreme Decree ratified the Settlement Agreement by establishing that obligations reconciled as of September 30, 2006 shall be updated as of January 1, 2007, pursuant to the criteria established in such Agreement. In that sense, it established that total offsetting of obligations of the Ministry of Economy and Finance in favor of the bank would be made on January 2, 2007.

Reciprocal debts reconciled as of September 30, 2006 as a result of the Settlement Agreement signed on December 28, 2006, resulted in debts of the MEF in favor of the Bank for US$ 31,335 thousand and debts of the Bank in favor of the MEF for US$ 72,414 thousand, establishing a net debt in favor of the MEF for US$ 41,079 thousand.

Also, in the new Settlement Agreement on Obligations entered into the Ministry of Economy and Finance and the Bank updated as of January 1, 2007, additional borrowings of MEF were determined in favor of the Bank for S/ 64,338 thousand and US$ 849,171 thousand for various indebtedness operations approved through explicit legal standards.

As a consequence of the settlement agreement on reciprocal obligations signed between MEF and the Bank on December 28, 2006 and January 1, 2007, the total offset reciprocal debt is as follows:

In thousands of	**Soles**	**In U.S dollars**
Debt of MEF in favor of the Bank (i)		
Agreement dated December 28, 2006	-	31,335
Agreement dated January 1, 2007	64,338	849,171
Debt of the Bank in favor of MEF (ii):		
Agreement dated December 28, 2006	-	(72,414)
Debt of MEF in favor of the Bank (i)-(ii)	**64,338**	**808,092**

According to Supreme Decree 002-2007-EF and amendments, refined by the Agreement on Consolidation, Offsetting and Settlement of Obligations signed between the MEF and the Bank on March 26, 2007, the following conditions resulting from the offsetting of reciprocal obligations between the MEF and the Bank were specified:

- The MEF offset the debt in favor of the Bank by providing on March 30, 2007 a bond for S/ 2,644 thousand; therefore, debt in U.S. Dollars was converted at the selling exchange rate published by SBS at the closing of operations on January 2, 2007 from S/ 3.193 to US$ 1.

  The bond was issued under the following characteristics:

  - In soles.
  - Non-negotiable
  - 30-year maturity
  - Annually redeemable
  - 6.3824 % of annual interest paid on a quarterly basis
  - CAVALI S.A. I.C.L.V. account entry

- The amortization of the bond charged to net profits of the Bank is made for an amount equivalent to no less than 30 % of profits corresponding to the Public Treasury. In any case, the amortization cannot be lower than S/ 60,000 thousand; if profits corresponding to the Public Treasury do not allow complying with such amount, the MEF will reach the difference charging it to budget items allocated by the public debt service.

- In case that at the maturity of the bond there are pending balances, they will be settled by the MEF.

- Interest accrued by the bond will be paid by the MEF.

Since bonds holding issued by the MEF, has been made within the framework of a law (pursuant to Supreme Decree 002-2007-EF), whereby interests are settled with money resources from MEF and even the amortization could be made with resources from MEF (in case the Bank does not generate profits), The Bank's Management defined it as a held-to-maturity investment, considering both the Bank's intention and capacity to hold these bonds until maturity.

The balance of such bond as of December 31, 2018 and 2017 amounts to S/ 555,591 thousand and S/ 773,254 thousand, respectively; also, during year 2018, this bond generated interests for S/ 34,735 thousand (S/ 52,262 thousand, during year 2017), that were recorded in the account "Income from held-to-maturity investments" of the item "Interest income and expenses" of the statement of income and other comprehensive income, (note 17).

At Board of Directors' meeting number 2201 held on May 9, 2018, the Bank approved the distribution of 2017 net profits to the Public Treasury. Therefore, an annual amortization of the Bond was made for S/ 226,113 (note 15.D).

ii. During years 2013 and 2014, the Bank and the MEF entered into various loan agreements and debt management agreements in order to establish Debt Management Operations under the refinancing method of obligations arising from credit granted to the MEF and aimed at financing: (i) the first stage of seven (7) projects executed by the Ministry of Defence (Supreme Decree 267-2013), (ii) set of additional requirements from the Ministry of Defence (Supreme Decree 358-2013-EF), (iii) partial components of eight (8) investment projects to be executed by the Ministry of Defence (Supreme Decree 359-2013), (iv) investment project portfolio of the Provincial Municipality of Chincheros (SD 331-2014-EF) and the (v) project "Recovery of the Basic Instruction Service of fixed-wing aircraft flights of the Peruvian Air Force (FAP), air group 51" (Supreme Decree 211-2012-EF); with a maturity term established for July 2017. Under this method, MEF would provide to the Bank, by the end of the term of payment, sovereign bonds for a total amount of S/ 2,073,100 thousand within the framework of the Settlement Agreement on Disbursements of the above mentioned Supreme Decrees.

On this basis, in July 2017, the Bank classified bonds received as payment as a result of the Management Agreement on Debt held between the Bank and MEF, as follows:

- Available-for-sale investments. Bonds delivered on July 4, 2017- BS12AUG2026 for an amount of S/606,800 thousand; and

- Held-to maturity investments. Bonds delivered on July 6, 2017 BS 12FEB2029 for an amount of S/ 1,466,321 thousand (which included interests accrued to date for S/ 33,600 thousand). As of December 31, 2018, balance of these bonds amounted to S/ 1,494,957 thousand (including accrued interests for S/ 1,462 thousand).

With regard to the sovereign bond 12FEB2029, the Bank's Management classified this bond as a held-to-maturity investment, considering also the Bank's intention and capacity to hold these bonds up to maturity. The bond was issued under the following characteristics:

- In soles.
- Freely negotiable.
- Sovereign bond with maturity on February 12, 2029.
- Coupon rate of 6.0% on an annual basis with half-year payment of interests.
- CAVALI S.A. I.C.L.V. account entry

It is worth mentioning that during 2018 and 2017, this bond generated interests for S/ 85,159 thousand and S/ 40,336 thousand, respectively, and were recorded in the account "Income from held-to-maturity investments" of the item "Interest income and expenses" of the statement of income and other comprehensive income (note 17).

7. Loan Portfolio, Net

This caption comprises the following:

In thousands of soles	**Note**	**2018**		**2017**	
Direct loans (a)					
Current					
Sovereign loans– Ministry of Economy and Finance (b)		3,104,374	34%	3,239,166	36%
Loans of financial system entities		142,980	2%	369,585	4%
Loans of public sector entities		257		84,017	1%
Consumer loans		5,570,396	60%	4,874,152	55%
Mortgage loans		290,373	3%	237,699	3%
Refinanced loans		10,379		6,656	0%
Past due loans		75,893	1%	54,063	1%
Lawsuits loans		38,467		33,053	0%
		9,233,119	**100%**	**8,898,391**	**100%**
Plus (less)					
Accrued interest on current loans		55,730		54,981	
Income from deferred interest on refinanced loans		(2,059)		(1,345)	
Provision for loan losses (d)		(356,394)		(304,502)	
		8,930,396		8,647,525	
Indirect loans, (c)	*16.A*	**238,540**		**248,815**	

(a) As of December 31, 2018 and 2017, direct gross credits portfolio under the segmentation stated in SBS Resolution 11356-2008 is as follows:

In thousands of soles	2018	2017
Non-retailer loans		
Corporate	3,247,826	3,692,767
Medium-sized companies	6,347	6,266
	3,254,173	**3,699,033**
Retailer loans		
Revolving and non-revolving consumer loans	5,686,264	4,959,410
Mortgage loans	292,039	239,316
Small-sized companies	605	594
Micro-business	38	38
	5,978,946	**5,199,358**
Total	**9,233,119**	**8,898,391**

Partial loan portfolio is backed up with collateral received from clients which are mainly from Government employees, pensioners, and governmental entities. Such collaterals are mostly composed of mortgages, guarantees, deposits and securities. The value of these mortgages has been determined based on net realizable value in the market, less selling expenses according to SBS regulations.

(b) It corresponds to credits granted to entities of the public sector that have items assigned by the Public Treasury to specifically pay said exposures; which are requested exclusively by the MEF through Supreme Decrees. The decrease amounting to S/ 134,792 thousand is due to the net effect of loans disbursed in 2018 for S/ 87,959 thousand and amortizations for S/ 222,751 thousand. Loans disbursed to MEF correspond to Supreme Decrees 373-2014, Supreme Decrees 280-15, Supreme Decrees 250-2014, Supreme Decrees 250-2015 and other Supreme Decrees for S/ 20,440 thousand, S/ 28,577 thousand, S/ 9,273 thousand, S/ 8,708 thousand and S/ 20,961 thousand, respectively; and the amortization correspond to Supreme Decree 218-07 and others for S/ 48,839 thousand, S/ 59,569 thousand, S/ 68,006 thousand, S/ 41,920 thousand and S/ 4,417 thousand, respectively.

(c) As of December 31, according to current SBS regulations, the Bank's loan portfolio is rated by risk as follows:

	2018				2017			
In thousands of soles	**No. of debtors**	**Direct**	**Contingent assets**	**Total**	**No. of debtors**	**Direct**	**Contingent assets**	**Total**
Risk Rating								
Standard	599,540	8,948,609	229,077	9,177,686	587,741	8,687,268	203,112	8,890,380
Potential Problem	4,774	47,803	-	47,803	3,634	31,104	-	31,104
Substandard	5,151	42,028	-	42,028	4,594	29,536	-	29,536
Doubtful	16,742	84,554	9,463	94,017	16,543	68,138	45,703	113,841
Loss	12,689	110,125	-	110,125	11,564	82,345	-	82,345
	638,896	**9,233,119**	**238,540**	**9,471,659**	**624,076**	**8,898,391**	**248,815**	**9,147,206**

(d) The activity of the movement of provision for doubtful direct loans is as follows:

In thousands of soles	**2018**	**2017**
Balance as of January 1, 2018	304,502	284,379
Additions debited to profit or loss	64,831	37,610
Recovery of provisions	(4,784)	(16,397)
Bad debt loan portfolio	(8,299)	(1,014)
Exchange difference and others	144	(76)
Balance as of December 31, 2018	**356,394**	**304,502**

As of December 31, 2018 and 2017, the provision for direct loans includes a mandatory generic provision amounting to S/ 49,658 thousand and S/ 49,600 thousand respectively, corresponding to the provision that was determined under procyclical rule.

As of December 31, 2018 and 2017, the provision for indirect loans amounted to S/ 8,052 thousand and S/ 8,005 thousand, respectively and they are included in the item "Other liabilities" of the statement of financial position (note 10).

In Bank's management opinion, the loan provision, recorded as of December 31, 2018 and 2017, meets SBS regulations in force at those dates (note 3 (b)).

(e) Provision for doubtful loans, net, as shown in the separate statement of income is as follows:

In thousands of soles	**2018**	**2017**
Provisions for doubtful loans of the period	(64,831)	(37,610)
Recovery of provisions	4,784	16,397
Provisions for loans, net of recoveries	(60,047)	(21,213)

(f) Interests generated by the loan portfolio are freely agreed taking into consideration current interest rates at the markets where the Bank operates. As of December 31, 2018 and 2017, annual effective rates, (minimum and maximum) for the following main products were as follows:

	2018		**2017**	
	Local currency	**Foreign currency (*)**	**Local currency**	**Foreign currency (*)**
Overdrafts	6.00 – 17.00	12.00	6.00 – 17.00	12.00
Corporate loans	7.10 – 13.50	8.00	6.00 – 13.10	8.00
Multired loans	10.00 – 19.00	-	10.00 – 19.00	-
Credit cards	19.00 – 32.00	-	14.00 – 27.00	-
Mortgage loans	7.00 – 9.25	-	7.00 – 9.25	-

(*) The Bank has not made disbursements of credits in dollars since 2000.

Interests, fees and expenses on credits or installments that have status of matured, refinanced or subject to judicial collection or classified in "doubtful" or "loss" categories, are recorded as suspended interest and are recognized as income in the statement of comprehensive income when they are effectively collected. Amounts not recognized as income for this item, are recorded for control purposes, in off-balance accounts out of state financial position.

(g) Below, a loan portfolio is presented as of December 31, 2018 and 2017, classified as per maturity based on the remaining term of payment date:

In thousands of soles	2018	2017
To be due		
Up to 1 month	2,231,260	214,376
1-3 months	397,194	489,706
From 3 to 12 months	2,010,975	3,828,670
From 1 to 3 years	3,319,060	3,067,044
From 3 to 5 years	950,559	1,046,437
More than 5 years	199,332	158,386
Refinanced	10,379	6,656
Overdue and lawsuit loans	114,360	87,116
	9,233,119	**8,898,391**

8. Accounts Receivable, Net

This caption comprises the following:

In thousands of soles	2018	2017
Accounts receivable from COFIDE – FORPRO (a)	175,665	176,173
Accounts receivable from COFIDE – FOGEM (b)	58,982	67,540
Third parties claims (c)	28,633	22,798
Commissions receivable (d)	21,474	22,467
Advances to personnel	2,293	44,610
Advances to suppliers	1,697	1,967
Accounts receivable from MEF	106	106
Accounts receivable from sale of values (e)	-	153,920
Other accounts receivable	8,799	8,031
	297,649	**497,612**
Provision from claims to third parties (f)	(4,703)	(5,264)
Provision for other accounts receivable	(263)	(255)
	292,683	**492,093**

(a) By means of Urgency Decree 008-2017 published on April 22, 2017, the Fund for Strengthening Productivity of Small and Medium-sized companies (MYPE-FORPRO) (hereinafter "FORPRO"), has been created with uncommitted resources that were transferred from the following funds: (i) MIPYME Fund, created by Act 30230, (ii) Support Fund for small and medium sized companies UD 050-2002 and (iii) Business Guarantee Fund - FOGEM, created by UD 024-2009.

