Translation of independent auditors' report and financial statements originally issued in Spanish - Note 28

Fondo MIVIVIENDA S.A.

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

Building a better working world

Translation of independent auditors' report and financial statements originally issued in Spanish - Note 28

Fondo MIVIVIENDA S.A.

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

Content

Translation of independent auditors' report originally issued in Spanish - Note 28

Independent auditors' report

To the Shareholder and Directors of Fondo MIVIVIENDA S.A.

We have audited the accompanying financial statements of Fondo MIVIVIENDA S.A. (henceforth "the Fund"), which comprise the statement of financial position as of December 31, 2017 and 2016; as well as the income statement and the statements of comprehensive income, changes in shareholder's equity and cash flows for the years ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards prescribed by the Superintendence of Banking, Insurance and Private Pension Funds Administrators (SBS) for Peruvian financial entities, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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.

Building a better working world

Translation of independent auditors' report originally issued in Spanish - Note 28

Independent auditors' report (continued)

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 accompanying financial statements present fairly, in all material respects, the financial position of Fondo MIVIVIVENDA S.A. as of December 31, 2017 and 2016, and of its financial performance and its cash flows for the years ended on that dates, in accordance with accounting standards prescribed by the Superintendence of Banking, Insurance and Private Pension Funds Administrators (SBS) for Peruvian financial entities, see Note 3.

Other matters

The Fund changed its methodology for the calculation of provisions beginning August 1, 2017 by SBS requirement, obtaining the approval of this entity for recording the provision deficit resulting from the change in the methodology for approximately S/71,027,000 by reducing the balance of "Legal Reserve" caption from the Shareholders' equity, see Notes 3(e), 6(e) and 16(b).

Lima, Peru,
February 26, 2018

Countersigned by:

Paredes, Burga & Asociados

Elizabeth Fontenla
C.P.C.C. Register No. 25063

Fondo MIVIVIENDA S.A.

Statements of financial position

As of December 31, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Assets			
Cash and due from banks	4		
Deposits in Peruvian Central Bank		95	133
Deposits in domestic banks		2,853,446	1,077,635
Other available funds		523	463
		2,854,064	1,078,231
Available-for-sale and held-to-maturity investments	5	804,513	573,029
Accounts receivable, net (Trust Agreement - COFIDE)	6	6,206,810	6,103,398
Loan portfolio, net	7	50,955	-
Other accounts receivable, net	8	108,740	83,139
Derivative financial instruments	14	164,444	261,392
Property, furniture and equipment, net	9	1,058	1,252
Other assets, net	10	70,066	26,006
Deferred income tax asset, net	15	40,706	23,276
Total assets		10,301,356	8,149,723
Risks and contingent commitments	18	178,953	263,377

	Note	2017 S/(000)	2016 S/(000)
Liabilities			
Obligations with the public		216	172
Debts and financial obligations	11	195,722	356,472
Securities and bonds outstanding	12	5,835,687	3,963,963
Derivative financial instruments	14	124,971	64,702
Other accounts payable	13	930,825	435,927
Provisions and other liabilities	13	8,314	2,610
Total liabilities		7,095,735	4,823,846
Shareholders' equity	16		
Capital stock		3,302,620	3,257,086
Legal reserve		249	66,216
Unrealized results		(121,797)	(48,019)
Retained earnings		24,549	50,594
Total Shareholders' equity		3,205,621	3,325,877
Total liabilities and shareholders' equity		10,301,356	8,149,723
Risks and contingent commitments	18	178,953	263,377

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

Fondo MIVIVIENDA S.A.

Income statements

For the years ended December 31, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Interest income	19	515,770	426,497
Interest expenses	19	(304,823)	(211,357)
Gross financial margin		210,947	215,140
Allowance for doubtful accounts (Trust Agreement – COFIDE), net	6(e)	(16,599)	(8,055)
Provision for loan losses, net	7(f)	(8,100)	-
Net financial margin		186,248	207,085
Income from financial services	20	5,513	6,980
Expenses for financial services	20	(2,450)	(315)
Financial margin, net of income and expenses for financial services		189,311	213,750
Result from financial transactions	21	(107,042)	(106,283)
Administrative expenses	22	(42,882)	(43,182)
Depreciation	9(a)	(306)	(302)
Amortization	10(c)	(1,064)	(793)
Net operating income		38,017	63,190
Recoveries from others doubtful accounts, net	8(f)	427	1,999
Provision for contingencies and others		(967)	(696)
Operating income		37,477	64,493
Other income and expenses	23	888	2,540
Income before Income Tax		38,365	67,033
Income Tax	15(b)	(13,816)	(16,439)
Net income		24,549	50,594

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

Fondo MIVIVIENDA S.A.

Statements of comprehensive income

For the years ended December 31, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Net income		24,549	50,594
Other comprehensive income:			
Net gain on available-for-sale investments	16(c)	1,706	9,708
Net movement of cash flow hedges	16(c)	(107,470)	(105,784)
Net gain on available-for-sale investments from CRC-PBP Trusts	16(c)	740	548
Income Tax	15(a) and 16(c)	31,246	28,656
Other comprehensive income for the year, net of Income Tax		(73,778)	(66,872)
Total comprehensive income for the year, net of Income Tax		(49,229)	(16,278)

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

Fondo MIVIVIENDA S.A.

Statements of changes in shareholders' equity

For the years ended December 31, 2017 and 2016

	Number of shares (in thousands)	Capital stock S/(000)	Legal reserves S/(000)	Unrealized results S/(000)	Retained earnings S/(000)	Total S/(000)
Balance as of January 1, 2016	3,174,249	3,174,249	57,012	18,853	92,041	3,342,155
Changes in shareholders' equity for 2016						
Net income	-	-	-	-	50,594	50,594
Other comprehensive income, Note 16(c)	-	-	-	(66,872)	-	(66,872)
Total comprehensive income	-	-	-	(66,872)	50,594	(16,278)
Transfer, Note 16(b)	-	-	9,204	-	(9,204)	-
Capitalization of net income, Note 16(a)	82,837	82,837	-	-	(82,837)	-
Balance as of December 31, 2016	3,257,086	3,257,086	66,216	(48,019)	50,594	3,325,877
Changes in shareholders´ equity for 2017						
Net income	-	-	-	-	24,549	24,549
Other comprehensive income, Note 16(c)	-	-	-	(73,778)	-	(73,778)
Total comprehensive income				(73,778)	24,549	(49,229)
Reduction of Legal Reserve for the constitution of provisions, Notes 3(e) and 16(b)	-	-	(71,027)	-	-	(71,027)
Transfer, Note 16(b)	-	-	5,060	-	(5,060)	-
Capitalization of net income, Note 16(a)	45,534	45,534	-	-	(45,534)	-
Balance as of December 31, 2017	3,302,620	3,302,620	249	(121,797)	24,549	3,205,621

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

Fondo MIVIVIENDA S.A.

Statements of cash flows

For the years ended December 31, 2017 and 2016

	Note	2017 S/(000)	2016 S/(000)
Reconciliation of net income with cash from operating activities:			
Net income		24,549	50,594
Adjustments to net income			
Plus (minus)			
Foreign exchange adjustment and derivatives interests		49,747	70,163
Interest, commissions and exchange rate accrued but not paid from debts and financial obligations, and securities and bonds outstanding	6(e)	(20,508)	(66,820)
Allowance for doubtful accounts (Trust Agreement – COFIDE), net	7(e)	16,273	8,055
Provision for loan losses, net	9(a) and 10(c)	8,426	-
Depreciation and amortization	8(f)	1,370	1,095
Recoveries from others doubtful accounts, net	15(a)	(427)	(1,999)
Deferred Income Tax		13,816	(5,429)
Provision for contingencies and others		1,088	(463)
Changes in assets and liabilities			
(Increase) decrease in available-for-sale investments		(32,410)	80,786
Increase in accounts receivable (Trust Agreement - COFIDE)		(249,946)	(280,236)
Decrease in loan portfolio		4,545	-
Increase In other accounts receivable		(24,434)	(2,498)
Increase (decrease) in other assets		(43,398)	13,401
Increase (decrease) in obligations with the public		44	(7)
Increase (decrease) in other accounts payable		494,898	(152,916)
Increase in provisions and other liabilities		45	215
Net cash provided by (used in) operating activities		243,678	(286,059)
Cash flows from investing activities			
(Decrease) increase in held-to-maturity investments		(197,368)	71,390
Additions of property, furniture and equipment		(232)	(555)
Additions of intangible assets		(1,727)	(2,121)
Increase (decrease) in time deposits over 91 days		(1,243,477)	(424,000)
Net cash used in investing activities		(1,442,804)	(355,286)

Statements of cash flows (continued)

	Note	2017 S/(000)	2016 S/(000)
Cash flows from financing activities			
Decrease in debts and financial obligations		(180,000)	(131,889)
Increase in securities and bonds outstanding		1,911,482	425,479
Net cash provided by financing activities		1,731,482	293,590
Net cash (decrease) increase		532,356	(347,755)
Balance of cash at the beginning of year		654,231	1,001,986
Balance of cash at the end of year		1,186,587	654,231
Transactions that do not represent cash flows			
Reduction of Legal Reserve for the constitution of provisions	3(e) and 16(b)	71,027	-
Reclassification of "Accounts receivable (Trust Agreement - COFIDE) to Loan portfolio, net	6(e), 7(b) and (f)	63,600	-
Reclassification of "Available-for-sale investments" to "Held-to-maturity investments"	5(h)	-	620,965

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

1. **Business activity**

Fondo MIVIVIENDA S.A. (henceforth "the Fund" or "Fondo MIVIVIENDA") is a state-owned company under private law and is governed by Law N°28579 "Ley de Conversión del Fondo Hipotecario de la Vivienda - Fondo MIVIVIENDA a Fondo MIVIVIENDA S.A." (Law of Conversion of the Mortgage Fund of Housing - Fondo MIVIVIENDA to Fondo MIVIVIENDA S.A.) and its by-laws. The Fund falls under the purview of the Peruvian National Fund for the Financing of Business Activities of the State (*Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado* or "FONAFE" by its Spanish acronym) under the Ministry of Housing, Construction and Sanitation ("MVCS" for its Spanish acronym). The aforementioned Law N°28579 provided for the conversion of the former *Fondo Hipotecario de Promoción de la Vivienda – Fondo MIVIVIENDA* (Mortgage Fund for the Promotion of Housing – Fondo MIVIVIENDA) into a corporation called Fondo MIVIVIENDA S.A., since January 6, 2006.

The Fund's objective is the promotion and financing of the acquisition, improvement and construction of homes, especially those of social interest, promotion of activities to invest into the home lending market, participation in the secondary mortgage market, as well as contributing to the development of the Peruvian capital market. All the Fund's activities are regulated by the Superintendence of Banking, Insurance and Pension Funds Administrators *(Superintendencia de Banca, Seguros y AFP* or "SBS" by its Spanish acronym), by SBS Resolution N°980-2006 "Regulation for the Fondo MIVIVIENDA S.A."

The Fund´s domicile is Avenida Paseo de la República 3121, San Isidro, Lima, Peru.

As of the date of these financial statements, the Fund manages the following programs and financial resources:

(i) MIVIVIENDA Program.
(ii) Techo Propio Program – Management of the Household Housing Bonus (Bono Familiar. Habitacional or "BFH" by its Spanish acronym), as commissioned by the Ministry by MVCS.
(iii) Resources of the Fund, Law N°27677, as commissioned by the Ministry of Economy and Finance (hereafter "MEF" by its Spanish acronym).

The characteristics of each program and resource are as follows:

(i) MIVIVIENDA Program -

The Fund, through a Trust Agreement with Corporación Financiera de Desarrollo S.A. (Financial Corporation of development "COFIDE" for its Spanish acronym) channels resources to financial institutions that are participants in the Peruvian financial system to grant mortgage loans. Among its characteristics are the Good Payer Award (*Premio al Buen Pagador* or "PBP" by its Spanish acronym), the Good Payer Bonus (Bono al Buen Pagador, henceforth "BBP" by its Spanish acronym), the Credit Risk Coverage *(Cobertura de Riesgo Crediticio*, henceforth "CRC" by its Spanish acronym).

This program includes the following products:

- Nuevo Crédito MIVIVIENDA
- Crédito MICONSTRUCCIÓN
- Crédito MICASA MÁS
- Crédito MITERRENO
- Crédito MIHOGAR (**)
- Crédito MIVIVIENDA Estandarizado (**)
- Crédito MIVIVIENDA Tradicional (**)
- Crédito Complementario Techo Propio (Complementary financing to the BFH)
- Servicio de Cobertura de Riesgo Crediticio y Premio al Buen Pagador (Financiamiento de las Instituciones Financieras Intermediarias) - *Service of Credit Risk Coverage and Good Payer Award (Funding to Intermediary Financial Institutions, hereafter "IFI") (**)*

(**) As of December 31, 2017 and 2016, these loans have been discontinued and outstanding receivable balances remain, Note 7. CRC-PBP services and Crédito MIVIVIENDA Estandarizado were discontinued in November 2009, Crédito MIHOGAR was discontinued in August 2009, as well as Crédito MIVIVIENDA Tradicional in May 2006.

(ii) Techo Propio Program – Management of the Household Housing Bonus (BFH) -
The subsidy under the Techo Propio program is granted in three modalities: (i) acquisition of a new home (AVN); (ii) construction on owned lot (CSP); and (iii) house renovations (MV). In all modalities, mortgage loan financing within this program comprises the participation of up to three components: (a) a subsidy channeled by the Fund with resources from the government – the aforementioned Household Housing Bonus (BFH); (b) household savings and (c) when necessary, complementary financing to BFH (Techo Propio Program) which must be granted by an IFI.

According to the Third Transitional Provision of Law N°28579, upon ending the year 2005, the Fund was engaged by the Government to manage the BFH and the Techo Propio Program resources, by signing an agreement with the MVCS.

On April 28, 2006, the Fund, the MVCS and FONAFE signed the "Agreement on Management of the Household Housing Bonus and the Funds of the Techo Propio Program", under which the Fund is responsible for managing both the BFH and the Techo Propio Program resources, including the promotion, registration, recording and verification of information, the qualification of applications, allocation and transfer of the BFH funds to the developer, seller-builder or the respective technical unit. This agreement establishes that FONAFE shall allocate to the Fund the resources to meet the costs and expenses of managing the Program.

(iii) Fund Law N°27677 -

By virtue of Law N°27677 dated March 1, 2002, the Fund was entrusted with the administration, reimbursement and channeling of resources resulting from the liquidation of the Fondo Nacional de la Vivienda (National Housing Fund by its Spanish acronym FONAVI). Law N°29625, which came into force on December 8, 2010, orders the reimbursement of contributions to workers who contributed to FONAVI. Article 4 of Law N°29625 contemplated the formation of an AD Hoc Commission, responsible for conducting and supervising all procedures related to the reimbursement of contributions of the FONAVI. This conformation of the AD Hoc Committee was approved on September 24, 2012, through Ministerial Resolution N°609-2012-EF/10. By virtue of these rules, the Fund would provide to the Ad Hoc Committee with all relevant documentation and reports so that it will be in charge of the administration and recovery of debts, funds and assets of FONAVI, as well as the liabilities. During 2017, 2016 and 2014, the Fund made transfers of said managed resources amounting to S/20,000,000, S/40,000,000 and S/200,000,000, respectively, according to a request received from the AD Hoc Commission.

Likewise, the Fund constituted the CRC-PBP trusts, both in soles and US Dollars, to cover the Fund's obligations to provide PBP payments and CRC in an amount equivalent to one-third (1/3) of the total registered by each IFI that contracts such service. It should be noted that these trusts are governed by SBS Resolution N°980-2006 "Regulations for the Fund".

Under the service contracts with the CRC-PBP trusts, the Fund provides the IFI with the following services:

- Credit Risk Coverage (CRC service), as defined by article 21 of the CRC and PBP Regulation, is a guarantee the Fund provides to the intermediary financial institution for either up to one third of the unpaid balance of the covered loan or one-third of the loss, whichever the lower. Said amount shall be notified by the IFI to the Fund, on terms and conditions provided for in the Regulation.

- Good Payer Award (PBP service), as defined in article 24 of the CRC and PBP Regulation, is the service to the IFI for which the Fund assumes payment of the installments corresponding to the concessional part (the amount of the Good Payer Award) for covered loan whose beneficiaries have promptly paid the installments corresponding to the non-concessional part of the loan. This award is aimed to settle – every six months – the amount of the installment payable in the corresponding period for the concessional part of the MIVIVIENDA loans.

The financial statements as of December 31, 2016 were approved by the General Shareholders' Meeting held on March 29, 2017. The accompanying financial statements for the year 2017 were approved by Management on February 26, 2018 and will be submitted for the approval of the Board of Directors and the General Shareholders' Meeting that will be held within the deadline established by law. In Management's opinion, the accompanying financial statements will be approved by the Board of Directors and by the General Shareholders' Meeting without modifications.

2. **Trust Agreement – Corporación Financiera de Desarrollo (COFIDE)**

On March 25, 1999, a Trust Agreement was signed between the Mortgage Fund for Housing Promotion (*Fondo Hipotecario de Promoción de la Vivienda – MIVIVIENDA),* now Fondo MIVIVIENDA S.A., and Corporación Financiera de Desarrollo S.A. (COFIDE). Its purpose was the creation of a trust through which COFIDE receives the resources from the Fund and performs as the executing agency thereof, in order to channel the funding for loans to final borrowers through the intermediary financial institutions ("IFI") that are used to the acquisition, expansion or improvement of homes and residences, in accordance with Article 12 of Supreme Decree N°001-99-MTC "Regulation on the Fondo Hipotecario de Promoción de la Vivienda – Fondo MIVIVIENDA".