On this basis, MEF and the Banco de la Nacion were authorized to transfer uncommitted resources of FOGEM, see paragraph (b) below, in favor of FORPRO for an amount of S/ 176,173 thousand, with a participation from the Bank in this fund of approximately 24.9%.

The objective of FORPRO is to facilitate and encourage financing, to reactivate and strengthen productive development of small and medium-sized companies, through: (I) financing for the acquisition or renewal of fixed assets and working capital and (ii) granting of guarantees and financing through other financial instruments. FORPRO is effective until December 31, 2018, as per paragraph 9.5 of article 9 of UD 008-2017.

FORPRO Management was entrusted to Corporación Financiera de Desarrollo S.A. (COFIDE) through the General Directorate of Indebtedness and Public Treasury; under the terms and conditions of the agreement signed between both institutions.

Opening balance of account receivable from COFIDE corresponds to the contribution made by the Bank for the establishment of FORPRO in soles. After initial recognition, these investments are recorded on a monthly basis applying the equity method in order to reflect in their financial statements me and expenses generated by FORPRO. It is worth mentioning that, at the date of settlement, all remaining rights and obligations shall be transferred from FORPRO to the Bank.

(b) By means of Urgency Decree 024-2009 published on February 20, 2009, the Business Guarantee Fund (FOGEM) has been created, which is a self-standing fund established through the contribution of US$ 98,000 thousand, equivalent to S/ 300,000 thousand as of that moment, made by the Bank charged to own resources. Its management was entrusted to Corporación Financiera de Desarrollo S.A. (COFIDE) under the terms and conditions of the agreement signed between both institutions.

The objective of FOGEM was to guarantee loans that the entities of the National Financial System grant to micro and small productive companies, service and trade companies, as well as to medium-size companies that are engaged in the production and/or services within the non-traditional export chains.

The term to adhere to the FOGEM was two years, beginning from the effectiveness date of the Operating Regulation; however, by means of Urgency Decree 058-2011 dated October 26, 2011, such term was extended up to September 30, 2012. By means of the Law for Public Sector Budget for fiscal year 2014 in the Hundredth First Final Complementary Provision, it was extended up to December 31, 2016; and by means of Legislative Decree 1282 amending Act 29623, Law promoting financing through commercial invoices and extending the term of the Business Guarantee Fund, such term was extended up to December 31, 2021.

After initial registration of FOGEM, these investments were recorded on a monthly basis by applying the equity method to reflect in their financial statements all the income and expenses generated (including updating of funds held by FOGEM in U.S. Dollars as a result of the contribution made by the Bank in such currency). It is worth mentioning that, at the date of settlement, all remaining rights and obligations shall be transferred from FOGEM to the Bank.

For 2018, the Bank recorded a decrease amounting to S/ 8,558 thousand in respect of last year; thus, decreasing the accounts receivable from COFIDE-FOGEM due to the reduction in equity.

(c) As of December 31, 2018, the balance corresponds mainly to: (i) S / 13,492 thousand for the guarantee deposits that the Bank made in the collection account of the Judiciary for those trials declared to be remote, (ii) accounts receivable for the "Juntos" and "Pension 65" programs, amounting to S / 4,486 thousand (these amounts correspond to the reimbursement by the executing units of the social programs), (iii) claims for ex-worker responsibilities for thousands S / 2,257, (iv) claims to Banks in liquidation for thousands of S / 2,116 and (v) various claims for thousands of S/ 6,282.

As of December 31, 2017, balances correspond mainly to: (i) S/ 9,221 thousand for guarantee deposits made by the Bank to the collection accounts of the Judiciary for those claims declared as remote, (ii) accounts receivable for the programs "Juntos" and "Pensión 65" amounting to S/ 3,411 thousand (these amounts correspond to the reimbursement from implementation units of social programs),(iii) claims for responsibilities of former workers amounting to S/ 2,215 thousand, (iv) claims to Banks under liquidation amounting to S/ 2,124 thousand and (v) various claims for S/ 5,827 thousand.

(d) As of December 31, 2018, balances correspond mainly to: (i) S/ 9,799 thousand of fees receivable from judicial and administrative deposits held by the Judiciary in the Bank, (ii) S/ 5,154 thousand of fees to insurance companies, (iii) S/ 1,891 thousand for trust fees, (iv) ONP fees for S/ 1,450 thousand, (v) fees receivable from Implementation Units of Social Programs "Pensión 65" and "Juntos" for cash distribution services to beneficiaries nationwide amounting to S/ 3,177 thousand, and (vi) other minor for S/ 3 thousand.

As of December 31, 2017, balances correspond mainly to: (i) S/ 12,602 thousand of fees receivable from judicial and administrative deposits held by the Judiciary in the Bank, (ii) S/ 4,555 thousand of fees to insurance companies, (iii) ONP fees for S/ 1,927 thousand, (v) fees receivable from Implementation Units of Social Programs "Pensión 65" and "Juntos" for cash distribution services to beneficiaries nationwide amounting to S/ 1,322 thousand, and (vi) other minor for S/ 2,061 thousand.

(e) As of December 31, 2017, they comprise mainly accounts receivable for the sale of seven (7) sovereign bonds issued by the Ministry of Economy and Finance, totaling S/ 153,920 thousand. This account was collected on January 3 and 4, 2018.

(f) As of December 31, 2018, balances correspond mainly to: (i) S/ 2,116 thousand for the provision of accounts receivable from "República" Bank in liquidation and (ii) S/ 1,144 thousand for the provision of claims to former employees of the Bank.

9. Properties, Furniture, and Equipment, Net

This caption comprises the following:

In thousands of soles	Land	Buildings and other constructions	Improvements in leased properties and facilities	Furniture and equipment	IT equipment	Vehicles	Work-in-progress and units in transit (b)	Total
Cost								
Balances as of January 1, 2017	53,715	336,110	15,913	117,937	283,430	8,141	568,245	1,383,491
Additions	-	5,728	-	6,285	12,620	324	3,687	28,644
Transfers	5,248	398,407	-	70,313	25,365	-	(499,333)	-
Withdrawals	-	-	-	(2,314)	(1,743)	-	-	(4,057)
Other changes	-	678	648	-	-	-	1,964	3,290
Balances as of December 31, 2017 (i)	**58,963**	**740,923**	**16,561**	**192,221**	**319,672**	**8,465**	**74,563**	**1,411,368**
Additions (a)	19,083	26,513	-	3,295	34,640	-	11,096	94,627
Transfers	-	(15,365)	-	4,036	19,727	-	(8,398)	-
Withdrawals (b)	(8,051)	(59,301)	-	(5,506)	(504)	-	(37,895)	(111,257)
Balances as of December 31, 2018 (iv)	**69,995**	**692,770**	**16,561**	**194,046**	**373,535**	**8,465**	**39,366**	**1,394,738**
Depreciation								
Balances as of January 1, 2017	-	228,294	14,109	82,043	176,727	5,557	-	506,730
Depreciation for the period	-	19,573	1,090	12,833	42,144	988	-	76,628
Withdrawals	-	2,023	-	(1,090)	7,127	-	-	8,060
Balances as of December 31, 2017 (ii)	**-**	**249,890**	**15,199**	**93,786**	**225,998**	**6,545**	**-**	**591,418**
Depreciation for the period	-	18,682	646	14,216	44,776	788	-	79,108
Withdrawals	-	(20,798)	113	(5,000)	5,894	-	-	(19,791)
Balances as of December 31, 2018 (v)	**-**	**247,774**	**15,958**	**103,002**	**276,668**	**7,333**	**-**	**650,735**
Impairment as of December 31, 2017 (iii)	**9,547**	**27,358**	**-**	**2,003**	**-**	**-**	**-**	**38,908**
Impairment as of December 31, 2018 (vi)	**9,449**	**16,359**	**-**	**2,003**	**-**	**-**	**-**	**27,811**
Net carrying amount as of December 31, 2017 (i)-(ii)-(iii)	**49,416**	**463,675**	**1,362**	**96,432**	**93,674**	**1,920**	**74,563**	**781,042**
Net carrying amount as of December 31, 2018 (iv)-(v)-(vi)	**60,546**	**428,637**	**603**	**89,041**	**96,867**	**1,132**	**39,366**	**716,192**

(a) During 2018, Land and Building owned by the Ministry of Housing, Construction and Sanitation located at Av. Arqueología 130 and Av. Javier Prado N° 2496 (District of San Borja) was acquired for S/ 19,083 thousand and S/ 26,513 thousand, respectively.

It corresponds mainly to the acquisition of mainframe contingency services, according to public tender No. 0020-2018-BN with the IBM company for thousands of S / 26,308 for the new offices in Lima and Chiclayo. Additionally, (03) servers were acquired from SAPIA for thousands of S / 5,511.

During 2017, final building works and documentation on the construction valuation of the New Institutional Venue have been completed; therefore, fixed assets initially classified as "work-in-progress and units in transit" were transferred to their corresponding items: (i) buildings and other constructions for S/ 397,700 thousand, (ii) furniture and equipment for S/ 49,000 thousand and (iii) IT equipment for S/ 18,444 thousand; amounting to S/ 465,144 thousand. The remaining balance of transfers of "Work-in-progress and units in transit for S/ 34,100 thousand correspond to goods, machinery and furniture received during year 2017.

As of December 31, 2017, the balance for S/ 74,563 thousand of work-in-progress and units in transit corresponds mainly to: (i) acquisition of three building units amounting to S/ 36,500 thousand, (ii) acquisition of furniture and equipment pending to be received for S/ 15,300 thousand (iii) disbursements of S/ 22,763 thousand related to other minor projects to be implemented.

(b) As of December 31, 2018, it corresponds to the sale of Land and Building owned by Banco de la Nacion, former Head Office (Av. República de Panamá 3664 –District of San Isidro) to the Ministry of Housing, Construction and Sanitation for S/ 7,995 thousand and S/ 52,638 thousand, respectively. The sale of the property involved a decrease in the balance of S/ 11,097 thousands.

Additionally, the adjustment to the cost of the Building of the new branch office located at Av. Arqueología 130 and Javier Prado 2499 (District of San Borja) was made for S/ 19,054 thousand, due to a final work remedial.

(c) Peruvian banks are not allowed to give as guarantee fixed assets.

(d) The Bank has insured its main assets in accordance with the policies established by management.

(e) Management periodically reviews the residual value of assets, useful life and used depreciation method in order to guarantee consistency to the economic benefit and life expectations.

As of December 31, 2017, the Bank recorded impairment of IT equipment acquired for the implementation of the project "Core Bancario", (note 10.C) that used to be held by Consorcio Nessa for an amount of S/ 2,003 thousand (note 21). The detail as of December 31, 2018 and 2017 was as follows:

In thousands of soles	2018	2017
Balance as of January 1	38,908	36,905
Decrease in asset sale	(11,097)	-
Additions	-	2,003
Balance as of December 31	**27,811**	**38,908**

10. Other Assets, net and Other Liabilities

This caption comprises the following:

In thousands of soles	*Note*	2018	2017
Other assets, net			
Financial instruments:			
Transactions in progress (a)		57,351	66,360
Main office and branches (b)		4,871	17,801
		62,222	**84,161**
Non-financial instruments			
Income tax credit (e)		57,042	38,281
Intangible assets, net (c)		46,253	59,129
Prepayments and deferred charges		11,798	13,890
Various assets		1,898	1,902
		116,991	**113,202**
Total		**179,213**	**197,363**
Other liabilities			
Financial instruments			
Transactions in progress (a)		351,421	176,063
Cash surplus		12,457	11,038
		363,878	**187,101**
Non-financial instruments			
Provision for litigations and claims (d)		97,984	135,651
Provision for indirect loans	*7 (d)*	8,052	8,005
Deferred income from interests and fees of Indirect loans		969	516
Provision for various risks		3	234
Other		462	461
		107,470	**144,867**
		471,348	**331,968**

(a) Transactions in transit are those carried out during the last days of one month and are reclassified in the following month under their respective accounts in the statement of financial position; these transactions do not affect the results of the Bank.