The main duties of COFIDE are the following:

- Compliance with articles 241 to 274 of the General Law of the Financial and Insurance System and Organic Law of the SBS – Law N°26702 and its amendments.
- Verify compliance with requirements and conditions of the IFI according to Supreme Decree N°001-99 –MTC.
- Sign the agreement on resources intermediation with the IFI that have fulfilled the corresponding requirements and conditions.
- Monitor the use of resources, according to the provisions of the Fund's Regulation and the agreement on resources intermediation.
- Collect the loans granted to the IFI
- Contract the necessary audits on the Fund.
- Periodically submit reports on the development of the aforementioned trusts, as well as recommendations for exposure limits of the IFI (*).
- Establish operating procedures necessary for the proper administration of the Fund.
- Other duties necessary to ensure the normal development of the objectives and functions of both the Trust and the Fund.

(*) On May 18, 2012, the Fund signed Addendum N°1 to the Trust Agreement by which annulled the obligation of COFIDE to issue recommendations on exposure limits of the IFI with the Fund, because the Fund is a corporation supervised by the SBS. Through Resolution SBS N°3586-2013, the Fund is not subject to the limits established at the article N°204 of the Law of Banks N°26702, because it acts as a second floor bank. However, the Fund has established internal limits to prevent the concentration of loans to IFI, taking into account factors of regulatory capital size, risk classification and risk-weighted regulatory capital ratio.

The main duties of the Fund are the following:

- Establish the policies for the management and use of the Fund's resources.
- Approve the eligibility criteria of the IFI that will receive resources from the Fund for use in financing house purchases and borrowing limits for each of them.
- Establish the terms and conditions under which the Fund will make resources available to the intermediary financial institutions, and the modalities of placing them.

COFIDE is entitled to the following:

- Intermediate and monitor the Fund's resources, being able to enter into and sign all deeds and documents necessary, public and private, for that purpose.
- Require that the IFI constitute guarantees on behalf of the beneficiaries.
- Exercise all the powers contained in articles 74 and 75 of the Civil Procedure Code necessary for carrying out the assignment given as trustee. Consequently, COFIDE may sue, counterclaim, answer complaints and counterclaims, desist processes or claims, agree to claims, reconcile, settle and to arbitrate the claims at issue in the process.
- It is stated that COFIDE is not responsible for the solvency of the IFI.

Regarding the fees generated by services provided by COFIDE, it was authorized to deduct -from the amounts disbursed by the IFI - a one-time 0.25 percent commission on the amount of each loan, as well as an annual commission of 0.25 percent on the outstanding balances of loans, which is assumed by the IFI and will be collected when installments of loans granted are paid. These amounts are recorded as revenues by COFIDE. Until December 31, 2016, the term of this Agreement was 5 years, being automatically renewed if neither party expresses its willingness to terminate it.

On December 30, 2016, the Addendum No 2 to the Trust Agreement was signed, with the purpose of modifying the commissions for the services provided by COFIDE and the modification of the term of the Trust, as follows:

The two commissions for the services provided by COFIDE in force since January 2, 2017 are the following:

- A monthly trust commission payable by the Fund amounting to S/10,000 plus Value Added Tax (VAT). This commission will be collected on the last business day of each month chargeable to Fund resources.
- A collection commission equivalent to 0.23 percent annual effective to rebut on debt balance, for the accounts receivable (Trust Agreement - COFIDE) beginning January 2, 2017 and chargeable to the IFI. This commission will be collected on the collection dates of loan installments granted by the IFI.

The term of the Trust will be 3 years counted since January 2, 2017, and will be automatically renewed if, within 30 days prior to its expiration, none of the parties expresses its will to resolve it.

3. Significant accounting principles and practices

(a) Basis of presentation and use of estimates -

The accompanying financial statements have been prepared from the Fund's accounting records, which are maintained in nominal monetary terms at each transaction's date, in accordance with SBS regulations established for the Fund, in force in Peru as of December 31, 2017 and 2016, and in a supplemental manner, in the absence of specific SBS regulations, with the International Financial Reporting Standards (henceforth ¨IFRS¨) approved in Peru through resolutions issued by the Peruvian Accounting Council (Consejo Normativo de Contabilidad, henceforth "CNC" for its Spanish acronym) in force in Peru as of December 31, 2017 and 2016, see paragraph (u.1).

The preparation of the accompanying financial statements requires the Management perform estimates that affect the reported amounts of assets and liabilities, income and expenses and the disclosure of material events in the Notes to the financial statements. Estimates are continually evaluated and are based on historical experience and other factors. Final results could differ from those estimates. The most significant estimates with regard to the accompanying financial statements correspond to the allowance for doubtful accounts, valuation of investments, valuation of derivative financial instruments, the useful life and recoverable value of property, furniture and equipment and intangible assets, and the assets and liabilities for the deferred Income Tax, which accounting criteria are described in this Note.

(b) Currency -

The Fund considers the Sol as its functional and reporting currency, because it reflects the nature of the economic events and the relevant circumstances of the Fund, given that its main operations and/or transactions such as: disbursement of funds through COFIDE, financing obtained, interest income and expenses, as well as its main purchases, are established and settled in soles.

Transactions and balance in foreign currency-

Assets and liabilities in foreign currency are recorded at the exchange rate prevailing at the date that the transactions are performed. Monetary assets and liabilities denominated in foreign currency are translated into soles at the closing exchange rate of the corresponding month by using the exchange rate set by the SBS; see Note 26.2(c). Gains or losses resulting from the translation of monetary assets and liabilities from foreign currency at the exchange rates prevailing at the date of the statements of financial position are recorded in the income statements of the period as "Gain (loss) on exchange difference and exchange operations, net" of the caption "Income from financial transactions", see Note 21.

(c) Financial instruments -
Financial instruments are classified as assets, liabilities or equity according to the substance of the contractual agreement that originated them. Interests, dividends, gains and losses generated by a financial instrument classified as assets or liabilities are recorded as income or expense. Financial instruments are offset when the Fund has a legal enforceable right to offset them and Management has the intention to settle them on a net basis or to realize the asset and settle the liability simultaneously. Refer to note 3(i) for accounting policy related to the CRC-PBP trusts.

Financial assets and liabilities presented on the statement of financial position correspond to cash and due from banks, available-for-sale and held to maturity investments, accounts receivable (Trust Agreement - COFIDE), loan portfolio, net, other receivables and liabilities in general, except for the identified in the caption "provisions and other liabilities" and "asset for deferred Income Tax, net" as Non-financial instruments, see Notes 13 and 15, respectively. Likewise, all derivative financial products are considered financial instruments.

Accounting policies on recognition and valuation of these items are disclosed then in this note.

(d) Recognition of revenues and expenses -

(d.1) Interest income and expenses –
Interest income and expenses are recorded in the income statement of the period in which they are accrued, based on the effective term of its operations recorded in the statements of financial position and the interest rates established. Likewise, for the interest income corresponding to Accounts receivable (Trust Agreement - COFIDE) and loan portfolio, the accounting treatment is as follows:

(d.1.1) Interest income corresponding to Accounts receivable (Trust Agreement - COFIDE)-
Because the Fund grants credit lines to the IFI to channel its resources, which disbursements of loans are made through the COFIDE Trust, and not when they are placed to sub borrower, in accordance with the SBS's Accounting Manual for Financial Companies, the yields generated by said operations are recorded on an accrual basis and in-suspense interests income are not recognized in accordance with SBS rules for the Fund.

(d.1.2) Interest income corresponding to Loan portfolio-
Loan portfolio interest income is recognized in the income statement of the period in which they are accrued, based on the effective term of the underlying transactions and the interest rates freely agreed upon with the borrowers; except for the interest accrued on past due loans, refinanced, restructured and under legal collection; as well as loans classified as doubtful or loss categories, which interests are recognized as collected. When Management determines that the debtor's financial condition has improved and the loan is reclassified as current

and/or in normal, potential problems or substandard the category, such interests are recognized again on an accrual basis.

(d.2) Bonuses and Awards for Good Payers-
In accordance with the accounting treatment accepted by SBS for the Fund, the Good Payer Bonus and the Good Payer Award, including their interests, are recognized as follows:

(i) The Good Payer Bonus (*Bono al Buen Pagador, or* "BBP" by its Spanish acronym) was created in compliance with Law N°29033, issued on June 7, 2007, as a non-repayable direct assistance payable to eligible final borrowers in a maximum of S/12,500 in force since April 22, 2010 (S/10,000 before April 22, 2010) which is granted to borrowers who have complied with promptly cancellation of six consecutive monthly installments of the non-concessional tranche of Crédito MIVIVIENDA. For these purposes, the Fund divides the total amount of Crédito MIVIVIENDA disbursement plus its related interest into 2 schedules:

- A half-annual amortization schedule called "concessional section" corresponding to the amount of the BBP (principal and interest); and

- A monthly amortization schedule called "non-concessional section" corresponding to total amount of Crédito MIVIVIENDA disbursement less the amount of the concessional section (principal and interest).

In these cases, the BBP is received from the MVCS (to the extent the MVCS has funds available) at the request of the Fund, and it is recorded for financial reporting and control, in the statement of financial position as a liability in "Good Payer Bonus (capital) received from MVCS" of the caption "Provisions and other liabilities".

Upon being granted, the total amount disbursed on the Crédito MIVIVIENDA loan is recorded as placement in the caption "Accounts receivable (Trust Agreement - COFIDE)" and the two aforementioned amortization schedules are generated by the Fund.

The interests of both tranches are recognized on an accrual basis, based on the preferential rates agreed with IFI with which agreements have been signed, recognizing the resulting interest as financial income.

Subsequently, the Fund sends to the MVCS the list of BBP beneficiaries, reclassifying each bonus due to eligible borrowers from "Good Payer Bonus (capital) received from MVCS" " to "Good Payer Bonus – assigned" of the caption "Provisions and other liabilities" in the statement of financial position, see Note 12.

(ii) In the cases where the BBP is directly assumed by the Fund (when the requirements of Law N°29033 and its amendments are not met; for instance, where the value of the house to purchase is greater than 25 tax units or when the BBP is granted with the Fund's own resources, among others), it is called "Good Payer Award" (PBP).

(iii) In both cases, the bonus or award are granted for the timely compliance with six installments of the payment schedule of the concessional tranche; said amount varies depending on the type of loan granted.

(iv) By means of U.D. N° 002-2014 published on July 28, 2014, as per indicated in the article 14.2, it has been established for the granting of Good Payer Bonus the value of the houses should be between 14 and 50 tax units. The Good Payer Bonus shall be used as a non-reimbursable financial support up to a maximum amount of S/12,500. For cash purposes, Banco de la Nación was authorized to lend to the Fund an amount of S/500,000,000 through the participation of MVCS for payment purposes, as established in the loan agreement. In this cases, the Fund previously received all BBP resources for its assignment during 2014.

For this purposes, the Fund had two modalities of BBP application in accordance with said U.D.:

- Applied to finance the Good Payer Bonus (PBP) for an amount of S/10,000 for housing values over 14 tax units and not exceeding 25 tax units for créditos MIVIVIENDA granted from January 1, 2014 to July 28, 2014. From July 29, 2014, to finance for an amount of S /12,500 for housing values greater than 14 tax units and lower than 50 tax units.

- Applied as a complement to the initial of the mortgage loan, the BBP will be used as a complement to reach the initial minimal amount required to the sub borrower for mortgage loan purposes, and it is applied at the time of the loan disbursement, therefore it is not part of it.

(v) Under the guidelines of S.D. N°003-2015-VIVIENDA published on January 22, 2015, was established the tranched application of the Good Payer Bonus for housing values from 14 to 50 tax units, as follows:

Housing value	BBP value S/
to 17 tax unit	17,000
Over 17 tax unit to 20 tax unit	16,000
Over 20 tax unit to 35 tax unit	14,000
Over 35 tax unit to 50 UIT tax unit	12,500

For this purposes, the Fund has two modalities of BBP application in accordance with said S.D.:

- BBP applied as a complement to the initial of the mortgage loan, the BBP will be used as a complement to reach the initial minimal amount required to the sub borrower for mortgage loan purposes, and it is applied at the time of the loan disbursement to the IFI, therefore it is not part of it.

  BBP granted to finance the Good Payer Bonus (PBP) for the timely payment of six consecutive monthly installments corresponding to the non-concessional tranche of the loan. This BBP applies to those PBP that were granted to housing value between 35 tax units and 50 tax units, corresponding to the previous PBP modality, which was set at S/12,500.

(vi) By means of S. D. N ° 001-2017 of January 13, 2017, the Regulation of Law No. 29033, Creation of the Good Payer Bonus Law was modified, approved by S. D. No. 003-2015, in which was established the following tranched application of the BBP:

Housing value	BBP value S/
Over 20 tax unit to 30 tax unit	14,000
Over 30 tax unit to 38 tax unit	12,500

For this purposes, the Fund had the modality of considering the BBP as a complement to the initial instalment of the mortgage loan, the BBP will be used as a complement to reach the initial minimal amount required to the sub borrower for mortgage loan purposes, and it is applied at the time of the loan disbursement to the IFI, therefore it is not part of it.

The BBP guidelines established in S. D. N ° 003-2015-VIVIENDA were applicable until the entry into force of the S. D. No. 001-2017.

(vii) Currently, the BBP is in force under S. D. No. 017-2017 guidelines of June 24, 2017, which amended the Regulation of Law No. 29033 approved by S. D. No. 003-2015. The values of housing and BBP were established as follows:

Housing value (CPI)	**BBP value (Tax Unit)**
From S/56,700 to S/81,000	4.19753
Over S/ 81,000 to S/ 121,500	3.45679
Over S/ 121,500 to S/ 202,500	3.08642
Over S/ 202,500 to S/ 300,000	0.74074

These BBP values will be updated by the tax unit variation, with rounding to the top hundred. In relation to the housing ranges value of the product, they will be expressed in soles and will be updated as a result of the multiplication of the housing value of the prior year and the annual change in the Consumer Price Index-CPI of Lima Metropolitana, with rounding to the top hundred. For this purposes, the Fund has the modality of BBP as a complement to the initial installment of the mortgage loan, the BBP will be used as a complement to reach the initial minimal amount required to the sub borrower for mortgage loan purposes, and it is applied at the time of the loan disbursement, therefore it is not part of it.

(viii) When the BBP is granted, at the time sub borrower has complied timely with the payment of six consecutive monthly installments, the Fund credits the accounts receivable (principal) of the concessional tranche and charges the liability "Good Payer Bonus - assigned", see Note13(e). Interest of the concessional tranche installment are recognized as an expense of the Fund and is presented net of the "Income from accounts receivable (Trust Agreement – COFIDE)" of the caption "Interest Income" of income statements, see Note 19.

(ix) The Good Payer Award (henceforth "PBP") are resources assumed directly by the Fund to grant a Bonus.

Until June 2017 the housing values in force for the PBP were as follows:

Housing value	**BBP value** S/
Over 50 tax unit to 70 tax unit	5,000

For this purposes, the Fund had two modalities of PBP application:

- PBP applied as a complement to the initial of the mortgage loan, the PBP will be used as a complement to reach the initial minimal amount required to the sub borrower for mortgage loan purposes, and it is applied at the time of the loan disbursement to the IFI, therefore it is not part of it.

- PBP granted for the timely payment of six consecutive monthly installments corresponding to the non-concessional tranche of the loan, which is recognized as an expense semiannually.

Through Board Agreement No. 04-16D-2017 of July 3, 2017, the modification of the housing values and PBP value as a complement to reach the initial minimal amount required to the sub borrower for mortgage loan purposes were approved according to the following detail:

Housing value S/	**BBP value** Tax Unit
Over S/202,500 to S/300,000	0.74074

The PBP as a complement to the initial installment of the mortgage loan will continue being covered by the Fund, which will be added to the BBP in the same range of housing values that is in force; likewise, it will be updated by the tax unit variation, with rounding to the top hundred; the application amount as of December 31, 2017 is S/3,000. In relation to the housing ranges values of the product, they will be expressed in soles and will be updated as a result of the multiplication of the housing value of the prior year and the annual change in the Consumer Price Index- CPI of Lima Metropolitana, with rounding to the top hundred.

(x) When the Good Payer Award is granted to sub borrower, who complied with conditions settled, with Fund own resources, the Fund record such amounts as expenses in the income statement with credit to the accounts receivable (principal) of the installments of the concessional tranche charged to an "interest expenses account, while interest are recorded as an expense of the Fund and is presented net of the "Income from accounts receivable (Trust Agreement – COFIDE)" of the caption "Interest Income" of income statements, see Note 18.

(d.3) Interest revenues include interest accrued on fixed income investments classified as available-for-sale, held-to-maturity, as well as discounts and premiums recognized on the Fund's financial instruments.

(d.4) Commissions for trust administration services provided to the CRC-PBP trusts, among other trusts, are recognized as income when received.

(d.5) Other income and expenses are recognized in the period in which they accrue.

(e) Accounts receivable (Trust Agreement - COFIDE) and allowance for doubtful accounts - Accounts receivable are recorded when conducting the disbursement of funds through COFIDE to IFI that channels the Fund's resources for the placement of the MIVIVIENDA product portfolio.

Until July 31, 2017, the calculation of the provision was made according to the Fund's Regulation, enacted through SBS Resolution N°980-2006 issued on August 14, 2006, which took as a base the criterias established by the SBS in the Regulation on evaluation and classification of debtor and allowance requirements, as established in SBS Resolution N°11356-2008, in accordance with the following methodology :

First Component: Allowance for IFI's Risk

(a) The capital balance of each disbursement is separated into two types: balance of capital with mortgage collateral and balance of capital without mortgage collateral.
(b) The calculation of allowance is performed considering the annual rating credit risk assigned by IFI ´s Credit Rating Agency.
(c) The allowance relating to the balance of capital with mortgage collateral is calculated as the result of the balance of capital with mortgage collateral by the SBS table 2 rate according to the classification of the IFI.
(d) The allowance relating to the balance of capital without mortgage collateral is calculated as the result of the balance of capital without mortgage collateral by the SBS table 1 rate according to the classification of the IFI.

Second component: Allowance for credit risk coverage (CRC)

(a) The balance of capital of each disbursement with mortgage collateral less the value of the mortgage collateral result in the balance of capital unsecured.
(b) The balance of capital unsecured of each disbursement is multiplied by the coverage percentage; resulting in the balance of net capital to be covered.
(c) The provision relating to the balance of net capital to be covered is calculated as the result of multiplying the balance of net capital to be covered by the SBS table 1 rate according to the classification of the sub borrower.

The value of guarantees considered for the calculation of allowance is in accordance with the procedure detailed in Appendix 3 of the Credit Risk Manual of the Fund which adapts the prescribed in SBS Resolution 11356-2008. The mentioned procedure states that the value of guarantees to be considered for the calculation of allowance is the lien value.

The Fund applies the following percentages to determine provisions:

	%	
Risk category	Table 1	Table 2
Normal	0.70	0.70
With potential problem (CPP)	5.00	2.50
Substandard	25.00	12.50
Doubtful	60.00	30.00
Loss	100.00	60.00

To determine the risk classification for each IFI in accordance with SBS Resolution N°11356-2008, the Fund has established, in its internal normative, a table of equivalences between SBS credit risk categories, and credit risk rating assigned by IFI ´s Credit Rating Agency.

As a result of the inspection made by the SBS finalized in January 2017, and with the purpose of implementing the observations of this entity, the Fund´s Management modified the methodology of the calculation of the provision for doubtful accounts from August 1, 2017, according to the following methodology:

First Component: Allowance for IFI's Risk

(a) The capital balance of each disbursement is separated into two types: balance of capital with mortgage collateral and balance of capital without mortgage collateral.

(b) The calculation of allowance is performed considering the IFI´s classification based on the criterias established by the SBS Resolution N°11356-2008.

(c) The allowance relating to the balance of capital with mortgage collateral is calculated as the result of the balance of capital without credit risk coverage by the SBS table 2 rate, according to the IFI classification.

(d) The allowance relating to the balance of capital without mortgage collateral is calculated as the result of the balance of capital without mortgage collateral by the SBS table 1 rate according to the IFI classification.

Second component: Allowance for credit risk coverage (CRC)

The capital balance of each disbursement is multiplied by the sum of the coverage factors (CRC and CRCA), resulting in the balance with credit risk coverage:

a. Whether the Balance without Credit Risk Coverage is lower than the Guarantee Amount, the corresponding provision is calculated according to the following: (total balance (TB) - guarantee amount (GA)) multiplied by the SBS rate of Table 1 according to the sub borrower classification plus (guarantee amount - balance without credit risk coverage (BWCRC)) multiplied by the SBS rate in Table 2 according to the sub borrower classification. The representation of the calculation is as follows:

Provision = (TB –GA)*(SBS Rate Table 1) + (GA – BWCRC)*(SBS Rate Table 2)

b. Whether the Balance without Credit Risk Coverage is greater than or equal to the Guarantee Amount, the corresponding provision is calculated from the product of the Balance with Credit Risk Coverage by the SBS rate in Table 1, in accordance with the sub borrower classification. The representation of the calculation is as follows:

Provision = BWCRC *(SBS Rate Table 1)

The Fund applies the following percentages to determine provisions:

	%	
Risk category	**Table 1**	**Table 2**
Normal	0.70	0.70
With potential problem (CPP)	5.00	2.50
Substandard	25.00	12.50
Doubtful	60.00	30.00
Loss	100.00	60.00

To determine the risk classification per IFI, the Fund has established a methodology for the regulatory classification of the IFIs equivalent to the risk category established by the SBS.

This methodology change for the calculation of provisions determined a deficit of provisions for accounts receivable (Trust Agreement - COFIDE) amounting to S/71,027,000 as of July 31, 2017; which, in accordance with SBS authorization, was registered in December 2017, reducing the balance maintained in the "Legal Reserve" caption of the Shareholders' equity, see Note 16 (b).

(f) Loan portfolio and provision for loan losses –
On July 31, 2017, as a consequence of the liquidation process of Caja Rural de Ahorro y Créditos Señor de Luren S.A. in Liquidation, the Fund remove from the accounts receivable (Trust Agreement - COFIDE) the debt balance of this entity and reclassified it in the "Loan Portfolio" caption of the statement of financial position amounting to S/87,587,000; also, reclassified from the provisions for accounts receivable to provisions for loan losses an amount of approximately S/23,987,000, see Notes 7(a) and 6(e).

The Fund determines the provision for loan losses in accordance with the provisions of Resolution SBS No11356-2008 "Regulation for the evaluation and classification of the debtor and the requirement of provisions". In accordance with said Resolution, a classification of the borrowers is made in the following categories: (i) normal, (ii) with potential problems, (iii) substandard, (iv) doubtful or (v) loss, based on the non-payment risk grade of each debtor.

The provision is computed considering the risk classification assigned and using specific percentages, which vary depending upon whether the loans are backed by preferred self-liquidating guarantees – LWHLPG (cash deposits and rights over credit letters) or by preferred guarantees that may be readily liquidated – LWRPG (treasury bonds issued by the Peruvian National Government, marketable securities listed within the Selective Index of the Lima Stock Exchange, among others) or by other preferred guarantees – LWPG (primary pledge on financial instruments and property, primary pledge on agricultural or mining concessions, insurance on export credits, among others). The guarantees received are considered at their net realizable value as determined by independent appraisers. Likewise, computing the provision must consider the credit classification of the guarantor or guaranteeing party for credits subject to counterparty substitution by a financial or insurance entity (CAC). As of December 31, 2017, the following percentages are used:

Risk category	LWG (i) %	LWPG (ii) %	LWRPG (iii) %	LWHLPG (iv) %
Normal	0.70	0.70	0.70	0.70
With potential problems	5.00	2.50	1.25	1.00
Substandard	25.00	12.50	6.25	1.00
Doubtful	60.00	30.00	15.00	1.00
Loss	100.00	60.00	30.00	1.00

Where:

(i) Loans Without Guarantees.

(ii) Loans With Preferred Guarantees.

(iii) Loans With Readily Preferred Guarantees.

(iv) Loans With Highly Liquid Preferred Guarantees.

In addition to the provision for credit rating of the debtors, the SBS requires pro-cyclical provisions which are calculated for the credits classified in the normal category and according to the percentages established by the SBS. As of December 31, 2017, the pro cyclical component of the provision is deactivated.

(g) Derivative financial instruments -

SBS Resolution No. 1737-2006 "Regulation for Trading and Accounting of Derivatives for Financial Entities" and its amendments establishes the criteria for the accounting of transactions with derivatives classified as trading and hedging, as well as embedded derivatives, as explained below:

Trading derivatives

Derivative financial instruments are initially recognized in the statement of financial position of the Fund at cost and are subsequently carried at fair value, recognizing an asset or liability in the statement of financial position and the correspondent gain or loss in the income statements. Also, transactions with derivative financial instruments are recorded in off-balance sheet accounts at the notional amount of the committed currency; See Note 14.

The fair values are determined based on market exchange rates and interest rates.

Hedging derivatives -

A derivative financial instrument that seeks to achieve economic coverage of a certain risk is designated as accounting hedge if, on the date of its negotiation, it is expected that changes on its fair value or cash flows will be highly effective in offsetting changes in the fair value or cash flows of the item hedged from the inception, this expectation must be documented when the derivative instrument is first traded and throughout the period during which the hedge is in effect. A hedge is considered as highly effective if it is expected that changes in the fair value or cash flows of the hedged item and the hedging instrument ranges between 80 and 125 percent.

As of December 31, 2017 and 2016, the Fund held cash flow hedge instruments, see Note 14. For this type of hedging instruments, the effective portion of changes in the fair value of hedging derivatives is recognized directly in equity, in the caption "Unrealized results" as a cash flow hedges reserve, net of the related taxes, and any gain or loss related to the ineffective portion is recognized immediately in the income statements. Amounts accumulated in equity for hedging cash flows are transferred to the income statements in the periods when the hedged item is recorded in the income statements or when an expected transaction occurs.

In the event that the SBS considers that the documentation is insufficient or finds weaknesses on the methodology applied, it may require the elimination of the hedging accounting and record the derivative financial instrument as a trading instrument; in consequence, from that moment on any change in the fair value must be recorded in the income statements.

On the other hand, if the hedge instrument expires, is sold, settled or exercised, or at the moment that the hedge instrument does not comply with the required accounting criteria for hedges, the hedge is terminated in a prospectively manner and the balances recorded in the equity are transferred to the income statements during the hedged item's term.

Embedded derivatives -
According to SBS rules, as of December 31, 2017 and 2016, the Fund does not hold any financial instrument with embedded derivatives that must be separated.

(h) Available-for-sale and held-to-maturity investments -
Investments are evaluated following SBS Resolution No.7033-2012 "Regulation of Classification and Valuation of Investments of Financial System Companies" and by laws.
The criteria for the classification and valuation of investments are as follows:

- Classification
  (i) Investments at fair value through profit and loss
  This category has two sub-categories:
    - Investments for trading, are acquired with the purpose of selling or repurchasing in the short term.
    - Investments at fair value through profit and loss, since their inception, are part of an identified portfolio of financial instruments that are managed together and for which there has been a demonstrated recent pattern of taking gains in the short term.

  As of December 31, 2017 and 2016, the Fund does not hold any instruments classified under this sub-categories.

  (ii) Available-for-sale investments
  Investments designated into this category are held for an indefinite period and may be sold for purposes of liquidity, changes in interest rates, exchange rates or cost of capital; or do not qualify to be registered at fair value through profit and loss or held-to-maturity.

  (iii) Held-to-maturity investments
  The financial instruments that are classified in this category must comply with the following requirements:

    - Be acquired or reclassified for the purpose of holding them until their maturity date; except for the cases when their sale, assignment or reclassification are allowed by the SBS.
    - They must have risk classifications as required by the SBS.

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

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

- Initial recognition and measurement of investments maintained by the Fund -
  (i) Available-for-sale Investments: The initial accounting record is performed at fair value, including the transaction costs that are directly attributable to their acquisition. Their valuation corresponds to fair value and the gain or loss originated from the change between their initial recognition and fair value is recorded directly in equity, unless an impairment loss is recorded. When the financial instrument is sold, the gain or loss, previously recorded as a part of the equity, is transferred to the income statements of the period.

  In the case of debt securities, previously to the valuation at fair value, the amortized cost is updated in the accounts applying the effective interest rate method, and the difference between the amortized cost and the fair value is recognized as gains and losses.

  (ii) Held-to-maturity investments: Their initial accounting is at fair value, including the transaction costs that are directly attributable to their acquisition. Their valuation corresponds to the amortized cost by applying the effective interest rate method.

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

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

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

  (i) First filter:
  On a quarterly basis the following conditions on the entire representative portfolio of debt and equity investments must be assessed:
    - Significant decrease of fair value: In case the fair value at the date of the financial statements has decreased below 50 percent of the purchasing cost.

- Prolonged decrease of fair value: In case the monthly average fair value decreases consecutively during the last 12 months, and the cumulative fall of the fair value in said period is at least 20 percent.

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

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

- Impairment of the financial position or financial ratios of the issuer or its economic group.
- Adverse conditions of the investment and the issuer. Adverse conditions include adverse changes in the economic environment, technological or market in which the issuer or investment operates.
- Downgrading of the risk classification as consequence of additional factors to the aforementioned.
- Interruption of the interest or principal payments due to financial difficulties of the issuer.
- Interruption of transactions or of an active market due to financial difficulties of the issuer.
- Forced renegotiation of the contractual conditions of the instrument due to legal or economic factors related to the issuer.
- Evidence that the issuer will enter into a forced restructuring or bankruptcy process.
- Decrease in value due to legislation changes (taxes, regulatory or other governmental).
- The entity does not have the intention and capability to hold the investment with losses up until the recovery of its value. In such case, it will be necessary to perform a forecast of the estimated time needed to recover the value and an assessment of the evidence that shows, on the basis of historical information and the financial position of the Fund, whether there is the intention and capability to maintain the investment all through that period of time.

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

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

- Recognition of exchange differences -
  Any gains or losses from currency exchange differences related to the amortized cost of debt instruments are recorded in the income statements, while those related to the difference between the amortized cost and the fair value are recorded in the statements of shareholder's equity as part of the unrealized results. In the case of equity instruments, they are considered non-monetary items and, consequently, they remain at their historical cost in local currency, which means that any exchange differences are part of their valuation and are recognized as part of the unrealized results in the statements of shareholder's equity.

- Changes in classification category -
  During 2016, the Fund reclassified a group of available-for-sale investments into held-to-maturity investments category amounting to S/620,965,000. See Note 5(g). In the case of changes in the classification category from available-for-sale investment to held-to-maturity investment, the fair value of the financial asset on the date of transaction becomes its new amortized cost. Any previous gain or loss of the asset that has been recognized in other comprehensive income shall be amortized over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall be amortized using the interest rate method during the life of the financial instrument in a similar manner as the amortization of a premium or discount. If the asset subsequently becomes impaired, any gain or loss remaining in other comprehensive income shall be reclassified to profit or loss.

(i) Accounts receivable related to CRC-PBP trusts -
Includes the assets of the CRC-PBP Trusts, which correspond to assets (due from banks, investments and accrued yields) and liabilities of the Fund, but that in accordance with SBS regulation (SBS Resolution N°980-2006, Regulation for the Fondo MIVIVIENDA S.A."), they must be recorded as a net balance in the caption "Other accounts receivable, net" on the statement of financial position, since the Fund acts like both trustee and trustor. The assets and liabilities included in such trusts are valued according to the criteria of the Fund for similar items, as described in this note.

Also, the surplus (deficit) generated by the aforementioned trusts are recorded in the caption "Interest income and expenses" of the income statements, see Note 19.

The CRC-PBP trusts were established in 2007 to ensure that sufficient resources are available to meet the Fund's obligations that come from the contracts to provide with CRC and PBP coverage, signed with certain IFI; as well as to manage the resources efficiently.

(j) Other accounts receivable, net -

Includes accounts receivable for term deposits, certificates of deposit, assets received in lieu of payment related to banks in liquidation, and other accounts receivable that, since they are under litigation, do not accrue interest. Any related recovery is recorded on a cash basis.

To determine the allowances for loan losses of these accounts, the Fund assigns a risk rating in accordance with SBS Resolution N°11356-2008.

The allowance for the classification of the portfolio is performed based on the review which Fund´s Management regularly conducts in order to classify it into the categories of "Normal", "With potential problem", "Substandard", "Doubtful" or "Loss", depending on the degree of each borrower's risk of failure to pay. Guarantees received are considered by the Fund only to the extent they are registered in the Public Registry without observations or annotations.

Allowances for borrowers classified as doubtful or loss for over 36 and 24 months, respectively, are determined without considering the value of the guarantees.

Details of the rates by risk category are set forth in item 3(e), corresponding to the accounts receivable with CRC.

(k) Property, furniture and equipment -

Assets in the property, furniture and equipment item are recorded at acquisition cost, less accumulated depreciation.

Depreciation is calculated on a straight-line basis using the following estimated useful lives:

	Years
Buildings	20
Installations	10
Furniture and fixtures	10
Computer equipment	4
Miscellaneous equipment	10
Vehicles	5

Maintenance and repair costs are charged to the results of the period; all renewals and improvements are capitalized only when disbursements improve the condition of the asset and increase its useful life beyond the time originally estimated. The cost and related accumulated depreciation of assets sold or retired are eliminated from the respective accounts and the gain or loss generated is included in the income statement.

(l) Assets received as payments and assets seized through legal actions –
Assets received as payment and assets seized through legal actions (from the resolution of a leasing contract) are initially recorded at the value of judicial adjudication, extrajudicial, market value or debt outstanding value, the lowest; recognizing in turn a provision equivalent to 20 percent of the seized or recovered value of the asset and can be maintained for this purpose the provision that was made by the related credit. As of December 31, 2017 and 2016, the Fund ´s Management has provisioned the assets received as payments and assets seized through legal actions at 100 percent.

Subsequently, additional provisions should be recorded as follows:

- Assets that are not real state – a uniform monthly provision in a term of twelve months, until providing for one hundred percent of the net seized or recovered value.

- Real estate - uniform monthly provisions over the net book value obtained at the twelfth month. In addition, SBS Resolution N°1535-2005 allows a term extension of six months, in such case, a uniform monthly provision must be made over the net book value obtained in the eighteenth month. On both situations, provisions must be made until providing for one hundred percent of the net book value in a term of three and a half years, starting the date monthly provisions began to be provided.

The annual update of these assets’ fair value, determined by an independent appraiser, involves, if necessary, the constitution of an impairment provision.

(m) Intangible assets –
Intangible assets, included in the caption "Other assets, net" of the statement of financial position comprise development and licensing of computer software used in the Fund’s operations. Software licenses purchased by the Fund are capitalized on the basis of costs incurred to acquire and bring to use the specific program. These intangible assets are amortized on a straight-line basis over the estimated useful life of 4 years.

The estimated useful life and amortization method are periodically reviewed to ensure they are consistent with the expected economic pattern of benefits of such assets.