As of December 31, 2018, the balance of operations in active service mainly includes: Off-peak operations for S/ 22,586 thousand. Such amount was due to the closing of operations made by the end of the year and regularized in the first days of January 2019, (ii) Purchase operations made through local POS with credit cards for S/ 15,470 thousand, and (iii) cash withdrawal through credit card for S/ 4,365 thousand; which were regularized through the Banking System in the first days of January, 2019. On the other hand, balance of operations in transit include mainly: i) off-peak operations for S/ 32,318 thousand; such amount is due to the closing of operations by the end of the year and that were regularized the first days of January 2019, ii) checks mainly received from Banco de Crédito del Perú, Banco Continental y Scotiabank Perú with pending clearing for S/ 301,066 thousand, which were transferred through the system of Banco Central de Reserva del Peru in the first week of January and iii) transfers abroad for S/ 671 thousand at the request of clients, which were transferred the first week of January, 2019.

As of December 31, 2017, the balance of active operations in transit mainly include: (I) Out-of-time transactions for approximately S/ 37,350 thousand. Such amount was due to the closing of transactions made by the end of the year and regularized in the first days of January 2018, (ii) Purchase transactions made through local POS with credit cards for approximately S/ 14,776 thousand, and iii) cash withdrawal through credit card for approximately S/ 6,384 thousand; which were regularized through the Banking System in the first days of January, 2018. On the other hand, balance of transactions in transit include mainly: i) out-of-time transactions for approximately S/ 80,781 thousand; such amount is due to the closing of operations by the end of the year and that were regularized the first days of January 2018, ii) cheques received from other banks with pending clearing for approximately S/ 25,805 thousand, which were transfered through the system of Banco Central de Reserva del Peru in the first days of January and iii) transfers abroad for approximately S/ 47,653 thousand at the request of clients, which were transferred the first days of January, 2018.

(b) The balance at Main Office and branches corresponds to pending transactions between the Bank's offices located in the country, being the main type of transaction the cash remittances transferred from the Head Office through local agencies and offices in province through cash in transit companies.

(c) As of December 31, 2018, decrease in the intangible assets item amounting to S/ 12,876 thousand corresponds mainly to the increase in the amortization of hardware and software for S/ 4,469 thousand, support for CICS fault management, central processing licenses for S/ 3,179 thousand, modernization of accounting processes and Oracle support licenses for S/ 2,891 thousand, updating and maintenance of management system software for S/ 2,139 thousand.

(d) It corresponds to provisions for work and pension fund claims, as well as civil and arbitration processes filed against the Bank that have been recorded based on the estimates made by Management and internal legal advisors. In the opinion of management and internal legal advisors, there were no significant additional liabilities to those recorded by the Bank. As of December 31, 2018, the decrease corresponds to payments made of the resolution issued by the Arbitration Court related to the process with the Workers' Unit Process (SUTBAN). As of December 31, 2017, the increase for S/ 41,675 thousand corresponds to the recording of the provision related to the resolution issued by the Arbitration Court in charge of the Workers' Unit Process (SUTBAN) in which it was possible to negotiate several requirements submitted by such Union during year 2016.

(e) As of December 31, 2018, it corresponds to payments on account of income tax and other income tax credits for S/ 290,201 thousand, which are presented net of the income tax of the year for S/ 233,159 thousand.

As of December 31, 2017, it corresponds to payments on account of income tax and other income tax credits for S/ 251,781 thousand, which are presented net of the income tax of the year for S/ 213,500 thousand.

11. Deposits and Obligations

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Checking accounts (a)	11,944,260	13,483,218
Savings	9,198,984	8,305,954
Restricted deposits and obligations (b)	2,710,470	2,373,544
Workers' and pensioners' fringe benefits (c)	1,672,258	1,722,768
Term deposits (f)	618,044	172,606
Severance Payment	81,753	74,221
Deposits and obligations (d)	172,322	182,629
	26,398,091	26,314,940
Accrued interest payable (e)	75,728	88,483
	26,473,819	**26,403,423**

The Bank holds as policy to remunerate checking accounts, saving deposits, time deposits, bank certificates and judicial and administrative deposits based on an increasing scale of interest rates, depending on the average term and balance held in such accounts. Additionally, as part of that policy, it has been established that balances below a specific amount per each type of account, shall not generate interests.

Interest rates applied to deposit and other obligations accounts are determined by the Bank considering the current interest rates in the Peruvian financial market.

The Bank freely establishes deposits interest rates based on supply and demand, and the type of deposits. As of December 31, annual effective rates (minimum and maximum) for the main products fluctuated as follows:

	2018		2017	
	Local currency	**Foreign currency**	**Local currency**	**Foreign currency**
Saving deposits	0.20%	0.02% 0.09%	0.20%	0.02% 0.09%
Time deposits	0.70% 0.90%	0.04% 0.40%	0.70% 0.90%	0.04% 0.40%
Bank certificates	-	0.02% 0.40%	-	0.02% 0.09%
Severance payment deposits	6.50%	3.00%	6.50%	3.00%

As of December 31, time deposits of the public and financial system entities have the following maturity schedule:

	2018			2017		
In thousands of soles	**Local Currency**	**Foreign currency**	**Total**	**currency Local**	**Foreign currency**	**Total**
Up to 1 month	12,230	437,653	449,883	7,850	597	8,447
From 1 to 3 months	9,719	51,492	61,211	10,002	47,918	57,920
From 3 to 6 months	105,386	-	105,386	104,537	-	104,537
From 6 to 12 months	1,564	-	1,564	1,702	-	1,702
Interests	61	348	409	49	13	62
	128,960	**489,493**	**618,453**	**124,140**	**48,528**	**172,668**

Demand deposits, savings deposits and severance indemnities (CTS) deposits have no contractual maturities.

(a) Deposits in checking accounts mainly correspond to those made by:

In thousands of soles	**2018**	**2017**
Private sector	4,542,141	4,259,454
Ministry of Economy and Finance	1,751,554	2,692,476
Central Government	1,419,054	2,466,581
Public institutions	1,833,510	1,872,567
Local Governments	1,084,626	1,184,298
Public entities	552,860	598,689
Regional Government	498,564	374,452
EsSalud (Healthcare Security)	148,303	33,783
International entities and others	113,648	918
	11,944,260	**13,483,218**

(b) Such balance corresponds to judicial and administrative deposits, guarantee deposits, legal withdrawals and fixed deposits for S/ 2,288,812 thousand, S/ 338,934 thousand, S/ 82,687 thousand and S/ 37 thousand, respectively (S/ 2,086,650 thousand, S/ 214,301 thousand, S/ 72,591 thousand and S/ 2 thousand, respectively, as of December 31, 2017).

(c) Provision for fringe benefits represents assumed obligation for indemnities of serving workers; as well as provision for retirement of former workers and serving workers of the Bank. As of December 31, 2018 and 2017, the balance of the item comprises:

In thousands of soles	**2018**	**2017**
D.L. 20530 Retirement Pensions	1,668,429	1,719,254
Law 4916 Labor Regime	3,755	3,436
Decree Law 11377 Labor Regime	74	78
	1,672,258	**1,722,768**

Retirement pensions mainly correspond to the present value of future pension payments to current and former Bank's workers under Decree Law 20530. They comprise life annuity received by pensioners for severance pay, disability, widows' and orphans' pension funds. Pension fund transactions have been traditionally considered among the actuarial operations of life; however, it has specific characteristics, economic importance and requires actuarial specialization. Considering the particularities of the social pension fund operations, those are defined as operations where the potential period for risk coverage is the whole life of the insured individual.

Supreme Decree 043-2003-EF was published on March 28, 2003, introducing rules on registration of pension fund obligations under the pension scheme provided by Decree Law 20530 and amendments, not financed with Treasury funds. This decree amended Supreme Decree 106-2002-EF, by including the rules contained in Supreme Decree 026-2003-EF of February 27, 2003, in the actuarial calculation for pensions and, as applicable, those of Accounting Resolution 159-2003-EF/93.01 of March 6, 2003 and other provisions adopted by the Peruvian Board of Public Accountancy for the purposes of registration and control of pension obligations. In that sense, on January 30, 2017, Communication 002-2017-EF/51.01 of the General Directorate for Public Accounting of the Ministry of Economy and Finance was issued and established the accounting treatment of pension fund obligations.

The activity of the present value of retirement pension provision for pensioners and workers of Decree Law 20530 is as follows:

In thousands of soles	***Note***	**2018**	**2017**
Balance at beginning of year		1,719,254	1,798,568
Increase debited to personnel expenses	*20(a)*	120,104	93,778
Provisions, fractions and widows' and orphans' pension fund		2,480	2,575
Payment to pensioners		(173,409)	(175,667)
Balance at end of year		**1,668,429**	**1,719,254**

In 2018, liability for retirement pensions decreased compared to 2017, mainly due to a decrease in the number of pensioners from 5,233 as of December 31, 2018 to 5,375 pensioners as of December 31, 2017.

Main actuarial assumptions as of the date of the statement of financial position are:

In thousands of soles	**2018**	**2017**
Discount rate	4.67%	4.67%
Average life term	17.47 years	17.81 years
Active service period	0 years	0 years
Pensioners entitled to Christmas bonus	642	676
Pensioners entitled to other bonuses	4,431	4,537
Pensioners not entitled to bonuses	135	131
Serving workers entitled to Christmas bonus	25	31

Discount rate used is 4.67 % as of December 31, 2018, based on the Technical Guide and fundamentals of a survey supporting the report N° 050-2018-0PG.EE/ONP, in which the Technical Guide is presented (4.67 % as of December 31, 2017, based on the Technical Guide and fundamentals of a study of Report N° 026/2017-0PG.EE/ONP). Rate determination is based on long-term liabilities instead of profitability method of assets. Therefore, interest rate is equivalent to the long-term rate of the relevant yield curve in the case of Peruvians.

The mortality tables used for actuarial calculations are the "Mortality Tables - 2005 Pension System (Peru)" for own right and right to healthy life, and the MI-85-H and MI-85-M mortality tables depending if disabled person is a man or a woman, respectively, all of them approved by the MEF in Ministerial Resolution 757-2006-EF/15 and included as exhibit in Ministerial Resolution 146-2007-EF/15 dated March 23, 2007.

Article 3° "Maximum amount of pensions" of the law establishing new regulations on the pension system of Legislative Decree 20530 – Act 28449 issued on December 30, 2014. It mentions that the maximum monthly amount of retirement pensions regulated by Act 20530 is two (2) Tax Units – UIT. In that sense, as of December 31, 2018, the calculation of reserves for pensioners has been made at a maximum pension amount equivalent to S/ 8,300 (S/ 8,100, as of December 31, 2017).

(d) Other deposits and obligations are composed of cashier's checks, transfers payable, certified checks and bank certificates for S/ 82,285 thousand, S/ 84,562 thousand, S/ 808 thousand and S/ 4,667 thousand, respectively (S/ 92,699 thousand, S/ 79,549 thousand, S/ 5,746 thousand and S/ 4,635 thousand, respectively as of December 31, 2017).

(e) Accrued interests payable correspond to judicial and administrative deposits for S/ 72,614 thousand and S/ 3,114 thousand, respectively (y S/ 84,241 thousand and S/ 4,242 thousand, respectively, as of December 31, 2017).

(f) Below, balance of time deposits classified as per maturity is presented:

In thousands of soles	2018	2017
Up to 3 months	511,094	66,367
From 3 to 12 months	106,950	106,239
	618,044	172,606
Accrued interest on time deposits	409	62
	618,453	**172,668**

12. Deposits of financial system and International Entities

As of December 31, 2018, it includes demand deposits for S/ 217,630 thousand and saving deposits for S/ 224 thousand (S/ 378,584 thousand and S/ 157 thousand, respectively, as of December 31, 2017).

Below, demand deposits are presented and grouped as per type of financial entity:

In thousands of soles	2018	2017
Fondo Mi Vivienda	61,024	176,083
Banking entities	35,600	86,998
COFIDE	81,568	75,143
Municipal credit and savings bank	19,415	24,182
Financial entities -	14,240	7,623
Agricultural credit and savings bank	4,076	6,566
Edpymes	1,707	1,809
Foreign banking entities	-	180
	217,630	**378,584**

Saving deposits are mainly composed of deposits composed of municipal credit and savings bank.

13. Securities, Bonds, and Obligations Outstanding

In 2016, the Bank made the first Issuance of the First Subordinated Bond Program for a nominal amount of S/ 250,000 thousand. The activity of this item is as follows:

In thousands of soles	2018	2017
Subordinated Bonds (a)	249,977	250,000
Interest payable	1,670	1,659
	251,647	**251,659**

(a) These bonds are supported only by the Bank's equity (Issuer) and have a 15-year term; its maturity term is on November 30, 2031. Bonds accrue an annual and fixed nominal interest rate of 8%; the period of payment of such interests is 6 months, being the date of payment of first coupon on May 30, 2017. The total amount bond's principal shall be settled in a single payment at the maturity date of corresponding serial. Subordinated bonds do not have specific guarantees and as established by SBS, they qualify as Tier 2 equity to determine regulatory capital.