(n) Impairment of long-lived assets –
When events or economic changes indicate that the value of property, furniture and equipment and intangibles may not be recoverable, Management reviews the value of that assets in order to verify that there is no permanent impairment in value. When the book value of the asset exceeds its recoverable amount, an impairment loss shall be recognized in the income statement. An asset’s recoverable amount is the highest between the net selling price and its value in use. The net selling price is the amount that can be obtained from the sale of an asset in a free market, while the value in use is the present value of future expected cash flows from the continued use

of an asset and its disposal at the end of its depreciation period. In Management's opinion, there are no evidences of impairment in the value of such assets as of December 31, 2017 and 2016.

(o) Securities and bonds outstanding -
The liabilities from the issuance of outstanding securities and bonds are accounted for at their nominal value, recognizing accrued interest in the income statements. The discounts granted or incomes generated in the placement are deferred and presented net of its issue value and is amortized over the life of the securities and bonds outstanding by applying the effective interest method.

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

Therefore, the Fund recorded deferred income taxes, considering the guidelines of IAS 12 "Income Tax". The deferred Income Tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes. Deferred assets and liabilities are measured using the tax rates expected to be applied to taxable income in the years in which temporary differences are expected to be recovered or settled. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences which arise from the way in which the Fund expects to recover or eliminate the carrying amount of its assets and liabilities at the statements of financial position dates.

Deferred income tax assets and liabilities are recognized regardless of when the temporary differences are likely to reverse. Deferred tax assets are recognized when it is probable that sufficient taxable income will be generated against which the deferred tax assets can be offset. At the date of each statements of financial position, Management evaluates the non-recognized deferred assets and the carrying amount of the recognized deferred tax assets, recording deferred assets not previously recognized to the extent that probable future tax benefits will allow their recovery, or reducing a deferred asset to the extent that it is not likely that future tax benefits will be sufficient to allow the use of part or all of the deferred assets previously recognized.

In accordance with IAS 12, the Fund determines its deferred tax considering the tax rate applicable to its non-distributed earnings; any additional tax on dividends distribution is recorded on the date a liability is recognized.

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

(r) Contingencies -
Contingent liabilities are not recognized in the financial statements. They are disclosed in notes, unless the possibility of an outflow of resources is remote.

Contingent assets are not recorded in the financial statements; they are disclosed if it is probable that an inflow of economic benefits will be realized.

(s) Cash and cash equivalents -
Cash and cash equivalents considered in the statements of cash flows correspond to balances of available funds of the statement of financial position; which include deposits with original maturities less than or equal to 91 days, excluding the available funds included in the trusts, see Note 8(c).

(t) International Financial Reporting Standards (IFRS) -

(t.1) IFRS issued and in force in Peru as of December 31, 2017 -
During 2017, the Consejo Normativo de Contabilidad (Peruvian Accounting Council, henceforth "CNC" for its Spanish acronym) issued the following resolutions, through which it formalized the following norms:

- Resolution No. 002-2017-EF/30 issued on April 28, 2017, which formalized the annual improvements to 2014-2016 IFRS Cycle, the interpretation of IFRIC 22 "Transactions in Foreign Currency and Advance Considerations" and the amendments to IAS 40 "Investment Properties".

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

- Resolution N° 005-2017-EF/30 issued on December 13, 2017, by means of which the application of IFRS 15 "Revenue from ordinary activities arising from contracts with customers" was postponed until January 1, 2019.

The application of these rules is from the day after the issuance of the Resolution or later, as the entry into force stipulated in each specific standard.

(t.2) IFRS issued but not in force as of December 31, 2017 –

Issued in 2017:

- IFRS 17 "Insurance Contracts", effective for annual periods beginning on or after January 1, 2021.
- IFRIC 23 "Uncertainty in the Treatment of Income Taxes", effective for annual periods beginning on or after January 1, 2019.

Issued in 2016:

- IFRS 16 "Leases" effective for annual periods beginning on or after January 1, 2019.
- IFRIC 22 "Foreign Currency Transactions and Advance Payments" effective for annual periods beginning on or after January 1, 2018.
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions", effective for annual periods beginning on or after January 1, 2018.
- Clarifications to IFRS 15 "Revenue from Contracts with Customers", effective for annual periods beginning on or after January 1, 2018.
- Improvements (cycles 2014 - 2016) to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures", effective for annual periods beginning on or after January 1, 2018.

Issued until 2015:

- IFRS 9 "Financial Instruments: Classification and Measurement", effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 "Revenue from Contracts with Customers ", effective for annual periods beginning on or after January 1, 2018.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" effective for annual periods beginning on or after a date to be determined by the IASB.

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

4. Cash and due from banks

This item is made up as follows:

	2017 S/(000)	2016 S/(000)
Peruvian Central Bank (b)	95	133
Current and saving accounts (c)	946,891	556,772
Time deposits (d)	220,140	92,037
Other available funds	523	463
Accrued yields from available funds	18,938	4,826
Cash and cash equivalents	1,186,587	654,231
Plus		
Time deposits over 91 days (e)	1,667,477	424,000
Total available funds	2,854,064	1,078,231

(b) These Peruvian Central Bank deposits corresponds to balances in soles and U.S. Dollars, they are freely available, do not bear interest and are mainly used for transactions with COFIDE, under the Trust Agreement the Fund signed with this entity.

(c) Current and saving accounts correspond mainly to accounts denominated in soles and U.S. Dollars, they are freely available and, mainly, bear interest at market rates. The table below presents the current and saving accounts as of December 31, 2017 and 2016:

	2017 S/(000)	2016 S/(000)
Current accounts		
Banco Internacional del Perú S.A.A. – Interbank	604,149	15,728
Banco de la Nación S.A.	175,561	68,465
BBVA Banco Continental S.A.	110,650	164,728
Banco de Crédito del Perú S.A.	53,552	24
Scotiabank Perú S.A.A.	1,017	304,427
	944,929	553,372
Saving accounts		
BBVA Banco Continental S.A.	1,962	3,400
Total	946,891	556,772

(d) As of December 31, 2017, it corresponds to time deposits in local banks in soles and U.S. Dollars, which are freely available, bear interest at effective annual rates between 3.45 and 3.65 percent and with original maturities less than or equal to 91 days. As of December 31, 2016, correspond to time deposits in local banks in soles, are freely available and bear interest at effective annual rates between 4.85 and 5.55 percentage and with original maturities less than or equal to 91 days.

(e) As of December 31, 2017, it corresponds to time deposits in local banks in soles, are freely available, bear interest at effective annual rates between 3.50 and 5.20 percent and with original maturities greater than or equal to 91 days. As of December 31, 2016, correspond to time deposits in local banks in soles, are freely available and bear interest at effective annual rates between 4.90 and 5.30 percent and with original maturities greater than or equal to 91 days. The table below presents the time deposits over 91 days as of December 31, 2017 and 2016:

	2017 S/(000)	2016 S/(000)
BBVA Banco Continental S.A.	889,330	-
Banco GNB Perú S.A.	204,000	76,000
Mibanco - Banco de la Microempresa S.A.	150,320	123,000
Scotiabank Perú S.A.A.	140,000	-
Crediscotia Financiera S.A.	95,000	95,000
Banco Financiero del Perú S.A.	90,827	85,000
Banco Interamericano de Finanzas S.A.	50,000	45,000
Banco Ripley Perú S.A.	38,000	-
Banco Internacional del Perú S.A.A. – Interbank	10,000	-
Total	1,667,477	424,000

5. Available-for-sale and held-to-maturity investments

(a) The detail of available-for-sale and held-to-maturity investments is as follows:

	2017				2016			
		Unrealized gross amount				Unrealized gross amount		
	Amortized cost S/(000)	Gains S/(000)	Losses S/(000)	Estimated fair value S/(000)	Amortized cost S/(000)	Gains S/(000)	Losses S/(000)	Estimated fair value S/(000)
Available-for-sale investments (d)								
Corporate and financial Bonds (d)	25,994	32	(16)	26,010	-	-	-	-
Certificates of deposit (f)	4,430	17	-	4,447	-	-	-	-
Commercial papers	3,498	13	-	3,511	-	-	-	-
Total	33,922	62	(16)	33,968	-	-	-	-
Plus								
Accrued Interest				148				-
Total Available-for-sale investments				34,116				-
Held-to-maturity investments (d)								
Corporate and financial Bonds (b)	522,152	-	-	522,152	532,124	-	-	532,124
Certificates of deposit	208,260	-	-	208,260	-	-	-	-
Peruvian Sovereign Bonds	31,636	-	-	31,636	31,463	-	-	31,463
Commercial papers	-	-	-	-	1,712	-	-	1,712
Total	762,048			762,048	565,299			565,299
Plus								
Accrued Interest				8,349				7,730
Total Held-to-maturity investments				770,397				573,029
Total				804,513				573,029

(b) The detail of Corporate and financial bonds is as follows:

	2017		2016
	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Held-to-maturity investments S/(000)
Peruvian issuers -			
Corporación Financiera de Desarrollo S.A.	-	104,695	108,603
BBVA Banco Continental S.A.	6,493	54,119	77,165
Hunt Oil Company of Peru L.L.C	-	55,641	57,932
Abengoa Transmision Norte S.A.	-	50,214	52,150
Consorcio Transmantaro S.A.	-	34,435	35,427
Cementos Pacasmayo S.A.A.	-	24,597	25,205
Alicorp S.A.A.	19,517	-	-
Banco Financiero del Perú S.A.	-	7,368	15,291
Leasing Total S.A.	-	5,704	10,424
Los Portales S.A.	-	5,131	6,432
Banco de Crédito del Perú S.A.	-	6,183	6,405
Foreign issuers -			
CorpBanca, Sociedad Anónima Bancaria	-	50,939	33,804
Banco Davivienda S.A.	-	27,036	27,710
Tanner Servicios Financieros S.A.	-	26,107	26,414
Bank of Amerika Corporation	-	21,503	-
Empresas Públicas de Medellín E.S.P.	-	16,065	17,165
Empresa de Energía de Bogotá S.A.	-	13,137	13,623
AES GENER S.A.	-	11,405	11,820
Citigroup Inc.	-	4,875	-
Empresa Nacional de Petróleo	-	2,998	3,139
Inversiones CMPC S.A.	-	-	3,415
Total	26,010	522,152	532,124

(c) As of December 31, 2017, Management has estimated the fair value of the available-for-sale investments based on market quotations, and if not available, based on discounted cash flows using market rates that reflect their credit rating.

(d) As of December 31, 2017 and 2016, the maturities and the annual market yield rates of the available-for-sale and held to maturity investments are as follows:

	Maturity		Annual market interest rates							
	2017	2016	2017				2016			
			S/		US$		S/		US$	
			Min %	Max %	Min %	Max %	Min %	Max %	Min %	Max %
Available-for-sale investments										
Corporate and financial bonds	April-18/Jul-18	-	4.91	4,91	1.69	1.69	-	-	-	-
Certificates of deposit	Oct-18	-	4.61	4.92	-	-	-	-	-	-
Commercial Papers	Oct-18	-	8.40	8.40	-	-	-	-	-	-
Held-to-maturity investments										
Corporate and financial bonds	Jan-18/Oct-28	Jan-17 / Oct-28	-	-	1.68	7.61	-	-	2.32	7.61
Certificates of deposit	Sept-18/Oct-18	-	5.7	5.7	1.84	1.84	-	-	-	-
Peruvian Sovereign Bonds	Aug-26 / Feb-42	Aug-26 / Feb-42	4.10	6.95	-	-	4.10	6.95	-	-
Commercial Papers	-	Jun-17	-	-	-	-	7.22	7.22	-	-

(e) During 2017, the Fund acquired the following debt instruments which are classified as available for sale:

	Nominal value S/(000)	Book value S/(000)
Corporate and financial bonds	26,482	26,010
Certificates of deposit (*)	4,638	4,447
Commercial Papers (**)	3,500	3,511
Total	34,620	33,968
Plus		
Accrued yield		148
		34,116

(*) Corresponds mainly to Certificate of deposit from Financiera Confianza S.A. and Compartamos Financiera S.A. acquired for a nominal value amounting to S/3,175,000 and S/1,463,000, respectively.

(*) Corresponds mainly to commercial papers of Ingenieros Civiles y Contratistas Generales S.A. acquired for a nominal value amounting to S / 3,500,000.

(f) During 2017, the Fund acquired the following debt instruments, which were classified as held to maturity:

	Nominal value S/(000)	Book value S/(000)
Corporate and financial bonds	54,125	55,043
Certificates of deposit (*)	208,255	209,562
	262,380	264,605

(*) Corresponds mainly from Certificates of deposit from Financiera Oh S.A. and Industrial and Commercial Bank of China Ltd. acquired for a nominal value amounting to S/30,000,000 and US$55,000,000 (equivalent to S/178,255,000), respectively.

(g) During 2016, the Fund reclassified Corporate and Financial, and Peruvian Sovereign Bonds classified as available-for-sale investments into held-to-maturity investments. The carrying values at the dates of reclassification amounted to approximately S/620,965,000 and the unrealized loss accumulated in net equity amounted to S/11,846,000, see Note 16(c); this latter amount shall be transferred to results during the remaining term of the instruments. During 2017 and 2016, approximately S/1,660,000 and S/1,494,000 have been transferred to net income, respectively, see Note 16(c). As of December 31, 2017 and 2016, the carrying value, which also includes the accrued interest, of said investment amounts to S/529,078,000 and S/564,811,000, respectively.

(h) As of December 31, 2017 and 2016, some Corporate and Financial bonds denominated in U.S. dollars, classified as held-to-maturity investments, have exposure to exchange rate risk, being hedging by cross currency swaps (CCS) for a nominal amount of approximately US$35,090,000 (equivalent to S/113,727,000 and S/117,763,000, respectively), see Note 14.

(i) The table below presents the balance of available-for-sale and held-to-maturity investments as of December 31, 2017 and 2016, classified by contractual maturity:

	2017		2016	
	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)
Due within 1 to 3 months	-	96,743	-	32,181
From 3 months to 1 year	34,116	313,767	-	7,218
From 1 to 5 years	-	265,668	-	370,791
Over 5 years	-	94,219	-	162,839
Total	34,116	770,397	-	573,029

6. Accounts receivable, net (Trust Agreement - COFIDE)

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Nuevo Crédito MIVIVIENDA	5,898,721	5,612,967
Crédito MIVIVIENDA Tradicional	181,544	259,819
Crédito Complementario Techo Propio	93,498	109,054
Crédito MIHOGAR	81,283	101,000
Crédito MICONSTRUCCIÓN	48,729	57,577
Crédito MIVIVIENDA Estandarizado	7,789	9,669
Crédito MICASA MAS	9,252	8,306
Crédito MITERRENO	574	345
	6,321,390	6,158,737
Plus (less)		
Accrued yields from accounts receivable	16,344	16,719
Allowance for doubtful accounts (e)	(130,924)	(72,058)
Total	6,206,810	6,103,398

As described in Note 2, the Fund disburses financial resources to the Trust - COFIDE on a monthly basis to be channeled to the sub borrowers through the IFI. Likewise, the Trust - COFIDE transfers to the Fund on a monthly basis the collections, prepayments or cancellations of accounts receivable made by IFI.

As of December 31, 2017 and 2016, the number of IFI and sub borrowers is 35 and 89,810, and 36 and 90,173, respectively. Also, as of December 31, 2017 and 2016, 82.91 and 82.26 percent of these accounts receivable are concentrated in 6, respectively.

The financial resources that the Fund channels through COFIDE under the Trust Agreement, are used by IFI in the granting of mortgage credits in accordance with article 12 of Supreme Decree N°001-99-MTC.

(b) The table below presents the balances of accounts receivable (Trust Agreement - COFIDE) in accordance with the credit risk coverage of the loans promoted by the Fund:

	2017		
Products	**With Credit Risk Coverage** S/(000)	**Without Credit Risk Coverage** S/(000)	**Total** S/(000)
Nuevo crédito MIVIVIENDA	2,038,797	3,859,925	5,898,722
Crédito MIVIVIENDA Tradicional	96,600	84,944	260,046
Crédito complementario Techo Propio	45,419	48,079	93,498
Crédito MIHOGAR	30,069	51,214	81,283
Crédito MICONSTRUCCIÓN	6,617	42,112	48,729
Crédito MIVIVIENDA Estandarizado	2,553	5,236	7,789
Crédito MICASA MAS	1,389	7,863	9,316
Crédito MITERRENO	104	470	574
	2,221,548	4,099,843	6,321,390

	2016		
Products	**With Credit Risk Coverage** S/(000)	**Without Credit Risk Coverage** S/(000)	**Total** S/(000)
Nuevo crédito MIVIVIENDA	18,411	5,594,556	5,612,967
Crédito MIVIVIENDA Tradicional	6,735	253,084	259,819
Crédito complementario Techo Propio	13	109,041	109,054
Crédito MIHOGAR	107	100,893	101,000
Crédito MICONSTRUCCIÓN	179	57,398	57,577
Crédito MIVIVIENDA Estandarizado	-	9,669	9,669
Crédito MICASA MAS	-	8,306	8,306
Crédito MITERRENO	-	345	345
	25,445	6,133,292	6,158,737

(c) Accounts receivable are classified by credit risk in accordance to SBS Resolutions in force as of December 31, 2017 and 2016. As described in Note 3(e), the allowance for doubtful accounts is determined based on the classification of both the sub borrower and the IFI.

The table below details the classification of accounts receivable according to IFI risk category, which granted MIVIVIENDA loans:

	As of December 31, 2017		As of December 31, 2016	
Risk category	**Total** S/(000)	%	**Total** S/(000)	%
Normal	4,010,042	63.44	5,865,941	95.25
With potential problem	89,801	1.42	118,345	1.92
	4,099,843	64.86	5,984,286	97.17
Total	6,321,390	100.00	6,158,737	100

The table below details the classification of accounts receivable corresponding to the balance for accounts receivable with credit risk coverage by risk category of the sub borrowers, determined on the basis of the consolidated credit report (RCC):

	As of December 31, 2017	
Risk category	S/(000)	%
Normal	1,968,766	31.14
With potential problem	38,457	0.61
Substandard	41,163	0.65
Doubtful	76,590	1.21
Loss	96,571	1.53
Accounts receivable (Trust Agreement - COFIDE) in accordance with Credit Risk Coverage Balance	2,221,548	35.14
Total	6,321,390	100.00

(d) Interest rates applied to the products correspond to fixed rates established for the purpose of promoting the granting of each type of loan as follows:

	2017 and 2016 %
Nuevo Crédito MIVIVIENDA (*)	7.10
Crédito MIVIVIENDA Tradicional	7.75
Crédito Complementario Techo Propio	8.00
Crédito MIHOGAR	7.60
Crédito MI CONSTRUCCIÓN	8.00
Crédito MIVIVIENDA Estandarizado	6.90 and 7.30
Crédito MICASA MAS (**)	7.70
Crédito MITERRENO	9.00

(*) The interest rate of the product Nuevo Crédito MIVIVIENDA, was modified from 6.60 to 7.10 percent, by Board of Directors agreement N°08-21D-2016 dated November 9, 2016.

(**) The interest rate of the product Crédito MICASA MAS, was modified from 6.50 to 7.70 percent, by Board of Directors agreement N°05-08D-2016 dated April 29, 2016.

(e) Changes in the allowance for doubtful accounts, as determined by the classification and percentages indicated in Note 3(e), are shown below:

	2017 S/(000)	2016 S/(000)
Balance at the beginning of the year	(72,330)	(64,194)
Provision recognized by reduction of Legal Reserve, see Note 16(b)	(71,027)	-
Allowance recognized as expense of the year	(25,937)	(25,353)
Reclassification to provision for loan losses (**)	23,987	-
Provision recoveries	9,338	17,298
Exchange result, net	81	(81)
Balance at the end of the year (*)	(135,888)	72,330

(*) The balance of the allowance for doubtful accounts includes the balance of the provision for credit risk coverage corresponding to the non-concessional tranche of the accounts receivable (Trust Agreement - COFIDE) portfolio sold in 2007, amounting to S/4,964,000 and S/272,000 as of December 31, 2017 and 2016, respectively. These provisions are presented in the "Other accounts payable" caption of the statement of financial position, see Note 13 (a).

(**) Corresponds to the reclassification of the allowance for accounts receivable to the provision for loan losses, see Notes 3 (f), and 7 (b) and (f).

In Management's opinion, the allowance for doubtful accounts recorded as of December 31, 2017 and 2016, complies with SBS regulations for the Fund in force as of those dates.

(f) The table below presents the account receivable portfolio as of December 31, 2017 and 2016, classified by maturity dates:

	2017 S/(000)	2016 S/(000)
Not mature		
Due within 1 month	36,598	58,754
From 1 to 3 months	110,639	70,626
From 3 months to 1 year	484,386	351,548
From 1 to 3 years	1,418,047	1,323,285
More than 3 years	4,271,720	4,354,524
	6,321,390	6,158,737

7. Loan portfolio, net

(a) The caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Outstanding	47,963	-
Past due	34,505	-
Refinanced	44	-
Under legal collection	155	-
	82,667	-
Plus (minus)		
Accrued interest from current loans	375	-
Provision for loan losses (e)	(32,087)	-
Total	50,955	-

(b) Through SBS Resolution No.3503-2015 dated June 19, 2015, Caja Rural de Ahorro y Créditos Señor de Luren, hereinafter "Caja Luren", entered into official liquidation process. In this context, the debts that Caja Luren had with their debtors, including the Fund, became insolute; for this reason, Caja Luren began to execute certain guarantees that safeguarded the related loans. Said liquidation process implied the compliance with the conditions set forth in clause N°13 of the "Agreement for Channeling the Resources from Fondo MIVIVIENDA". As a result, the Fund made the following transactions:

(i) Execution of clause N°13, corresponding to the assignment of rights over said loan portfolio, in favor of the Fund under the "Agreement for Channeling the Resources from Fondo MIVIVIENDA" subscribed by COFIDE and Caja Rural de Ahorro y Créditos Señor de Luren S.A. on October 19, 1999.

(ii) On July 17, 2017, it subscribed assignment agreements with Caja Municipal de Ahorro y Crédito Sullana and with Financiera Efectiva S.A. through which the Fund transferred them part of the loan portfolio, amounting to S/22,514,000 and S/12,067,000, respectively, which were included in the "Accounts receivable, net (Trust Agreement - COFIDE)" caption and corresponded to debt balances from Caja Luren. Likewise, through agreements with said IFI, the Fund granted them with management of the non-transferred portfolio amounting to S/87,587,000. See Note 20 (a).

(iii) On July 31, 2017, the Fund removed from COFIDE Trust Agreement and from the corresponding account the debt balance due by Caja Luren in Liquidation amounting to S/87,587,000 and reclassified to provisions for loan losses S/23,987,000 from the "Allowance for doubtful accounts" caption, see Notes 6 (e) and (f).

(c) As of December 31, 2017, the balances of the loans by product type, are as follows:

	Number of borrowers		Total amount	
	2017	2016	2017 S/(000)	2016 S/(000)
Nuevo Crédito MIVIVIENDA	1,208	-	80,300	-
Crédito Complementario Techo Propio	959	-	11,432	-
Crédito MIVIVIENDA Tradicional	19	-	589	-
Crédito MIHOGAR	1	-	50	
Deferred income	-	-	(9,704)	-
	2,187	-	82,667	-

(d) As of December 31, 2017, the loan portfolio is backed by preferred and non-preferred guarantees amounting to S/ 62,789,000 and US$1,532,000, respectively (equivalent to S/4,965,000, and S/124,751,000, respectively).

(e) According to SBS regulations, as of December 31, 2017 the credit risk classification of the loan portfolio is as follows:

	Number of borrowers		Total amount	
	2017	2016	2017 S/(000)	2016 S/(000)
Normal	908	-	42,028	-
With potential problem	117	-	3,644	-
Substandard	116	-	4,514	-
Doubtful	293	-	10,965	-
Loss	753	-	21,516	-
	2,187	-	82,667	-

(f) The changes in the provision for loan losses were as follows:

	2017 S/(000)	2016 S/(000)
Balance at the beginning of the year	-	-
Reclassification from allowance for doubtful accounts, see Note 6(e)	(23,987)	-
Provision recognized as expense of the year	(8,100)	-
Exchange difference, net	-	-
Balance at the end of the year	(32,087)	-

In Management´s opinion, the provision for loan losses as of December 31,2017, is according with SBS requirements as of that date, see Note 3(f).

(g) Annual effective interest rates of this loan portfolio were determined based on market conditions. As of December 31, 2017, the minimal and maximum annual interest rate in local currency was 9.00 and 13.50 percent, respectively.

(h) Interest, commissions and expenses on credits or installments that are in past due situation, under legal collection, or classified in doubtful and loss categories, are recorded as income or suspense income and are recognized as an income in the income statement when they are effectively collected. As of December 31, 2017, the amount not recognized as income for this concept amounts to S/10,162,000.

(i) The table below presents the loan portfolio balance classified by maturity dates as of December 31, 2017:

	2017		2016	
	S/(000)	%	S/(000)	%
Outstanding -				
Due within 1 month	262	0.32	-	-
From 1 to 3 months	561	0.68	-	-
From 3 months to 1 year	2,399	2.90	-	-
From 1 to 5 years	17,330	20.96	-	-
Over 5 years	30,378	36.75	-	-
	50,930	61.61	-	-
Past due and under legal collection	41,441	50.13	-	-
Deferred income	(9,704)	(11.74)		
Total	82,667	100.00	-	-

8. Other accounts receivable, net

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Accounts receivable from banks in liquidation (b)	99,877	100,512
Accounts receivable from CRC-PBP Trusts in soles and U.S. Dollars (c)	87,301	82,352
Margin call (d)	20,062	-
Accounts receivable from Ex–CONEMINSA portfolio (e)	13,138	13,326
Other accounts receivable	1,937	1,314
	222,315	197,504
Less – Allowance for doubtful accounts (f)		
Banks in liquidation (b)	(99,877)	(100,512)
Ex-CONEMINSA Portfolio (e)	(12,677)	(12,816)
Other accounts receivable	(1,021)	(1,037)
	(113,575)	(114,365)
Total	108,740	83,139

(b) Corresponds to accounts receivable generated by time deposits, certificates of deposit, among other, held by the Fund, before being a financial entity supervised by the SBS (prior to January 2006), with certain financial institutions that later went into liquidation process.

The detail of accounts receivable balances and their respective allowance, as of December 31, 2017 and 2016, is as follows:

	2017 S/(000)	2016 S/(000)
Capital		
Banco Nuevo Mundo, in liquidation (i)	53,157	53,533
Banco República, in liquidation (i)	39,935	39,935
Banco Banex, in liquidation – in lieu of payment (i)	4,491	4,653
Banco República, in liquidation – in lieu of payment (i)	2,294	2,391
	99,877	100,512
Less: Allowance for loan losses		
Banco Nuevo Mundo, in liquidation (i)	(53,157)	(53,533)
Banco República, in liquidation (i)	(39,935)	(39,935)
Banco Banex, in liquidation – in lieu of payment (i)	(4,491)	(4,653)
Banco República, liquidation – in lieu of payment (i)	(2,294)	(2,391)
	(99,877)	(100,512)
Net	-	-

(i) During the liquidation process, conducted under the supervision and intervention of SBS, the Fund has received property assets, real estate, and collection of loans as part payment of these debts, see paragraph (f) below.

Management recorded an allowance for 100 percent of portfolio of Banco Nuevo Mundo, Banco República and Banco Banex, all of them under liquidation process, and recognizes the recoveries received based on their realization. During 2017, the Fund has received in cash from Banco Nuevo Mundo in liquidation, Banco Banex in liquidation and Banco República in liquidation payments amounting to S/376,000, S/2,000 and S/48,000, respectively, as part of recoveries from fully provisioned accounts receivable. During 2016, the Fund has received in cash from Banco Nuevo Mundo in liquidation, Banco República in liquidation and Banco Banex in liquidation payments amounting to S/1,865,000, S/20,000 and S/4,000, respectively, as part of recoveries from fully provisioned accounts receivable.

Management believes that the allowance for accounts receivable from banks in liquidation recorded as of December 31, 2017 and 2016 is sufficient for covering the risk of collectability related.

(c) Corresponds to the balance of the net assets (total assets less total liabilities) of the trusts managed by the Fund, which ensure the payment of credit risk coverage (CRC) to the IFI and the good payer award (PBP) to those who access this benefit as part of the credit programs offered by the Fund. The balances mentioned are as follows:

	2017 S/(000)	2016 S/(000)
CRC-PBP Trust - soles	41,647	38,808
CRC-PBP Trust – U.S. dollars	45,654	43,544
Net	87,301	82,352

As described in Note 1, through constitutional acts signed in June 2007 by the Fund as trustee and trustor simultaneously, both CRC-PBP trusts were constituted for the purpose of allowing the availability of resources to fulfill the obligations of the Fund arising from the service contracts CRC and PBP (Credit Risk Coverage - CRC and payment of the Good Payer Award - PBP) signed with some IFI, as well as allowing those resources to be managed efficiently, according to the provisions established by the Regulation and Manual of policies and processes of the PBP-CRC trusts; as well as the Manual of policies and procedures of investment that are part of the appendixes of the constitutive acts.

Accounting for these trusts is performed in accordance with the provisions of SBS Resolution N°980-2006 "Regulations for Fondo MIVIVIENDA S.A.", that is, in a single account in the Fund's statement of financial position, see Note 3(i). As of December 31, 2017 and 2016, Trust accounting are kept for control purposes and shown their balances as follows:

CRC-PBP trust **Soles**	2017 S/(000)	2016 S/(000)
Statement of financial position		
Assets		
Cash and due from banks	4,165	7,403
Available-for-sale financial investments (*)	21,107	3,333
Held-to-maturity investments (*)	16,354	28,072
Other accounts receivable	21	-
Total assets	41,647	38,808
Net equity and surplus		
Surplus from collections, net	2,703	2,474
Unrealized results	(676)	(1,069)
Retained earnings	39,620	37,403
Total equity and net surplus, see Note 19	41,647	38,808

(*) During 2016, the CRC-PBP trust – Nuevos Soles reclassified investments classified as available-for-sale to investments into held-to-maturity investments. The carrying values at the dates of reclassification amounted to approximately S/33,683,000 and the unrealized loss accumulated in net equity amounted to S/1,344,000; this latter amount shall be transferred to results during the remaining term of the instruments. During 2017 and 2016, the Trust transferred approximately S/228,000 and S/282,000 to net income, respectively.

CRC-PBP Trust Soles	2017 S/(000)	2016 S/(000)
Income statements		
Income		
Interest income	2,404	2,437
Investment valuation, net	63	-
Total income	2,467	2,437
Expenses		
Administration fee	(241)	(229)
Tax on financial transactions	(2)	(1)
Miscellaneous expense for financial services	(7)	(6)
Total expenses	(250)	(236)
Net surplus, see Note 19	2,217	2,201

CRC-PBP trust U.S. Dollars		
Statement of financial position		
Assets		
Cash and due from banks	8,417	9,551
Available-for-sale financial investments (*)	10,124	2,030
Held-to-maturity investments (*)	27,095	31,945
Account receivable	18	18
Total assets	45,654	43,544
Net equity and surplus		
Initial equity	21,013	21,013
Surplus from collections, net	8,631	8,225
Unrealized results	(1,246)	(1,594)
Retained earnings	17,256	15,900
Total equity and net surplus, see Note 19	45,654	43,544

(*) During 2016, the CRC-PBP trust – US Dollars reclassified investments classified as available-for-sale to investments into held-to-maturity investments. The carrying values at the dates of reclassification amounted to approximately S/35,327,000 and the unrealized loss accumulated in net equity amounted to S/1,784,000; this latter amount shall be transferred to results during the remaining term of the instruments. During 2017 and 2016, the Trust transferred approximately S/296,000 and S/343,000, to net income, respectively.

CRC-PBP Trust U.S. Dollars	2017 S/(000)	2016 S/(000)
Income statements		
Income		
Interest income	2,209	2,112
Total income	2,209	2,112
Expenses		
Exchange result, net	(578)	(266)
Administration fee	(265)	(261)
Tax on financial transactions	(2)	(1)
Miscellaneous expense for financial services	(8)	(6)
Total expenses	(853)	(534)
Net surplus, see Note 19	1,356	1,578

(d) As of December 31, 2017, it corresponds to the guarantee margin required by the counterparty as a result of the valuation of the derivative financial instruments, which accrued a daily effective interest rate of 0.3694 percent as of that date.

(e) Corresponds to the portfolio of accounts receivable of mortgage loans granted by Compañía de Negociaciones Mobiliarias e Inmobiliarias S.A. – CONEMINSA, which was received by the Fund under an in lieu of payment Agreement signed on December 30, 2003 for its administration and recovery.

(f) The changes in the allowance for other doubtful accounts, as determined by the criteria described in Note 3(i), are presented below:

	2017 S/(000)	2016 S/(000)
Balance at the beginning of the year	114,365	116,477
Plus (less)		
Allowance recognized as expense of the year	206	230
Provision recoveries	(633)	(2,229)
Exchange result, net	(241)	(113)
Others	(123)	-
Balance at the end of the year	113,575	114,365

In Management’s opinion, the allowance for doubtful accounts recorded as of December 31, 2017 and 2016, adequately covers the credit risk of this caption at those dates.

9. Property, furniture and equipment, net

(a) The movement of the caption for the years 2017 and 2016, is as follows:

	Land S/(000)	Buildings S/(000)	Installations S/(000)	Furniture and fixtures S/(000)	Computer equipment S/(000)	Miscellaneous equipment S/(000)	Vehicles S/(000)	work-in progress S/(000)	Total S/(000)
Cost -									
Balance as of January 1, 2016	103	36	62	607	2,216	1,045	732	51	4,852
Additions	-	-	20	136	24	92	201	82	555
Transfers	-	-	(16)	(76)	(409)	(201)	(174)	(17)	(893)
Balance as of December 31, 2016	103	36	66	667	1,831	936	759	116	4,514
Additions	-	-	117	12	68	35	-	-	232
Transfers	-	-	-	-	(436)	(6)	-	(116)	(558)
Balance as of December 31, 2017	103	36	183	679	1,463	965	759	-	4,188
Accumulated depreciation-									
Balance as of January 1, 2016	-	11	58	530	1,910	709	590	-	3,808
Depreciation for the year	-	1	3	18	142	77	61	-	302
Disposals and write-offs	-	-	(14)	(75)	(409)	(176)	(174)	-	(848)
Balance as of December 31, 2016	-	12	47	473	1,643	610	477	-	3,262
Depreciation for the year	-	-	16	29	122	67	72	-	306
Disposals and write-offs	-	-	-	-	(434)	(4)	-	-	(438)
Balance as of December 31, 2017	-	12	63	502	1,331	673	549	-	3,130
Net book value -									
As of December 31, 2016	103	24	19	194	188	326	282	116	1,252
As of December 31, 2017	103	24	120	177	132	292	210	-	1,058

(b) Financial entities in Peru are prohibited from pledging their fixed assets.

(c) In Management's opinion, there is no evidence of impairment of fixed assets held by the Fund as of December 31, 2017 and 2016. As of December 31, 2017, the Fund has fully depreciated fixed assets amounting to S/2,227,000 (S/2,348,000 as of December 31, 2016).

(d) The Fund maintains insurance policies on its key assets in accordance with policies established by Management. For this purposes, as of December 31, 2017 and 2016, the Fund has contracted an insurance policy against all risks that covers the value of the Fund's net assets. In Management's opinion, its insurance policies are consistent with the usual practices in the industry.