During year 2018, accrued interests of subordinated bonds amount to S/ 19,988 thousand (S/ 19,935 thousand as a December 31, 2017)

14. Accounts Payable

This caption comprises the following:

In thousands of soles	2018	2017
Collected and withdrew taxes (a)	113,174	121,568
Suppliers	80,526	146,321
Employees' profit sharing payable	41,598	38,087
Various accounts payable (b)	43,079	38,033
Collective performance bond	40,000	40,000
Vacations payable	20,691	19,496
Other accounts payable to personnel	9,405	12,947
Other contributions	5,666	1,764
Others	142	136
	354,281	**418,352**

(a) As of December 31, 2018, it corresponds to taxes collected nationwide by the Bank at the request of the Tax Authority – SUNAT which amounted to S/ 98,069 thousand (S/ 117,700 thousand as of December 31, 2017) and taxes withheld by the Bank as withholding agent which amounted to S/ 15,105 thousand (S/ 3,868 thousand as of December 31, 2017); which were transferred to the Tax Authority (SUNAT) in January 2019 and 2018, respectively.

(b) Various accounts payable include mainly obligations payable arising from operations made through ATMs of the banks and establishments registered to VISA system, with pending confirmation, for S/ 4,339 thousand and S/ 15,518, thousand, respectively (S/ 6,000 thousand and S/ 14,800 thousand as of December 31, 2017, respectively), payment protection insurance for multired loans for S/ 4,917 thousand (S/ 4,200 thousand in 2017), accounts payable for pension fund administrations for S/ 6,381 thousand (for S/ 2,000 thousand as of December 31, 2017), transfer of FEBAN welfare program for S/ 1,157 thousand (S/ 1,100 thousand in 2017), and refunds to be made for S/ 3,198 thousand (S/ 2,947 thousand in 2017), among other minor amounts.

15. Equity

A. Share capital

As of December 31, 2018 and 2017, the Bank's authorized capital amounts to S/ 1,200,000 thousand fully paid and subscribed by the Peruvian State, as established in article 5 of the Bank's bylaws. The Bank's capital stock has been paid by the Peruvian State through the annual capitalization of profits (50.0% of net profit destined to cover the Bank's capital and the capital transferred to the Public Treasury); thus, completing such payment in 2007. As of this year, total net profit is transferred to the Public Treasury except for capitalization of profits made in 2016 explained in the paragraph below. No shares or securities are issued for the Bank's share capital.

By Board of Director's 2096 held on March 10, 2016, it has been approved to request the Ministry of Economy and Finance an increase of the Bank's capital to strengthen equity and assist growth of the loan portfolio. In April 2016, capitalization of profits was made for an amount of S/ 200,000 thousand, as per Supreme Decree 078-2016-EF, which amends article 5 of the Bank's bylaws by increasing the capital stock from S/ 1,000,000 thousand to S/ 1,200,000 thousand.

B. Legal reserve

Based on current legal standards, the Bank shall reach a legal reserve of not less than 35% of paid-in capital. The reserve is made up through the annual transfer of at least 10% of net profits.

At Board of Director's Meeting 2151 dated April 12, 2017, it was agreed to increase legal reserve in S/ 70,000 thousand in order to comply with article 67 of the current legal standards– Act 26702; thus, reaching 35% of the capital stock to be assigned as legal reserve. As of December 31, 2018 and 2017, they amount to S/420,000 thousand.

C. Unrealized results

Unrealized results correspond to unrealized gains (losses) of available-for-sale investments. The activity of unrealized results during years 2018 and 2017, net of deferred income tax was as follows:

In thousands of soles	***Note***	
Balance as of January 1, 2017		(51,466)
Transfer to loss results on available-for-sale investments	*19*	(59,278)
Unrealized gain on available-for-sale investments, net		185,026
Deferred income tax	*24*	4,713
Balance as of December 31, 2017		**78,995**
Transfer to loss results on available-for-sale investments	*19*	(48,887)
Unrealized losses on available-for-sale investments, net		(175,412)
Deferred income tax	*24*	14,293
Balance as of December 31, 2018		**(131,011)**

D. Retained earnings

At Board of Director's Meeting 2201 entered into on May 9, 2018, it has been approved to distribute in favor of the Public Treasury, net profits of 2017 period for S/ 753,710 thousand, which was made as follows: S/ 226,113 thousand for the annual amortization of the bond in soles issued by the Ministry of Economy and Finance, note 6(j) and the remaining balance for S/ 527,597 thousand was deposited in the checking account of the Public Treasury.

At Board of Director's Meeting 2151 entered into on April 12, 2017, it has been approved to distribute in favor of the Public Treasury, net profits of 2016 period for S/ 905,748 thousand, which was made as follows: S/ 288,089 thousand for the annual amortization of the bond in soles issued by the Ministry of Economy and Finance, (note 6.J), S/ 70,000 thousand for the legal reserve transfer, and the remaining balance for S/ 547,659 thousand was deposited in the checking account of the Public Treasury.

During year 2018, the Bank has recorded in the account "Retained Earnings" various adjustment items for regularization of transactions corresponding to former period, for a net debit amount of approximately S/ 4,246 thousand (S/ 3,015 thousand during year 2017).

E. Regulatory capital
The following is the structure of the regulatory capital to December 31:

In thousands of soles	**2018**	**2017**
Level 1		
Common shares	1,200,000	1,200,000
Plus:		
Legal reserve	420,000	420,000
Donations	-	1,453
Less:		
Securities and bonds issued by financial system entities.	(13,164)	(19,575)
Accumulated loss	(14,329)	(19,918)
	1,592,507	**1,581,960**
Level 2		
Plus:		
Redeemable subordinated bonds	249,977	249,989
Generic provision for loans	99,459	94,489
Less:		
Securities and bonds issued by financial system entities.	(13,164)	(19,575)
	336,272	**324,903**
Total regulatory capital	**1,928,779**	**1,906,863**

As at December 31, 2018 and 2017, the Banking Law established as a global limit that the regulatory capital shall be equal to or greater than 10% of the total risk weighted assets and contingent credits, which corresponds to the sum of the amount of regulatory capital requirements for market risk multiplied by 10, plus the amount of the regulatory capital requirements for operational risk multiplied by 10, plus the risk weighted credit related assets and contingencies. As of December 31, 2018, the regulatory capital of the Bank represents 16.29% of minimum capital requirements per market, operational and credit risks (16.34% as of December 31, 2017).

As of December 31, 2018 and 2017, the Bank has been complying with SBS Resolutions 2115-2009, 6328-2009, and 14354-2009 Rules for the regulatory net worth requirement for operational risk, market risk and credit risk, respectively and amendments. These Resolutions establish mainly, the methods to be used by financial entities to calculate weighted assets and credit per type of risk.

In July 2011, SBS issued Resolution 8425-2011, which established that to determine the level of additional regulatory capital, financial entities shall have a process to evaluate sufficiency of regulatory capital based on the risk profile and the method described in such Resolution. By applying such standard, requirement of additional regulatory capital shall be equal to the sum of the regulatory net worth requirements, calculated for each of the following components: i) economic cycle, ii) concentration risk, iii) market risk concentration, iv) interest rate risk in the banking books, and v) other risks.

As of December 31, 2018, additional requirement of regulatory capital estimated by the Bank amounts to approximately S/ 204,520 thousand (S/ 208,169 thousand as of December 31, 2017).

SBS Resolution 2115-2009 approved the Regulation for the Requirement of Net Worth Equity for Operational Risk. As of December 31, 2018 and 2017, the Bank applies the base-indicator method for the calculation of the regulatory capital for operational risk.

Global regulatory capital excess as of December 31 is detailed below:

In thousands of soles	**2018**	**2017**
Minimum regulatory capital requirement:		
For credit, market, and operational risks	1,184,113	1,166,816
Additional regulatory capital	204,520	208,169
Total minimum requirement	**1,388,633**	**1,374,985**
Total calculated regulatory capital	**1,928,779**	**1,906,863**
Global regulatory capital excess	**540,146**	**531,878**

In Management's opinion, the Bank has complied with requirements established in the above mentioned Resolution.

16. Contingent Risks and Commitments

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Contingent operations (Indirect loans) (a)		
Letters of guarantee	94,207	123,756
Letters of credit	144,333	125,059
	238,540	248,815
Unused credit lines and non-disbursed credits granted (b)	2,481,853	2,965,621
Total contingent operations	**2,720,393**	**3,214,436**

(a) In the normal course of operations, the Bank conducts contingent operations (indirect loans). These operations expose the Bank to credit risks additional to the figures recognized in the statement of financial position. The loans loss risk of the Bank through stand-by letters is represented by the amounts stipulated in these instruments.

The Bank applies the same policies used to grant direct loans when conducting contingent operations, including obtaining guarantees, when necessary. Guarantees are several and include deposits held at local institutions, mortgages, values and other assets.

Bearing in mind that the majority of contingent operations (indirect loans) shall expire without being drawn on by the Bank, they do not necessarily represent future cash requirements.

(b) Unused credit lines and non-disbursed granted credits do not correspond to commitment to grant credits. They include mainly line of consumer and corporate loans that are payable when the client receives notification for cash purpose.

17. Interest Income and Expenses

This caption comprises the following:

In thousands of soles	*Note*	2018	2017
Interest income			
Interest on loan portfolio		1,072,336	987,698
Interest on available-for-sale investment	*6*	329,036	348,824
Interest on cash and due from banks	*5*	72,681	101,240
Interest on held-to-maturity investments	*6*	119,894	92,598
		1,593,947	**1,530,360**
Interest expenses			
Interest and fees on deposits and other obligations		(42,828)	(50,400)
Interest and fees on securities, bonds, and obligations issued (a)		(20,048)	(20,024)
Interest on interbank funds		(13)	-
		(62,889)	**(70,424)**
Gross finance income		**1,531,058**	**1,459,936**

(a) As of December 31, 2018, interests and fees on ,securities, bonds and obligations issued correspond mainly to accrued interest for subordinated bonds amounting to S/ 19,988 thousand with a nominal and fixed interest rate of de 8% (S/ 19,935 thousand, as of December 31, 2017), (note 13).

18. Income and Expenses from Finance Services, net

This caption comprises the following:

In thousands of soles	2018	2017
Income from finance services		
Income from cash desk	384,460	345,569
Revenue from tax collection services (b)	72,182	66,845
Fees on insurance sales	55,072	48,318
Revenues from transfers services (c)	52,587	58,532
Income from Visa fees	35,087	30,655
Income from savings account – Fees on credit notes	20,497	20,000
Income from Multired ATMs	17,249	16,136
Income from savings account – Fees on credit notes withdrawal	15,528	15,489
Income from fees on new Multired card	11,174	9,570
Income from collections	8,942	13,653
Income from FISE service fees	7,665	7,691
Income from tax seizures form the Tax Authority	6,186	2,465
Income from clearing of checks of other banks received	4,324	4,681
Income from fees on Certificates	3,100	2,818
Revenues from contingent operations	2,863	5,424
Services for shared premises	2,623	2,601
Income from payment sanctions to suppliers	1,797	1,790
Others (d)	74,099	72,342
Total income from finance services	**775,435**	**724,579**
Finance services expenses		
Transport, custody and management of cash and securities	(106,616)	(97,826)
Credit and debit cards	(70,226)	(62,211)
Cell phone banking	(15,523)	(10,578)
Other financial services	(6,500)	(5,243)
Total expenses from finance services	**(198,865)**	**(175,858)**
Total income and expenses from finance services, net	**576,570**	**548,721**

(a) As of December 31, 2018, income from cash desk services correspond mainly to fees for collection services for the General Directorate of the Public Treasury amounting to S/ 346,904 thousand an correspondent bank services for S/ 35,435 thousand (S/ 309,044 thousand and S/ 34,118 thousand, as of December 31, 2017).

(b) As of December 31, 2018, income from tax collection services correspond to tax collections managed by the Tax Authority for S/ 34,407 thousand and collection of rates corresponding to other entities (Peruvian Police Force, Judiciary, Pension Government Agency, among others) for S/ 37,775 thousand (S/ 33,189 thousand and S/ 33,656 thousand, respectively, as of December 31, 2017).

(c) As of December 31, 2018, income from transfer services correspond mainly to fees for money transfer services for S/ 25,291 thousand, correspondent money transfer services for S/ 15,482 thousand and fund transfer services for S/ 11,814 thousand (S/ 28,134 thousand, S/ 18,559 thousand and S/ 11,839 thousand, respectively, as of December 31, 2017).

(d) As of December 31, 2018, other income from finance services correspond mainly to fees on services to the Social Security Department (ONP) for S/ 8,770 thousand, fees on services to social programs amounting to S/ 12,100 thousand, fees on interbank transfers amounting to S/ 8,424 thousand, fees on ATM withdrawals from local banks for S/11,116 thousand, fees on Multiexpress services amounting to S/ 4,811 thousand, fees on checking accounts for S/ 4,915 thousand, fees on trustee services amounting to S/ 3,911 thousand and fees on FONAVI benefits amounting to S/ 2,515 thousand, (for S/ 9,220 thousand, S/ 11,998 thousand, S/ 6,560 thousand, S/ 11,903 thousand, S/ 3,666 thousand, S/ 4,617 thousand, S/ 3,565 thousand, S/ 4,636 thousand, respectively, as of December 31, 2017); among others.