10. Other assets, net

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Current income tax asset, net (b)	62,899	20,499
Intangible assets, net (c)	4,366	3,704
Prepaid expenses	1,811	1,775
Others	990	28
Total	70,066	26,006

(b) Current income tax asset, net is made up as follows:

	2017 S/(000)	2016 S/(000)
Provision for income tax, see Note 15(b)	-	(21,868)
Pre payments of income tax	9,896	6,271
Temporary Tax on Net Assets	32,594	32,232
Balance in favor determined in the prior year tax return	20,409	3,864
Total	62,899	20,499

(c) Intangible assets comprise software and licenses for the use of computer equipment which total cost as of December 31, 2017 amounted to S/8,740,000 and its accumulated amortization amounted to S/4,373,000 (cost amounted to S /7,013,000 and accumulated amortization amounted to S/3,309,000 as of December 31, 2016). During 2017 and 2016, acquisitions of intangibles mainly correspond to licenses and software amounting to S/1,727,000 and S/2,121,000, respectively. These intangible assets are amortized under the straight-line method in the years established by Management, see Note 3 (m).

11. Debts and financial obligations

(a) This caption is made up as follows:

Entity	Currency	Maturity	Annual interest rate %	Principal S/(000)	Interest and commissions S/(000)	2017 S/(000)
Banco de la Nación (2 loans)						
Asociación Francesa de Desarrollo - AFD	Euros	2023	0.61 y 1.30	193,332	2,390	195,722
Total				193,332	2,390	195,722

Entity	Currency	Maturity	Annual interest rate %	Principal S/(000)	Interest and commissions S/(000)	2016 S/(000)
Banco de la Nación (2 loans)	Soles	2017 y 2020	4.43 y 6.17	180,000	505	180,505
Asociación Francesa de Desarrollo - AFD	Euros	2023	0.61 y 1.30	175,064	903	175,967
Total				355,064	1,408	356,472

(b) As of December 31, 2017 and 2016, the balance of the caption corresponds to loans received by the Fund to finance its operations.

(c) Debts with banks and other financial institutions include some specific agreements on financial conditions that must be maintained regarding compliance with financial ratios and other administrative matters. Said financial ratios are as follows:

- Foreign currency net general position.
- Consolidated capital ratio.
- Capital adequacy ratio by credit risk.

As of December 31, 2017, the Fund´s Management believes that it has complied with the conditions established for these transactions.

(d) As of December 31, 2017, the loan maintained with Asociación Francesa de Desarrollo – AFD denominated in euros is exposed to exchange rate risk, being hedged by cross currency swaps (CCS), principal only swaps (POS) and interest only swaps (IOS) for a nominal amount of approximately €35,000,000 (equivalent to S/136,275,000),€15,000,000 (equivalent to S/58,403,000), and €15,000,000 (equivalent to S/58,403,000), respectively, see Note 14.

As of December 31, 2016, the loan maintained with Asociación Francesa de Desarrollo – AFD denominated in euros is exposed to exchange rate risk, being hedged by cross currency swaps (CCS) and principal only swaps (POS) for a nominal amount of approximately €35,000,000 (equivalent to S/123,681,000) and €15,000,000 (equivalent to S/53,006,000) , respectively, see Note 14.

(e) The table below presents the balance of debts and financial obligations as of December 31, 2017 and 2016, classified by contractual maturity:

	2017 S/(000)	2016 S/(000)
From 3 months to 1 year	19,572	120,337
From 1 to 5 years	156,578	183,345
Over 5 years	19,572	52,790
Total	195,722	356,472

(f) The table below presents the cash flow from financing activities of debts and financial obligations as of December 3, 2017 and 2016:

		Cash flows		Movements				
	January 1, 2017 S/(000)	Provided S/(000)	Used S/(000)	Exchange difference, net S/(000)	Interest and commissions S/(000)	Amortized cost S/(000)	Changes in the fair value S/(000)	December 31, 2017 S/(000)
Asociación Francesa de Desarrollo – AFD	175,967	-	(2,153)	18,012	3,476	420	-	195,722
Banco de la Nación S.A. (2 loans)	180,505	-	(182,870)	-	2,365	-	-	-
Total	356,472	-	(185,023)	18,012	5,841	420	-	195,722

		Cash flows		Movements				
	January 1, 2016 S/(000)	Provided S/(000)	Used S/(000)	Exchange difference, net S/(000)	Interest and commissions S/(000)	Amortized cost S/(000)	Changes in the fair value S/(000)	December 31, 2016 S/(000)
Asociación Francesa de Desarrollo - AFD	147,220	38,028	(3,666)	(9,530)	3,495	420	-	175,967
Banco de la Nación S.A. (2 loans)	351,091	-	(170,000)	-	(586)	-	-	180,505
Total	498,311	38,028	(173,666)	(9,530)	2,909	420	-	356,472

12. Securities and bonds outstanding

(a) This caption is made up as follows:

	Annual nominal interest rate %	Maturity	Amount issued (000)	Book value 2017 S/(000)	Book value 2016 S/(000)
Domestic issuances					
Corporate Bonds - 1st program (b)					
1st issuance (“A” series)	6.66	April, 2019	S/116,045	115,921	115,837
4th issuance (“A” series)	6.72	July, 2026	S/310,000	309,776	309,764
3rd issuance (“A” series)	7.00	Febrero de 2024	S/1,500,000	1,494,436	-
International issuances					
Corporate Bonds -					
1st issuance (c)	3.50	January, 2023	US$500,000	1,607,468	1,662,178
2nd issuance (d)	3.38	April, 2019	US$300,000	901,043	1,003,534
3rd issuance (e)	1.25	June, 2018	CHF250,000	831,140	822,340
Reopening of 1st issuance (f)	3.50	Enero de 2023	US$150,000	480,263	-
				5,740,047	3,913,653
Interest payable				95,640	50,310
Total				5,835,687	3,963,963

(b) At the Board Meeting held on November 16, 2012, the First Corporate Bond Program was approved. Through this approval, the Fund may issue securities up to a maximum amount of US$800,000,000 or its equivalent in Soles. Proceeds from the issuance of the bonds were used exclusively to finance credit operations. In April and July 2016 and February 2017, the Fund issued the first and fourth, and third issuance of the Corporate Bonds, respectively.

(c) In January 2013, the Fund issued bonds under Rule 144 and Regulation S of the U.S. Securities Act, as amended in the international market. The issuance corresponded to a face value of US$500 million maturing in ten years. Bonds were placed at a price of 99.15%, at a coupon rate of 3.50% with payment of interest semi-annually and amortization at maturity. Proceeds from the issuance of the bonds were used exclusively to finance credit operations.

As of December 31, 2017 and 2016, said bonds have exposure to exchange rate risk, being hedged by principal only swaps (POS) for a nominal amount of approximately US$500,000,000 (equivalent to S/1,620,500,000 and S/1,678,000,000, respectively), see Note 14.

(d) In March 2014, the Fund issued bonds under Rule 144 and Regulation S of the U.S. Securities Act, as amended in the international market. The issuance corresponded to a face value of US$300 million maturing in five years. Bonds were placed at a price of 99.76% and at a coupon rate of 3.38% with payment of interest semi-annually and amortization at maturity. Proceeds from the issuance of the bonds were used exclusively to finance credit operations.

As of December 31, 2017 and 2016, said bonds have exposure to exchange rate risk, being hedging by principal only swaps (POS) for a nominal amount of approximately US$80,000,000 (equivalent to S/259,280,000 and S/268,480,000, respectively), see Note 14.

(e) In May 2014, the Fund issued bonds in the Swiss capital market. The issuance was made for an amount of CHF250,000 thousand, with a 4-year maturity term. The bonds were placed at a price of 99.83%, at a coupon rate of 1.25% with annual interest payment and amortization at maturity. Proceeds from the issuance of the bonds were used exclusively to finance credit operations.

As of December 31, 2017 and 2016, said bonds have exposure to exchange rate risk, being hedged by principal only swaps (POS) and cross currency swaps (CCS) for a nominal amount of approximately CHF220,000,000 (equivalent to S/731,828,000 and S/724,980,000, respectively) and CHF23,000,000 (equivalent to S/76,509,000 and S/75,793,000, respectively) , respectively, see Note 14.

(f) In February 2017, the Fund issued bonds under Rule 144 or Regulation S of the U. S. Securities Act in the international market through the reopening of the First Issuance called "3,500% Notes due 2023" made in January 2013. The new issuance was made for a nominal amount of US$ 150,000,000 with a maturity of 6 years. The bonds were placed below par at a price of 99.802 percent, at a coupon rate of 3.50 percent, with semi-annual interest payments and amortization at maturity. The funds raised are used to finance Fund´s operations.

As of December 31, 2017, said bonds have exposure to exchange rate risk, being hedged by cross currency swaps (CCS) for a nominal amount of approximately US$150,000,000 (equivalent to S/486,150,000), see Note 14.

(g) The table below presents the balance of securities and bonds outstanding classified by contractual maturity:

	2017 S/(000)	2016 S/(000)
From 1 to 2 years	1,849,907	872,650
From 2 to 5 years	-	1,119,371
Over 5 years	3,985,780	1,971,942
Total	5,835,687	3,963,963

(h) The table below presents the cash flow from financing activities of securities and bonds outstanding as of December 31, 2017 and 2016:

		Cash flows			Movements			
	January 1, 2017 S/(000)	Provided S/(000)	Used S/(000)	Exchange difference, net S/(000)	Interest S/(000)	Amortized cost S/(000)	Changes in the fair value S/(000)	December 31, 2017 S/(000)
Domestic issuances								
1st issuance ("A" series)	117,641	-	(7,724)	-	7,724	84	-	117,725
4th issuance ("A" series)	319,499	-	(20,828)	-	20,828	12	-	319,511
3rd issuance ("A" series)	-	1,494,158	(52,500)	-	92,446	277	-	1,534,381
International issuances -								
1st issuance	1,686,755	-	(57,190)	(57,680)	57,056	2,262	-	1,631,203
2nd issuance	1,012,029	-	(101,400)	(34,804)	31,163	1,586	-	908,574
3rd issuance	828,039	-	(10,574)	8,043	10,357	1,028	-	836,893
Reopening of 1st issuance	-	486,936	(8,526)	(7,578)	15,693	875	-	487,400
Total	3,963,963	1,981,094	(258,742)	(92,019)	235,267	6,124	-	5,835,687

		Cash flows			Movements			
	January 1, 2016 S/(000)	Provided S/(000)	Used S/(000)	Exchange difference, net S/(000)	Interest S/(000)	Amortized cost S/(000)	Changes in the fair value S/(000)	December 31, 2016 S/(000)
Domestic issuances								
1st issuance ("A" series)	-	115,789	(3,862)	-	5,666	48	-	117,641
4th issuance ("A" series)	-	309,690		-	9,735	74	-	319,499
International issuances -								
1st issuance	1,711,950	-	(59,719)	(26,966)	59,067	2,423	-	1,686,755
2nd issuance	1,027,128	-	(34,126)	(16,620)	34,222	1,425	-	1,012,029
3rd issuance	856,276	-	(10,756)	(29,273)	10,727	1,065	-	828,039
Total	3,595,354	425,479	(108,463)	(72,859)	119,417	5,035	-	3,963,963

13. Other accounts payable, provisions and other liabilities

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Other accounts payable		
BFH to transfer to technical entities (c)	572,566	115,832
FONAVI contributions (b)	161,568	161,774
Good Payer Bonus (principal) assigned to COFIDE (e)	119,328	127,972
Good Payer Bonus (capital) received from MVCS (d)	46,555	1,982
Eligible Household Savings transferred to technical entities (f)	18,890	12,733
Suppliers payable	5,987	2,964
Resources to transfer for executed bank guarantees	4,082	6,917
Vacation and settlement of social benefits payable	971	910
Employees' profit sharing payable	-	4,111
Others	878	732
Total	930,825	435,927
Provisions and other liabilities		
Provisions for credit risk coverage, see Note 6(e)	4,964	272
Provision for contingencies (g)	2,172	1,909
Deferred income	1,059	344
Others	119	85
Total	8,314	2,610

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

	2017 S/(000)	2016 S/(000)
FONAVI collections according to Law N°26969 (i)	95,152	95,327
FONAVI contributions pending transfer to the MEF (ii)	65,795	65,795
Refund of not collected FONAVI checks (iii)	621	652
Total	161,568	161,774

(i) Corresponds mainly to the balances assigned to the Fund as a result of the collections received from SUNAT, related to contributions to FONAVI made by taxpayers in accordance with Law N°26969.

The changes in the balance of this caption are shown below:

	2017 S/(000)	2016 S/(000)
Balance at the beginning of the year	95,327	94,979
Plus (less)		
Collection of the year	-	432
Reimbursement of FONAVI contributions	(175)	(84)
Balance at the end of the year	95,152	95,327

(ii) Corresponds mainly to FONAVI contributions pending from being transferred to the MEF for collections made by SUNAT of FONAVI contributions made by taxpayers who have a stabilized tax regime applicable as per Law N°27071.

(iii) Corresponds to checks issued from 1999 to 2016 pending collection by the beneficiaries. These checks were issued as reimbursement of FONAVI contributions according to SUNAT communications, which is the entity responsible for the collection of these resources.

(c) Corresponds to the balance payable to technical institutions (builders) for the financing of the BFH of households that accessed to the Techo Propio Program, received from the MVCS. During 2017, the Fund received resources from the MVCS for this purpose through agreement No. 003-2017 and addenda, agreement No. 746-2017 and Addenda, and Ministry Resolution No.455-2017 amounting to S/659,493,000, S/354,154,000 and S/57,000,000, respectively.

(d) Corresponds to the balance of funds received from MVCS, pending allocation to beneficiaries that request loan products offered by the Fund. The Fund performs the allocation of these resources through COFIDE when disbursements are authorized to IFI for loans approved.

The changes in the balance of this caption were as follows:

	2017 S/(000)	2016 S/(000)
Balance at the beginning of the year	1,982	75,536
Plus (less)		
Resources received from MVCS during the year (i)	114,148	15,995
BBP Assigned (ii)	(70,088)	(90,394)
Transfers of BBP Assigned	444	845
Transfers of BBP Assigned from finished agreements	802	-
Refund to MVCS	(733)	-
Balance at the end of the year	46,555	1,982

(i) During 2017, the Fund received resources from the MVCS corresponding to the new Agreement for the execution of the Good Payer Bonus No. 039-2017-VIVIENDA for an amount of approximately S/5,314,000, and to the first and second addenda to said Agreement for amounts of approximately S/88,834,000 and S/20,000,000, respectively. During 2016, the Fund received resources from the MVCS in accordance with the Agreement for the execution of the Good Payer Bonus N°1428-2016-VIVIENDA and the addendum to said agreement, for amounts of approximately S/12,123,000 and S/3,872,000, respectively.

(ii) As of December 31, 2017, the allocation of resources correspond to the funds approved by U.D. 039-2017, U.D. 1428-2016 and S.D. N°003-2015 amounting to S/67,977,000, S/1,979,000 and S/132,000, respectively, see letter (e) below. As of December 31, 2016, the allocation of resources correspond to the resources approved by S.D. N°003-2015 and Agreement for the Execution of Good Payer Bonus N°1428-2016-VIVIENDA amounting to S/76,320,000 and S/14,074,000, respectively.

(e) Corresponds to the financial resources received from the MVCS that were allocated to the credits authorized to the IFI (Crédito Proyecto MIHOGAR and Créditos Nuevo MIVIVIENDA), prior review of compliance with the requirements established in the respective regulations. The changes in the balance of this caption are shown below:

	2017 S/(000)	2016 S/(000)
Balance at the beginning of the year	127,972	136,267
Plus (less)		
Assignments received to grant the BBP	70,088	90,394
Reversal of BBP Assigned	444	845
Transfers of BBP	(444)	(845)
Disbursement of BBP assigned as initial of sub borrowers mortgage loan	(70,088)	(90,264)
Application of BBP to installments of Crédito MIHOGAR	(3,933)	(1,533)
Application of BBP to installments of Nuevo Crédito MIVIVIENDA	(4,666)	(6,892)
Application of BBP to installments of Caja Luren	(45)	-
Balance at the end of the year	119,328	127,972

(f) Corresponds to the balance payable to Technical Institutions on behalf of eligible households who has accessed to the Techo Propio Program. This balance comprises the saving deposited by the household in the Fund's accounts.

(i) Corresponds to provisions recorded for judicial processes associated with claims and probable labor contingencies. In Management's opinion and its legal advisors, the recorded provision is sufficient to cover the risk of loss for such contingencies as of December 31, 2017 and 2016.

14. Accounts receivable and payable for derivative financial instruments

The risk of derivative contracts arises from the probability that the counterparty does not comply with the agreed terms and conditions, and that the reference rates at which the transactions were agreed may change.

The following table presents, as December 31, 2017 and 2016, the fair value of derivative financial instruments recorded as assets or liabilities, including their notional amounts and maturities. The notional amount, in total basis, is the nominal amount of the derivative's underlying asset and is the base over which changes in the value of derivatives are measured.