19. Income from financial transactions

This caption comprises the following:

In thousands of soles	***Note***	**2018**	**2017**
Net gains on available-for-sale investments	*15(c)*	48,887	59,278
Net gain on exchange difference	*4*	46,927	59,745
Other		1,686	1,943
		97,500	**120,966**

20. Administrative Expenses

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Personnel and board of directors expenses (a)	(642,945)	(579,180)
Third party services (b)	(303,139)	(312,281)
Taxes and contributions	(81,208)	(69,972)
	(1,027,292)	**(961,433)**

(a) Personnel and Board of Directors expenses are broken down as follows:

In thousands of soles	***Note***	**2018**	**2017**
Remunerations		(213,206)	(210,825)
Pensions	*11(c)*	(120,104)	(93,778)
Allowances		(45,493)	(41,935)
Bonuses		(44,262)	(42,976)
Legal workers' profit sharing		(41,598)	(38,087)
Collective performance bond		(37,000)	(40,000)
Arbitral award		(34,082)	-
Severance Payment		(22,775)	(22,502)
Social security contributions		(21,891)	(21,609)
Extraordinary allowances		(18,572)	(18,602)
Overtime		(16,856)	(17,291)
Allowances		(6,954)	(7,461)
Incentives		(6,598)	(8,423)
Uniforms		(4,486)	(3,892)
Other expenses		(9,068)	(11,799)
		(642,945)	**(579,180)**
Average number of workers		**4,733**	**4,807**

(b) Service expenses received from third parties are broken down as follows:

In thousands of soles	2018	2017
Repair, maintenance and cleaning	(99,065)	(96,626)
Communications and other utilities	(69,316)	(73,400)
Service Agreement expenses	(48,104)	(50,119)
Security and others	(33,386)	(33,557)
Leasing of property and other goods	(17,319)	(19,511)
Professional services	(10,252)	(17,073)
Printing services	(4,790)	(4,750)
Transport, courier services	(2,731)	(2,814)
Other services	(18,176)	(14,431)
	(303,139)	**(312,281)**

21. Asset and Provision Valuation

This caption comprises the following:

In thousands of soles	2018	2017
Provision for litigations and claims, net (a)	(42,745)	(81,835)
Provision for doubtful accounts, net (b)	(11,038)	(2,844)
Provision for indirect loans	231	3,805
Impairment of intangible assets	-	(27,159)
Impairment of fixed assets	-	(2,003)
Others	84	(73)
	(53,468)	**(110,109)**

(a) As of December 31, 2018, provisions for litigations and claims comprise provisions for labor and civil suits amounting to S/ 35,490 thousand and S/ 7,255 thousand, respectively, net of reversals for S/ 5,893 thousand (S/ 74,500 thousand and S/ 8,600 thousand, respectively, net of reversals for S/ 1,300 thousand, as of December 31, 2017). Decrease in labor suits is mainly due to the recording of a higher provision in 2017 amounting to S/ 41,700 thousand related to the resolution issued by the Arbitration Court in charge of the Workers' Unit Process (SUTBAN) in which it was possible to negotiate several requirements submitted by such Union during year 2016.

(b) As of December 31, 2018, the provision for trust doubtful accounts-FOGEM, amounts to S/ 11,038.

22. Other Income, Net

This caption comprises the following:

In thousands of soles	2018	2017
Other income:		
Income from leases	1,455	1,216
Indemnities for claims	541	2,072
Sale of goods (a)	112,998	-
Other revenues	6,271	8,326
	121,265	**11,614**
Other expenses:		
Cost of sale of goods (a)	(33,048)	-
Losses and claims not covered by insurance	(886)	(3,687)
Donations	(644)	(1,057)
Tax administrative sanctions	(527)	(289)
Depreciation as a result of obsolescence	(393)	(554)
Other expenses	(1,103)	(1,050)
	(36,601)	**(6,637)**
Other income, net	**84,664**	**4,977**

(a) On November 16, 2018, the Bank made the sale of the building owned by the Bank , former Head Office, located at Av. República de Panamá 3664 (District of San Isidro) to the Ministry of Housing, Construction and Sanitation amounting to S/ 112,998 thousand (equivalent to US$ 33,630 thousand) having a cost of sale for S/ 33,048 thousand.

23. Tax Matters

Income Tax System

A. The Company is subject to current Peruvian tax regime. As of December 31, 2018 and 2017, the income tax rate is 29.5% over the taxable net income determined by the Company.

Income Tax Determination

B. The Bank computed its taxable base for the years ended December 31, 2018 and 2017, and determined current income tax of S/ 226,018 thousand and S/ 196,298 thousand, respectively.

Income tax expense comprises:

In thousands of soles	2018	2017
Current income tax		
Current year	233,159	213,479
	233,159	**213,479**
Deferred income tax		
Current year	(2,619)	(17,181)
Adjustment from previous year	(4,522)	-
	(7,141)	**(17,181)**
Net expense for income tax	**226,018**	**196,298**

The reconciliation of the tax rate and the effective tax rate is as follows:

In thousands of soles	2018		2017	
Accounting profit before income tax	**1,042,402**	**100.00%**	**934,832**	**100.00%**
Theoretical expense	307,508	29.50%	275,776	29.50%
Effect of exempted income				
Tax effect on additions and deductions				
Permanent differences	(74,349)	(7.13)%	(79,478)	(8.50)%
Registered current and deferred income tax	**233,159**	**22.37%**	**196,298**	**21.00%**

Income tax exemption

C. As from 2010, capital gains, coming from the transfer, redemption or recovery of securities through centralized trading mechanisms, will be subject to income tax. For such purpose, it has been established as computable cost, the value of securities at the closing of taxable period 2009 (quote value), higher acquisition cost or equity value, according to the procedure established by Supreme Decree 011-2010-EF.

D. In this regard, it is important to mention that only for 2016 period, capital gains obtained from disposal of shares and other representative securities were income tax exempted provided that such disposal has been negotiated through a trading mechanism supervised by the Securities Regulator (SMV) after complying with specific requirements contained in Act 30341.

E. In this regard, Legislative Decree 1262 that became effective from January 1, 2017 extended the term of exemption until December 31, 2019 and included as new exempted assumptions: i) debt securities, ii) Investment Fund Share Certificates of mutual funds, iii) Investment Fund Share Certificates of property (FIRBI) and Trust Fund Share Certificates for Securitization Trust for Real Estate Investments (FIBRA) and iv) Tradable invoices.

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

i. Shares, other securities representative of shares and bonds convertible into shares:

- In a twelve-month period, the taxpayer and related parties shall not transfer the ownership of 10% or more of the total amount of shares issued by the company or representative securities through one or various simultaneous or successive operations. This percentage is determined as per the conditions of the Regulations.

- If this requirement is not complied, taxable basis is determined considering all the transfers that would have been exempted during the twelve months prior to the disposal.

- Such relationship shall be rated as established in subsection b) of article 32-A of the Income Tax Law.

- It concerns about prominent stocks in the national stock market. In order to determine if there is a prominent stock in the national stock market, the following shall be taken into account:

  - Within 180 working days before disposal, the number of days when the daily negotiated amount exceeds the limit established in the Regulation will be determined.

    Such limit could not be lesser than 4 tax units and shall be established considering the volume of transactions made in centralized trading mechanisms.

  - The number of days determined according to previous paragraph shall be divided by 180 and multiplied by 100.

  - The result could not be lesser than the limit established as per the regulation. Such limit cannot exceed 35%.

ii. Debt securities, ETF having underlying shares and/or debt securities, Investment Fund Share Certificates of mutual funds, Investment Fund Share Certificates of property (FIRBI) and Trust Fund Share Certificates for Securitization Trust for Real State Investment (FIBRA).

- Disposed securities have prominent stocks in the stock market and disposal shall be made through local centralized trading mechanisms (Lima Stock Exchange).

iii. Tradable invoices:

- Disposal of securities shall be made through local centralized trading mechanisms.

Temporary tax on net assets

F. The Bank is subject to the Temporary Tax on Net Assets (ITAN, for its Spanish acronym) and its taxable base is composed of the net assets value adjusted at the closing of the period before the payment was made, deducting depreciations, amortizations, legal cash reserve and specific provisions for credit risk. The tax rate is 0.4% for years 2018 and 2017 and it is applicable to the amount of net assets exceeding S/ 1 million. It may be paid in cash or in nine consecutive monthly installments. The paid amount can be used as a credit against partial payments of income tax general regime for the taxable periods from March to December of the fiscal period in which the tax was paid until maturity date of each of partial payments, and against the payment for regularization of income tax of the corresponding taxable period. In the case of having a remaining balance without application, it will be requested to be refunded.

Tax on financial transactions

G. Tax on Financial Transactions (ITF) for years 2018 and 2017 was fixed at the rates of 0.005% and it is applicable on charges and debits in bank accounts or activities of funds made through the financial system, unless the account is tax-exempt.

Transfer Pricing

H. For income tax purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered for pricing. Until taxable year 2016, formal obligations of Transfer Pricing were based on the obligation to submit the Tax Information Statement and have a technical study.

As of January 1, 2017, by means of Legislative Decree° 1312, published on December 31, 2016, the following formal obligations were established, replacing the former ones: (i) Filing the Local Report Tax Return (to the extent there are accrued income over 2,300 tax units), (ii) filing the Master Report Tax Return (to the extent the group has accrued income over 20,000 tax units) and (iii) filing the Country-by-Country Tax Return (to the extent that consolidated accrued revenues of the parent company of the multinational group of the previous year (2017) exceeds S/ 2,700,000,000 o € 750,000,000). These last two returns are enforceable by the transactions of year 2017 onward.

In this regard, under Superintendency Resolution 014-2018-SUNAT published on January 18, 2018, the On-line Form 3560 has been approved for the Local Report return, as well as the deadlines for filing, the content and format that shall be included.

Thus, the deadline for filing the Local Report tax Return corresponding to the 2018 taxable period will be during June 2019 according to the expiration timeline projected for May and published by the Tax Authority. The Local Report return of 2017 taxable period will be submitted on June 2018 according to the monthly tax obligations timeline established for the taxable period of May published by the Tax Authority.

The content and format of the Local Report tax Return is established according to Appendices I, II, III and IV of the Superintendency Resolution N° 014-2018-SUNAT.

In this same Superintendency Resolution No. 014-2018-SUNAT, Article 3 (Exceptions) it is established that submission of Local Report Tax Return has been exempted to companies that, as per Legislative Decree 1031, promote the efficiency of business activity of the State and are part of their business activity.

Also, by means of the above mentioned Legislative Decree 1312, it was also established that intra-group services of low added value could not have a margin higher than 5% of its costs, and concerning services rendered between related parties, taxpayers shall comply with the benefit test and with the provision of documentation and information requested under the necessary conditions for cost or expense deduction.

By Legislative Decree 1116, it was established that Transfer Pricing standards are not applicable for sales tax purposes.

Tax assessment by tax authorities

I. Tax authorities are able to audit and, if applicable, to modify the income tax calculated by the Company within the four years following the year of the tax return filing. The income and sales tax returns for the years 2013 through 2017 are open for revision by the Peruvian tax authority.

Due to the possibility of various interpretations by the tax authority of the current legal regulation, it is not possible to determine, to date, whether a future tax audit will result or not in future liabilities; therefore, any taxes, surcharges and sanctions that might arise from eventual tax audits would be applied to results of the period in which they are determined. However, it is the opinion of management and its legal advisors that any possible additional tax settlement would not be significant to separate the financial statements of the Bank as of December 31, 2018 and 2017.

Sales tax system

J. By Supreme Decree No. 055-99-EF published on April 15, 1999 and amendments thereof, it has been established that the sales tax rate is 16%, to which the Municipal Promotion Tax is added which is 2% according to Supreme Decree No. 156-2004-EF published on November 15, 2004.

More relevant tax amendments in force as of January 1, 2019

K. New legal concept of accrual Legislative Decree 1425 introduced the definition of legal accrual for income tax purposes establishing that revenues in the case of a) transfer of goods is produced when i) a change of control operates (as per IFRS 15) or ii) risk is transferred to the acquirer, whichever occurs first; and b) in the case of service rendering, the level of execution of the service has been established.

The new legal concept for accrual results applicable to lessees for establishing the tax treatment of the associated expenses of leasing contracts regulated by IFRS 16 (i.e., operating lease for tax purposes).

Finally, it is worth mentioning that the concept subject to comments will not result applicable to those entities accruing income or expenses from income tax as per tax provisions establishing a special accrual regime (as per sectors).