		2017				2016				2017 and 2016
	Note	Assets S/(000)	Liabilities S/(000)	Notional amount (*) S/(000)	Maturity	Assets S/(000)	Liabilities S/(000)	Notional amount (*) S/(000)	Maturity	Hedged instruments
Derivatives held for trading -										
Foreign currency forward		613	6	42,559	Between March 2018 and June 2018	900	-	56,628	January 2017	-
Derivatives held as hedges -										
Cash flow hedges:										
Principal only swaps (POS)	11(d) and 12(c,d,e)	156,662	63,308	2,670,011	Between June 2018 and March 2023	257,477	45,730	2,724,466	Between June 2018 and March 2023	Debts and securities,
Cross currency swaps (CCS)	5(h),11(d) and 12(d,e,f) 11(d)	6,002	61,649	812,661	Between March 2018 and March 2023	815	18,972	317,237	Between March 2018 and March 2023	Investments, debts and securities
Interest only swaps (IOS)		101	8	-	March 2023	-	-	-		Debts
Fair value hedges:										
Foreign currency forward		1,066	-	181,549	September 2018	2,200	-	125,217	January 2017	-
		163,831	124,965	3,722,624		260,492	64,702	3,166,920		
		164,444	124,971	3,765,183		261,392	64,702	3,223,548		

(*) As of December 31, 2017 and 2016, the reference values of transactions with derivative financial instruments are recorded in off-balance-sheet accounts in the committed currency.

15. Deferred income Tax, net

(a) The table below presents the detail of the changes in this caption:

	Balance as of January 1, 2016 S/(000)	(Debit) credit to income S/(000)	(Debit) credit to equity S/(000)	Balance as of December 31, 2016 S/(000)	(Debit) credit to income S/(000)	(Debit) credit to equity S/(000)	Balance as of December 31, 2017 S/(000)
Deferred asset							
Generic provision for doubtful accounts portfolio	13,364	(665)	-	12,699	(97)	-	12,602
Unrealized loss from fluctuation in available-for-sale investments	1,251	-	(1,251)	-	-	-	-
Unrealized loss from debt instruments, reclassified from "Available-for-sale investments" to "Held-to-maturity investments"	-	-	407	407	-	(320)	87
Unrealized losses (gains) from the valuation of derivatives for hedging purposes	-	-	14,921	14,921	-	31,704	46,625
Unrealized losses from Trust investments	-	-	-	248	-	(124)	124
Deferred income from loan portfolio	-	-	-	-	3,090	-	3,090
Others	1,833	214	(19)	1,780	133	-	1,911
Total deferred asset	16,448	(451)	14,058	30,055	3,126	31,260	64,441
Deferred liability							
Unrealized losses (gains) from the valuation of derivatives for hedging purposes	(14,598)	-	14,598	-	-	-	-
Unrealized gains from fluctuation in available-for-sale investments	-	-	-	-	-	(14)	(14)
Exchange difference in monetary assets and liabilities	(12,522)	5,766	-	(6,756)	(16,965)	-	(23,721)
Others	(137)	114	-	(23)	23	-	-
Total deferred liability	(27,257)	5,880	14,598	(6,779)	(16,942)	(14)	(23,735)
Total deferred assets (liabilities) net (*)	(10,809)	5,429	28,656	23,276	(13,816)	31,246	40,706

(*) As of December 31, 2016, the application effect of the new income tax rate resulted in an income that amounted approximately to S/2,545,000, which was recorded as part of income statement and equity amounted to approximately S/1,220,000 and S/1,320,000, respectively.

(b) The table below presents the amounts reported in the income statements for the years ended:

	2017 S/(000)	2016 S/(000)
Current	-	(21,868)
Deferred	(13,816)	5,429
Total	(13,816)	(16,439)

(c) The table below presents the reconciliation of the effective Income Tax rate with the statutory Income Tax rate:

	2017		2016	
	S/(000)	%	S/(000)	%
Income before Income Tax	38,365	100.00	67,033	100.00
Theoretical Expense	(11,318)	(29.50)	18,769	28.00
Plus (less)				
Effect net of non-deductible expenses	(2,498)	(6.51)	(1,110)	(1.66)
Effect of change in tax rate on deferred income tax	-	-	(1,220)	(1.81)
Income Tax	(13,816)	22.99	16,439	24.53

(d) In Management's opinion, the deferred Income Tax assets will be recovered from the taxable income that will be generated by the Fund over the coming years, including the portion that is recorded in shareholder's equity.

16. Shareholders' equity

(a) Capital stock -

As of December 31, 2017 and 2016, the Fund's capital stock was represented by 3,302,620,497 and 3,257,086,154 common shares subscribed and paid, respectively, which nominal value is S/1.00 per share. Its sole shareholder is FONAFE.

On March 29, 2017, the General Shareholders´ Meeting agreed to capitalize the earnings generated in 2016, net of legal reserve, for approximately S/45,534,000.

On March 17, 2016, the General Shareholders´ Meeting agreed to capitalize the earnings generated in 2015, net of legal reserve, for approximately S/82,837,000.

(b) Legal reserve -

Pursuant to current legislation, the Fund is required to establish a legal reserve for an amount equivalent to at least 35 percent of its paid-in capital. This reserve is constituted through an annual appropriation of at least 10 percent of net income and can only be used to absorb losses or be capitalized, in both cases there is an obligation to replenish it.

The General Shareholder's Meetings held on March 29, 2017 and March 17, 2016, approved the appropriation of legal reserves for net income 2016 and 2015, for approximately S/5,060,000, and S/9,204,000, respectively.

Due to the change in the methodology for the calculation of provisions beginning August 1, 2017 detailed in note 3(e), in December 2017, the SBS through SBS Resolution No. 4907 -2017 authorized to the Fund to record the provision deficit from accounts receivable (Trust Agreement - COFIDE) for approximately S/71,027,000 by a reduction of the "Legal Reserve" balance.

(c) Unrealized results -

The unrealized results includes the unrealized gains (losses) from the valuation of available-for-sale investments from the Fund and CRC-PBP Trusts, and also from derivatives instruments designated as cash flow hedges. Changes in the unrealized gains (losses) during the years 2017 and 2016, presented net of their tax effect, were as follows:

	Balance as of January 1, 2016 S/(000)	Reclassification S/(000)	(Debit)/credit to statements of comprehensive income S/(000)	Balance as of December 31, 2016 S/(000)	(Debit)/credit to statements of comprehensive income S/(000)	Balance as of December 31, 2017 S/(000)
Available-for-sale investments from the Fund						
(Unrealized loss) unrealized gain from investments available-for-sale, net of transfers to profit and loss	(20,060)	11,846	8,214	-	46	46
Unrealized loss from debt instruments, reclassified from "Available-for-sale investments" to "Held to maturity investments", Notes 3(h) and 5(f)	-	(11,846)	1,494	(10,352)	1,660	(8,692)
	(20,060)	-	9,708	(10,352)	1,706	(8,646)
Income Tax	1,251	-	(844)	407	(333)	74
Subtotal	(18,809)	-	8,864	(9,945)	1,373	(8,572)
Cash flow hedges						
Net gain (loss) from cash flow hedge	393,966	-	(174,943)	219,023	(147,860)	71,163
Transfer to profit and loss of (realized gain) realized loss from cash flow hedge derivatives	(338,764)	-	69,159	(269,605)	40,390	(229,215)
	55,202	-	(105,784)	(50,582)	(107,470)	(158,052)
Income Tax	(14,598)	-	29,519	14,922	31,703	46,625
Subtotal	40,604	-	(76,265)	(35,660)	(75,767)	(111,427)
Available-for-sale investments from CRC-PBP Trusts						
(Unrealized loss) unrealized gain from investments available for sale, net of transfers to profit and loss	(3,210)	-	548	(2,662)	740	(1,922)
Income Tax	267	-	(19)	248	(124)	124
Subtotal	(2,943)	-	529	(2,414)	616	(1,798)
Total	18,852	-	(66,872)	(48,019)	(73,778)	(121,797)

(d) Shareholders' equity for legal purposes (Regulatory Capital) -

In June 2008, through L.D. N°1028, the Ley de Banca, Seguros y AFP (Law on Banking, Insurance and AFP) was amended; being stablished that the regulatory capital must be equal to or greater than 10 percent of assets and contingent credits by total risk corresponding to the sum of: (i) the regulatory capital requirement for market risk multiplied by 10, (ii) the regulatory capital requirement for operational risk multiplied by 10, and (iii) the weighted assets and contingent credits by credit risk.

As of December 31, 2017 and 2016, pursuant to Legislative Decree N°1028 and amendments, the Fund keeps the following amounts related to weighted assets and contingent credits by risk and regulatory capital (basic and supplementary), in soles:

	2017 S/(000)	2016 S/(000)
Total risk weighted assets and credits	3,791,489	3,155,588
Total regulatory capital	3,289,330	3,308,198
Basic regulatory capital (Level 1)	3,289,330	3,308,198
Global regulatory capital ratio	86.76%	104.84%

As of December 31, 2017 and 2016, the Fund has complied with the SBS Resolutions N°2115-2009, N°6328-2009, N°14354-2009 and N°4128-2014, Regulations for Regulatory Capital Requirements for Operational Risk, Market Risk and Credit Risk, respectively, and their amendments. These resolutions establish, mainly, the methodologies to be applied by financial entities to calculate the weighted assets and credits for each type of risk.

In July 2011, SBS issued Resolution N°8425-2011, which establishes that in order to determine the additional regulatory capital, financial institutions must have a process to evaluate the sufficiency of their regulatory capital according to its risk profile, according to the methodology described in said Resolution. In application of said rule, additional regulatory capital will be equal to the sum of the regulatory capital requirements calculated for each of the following components: economic cycle, concentration risk, market concentration risk, interest rate risk In the banking book and other risks.

Likewise, the regulation has established a period of gradual adequation of five years starting since July 2012. As of December 31, 2017, the percentage of adequation established by SBS is 100 percent, therefore the additional requirement of regulatory capital estimated by the Fund amounts to approximately S/66,574,000 (S/53,143,000 considering an adequacy of 100 percent established by the SBS as of December 31, 2016).

In Management's opinion, the Fund has complied with the requirements set forth in the aforementioned Resolution and will have no any problem in continuing to comply with them, since the regulatory capital by the Fund cover these requirements completely.

17. Tax situation

(a) The Fund is subject to the Peruvian tax regime. The income tax rate as of December 31, 2017 and 2016 was 29.5 and 28 percent, respectively, on taxable income after calculating employees´ profit sharing, which, in accordance with current regulations, is calculated, in the case of the Fund, applying a rate of 5 percent on net taxable income.

In accordance with L.D. N°1261, published on December 10, 2016 and effective as of January 1, 2017, the applicable income tax rate on the taxable income, after deducting the employees´ profit sharing, will be, from the 2017 fiscal year onwards, 29.5 percent.

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

- 4.1 percent for the profits generated until December 31, 2014.
- 6.8 percent for the profits generated from January 1, 2015 to December 31, 2016.
- For profits generated since January 1, 2017, which will be distributed as of that date, the applicable rate will be 5 percent.

(b) Since 2011, with the amendment introduced by Law N°29645 on the Income Tax Law, interest and other income generated by foreign loans granted to the Peruvian National Public Sector must also be included as an item exempted from the Income Tax. Likewise, there are considered income from Peruvian sources those obtained from the indirect disposal of shares or ownership interests of the capital stock of legal entities domiciled in Peru. For such purposes, an indirect disposal shall be considered to occur upon the sale of shares or ownership interests of the capital stock of a legal entity not domiciled in the country that, in turn, is the owner – whether directly or through one or more other legal entities – of shares or ownership interests of the capital stock of one or more legal entities domiciled in the country, provided certain conditions established by law are met. This situation also occurs in those cases where the issuer is jointly and severally liable.

Currently, the Income Tax Law establishes that a case of indirect transfer of shares occurs when, in any of the twelve months prior to the disposal, the market value of the shares or ownership interests of the domiciled legal entity is equivalent to 50 per cent or more of the market value of the shares or ownership interests of the non-domiciled legal entity. Additionally, as a concurrent condition, it is established that a case of indirect transfer of shares also occurs when, in any period of twelve 12 months, the disposal of shares or ownership interests representing 10 per cent or more of the capital stock of a non–domiciled legal entity is performed.

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

(c) For purposes of determining Income Tax, the transfer prices of transactions with related companies and companies resident in low or non-taxing countries or territories must be supported by documentation and information on the valuation methods used and the criteria for its determination. Based on the analysis of the Fund's operations, Management and its internal legal advisors believe that, as a result of the application of these rules, no significant contingencies to the Fund will arise as of December 31, 2017 and 2016.

(d) The Tax Authority (“SUNAT”, by its Spanish acronym) is legally entitled to review and, if necessary, adjust the Income Tax computed by the Fund during a term of four years following the year in which a tax return was filed. The income Tax returns for the years 2013, 2015, 2016 and 2017, and the value added tax returns from 2013 to 2017; are subject to inspection by the Tax Authority. During 2016, the 2014 Income Tax return was reviewed by the Tax Authority, which determined the refund of the Temporary Tax on Net Assets (“ITAN by its Spanish acronym”) in favor of the Fund amounting to S/27,700,000; which is presented net from the Income Tax in the caption "Other assets, net" in the statement of financial position, see Note 10. In addition, the Tax Administration determined interest accrued in favor of the Fund for the ITAN refund amounted to S/1,865,000, which have been recorded in the caption "Other income and expenses" in the income statement, see Note 23.

Due to Tax Authority possible interpretations that can give to the current legal norms, it is not possible to determine to date if the revisions that will make will result or not in liabilities for the Fund, so any greater tax or surcharge that could result from eventual tax reviews would be applied to the results of the year in which it finally is determined.

As of December 31, 2017, the tax loss carryforward determined by the Fund amounted to S/4,850,000. According to the recovery system chosen by the Fund´s Management, the tax loss could be offset up to a maximum of four years from the date it was generated. The amount of the tax loss carry forward is subject to the result of the revisions indicated in paragraph (d) above. Management has decided not to recognize the deferred income tax asset related to the tax loss carryforward.

18. Risks and commitments

As of December 31, 2017 and 2016, the risks and commitments correspond to the portfolio sold in 2007 to BBVA Banco Continental, Banco de Crédito del Peru, Banco Internacional del Perú - Interbank and Scotiabank Perú S.A.A. These caption is being updated for the portfolio recovery.

19. Interest income and expenses

This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Interest income		
Income from accounts receivable (Trust Agreement – COFIDE), net of interest related to the PBP granted by the Fund	379,547	360,417
Interest on due from banks	102,937	33,950
Interest income from investments	25,498	27,620
Interest income from loan portfolio	3,976	-
Attribution to results from CRC-PBP Trusts, see Note 8(c)	3,573	3,779
Other income	239	731
Total Interest income	515,770	426,497
Interest expenses		
Interest and commissions on securities and bonds outstanding	242,909	124,539
Good payer award (capital) granted by the Fund	53,184	64,248
Interest and commissions on debts and financial obligations	4,949	17,723
Good payer award (capital and interest) – CRC-PBP Trusts	3,780	4,847
Other expenses	1	-
Total Interest expenses	304,823	211,357

20. Income and expenses from financial services

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Income from financial services		
Commission for CRC and PBP services (b)	4,415	5,631
Execution of bank guarantees constituted by ET – BFH and the Household Savings, see Note 13(c)	475	737
Others	623	612
Total	5,513	6,980
Expenses relating to financial services		
Loan portfolio management service, see Note 7(b)	1,972	-
Securities custody service and various banking commissions	203	236
Others	275	79
Total	2,450	315

(b) Corresponds to the commissions for the credit risk coverage service (CRC) and Good Payer Award (PBP) granted to the IFI through the CRC-PBP Trusts.

21. Result from financial transactions

This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Net income from trading derivatives	2,257	3,183
Net gain from the sell of available for sale investments	-	508
Net loss from derivative financial hedge products	(108,886)	(96,400)
Gain (Loss) on exchange difference	1,299	(12,806)
Others	(1,712)	(768)
Results on financial operations	(107,042)	(106,283)

22. Administrative expenses

(a) This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Personnel and Board of Directors expenses (b)	21,561	24,567
Services received from third parties (c)	20,711	18,170
Taxes and contributions	610	445
Total	42,882	43,182

(b) The table below presents the composition of personnel and Board of Directors expenses:

	2017 S/(000)	2016 S/(000)
Salaries	11,753	11,160
Gratuities	2,099	1,881
Severance indemnity expenses ("CTS", by its Spanish acronym)	1,240	1,113
Social security	1,895	1,806
Vacations	1,046	975
Food services	727	648
Staff attire	599	582
Bonuses	569	370
Training	214	239
Employees' profit sharing	-	4,111
Others	1,419	1,682
	21,561	24,567

The average number of employees in 2017 and 2016 was 206 and 200, respectively.

(c) The table below presents the composition of services received from third parties expenses:

	2017 S/(000)	2016 S/(000)
Advertising	4,256	4,785
Property and good rentals	2,437	2,433
Fees and consultancy	3,057	2,114
Expenses from bonds issued	1,752	764
Repair and Maintenance	1,368	1,751
Information technologies and communication share services – FONAFE	1,077	1,297
Communications	899	1,032
Verification of "Techo Propio Program" works	328	540
Telemarketing services	392	398
Travel expenses	370	381
Transport	338	369
Insurance	324	253
Document storage	271	247
Courier services	234	243
Other expenses	3,608	1,563
Total	20,711	18,170

23. Other income and expenses

This caption is made up as follows:

	2017 S/(000)	2016 S/(000)
Other income		
Income from Ex – CONEMINSA portfolio	230	336
Interest from margin call, see Note 8 (d)	100	-
Interest earned from the ITAN refund paid in excess in 2014, see Note 17(d)	-	1,865
Other income	584	472
	914	2,673
Other expenses	(26)	(133)
Total other income and expenses	888	2,540

24. Contingencies

As of December 31, 2017 and 2016, the Fund maintains the following contingency processes:

(a) Various labor processes from its operations related to legal claims for payment of profit sharing and reimbursement of social benefits, recording a provision of approximately S/2,172,000 as of December 31, 2017 (S/1,909,000 as of December 31, 2016), see Note 13(g).

(b) Various constitutional processes (appeal for legal protection) related to the restitution of labor rights to former workers of the Fund. Also, processes originated by discrimination in the right for participating in awarding and contracting processes, cancellation of registration of Technical Entities for infractions committed. In the Management´s opinion and its legal counsels, those contingencies will not cause possible losses at the end of those processes.