L. Deduction of expenses or costs incurred in operations with non-domiciled individuals Legislative decree 1369 demands that costs and/or expenses (including outbound interests) incurred against non-domiciled counter parties should have been paid effectively to be deduced in the period when they were incurred. Otherwise, its impact on net income determination will be deferred in the period when it is effectively paid and the corresponding withholding will be applied.

Such standard eliminated the obligation to pay the amount equivalent to the withholding over the amount recorded as cost and/or expense.

M. Indirect loan: Under certain requirements, as of January 1, 2019, domiciled entities obtaining dividends (inbound) from foreign source may deduce as direct loan the Income tax that would have levied dividends abroad and the Corporate Income Tax (indirect loan) paid by the first and second level non-domiciled company (provided that they are in the same jurisdiction) that distributed dividends abroad.

24. Deferred income tax assets, net

This caption comprises the following:

In thousands of soles	Balances as of 01.01.2017	Debit in equity	Credit (debit) in results	Balances as of 12.31.2017	Debit in equity	Income (expense) in the statement of income	Balance as of 12.31.2018
Deferred assets							
Generic provision for direct loans	51,075	-	(236)	50,839	-	3,050	53,889
Provision for litigations and claims	23,949	-	16,068	40,017	-	(11,112)	28,905
Provision for vacations	5,517	-	234	5,751	-	353	6,104
Generic provision for contingent loans	3,414	-	(1,187)	2,227	-	121	2,348
Specific provision for contingent loans	184		(49)	135	-	(107)	28
Provision for impairment of fixed assets	10,887	-	(8,071)	2,816	-	(29)	2,787
Depreciation of property and equipment	3,500	-	7,226	10,726	-	6,707	17,433
Amortization of intangible assets	12,778	-	2,522	15,300	-	2,748	18,048
Unrealized results	-	2,715	-	2,715	14,294	-	17,008
Other	447	-	93	540	-	2,964	3,504
Total deferred asset	**111,751**	**2,715**	**16,600**	**131,066**	**14,294**	**4,695**	**150,054**
Deferred liabilities							
Property depreciation	(582)	-	582	-	-	(2,075)	(2,075)
Unrealized results	(1,998)	1,998	-	-	-	-	-
Total deferred liabilities	**(2,580)**	**1,998**	**582**	**-**	**-**	**(2,075)**	**(2,075)**
Total deferred assets, net	**109,171**	**4,713**	**17,182**	**131,066**	**14,294**	**2,619**	**147,979**

25. Classification of Financial Instruments

This caption comprises the following:

		2018					
			Available-for-sale investments				
In thousands of soles	*Note*	Loans and accounts receivable	At amortized cost:	at fair value	Held-to-maturity investments	Financial liabilities at amortized cost	Total
Financial assets							
Cash and due from banks	*5*	8,610,277	-	-	-	-	8,610,277
Available-for-sale investments	*6*	-	-	9,160,815	-	-	9,160,815
Held-to-maturity investments	*6*	-	-	-	2,050,548	-	2,050,548
Loan portfolio, net	*7*	8,930,396	-	-	-	-	8,930,396
Accounts receivable, net	*8*	292,683	-	-	-	-	292,683
Other assets, net	*10*	62,222	-	-	-	-	62,222
		17,895,578	**-**	**9,160,815**	**2,050,548**	**-**	**29,106,941**
Financial liabilities							
Deposits and obligations	*11*	-	-	-	-	26,473,819	26,473,819
Deposits in Financial System Companies and International Financial Entities	*12*	-	-	-	-	217,854	217,854
Securities, bonds, and obligations outstanding	*13*	-	-	-	-	251,647	251,647
Accounts payable	*14*	-	-	-	-	354,281	354,281
Other liabilities	*10*	-	-	-	-	363,878	363,878
		-	**-**	**-**	**-**	**27,661,479**	**27,661,479**

		2017					
			Available-for-sale investments				
In thousands of soles	***Note***	**Loans and accounts receivable**	**At amortized cost:**	**at fair value**	**Held-to-maturity investments**	**Financial liabilities at amortized cost**	**Total**
Financial assets							
Cash and due from banks	*5*	9,650,014	-	-	-	-	9,650,014
Available-for-sale investments	*6*	-	-	8,109,575	-	-	8,109,575
Held-to-maturity investments	*6*	-	-	-	2,237,705	-	2,237,705
Loan portfolio, net	*7*	8,647,525	-	-	-	-	8,647,525
Accounts receivable, net	*8*	492,093	-	-	-	-	492,093
Other assets, net	*10*	84,161	-	-	-	-	84,161
		18,873,793	**-**	**8,109,575**	**2,237,705**	**-**	**29,221,073**
Financial liabilities							
Deposits and obligations	*11*	-	-	-	-	26,403,423	26,403,423
Deposits in Financial System Companies and International Financial Entities	*12*	-	-	-	-	378,741	378,741
Securities, bonds, and obligations outstanding	*13*	-	-		-	251,659	251,659
Accounts payable	*14*	-	-	-	-	418,352	418,352
Other liabilities	*10*	-	-	-	-	187,101	187,101
		-	**-**	**-**	**-**	**27,639,276**	**27,639,276**

26. Financial Risk Management

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

The Bank's general program for the administration of risks is mainly focused on credit risk, for which the Bank seeks to minimize potential adverse effects on its financial behavior.

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

A. Risk management structure and organization

At the Bank, risk management policies in which policies of risk hedging and mitigation are included, are based on the corresponding management regulations. Thus, there are regulations for credit, operational, market, liquidity and country risk management. Also, there are special committees informing about each management of risks to which the Bank is exposed.

The Bank's Board of Directors is responsible for identifying and controlling risks; however, there are different and independent entities responsible for the management and monitoring of risks, as explained below:

i. Board of Directors

The Board of Directors is the higher Organic Unit that aims at managing and controlling financial and administrative operations of the Bank.

The Board of Directors have created specialized committees to which specific duties have been assigned in order to strengthen risk management an internal control.

ii. Risk Committee

The Risk Committee is responsible for the strategy used to mitigate risks, as well as the approval of objectives, guidelines, policies, procedures and methodologies for risk identification and management, among others. Also, it is responsible for supporting actions that guarantee the financial and economic feasibility of the Bank in order to face exposed risks.

The Risk Committee depends on the Board of Directors and is composed of a member of the Board of Directors, General Manager and Risk Manager who meet at least once a month or as requested by them.

iii. Audit Committee

The Audit Committee is the body in charge of the coordination between the Board of Directors and the Institutional Control Body established with the objective to supervise the appropriate operations of internal control systems.

The Audit Committee depends on The Board of Directors and has as main purpose to provide surveillance to accounting processes and financial reports, also to inform the Board of Directors about the implementation of recommendations issued by the SBS, inspection services of the Ministry of Economy and Finance and Comptroller General of the Republic, as well as those requiring the Bank audits while verifying implementation of actions. The Committee meets on a periodic basis, at least once a month.

The Audit Committee is composed of three members of the Board of Directors that do not conduct management activities in the Bank. One of them is the chairman, and other member is designated as vice chairman.

iv. Assets and Liabilities Management Committee
The Assets and Liabilities Management Committee has been established to define and manage the assets and liabilities structure of the statement of financial position of the Bank, and monitoring of liquidity risk through the analysis of indicators that reflect the results of business and investment strategies. It has as purpose to maximize profitability considering the level of risk assumed and guaranteeing that the Company has sufficient resources to face a series of unexpected events affecting liquidity, for example loss or decrease in financing sources.

This Committee is composed of the Executive Chairman, General Manager, Administration General Manager, Business and Technology Manager, Finance and Accounting Manager, Development Bank and Financial Inclusion Manager, Risks Manager, Assistant Economic and Finance Service Manager, Assistant Money Desk Manager, Assistant Credit and Financial Risk Manager. They all meet at least once a month to discuss issues related to assets and liability management.

v. Credit Committee
The Credit Committee is responsible for reviewing the level of tolerance, exposure limits, objective, standards and credit risk management policies, delegation of duties and supervision and establishment of autonomies to assume credit risks and parameters to measure performance when including new risk variables. Also, it is responsible for approving methodologies, models, parameters, scenarios, processes, stress tests and manuals to identify, measure, address, monitor, control and report all the credit risks to which the Bank is exposed. Also, it is responsible for proposing the approval of any amendment of the duties previously described and reporting any finding to the Board of Directors.

The Credit Committee is composed of the Executive President, General Manager and State Bank and Retail Manager who meet according to the requirements to analyze proposals.

vi. General Management
General Manager aims at managing Bank activities, as well as resolving issues requiring participation based on Board of Director’s resolution and having the judicial and administrative representation of the Bank.

Also, one of the main duties and obligations of the General Manager is to plan, schedule, organize and supervise activities and operations of Bank branch offices, according to the policies established by the Board of Directors, being possible to delegate authority to other officers of Head Offices or Chiefs of decentralized agencies (Regional Managers).

B. Measurement systems and risk reporting
Risk control and monitoring are made based on the limits established by SBS. These limits reflect commercial strategy and market environment, as well as the risk level that it is able to accept. Also the Bank monitors and measures the total tolerance capacity to risks related to the total risk exposure and all type of risks.

The obtained information of the Bank is reviewed and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Risk Committee, Assets and Liability Committee and Credit Committee. The report comprises the total credit exposure, credit metric projections, and exemptions of the exposure limit, value at risk, liquidity ratios and changes in risk profiles. Management evaluates the suitability of reasonable value of investments and sufficiency of the provision for net direct loans on a periodic basis.

C. Risk mitigation and hedging
The Bank, in order to mitigate risks to which it is exposed and risk concentration , has established certain measurements, among them: (i) Policies, procedures, methodologies and parameters allowing to identify, measure, control and report risks (ii) Review and evaluation of risk concentrations, through the Risk Committee, (iii) Timely monitoring and follow-up of risks and maintenance within defined tolerance levels and, (iv) compliance with internal limits to concentrations of counterparties.

The Bank does not use derivatives or other financial instruments to manage exposures resulting from changes in interest rates and foreign currency since, as indicated below, Management considers that the Bank is not exposed to such risks in a significant manner. Also, there are special committees informing about each management of risks to which the Bank is exposed.

D. Risks concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or they have the same business, economic or political conditions. Concentration indicate the relative sensitivity to the Bank’s performance with the development affecting a particular industry or a geographical location.

In order to avoid excessive risk concentrations, policies and procedures include specific patterns for prudent management of risk concentration. Also, there are special committees informing about each management of risks to which the Bank is exposed.

E. Credit risk
The Bank assumes positions subject to credit risk which is the risk that a client causes financial losses when he does not comply with an obligation. Credit risk is the most important risk to the Bank's activities; therefore, Management carefully manages credit risk exposure. Credit exposures mainly arise from financing activities that are materialized in credits.

The Bank grants loans to its customers, in particular Public Sector Workers and Pensioners, as well as Local and Regional Governments, financial intermediation institutions (agricultural and municipal credit unions and SME development entities), and public sector agencies. The higher loan concentration is oriented towards Workers and Pensioners of the Public Sector.

The Bank structures the credit risk levels establishing limits on accepted risk amounts in relation to a debtor or group of debtors and geographical segments. Such risks are constantly monitored and subject to periodic review. Risk level limits per product and geographical segment are approved by the Board of Directors.

Credit risk exposure is managed through the continuous analysis of payment capacity of potential borrowers to comply with payments of the principal and obligation interests and through the change of loan limits, if appropriate. Below, other specific control measures are indicated:

Guarantees:

- The Bank uses a variety of policies and practices to mitigate credit risk. The most traditional is to request guarantees for credits, which represents a usual practice. The Bank implements policies on the acceptability of specific types of guarantees or credit risk mitigation. Main types of guarantee for loans are as follows:

  - For consumer credits addressed to workers and pensioners of the Public Sector, the Bank mitigates the credit risk requesting a promissory note signed and receiving as deposit the remuneration of these debtors.

  - For mortgage loans, guarantees include mortgages on property.

  - For loans granted to Financial Intermediation Institutions, the Bank requests subject to guarantee a promissory note signed and a credit portfolio classified under the Standard category, which is equivalent to the granted credit amount.

  - For corporate loans, the Bank requests guarantee deposits, guarantee letters, ordinary budget resources, according to the current legal framework.

Guarantees are classified as preferred readily realizable collateral, preferred easily realizable collateral and preferred guarantees as established in SBS Resolution 11356-2008.

Management monitors the fair value of guarantees, requests additional collateral based on the underlying agreement and monitors the fair value of the pledge obtained during the review of the appropriate provision for doubtful loans. The result of the sale is used to reduce or pay the pending debt. In general, the Bank does not use recovered assets for operating purposes.

At the same time, the Bank has a risk management establishing general credit policies for each operation in which the Bank decides to participate.

Maximum credit risk exposure as of December 31, 2018 and 2017 before considering the effect of received guarantees is the carrying amount of each type of financial asset mentioned in note 25 and contingent operations detailed in note 16 (a).

Management trusts in its capacity to continue controlling and maintaining a minimum exposure to credit risk for loan portfolio and investments, taking into account the following:

- 97.42 % of loan portfolio (direct and indirect) is classified in two higher levels of the rating system established by the SBS as of December 31, 2018 (97.60% as of December 31, 2017);

- 97.43 % of the gross credit portfolio is considered neither as matured or impaired as of December 31, 2018 (97.80% as of December 31, 2017);

- 89.04 % of the non-retail credit portfolio has a sovereign risk as of December 31, 2018 (82.80% as of December 31, 2017).

- 100.00% of investment have at least a level of investment (BBB- or higher) or they are debt instruments issues by Banco Central de Reserva del Perú - BCRP or the Central Government of Peru, Mexico and Colombia as of December 31, 2018 (100.00% as of December 31, 2017);

- 20.31% and 78.12% of cash and due from banks represent amounts deposited in the vaults of the Bank and Banco Central de Reserva del Perú - BCRP, respectively, as of December 31, 2018 (20.70% and 76.30%, respectively, as of December 31, 2017).

F. Credit risk management for loans

The Bank classifies total credits under five risk categories, based on subsection 2, Chapter II of SBS Resolution 11356-2008 which considers the level of non-compliance risk in the payment of each debtor. Categories used by the Bank are: i) standard, (ii) potential problem, (iii) substandard, (iv) doubtful (v) loss, and have the following characteristics:

- Standard: Non-retail debtors are classified under this category when they present a liquid financial position with a low level of indebtedness, income generating capacity and fund generation allowing to comply with obligations, also, they comply with the payment of obligations on a timely basis. Also, retail debtors are classified under this category when they comply with payment of obligations on a timely basis or they record a delay of up to 8 days. On the other hand, debtors with mortgage credits are classified under this category when they meet the schedule established or present a delay of 30 days.

- Potential problem: Non-retail debtors are classified under this category when they have a good financial position and profitability with moderate debt over equity ratio and an appropriate cash flow for payment of debts for capital and interests. The cash flow could be weakened in the following twelve months to face potential payments. Also, retail debtors are classified under this category when they have delays on payment of loans from 9 to 30 days while debtors with mortgage credits are classified under this category when they have payment arrears from 31 to 60 days.

- Substandard: Non-retail debtors are classified under this category when they present a weak financial position and its cash flow does not allow complying with total payment of capital and interests or there are payment arrears between 60 and 121 days. Also, retail debtors are classified in the category when they present payment arrears in credits from 31 to 60 days, while debtors with mortgage credits are classified under this category when they present payment arrears from 61 to 120 days.

- Doubtful: Non-retail debtors are classified under this category when they present a critical financial situation that does not allow to assist neither capital nor interests, it has high debt-to-equity ratio and is obliged to sell significant assets or present delays between 120 and 365 days. Under this category, credit recoverability is uncertain. Also, retail debtors are classified under this category when they present payment arrears of credits from 61 to 120 days, while mortgage credit debtors are classified under this category when they present payment arrears from 121 to 365 days.

- Loss: Non-retail debtors are classified under this category when the financial position does not allow to serve refinancing agreement, the company is not operating or is in liquidation and has delays over 365 days. Also, retail debtors are classified under this category when they present payment arrears in credits exceeding 120 days, while debtors with mortgage credits are classified under this category when they present payment arrears over 365 days.

With regard to credit portfolio, the Bank makes rating of debtors under risk categories established by SBS and based on rating criteria stated for each type of credit, that is, for non-retail portfolio debtors, consumer and mortgage. Rating of debtors under the corresponding category is determined following criteria of SBS Resolution 11356-2008.

When a loan is uncollectible, it is written off against the related provision of doubtful loans. Such credits are written off after all legal procedures have been completed and the write-off has been approved by the Board of Directors according to SBS Resolution 11356-2008. Subsequent recovery of amounts previously written-off decrease the amount of provision for doubtful loans of the portfolio in the statement of income and other comprehensive income.

Find below a summary of direct loans classified into three groups:

i) Loans not matured nor impaired, comprising those credits that currently do not have default characteristics and are related to clients classified as standard and with potential problems; ii) matured but not impaired loans comprising matured loans of clients classified as standards or with potential problem and iii) impaired loans, those loans matured and classified as substandard, doubtful or loss: also, provision for doubtful loans is presented for each type of credit:

	2018						2017					
In thousands of soles	Non-retail credits	Small business loans and micro-business loans	Consumer loans	Mortgage loans for housing	Total	%	Non-retail loans	Small business loans and micro-business loans	Consumer loans	Mortgage loans	Total	%
Not matured or impaired												
Standard	3,247,599	-	5,413,902	287,108	8,948,609	100.8	3,692,767	-	4,759,144	235,343	8,687,254	101.1
Potential problem	-	-	46,466	1,129	47,595	0.5	-	-	30,255	845	31,100	0.40
Matured but not impaired												
Standard	-	-	-	-	-	-	-	-	14	-	14	-
Potential problem	198	-	4	5	207	-	-	-	1	3	4	-
Impaired												
Substandard	29	-	40,732	1,267	42,028	0.5	-	-	29,330	206	29,536	0.3
Doubtful	-	-	82,845	1,709	84,554	1.0	-	-	65,842	2,296	68,138	0.8
Loss	6,347	643	102,315	821	110,126	1.2	6,266	632	74,824	623	82,345	0.9
Gross	**3,254,173**	**643**	**5,686,264**	**292,039**	**9,233,119**	**104.0%**	**3,699,033**	**632**	**4,959,410**	**239,316**	**8,898,391**	**103.5**
Less, provision for doubtful accounts	(43,727)	(643)	(307,303)	(4,721)	(356,394)	(4.0)	(46,745)	(632)	(252,856)	(4,269)	(304,502)	(3.5)
Total net	**3,210,446**	**-**	**5,378,961**	**287,318**	**8,876,725**	**100.0**	**3,652,288**	**-**	**4,706,554**	**235,047**	**8,593,889**	**100.0**

As of December 31, 2018 and 2017, refinanced credits amount to S/ 10,379 thousand and S/ 6,656 thousand, respectively, out of which S/ 3,869 thousand and S/ 2,606 thousand, respectively, are classified as non-matured nor impaired, and S/ 6,510 thousand and S/ 4,050 thousand as impaired, respectively.

The detail of the gross amount of loans impaired per type of credit together with the fair value of potential related collateral and provision for net loan losses is as follows:

	2018					2017				
In thousands of soles	**Non-retail loans**	**Small business loans and micro-business loans**	**Consumer loans**	**Mortgage loans for housing**	**Total**	**Non-retail loans**	**Small business loans and micro-business loans**	**Consumer loans**	**Mortgage loans**	**Total**
Impaired loans	6,376	643	225,892	3,797	236,708	6,266	632	169,996	3,125	180,019
Received collateral	-	-	-	279	279	-	-	-	2,193	2,193
Provision for loans	6,354	643	162,205	2,128	171,330	6,266	632	121,664	2,051	130,611

As of December 31, 2018 and 2017, risk exposure of credit portfolio is distributed into the following economic sectors:

In thousands of soles	2018	2017
Government services and defense	3,104,846	3,323,183
Financial intermediation	142,980	369,585
Transport, storage and communications	3,392	3,325
Other community-service activities	1,937	1,920
Manufacturing industry	1,611	1,604
Others	50	48
Sub- Total	3,254,816	3,699,665
Consumer loans	5,686,264	4,959,410
Mortgage loans	292,039	239,316
Total	**9,233,119**	**8,898,391**

(a) Credit risk management in available-for-sale and held-to-maturity investments. The Bank evaluates the credit risk identified on each financial instrument under these categories, exposing risk rating granted by a risk rating agency. For investment traded in Peru, risk ratings used are those provided by the three most prestigious Peruvian classifying entities (authorized by SBS) and for investments traded abroad, risk classifications used are those provided by the three most prestigious international classifying entities.

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

In thousands of soles	2018	%	2017	%
Instruments classified in Peru				
AAA	69,950	0.8	81,619	1.0
AA – a AA+	13,783	0.2	15,569	0.2
BCRP deposit certificates	2,516,329	27.5	1,735,232	21.4
Treasury bills	1,505,853	16.4	1,255,321	15.5
Subtotal	**4,105,915**	**44.80**	**3,087,741**	**38.1**
Instruments classified abroad				
AAA	438,641	4.8	422,566	5.2
A-a AA+	3,137,631	34.3	3,485,785	43.0
Short-term instruments (without rating)				
BBB- a BBB+	1,452,299	15.9	1,074,334	13.2
Shares with no rating	26,329	0.3	39,149	0.45
Subtotal	**5,054,900**	**55.0**	**5,021,834**	**61.9**
	9,160,815	**100.0**	**8,109,575**	**100.0**

As of December 31, 2018, the Bank holds as held-to-maturity investments, a bond in soles issued by the Ministry of Economy and Finance, which had a sovereign risk rating of A- as of that date.

As of December 31, 2017, the Bank had as held-to-maturity investments, a bond in soles issued by the Ministry of Economy and Finance, which had a sovereign risk rating of A, as of that date.

As of December 31, 2018 and 2017, financial instruments with credit risk exposure were distributed through the following geographical areas:

	2018				2017			
In thousands of soles	**Loans and accounts receivable**	**Available-for-sale investments**	**Held-to-maturity investments**	**Total**	**Loans and accounts receivable**	**Available-for-sale investments**	**Held-to-maturity investments**	**Total**
Peru	17,731,852	8,123,816	2,050,548	27,906,216	18,630,883	7,436,668	2,237,705	28,305,256
United States	47,771	48,239	-	96,010	100,167	473,116	-	573,283
Colombia	-	196,003	-	196,003	-	67,975	-	67,975
Mexico	-	303,618	-	303,618	-	85,145	-	85,145
Panama	-	28,770	-	28,770	-	39,150	-	39,150
England	33,735	-	-	33,735	93,195	-	-	93,195
Germany	5,343	-	-	5,343	14,782	-	-	14,782
Other countries	14,744	460,369	-	475,113	34,955	7,521	-	42,476
Country risk	(89)	-	-	(89)	(189)	-	-	(189)
	17,833,356	**9,160,815**	**2,050,548**	**29,044,719**	**18,873,793**	**8,109,575**	**2,237,705**	**29,221,073**

G. Liquidity risk

Liquidity risk consists of the incapacity of the Bank to comply with the maturity of obligations incurring in losses that affect significantly the financial position. This risk can be shown as a result of various events such as: unexpected decrease in funding sources, incapacity to settle easily assets, among others.

Bank liquidity is managed by the Assets and Liability Management Committee in which positions, activities, indicators and limits are presented over liquidity management. Liquidity risk is in turn, supervised by the Risk Committee in which risk appetite to be proposed to the Board of Directors is defined and indicators, limits and corresponding controls are reviewed.

Also, the Bank has a set of indicators that are controlled and reported frequently. Such indicators establish the minimum liquidity levels allowed. Indicators reflect various risk aspects such as: concentration, stability, currency position, liquid asset availability, etc.

The procedure to monitor and control maturity mismatch and of interest rates of assets and liabilities are fundamental to the Bank's Management. However, it is not usual that banks are totally mismatched due to uncertain terms and various types of transactions they made. A discovered position in the terms can potentially increase profitability but also increase risk in losses.

Maturity of assets and liabilities and the capacity to replace at maturity at an acceptable cost, liabilities generating interests, are considered as significant factors in the determination of the Bank's liquidity and exposure to changes in interest rates and exchange rates.

The Bank has an internal model which is based on expected maturities and the use of methodological assumptions for the accounts of liabilities and assets. Thus; i) for active accounts, expected cash flows of investment and credit accounts are considered, and distribution criteria are assumed on accounts receivable; and ii) for liability accounts with uncertain maturity, historical liquidity at risk internal methodology is used which is based on the review of historical data of accounts an d volatility of variations, in order to estimate expected maturity. Also, criteria are assumed for the distribution of accounts payable and for other liabilities; its cash flows are distributed as per contractual maturity.

The following table presents cash flows payable to the Bank according to contractual terms agreed on the dates of the statement of financial position (without including future interests, if applicable). Amounts disclosed are cash flows according to non-discounted cash flows:

	2018					**2017**				
In thousands of soles	**Up to 1 month**	**1-3 months**	**From 3 to 12 months**	**Over 1 Year**	**Total**	**Up to 1 month**	**1-3 months**	**From 3 to 12 months**	**Over 1 Year**	**Total**
Financial liabilities per type										
Deposits and obligations	2,565,638	2,230,123	1,267,233	20,410,825	26,473,819	2,248,789	2,241,677	1,075,410	20,837,547	26,403,423
Deposits in financial system and international financial entities	217,630	224	-	-	217,854	371,839	3,086	-	3,816	378,741
Securities, bonds, and obligations outstanding	-	-	1,670	249,977	251,647	-	-	1,659	250,000	251,659
Accounts payable	119,262	80,114	26,756	14,975	241,107	119,542	78,087	27,683	71,472	296,784
Other liabilities	363,878	-	-	-	363,878	187,101	-	-	-	187,101
Total non-derivative liabilities	**3,266,408**	**2,310,461**	**1,295,659**	**20,675,777**	**27,548,305**	**2,927,271**	**2,322,850**	**1,104,752**	**21,162,835**	**27,517,708**

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

In thousands of soles	**January 1, 2018**	**Cash flow**	**Approval of profit distribution**	**Interest**	**December 31, 2018**
Profit distribution to Public Treasury	-	(527,597)	527,597	-	-
Issuance of subordinated bonds	251,659	(20,000)	-	19,988	251,647
Total liabilities for financing activities	**251,659**	**(547,597)**	**527,597**	**19,988**	**251,647**
	January 1, 2017	**Cash flow**	**Approval of profit distribution**	**Interest**	**December 31, 2017**
Profit distribution to Public Treasury	-	(547,659)	547,659	-	-
Issuance of subordinated bonds	251,725	(20,001)	-	19,935	251,659
Total liabilities for financing activities	**251,725**	**(567,660)**	**547,659**	**19,935**	**251,659**

H. Market risk

The Bank is exposed to market risk which is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices and the volatility level in interest rate positions, exchange rates, commodities and capital investments, which are exposed to general and specific market activities. Due to the nature of current activities of the Bank, price risk of commodities is not applicable.

i. Interest rate risk

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

The impact on interest rate changes could be presented in two manners: the first one is shown as an impact on expected gains, directly related to the reinvestment risk and risk generated when interest rate activities expose the entity to higher costs in financing operations (liability interest rates): or lower returns of investment operations (active interest rates). The second is related to the valuation of assets and liabilities of an entity; thus, to the economic value or actual value of equity. This modality arises when market interest rates used for valuation of various instruments taking part of the financial position of the Bank change.

SBS names these two type of impacts as risk gain and risk equity value, establishing a maximum regulatory limit of 5% for the first one and demanding an increase in additional regulatory capital in the case that the second one exceeds 15%.

As of December 31, 2018 and 2017, the Bank presented a VPR of 6.6% and 2.9%, respectively and obtained a GER of 0.6% and 1.9% for 2018 and 2017 periods, respectively.

The Board of Directors establish limits on repricing unbalance level of interest rates which is monitored by Risk Management.

Repricing gap

The analysis of repricing gap comprises the determination of asset and liability amounts repricing their interest rates on each time gap considering the maturity of the operation and the repricing period of interest rate corresponding to the following period. Such analysis is focused on measuring the impact on interest rate variations of expected gains.

Interest rate risk exposure is summarized in the following table: Bank financial instruments are shown at carrying amount and are classified between the repricing period of the interest rate of the agreement or maturity date, whichever occurs first:

	2018						2017					
In thousands of soles	**Up to 1 month**	**Past due 1 - 3 months**	**Past due 3 - 12 months**	**Over 12 months**	**Do not accrue interests**	**Total**	**Up to 1 month**	**Past due 1 - 3 months**	**Past due 3 - 12 months**	**Over 12 months**	**Do not accrue interests**	**Total**
Assets												
Cash and due from banks	6,444,621	-	9	667	2,164,981	8,610,278	7,267,756	-	-	660	2,381,598	9,650,014
Available-for-sale investments	442,490	1,813,485	1,927,332	4,977,508	-	9,160,815	961,197	1,251,050	895,347	4,962,831	39,150	8,109,575
Held-to-maturity investments	8,544	6,462	60,000	1,975,542	-	2,050,548		31,851	60,000	2,145,854	-	2,237,705
Loan Portfolio, net	2,270,772	397,806	2,010,975	4,484,557	(233,714)	8,930,396	248,850	480,245	3,781,445	4,136,985	-	8,647,525
Sensitive accounts receivable and other sensitive assets	32,051	9,270	330	343,220	951,196	1,336,067	184,269	9,945	2,542	524,309	880,499	1,601,564
Total assets	**9,198,478**	**2,227,023**	**3,998,646**	**11,781,494**	**2,882,463**	**30,088,104**	**8,662,072**	**1,773,091**	**4,739,334**	**11,770,639**	**3,301,247**	**30,246,383**
Liabilities												
Deposits and obligations	5,538,551	5,133,083	5,447,391	7,782,621	2,790,027	26,691,673	5,559,820	5,564,638	5,613,648	7,578,518	2,465,540	26,782,164
Securities, bonds, and obligations outstanding	-	-	1,670	249,976	-	251,646	-	-	1,659	250,000	-	251,659
Accounts payable and other liabilities	420,980	-	6,065	13,434	385,150	825,629	232,412	-	6,445	263,280	248,183	750,320
Total liabilities	**5,959,531**	**5,133,083**	**5,455,126**	**8,046,031**	**3,175,177**	**27,768,948**	**5,792,232**	**5,564,638**	**5,621,752**	**8,091,798**	**2,713,723**	**27,784,143**
Marginal gap	**3,238,947**	**(2,906,060)**	**(1,456,480)**	**3,735,463**	**(292,714)**	**(2,319,156)**	**2,869,840**	**(3,791,547)**	**(882,418)**	**3,678,841**	**587,524**	**(2,462,240)**
Accumulated gap	**3,238,947**	**332,887**	**(1,123,593)**	**2,611,870**	**2,319,156**	**-**	**2,869,840**	**(921,707)**	**(1,804,125)**	**1,874,716**	**2,462,240**	**-**

The Bank's exposure to this risk is due to the change in the interest rate, basically due to its borrowings. The Bank does not use derivative instruments to cover this risk, which is minimized maintaining indebtedness and financial obligations at fixed interest rates

As a result of the above mentioned, Management considers that interest rate fluctuations will not affect Bank results.

ii. Foreign currency risk
The Bank is exposed to Exchange rate fluctuations of foreign currency prevailing in the financial position and cash flow. Management establishes limits in exposure levels per currency and total daily positions, which are daily monitored.

Transactions in foreign currency are made at free market exchange rates.

The Bank manages foreign currency risks by monitoring and controlling currency positions exposed to exchange rate activities. The Bank measures profitability in soles in a manner that if the exchange position of foreign currency is positive (for example U.S dollars), any depreciation of soles will positively affect the statement of financial position of the Bank. Current position in foreign currency comprises assets and liabilities subject to exchange rate index. Open position of an institution comprises assets, liabilities, risks, and contingent commitment stated in foreign currency in which the Institutions assumed the risk. Any revaluation/devaluation of foreign currency would affect the statement of income and other comprehensive income.

The net monetary position of the Bank is the sum of open positions in a currency different to soles (net large position) less the sum of negative open positions in currencies other than soles (net short position) and any devaluation/revaluation of foreign currency would affect the statement of financial position of the Bank vulnerable to fluctuation of foreign currency (exchange rate shock).

The following table shows the sensitivity analysis of U.S. dollars, the main currency to which the Bank is exposed as of December 31, 2018 and 2017, monetary assets and liabilities that are not for trading purposes and estimated cash flows. The analysis determined the effect of variation reasonably possible of the exchange rate against soles in the statement of comprehensive income before income tax, considering other constant variables. A negative amount reflects a potential decrease in the statement of income and other comprehensive income, while a positive amount reflects a potential net increase.

In thousands of soles	**Change in exchange rates**	**2018**	**2017**
Sensitivity analysis			
Devaluation	5%	(3,545)	(2,206)
Devaluation	10%	(7,089)	(4,212)
Revaluation	5%	3,190	2,439
Revaluation	10%	7,089	5,148

I. Fair Value

i. Financial instruments measured at fair value and fair value hierarchy

The following table shows an analysis of financial instruments measured at fair value as of December 31, 2018 and 2017, including the fair value hierarchy. Amounts are based on balances presented in the statement of financial position:

In thousands of soles	***Note***	**Level 1**	**Level 2**	**Total**
December 31, 2018				
Financial assets				
Available-for-sale investments				
Sovereign bonds		2,946,673	119,775	3,066,448
Sovereign certificates		-	2,481,919	2,481,919
Global bonds		873,899	-	873,899
Corporate bonds		103,019	82,627	185,646
Other instruments		918,184	1,489,096	2,407,280
Capital instruments		26,329	-	26,329
Total financial assets	*6*	4,868,104	4,173,417	9,041,521
Accrued interest	*6*	-	-	119,294
Total financial assets	***6***			**9,160,815**
December 31, 2017				
Financial assets				
Available-for-sale investments				
Sovereign bonds		3,264,224	137,584	3,401,808
Sovereign certificates		-	1,735,230	1,735,230
Global bonds		872,320	-	872,320
Corporate bonds		56,453	95,612	152,065
Other instruments		572,151	1,255,321	1,827,472
Capital instruments		39,150	-	39,150
Total financial assets	***6***	**4,804,298**	**3,223,747**	**8,028,045**
Accrued interest	*6*	-	-	81,530
Total financial assets	***6***			**8,109,575**

Financial instruments included in level 1 are those measured based on active market quotes. A financial instrument is considered as quoted in an active market if prices are easily and readily available in a centralized trading mechanism, agent, broker, industry group, price providers or regulatory entities and such prices come from regular market transactions.

Financial instruments included in level 2 are measured based on market factors. This category includes valued instruments using: similar market prices, either active or less than active, and other valuation techniques (models) in which all significant data are directly or indirectly observable in the market.

Below we present a description on how to determine the fair value of main financial instruments of the Bank in which valuation techniques are used with observable market data including Bank's estimates on the assumptions that would assume market participants to value these instruments:

- The valuation of BCRP deposit certificates, corporate bonds, and sovereign bonds is made by calculating the Net Present Value through cash flow discounts using zero-coupon curves relevant to discount flows in the corresponding currency and considering observable market transactions. Other debt instruments are valued using valuation techniques based on assumptions supported by observable prices in current market transactions, which prices are obtained through price providers. However, when prices have not been determined in an active market, the fair value is based on quotes of brokers and assets valued using models in which most assumptions are observable in the market.

ii. *Financial instruments not measured at fair value*

Find below the disclosure of the comparison between carrying amount and fair value of financial instruments not measured at fair value and presented in the statement of financial position, including the level of hierarchy of its fair value:

	2018					2017				
In thousands of soles	**Level 1**	**Level 2**	**Level 3**	**Fair Value**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Fair Value**	**Carrying amount**
Assets										
Cash and due from banks	-	8,610,277	-	8,610,277	8,610,277	-	9,650,014	-	9,650,014	9,650,014
Held-to-maturity investments	-	2,060,640	-	2,060,640	2,050,548	-	2,202,292	-	2,202,292	2,237,705
Loan portfolio, net	-	8,930,396	-	8,930,396	8,930,396	-	8,647,525	-	8,647,525	8,647,525
Accounts receivable, net	-	292,683	-	292,683	292,683	-	492,093	-	492,093	492,093
Other assets, net	-	62,222	-	62,222	62,222	-	84,161	-	84,161	84,161
	-	**19,956,218**	**-**	**19,956,218**	**19,946,126**	**-**	**21,076,085**	**-**	**21,076,085**	**21,111,498**
Liabilities										
Deposits and obligations	-	26,473,819	-	26,473,819	26,473,819	-	26,403,423	-	26,403,423	26,403,423
Financial system deposits	-	217,854	-	217,854	217,854	-	378,741	-	378,741	378,741
Securities, bonds, and obligations issued	-	251,647	-	251,647	251,647	-	285,157	-	285,157	251,659
Accounts payable	-	354,281	-	354,281	354,281	-	418,352	-	418,352	418,352
Other liabilities	-	363,801	-	363,801	363,878	-	187,101	-	187,101	187,101
	-	**27,661,402**	**-**	**27,661,402**	**27,661,479**	**-**	**27,672,774**	**-**	**27,672,774**	**27,639,276**

Methodology and assumptions used by the Bank to determine estimated market values depend on the terms and risks characteristics of the different financial instruments, and comprise the following:

- Assets whose fair value is similar to carrying amount- For financial assets and liabilities that are liquid or have short-term maturities (lesser than three months), it is considered that the carrying amount is similar to fair value. This assumption is also applicable for saving accounts without specific maturity and financial instruments at variable rates.

- Financial Instruments at fixed rate- Fair value of financial assets and liabilities at fixed and variable rates through amortized cost are determined comparing market interest rates at initial recognition to current market rates related to similar financial instruments. When there are no market prices, the discounted cash flow model is used based on the yield curve of interest rates for the remaining term to be matured. The fair value of loan portfolio and deposits and obligations, according to multiple official letter SBS 1575-2014, correspond to its carrying amount.

27. Contingencies

As of December 31, 2018 and 2017, the Bank has pending civil, administrative and labor lawsuits related to their developed activities and in opinion of the Management and its legal advisors, no significant liabilities, additional to those already recorded by the Bank, will arise (note 10 (D)).

28. Subsequent Events

As of December 31, 2018, until the date of this report, there have not been any material events or facts that may require adjustments or disclosures to the financial statements as of December 31, 2018.