25. Financial instruments classification

Following are the carrying amounts of financial assets and liabilities from in the statements of financial position classified by category in accordance with IAS 39 "Financial Instruments":

	As of December 31, 2017						As of December 31, 2016					
	Financial assets and liabilities at fair value						Financial assets and liabilities at fair value					
	Held for trading or hedging S/(000)	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)	Held for trading or hedging S/(000)	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Financial liabilities at amortized cost S/(000)	Total S/(000)
Financial assets												
Cash and due from banks	-	2,854,064	-	-	-	2,854,064	-	1,078,231	-	-	-	1,078,231
Available-for-sale and held to maturity investments	-	-	34,116	770,397	-	804,513	-	-	-	573,029	-	573,029
Accounts receivable, net (Trust Agreement - COFIDE)	-	6,206,810	-	-	-	6,206,810	-	6,103,398	-	-	-	6,103,398
Loan portfolio, net	-	50,955	-	-	-	50,955	-	-	-	-	-	-
Other accounts receivable, net	-	108,740	-	-	-	108,740	-	83,139	-	-	-	83,139
Accounts receivable for derivative financial instruments	164,444	-	-	-	-	164,444	261,392	-	-	-	-	261,392
	164,444	9,220,569	34,116	770,397	-	10,189,526	261,392	7,264,768	-	573,029	-	8,099,189
Financial liabilities												
Obligations with the public	-	-	-	-	216	216	-	-	-	-	172	172
Debts and financial obligations	-	-	-	-	195,722	195,722	-	-	-	-	356,472	356,472
Securities and bonds outstanding	-	-	-	-	5,835,687	5,835,687	-	-	-	-	3,963,963	3,963,963
Accounts payable for derivative financial instruments	124,971	-	-	-		124,971	64,702	-	-	-	-	64,702
Other accounts payable	-	-	-	-	930,825	930,825	-	-	-	-	435,927	435,927
	124,971	-	-	-	6,962,450	7,087,421	64,702	-	-	-	4,756,534	4,821,236

26. Financial risk management

The activities of the Fund are mainly related to the credit placement of its resources through IFI of the country for the acquisition of housing by natural persons. Financial institutions are evaluated and assigned long-term credit lines; the Fund also participates in work to encourage the construction and promotion of housing, and manage the resources received from the State (such as BFH) and its own resources, investing these funds mainly, in interest-bearing demand deposits and time deposits, in fixed income and grade investments, with the purpose of making them profitable and preserving their value over time, ensuring the liquidity required to fulfill their obligations and its lending activities.

In this sense, the financial risk management comprises the administration of the main risks, which the Fund faces due to the nature of its operations; These are: credit, market, liquidity and operation risks.

- Credit risk: the possibility of losses due to the inability or unwillingness of debtors, issuers, counterparties or obligated third parties to fulfill their contractual obligations.
- Market risks: the possibility of losses in positions on and off- statement of financial position derived from variations on interest rates, exchange rates, prices of equity instruments and other market prices, which affect the valuation of positions in financial instruments.
- Liquidity risk: the possibility that the Fund can not meet with the payment at maturity of its obligations incurring losses that significantly affect its equity position.
- Operation risk: the possibility of losses due to inadequate processes, staff failures, information technology or external events.

In order to management said risks, the Fund has a structure and organization specialized in the management, measurement and reporting systems, and mitigation and coverage processes.

(a) Structure and organization of risk management-

The Fund has a managerial and governance structure that allows it to adequately articulate the management and control of the risks it is exposed to.

(i) Board of Directors

The Fund's Board of Directors is responsible for establishing an adequate integrated management of risks and for fostering an internal environment that facilitates its development. The Board of Directors keeps permanently informed about the degree of exposure of the various risks managed by the Fund.

The Board has created a number of specialized committees in which it has delegated specific functions with the objective of strengthening risk management and internal control.

(ii) Risk Committee
The Risk Committee (henceforth "RC") is a collegiate body created by agreement of the Board of Directors. It is responsible for approving the policies and the organization for the integral management of risks, as well as the modifications that are made to them. The Committee defines the level of tolerance and the degree of exposure to risk that the Fund is willing to assume in the development its business and decides the needed actions for the implementation of corrective measures required, in case there are deviations from the levels of tolerance to the risk and the degrees of exposure assumed. The Committee is comprised by the Chairman of the Board and two Directors, the General Manager and the Risk Manager. The Committee reports quarterly to the Board of Directors the agreements reached and issues discussed in the Risk Committee meetings.

(iii) Audit Committee
The Audit Committee is a collegiate body created in Board session. Its main purpose is to ensure that accounting and financial reporting processes are appropriate, as well as to evaluate the activities performed by internal and external auditors. The Committee is comprised by three members of the Board of Directors and the General Manager and the Chief of the Institutional Control Body may participate as required, as well as any other officers that the Audit Committee deems necessary. The Committee meets at least once a month and reports quarterly to the Board on the topics discussed.

(iv) Assets and Liabilities Management Committee
The Assets and Liabilities Management Committee ("ALCO") is a collegiate body created by Board of Directors agreement. Its main function is to manage the financial structure of the Fund's statement of financial position, in accordance with the profitability and risk targets. The Committee is also responsible for proposing new products or operations or strategies that contain market and liquidity risk components. It is also the communication channel with the areas that generate market and liquidity risk. The Committee meets monthly and is comprised by the General Manager, Commercial Manager, Finance Manager and Risk Manager.

(v) General Management
The General Management is responsible for implementing an adequate integral management of risks in the Fund. It manages and coordinates the efforts of the different managements and offices, ensuring an adequate balance between risk and profitability. The Risk Management is a line organ and depends directly on the General Management; this management is in charge of proposing the policies, procedures and methodologies for a competent comprehensive risk management, promotes the alignment of the measures of treatment of the Fund´s risks with the levels of appetite and risk tolerance and the development of appropriate controls. The Risk Management is comprised by the Market Risk, Liquidity and Operational Department and the Credit Risk and Portfolio Tracking Department.

(vi) Internal audit

The Internal Audit Office reports functionally to the Board of Directors. Provides independent services, and assurance and consultation objectives. Assists to the Fund in achieving its objectives applying a systematic and disciplined approach to assessing and improving the effectiveness of governance, risk management and control processes.

(b) Risk measurement and reporting systems -

The Fund uses different risk management models and tools for risk management. These tools measure and assess risk to make better decisions at different stages of the credit life cycle, or of an investment.

Management indicators are reviewed and analyzed on an ongoing basis in order to identify possible deviations in the risk profile from the stipulated risk appetite and to take corrective measures in a timely manner. This information is presented monthly to the RC Committee and periodically to the Board of Directors.

(c) Risk concentration -

Through its policies and procedures, the Fund has established the necessary guidelines and mechanisms to avoid an excessive concentration of risks, maintaining a diversified portfolio consequently. In the event that a concentration risk is identified, the Fund has specialized units that allow it to control and manage said risk.

26.1 Credit risk -

It is defined as the likelihood of incurring in financial losses originated by the breaching of the contractual obligations by a counterpart or bound third parties due to insolvency, inability or lack of willingness to pay.

(a) The Fund opts for a risk policy that ensures sustained and profitable growth; for this purpose, incorporates analysis procedures for adequate decision-making, tools and methodologies to identify, measure, mitigate and control the different risks in the most efficient manner and in accordance with the SBS. It also develops management models that allow an adequate measurement, quantification and monitoring of the credits granted to IFI, promoting the continuous improvement of policies, tools, methodologies and processes.

The exposure to Fund´s credit risk is managed through the continuous analysis of the capacity of the debtors to comply with the payments of interest and capital of their obligations and through the monitoring of the use of the general credit line granted to the IFI.

(b) Maximum exposure to credit risk -

As of December 31, 2017 and 2016, the Fund Management has estimated that the maximum amount of credit risk to which the Fund is exposed is represented by the carrying amount of financial assets that present a credit risk exposure and that consist mainly of bank deposits, available for sale investments, held to maturity investments, accounts receivable, loan portfolio, transactions with financial derivative instruments and other monetary assets. Exposure by each counterparty is limited by internal and regulatory guidelines.

In that sense, as of December 31, 2017 and 2016:

- 64.86 percent and 97.17 percent, respectively, of the accounts receivable, net (Trust Agreement - COFIDE) are classified, according to IFI risk, into the two upper levels defined by the SBS.
- 95.89 percent and 94.25 percent, respectively, of available for sale and held to maturity investments have at least investment grade (BBB- or higher).
- 99.92 percent and 99.94 percent, respectively, of the Cash and due from banks represent the amounts deposited at domestic prime financial institutions.

With respect to the evaluation of the accounts receivable, net (Trust Agreement - COFIDE), and the loan portfolio, the Fund classifies the borrowers into the risk categories established by the SBS and according to the classification criteria indicated for each type of credit: that is, for the debtors of the mortgage portfolio. The classification of the debtors is determined by a methodology based on the criteria of Resolution SBS N°11356-2008 "Regulation for the evaluation and classification of the debtor and the requirement of provisions" and their modifications. See Note 3 (e) and (f).

(c) Credit risk management for accounts receivable (Trust Agreement - COFIDE) -

Credit risk is managed mainly through the admission, monitoring and control of the IFI. Credit risk analysis at the IFI is mainly based on: (i) economic, financial and commercial evaluation, (ii) market development evaluation, (iii) IFI management evaluation, (iv) funding sources evaluation and real estate projects to be developed, (v) evaluation of collateral and guarantee, (vi) economic sector evaluation.

The main functions of credit risk management are: (i) IFI credit risk analysis, (ii) IFI classification and allowance, (iii) review of accounts receivable (Trust Agreement – COFIDE) portfolio, through the evaluation of its credit policies, operating procedures, and in general, and (iv) the monitoring and monthly control of the IFI from internally defined financial indicators.

The accounts receivable (Trust Agreement – COFIDE) granted by the Fund are placed in national currency. It is important to note that the Fund still maintains accounts receivable (Trust Agreement – COFIDE) balances in US dollars, corresponding to products, which are no longer granted (as of December 31, 2017 and 2016, U.S. dollar portfolio represents 2.75 and 4.01 percent of the total portfolio, respectively).

As of December 31, 2017 and 2016, the maximum level of exposure to Fund´s credit risk of the accounts receivable (Trust Agreement – COFIDE) is approximately S/6,190,466,000 and S/6,086,679,000, respectively, corresponding to their balances at those dates.

In accordance with the Agreement for Channeling of Resources signed between the Fund and the IFI, the IFI has responsibility about the constitution of mortgage guarantee for each sub borrowing.

Due to its fiduciary role, COFIDE has mechanisms through the contracts of channeling resources signed with the IFIs, which ensure the mass of mortgage loans placed by the Fund, for which the IFI must respond.

The evaluation and proposal of the credit line is made by the Commercial Management. The Risk Management reviews the evaluation and analyzes the risks. The proposal is referred to the Risk Committee for approval or refusal.

The table below presents the accounts receivable (Trust Agreement – COFIDE) based on the IFI risk classification.

IFI Risk:

	As of December 31, 2017		As of December 31, 2016	
Risk category	**Total** S/(000)	**%**	**Total** S/(000)	**%**
Normal	4,010,042	98.56	5,865,941	99.22
With potential problems	89,801	2.21	118,345	1.94
	4,099,843	100.77	5,984,286	101.22
Less: Allowance for doubtful accounts	(31,383)	(0.77)	(72,058)	(1.22)
Total, net	4,068,460	100.00	5,912,228	100.00

(d) Credit risk management in investments -

The Fund controls the credit risk of its investments based on the risk assessment of issuers and instruments. In the case of investments abroad, the assessment takes into account the ratings issued by international agencies as well as the country-risk of the issuer's country, which is assessed considering its main macroeconomic variables.

The table below presents the risk classification of available-for-sale and held to maturity investments:

	2017				2016			
	Available-for-sale investments		Held to maturity investments		Available-for-sale investments		Held to maturity investments	
	S/(000)	%	S/(000)	%	S/(000)	%	S/(000)	%
Instruments issued and rated in Peru:								
AAA	19,518	57.21	87,277	11.33	-	-	89,395	15.60
AA- to AA+	-	-	101,854	13.22	-	-	119,021	20.77
CP-1(+/-)	4,446	-	-	-	-	-	1,712	0.30
CP-2(+/-)	3,511	23.32	30,006	3.89	-	-	-	-
	27,475	80.53	219,137	28.44	-	-	210,128	36.67
Instruments issued in Peru and rated abroad:								
A- to A+	-	-	-	-	-	-	6,405	1.12
BBB- to BBB+	6,493	19.03	165,996	21.55	-	-	186,472	32.54
BB- to BB+	-	-	24,597	3.19	-	-	25,205	4.40
	6,493	19.03	190,593	24.74	-	-	218,082	38.06
Instruments issued and rated abroad:								
BBB- to BBB+	-	-	174,063	22.59	-	-	137,089	23.92
CP-1(+/-)	-	-	178,255	23.14	-	-	-	-
Total	33,968	99.99	762,048	98.92	-	-	565,299	98.65
Accrued interests	148	0.43	8,349	1.08	-	-	7,730	1.35
Total	34,116	100.00	770,397	100.00	-	-	573,029	100.00

(e) Financial instruments exposed to credit risk -
Concentration of financial instruments exposed to credit risk

As of December 31, 2017 and 2016, the financial instruments exposed to credit risk were distributed according to the following economic sectors:

	2017					2016				
	Designated at fair value through profit or loss					Designated at fair value through profit or loss				
	Held for trading and hedging S/(000)	Accounts receivables S/(000)	Available-for-sale investment S/(000)	Held-to-maturity investment S/(000)	Total S/(000)	Held for trading and hedging S/(000)	Accounts receivables S/(000)	Available-for-sale investment S/(000)	Held-to-maturity investment S/(000)	Total S/(000)
Financial services	164,444	9,095,110	10,939	516,788	9,787,281	261,392	7,164,910	-	307,530	7,733,832
Central Government	-	-	-	31,636	31,636	-	-	-	31,463	31,463
Electricity, gas and water	-	-	-	175,776	175,776	-	-	-	191,256	191,256
Construction	-	-	3,511	5,131	8,642	-	-	-	6,432	6,432
Others	-	108,740	19,518	32,717	160,975	-	83,139	-	28,618	111,757
Total	164,444	9,203,850	33,968	762,048	10,164,310	261,392	7,248,049	-	565,299	8,074,740
Accrued interest	-	16,719	148	8,349	25,216	-	16,719	-	7,730	24,449
Total	164,444	9,220,569	34,116	770,397	10,189,526	261,392	7,264,768	-	573,029	8,099,189

As of December 31, 2017 and 2016, the financial instruments exposed to credit risk according to geographic area are the following:

	2017					2016				
	Designated at fair value through profit or loss					Designated at fair value through profit or loss				
	Held for trading and hedging S/(000)	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)	Held for trading and hedging S/(000)	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Total S/(000)
Peru	19,081	9,203,850	33,968	409,730	9,666,629	17,129	7,248,049	-	428,210	7,693,388
United States of America	58,307	-	-	26,377	84,684	105,397	-	-	-	105,397
Colombia	-	-	-	56,238	56,238	-	-	-	58,498	58,498
Chile	-	-	-	91,449	91,449	-	-	-	78,591	78,591
China	-	-	-	178,254	178,254	-	-	-	-	-
Germany	6,627	-	-	-	6,627	11,470	-	-	-	11,470
United Kingdom	80,429	-	-	-	80,429	127,396	-	-	-	127,396
Total	164,444	9,203,850	33,968	762,048	10,164,310	261,392	7,248,049	-	565,299	8,074,740
Accrued interest	-	16,719	148	8,349	25,216	-	16,719	-	7,730	24,449
Total	164,444	9,220,569	34,116	770,397	10,189,526	261,392	7,264,768	-	573,029	8,099,189

26.2 Market risk -

Market risk is the probability of loss due to variations in financial market conditions. The main variations to which the Fund is exposed to are: exchange rates and interest rates and prices; said variations can affect the value of the Fund's financial assets and liabilities. The Fund separates its exposures to market risk in the following manner:

(a) Value at Risk -

Value at Risk (VaR) is a statistical technique that measures the maximum loss that a financial asset or a portfolio of financial assets can experience within a time horizon, given a level of confidence. The VaR model used by the Fund is the Historical VaR for foreign currency exposures (VaR Exchange) and for the investment portfolio (VaR of Interest Rates), both with a confidence level of 99 percent and a liquidation period of 10 days. It should be mentioned that this method does not assume any distribution function for profit and loss, and is based only on the observed historical behavior.

(b) Interest rate risk -

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

The impact of changes in interest rates can be presented in two ways: the first, which translates into an impact on expected earnings, directly related to reinvestment risk and the risk that is generated when movements in interest rates Interest expose the entity to higher costs in financing operations (passive interest rates); or lower returns on their investment operations (active interest rates). The second is related to the valuation of the assets and liabilities of the Fund and, therefore, with the economic value or real value of the equity of the same. This modality occurs when the market interest rates change, used for the valuation of the various instruments that form part of the financial statement of the Fund.

The SBS denominates these two impacts, as Earnings at Risk (EAR) and Value at Risk (VAR), which are indicators of short and long term structural rate risk, respectively.

As of December 31, 2017 and 2016, the Fund monitors that the gains at risk are below the regulatory limit of 5 percent of the Fund's net equity. In addition, the Fund has an internal limit of 20 percent for the regulatory calculation and an internal limit of 20 percent for the internal calculation.

As of December 31, 2017, the interest rate risk of the available-for-sale investment portfolio was controlled through internal stop loss limits and through unrealized loss alerts. In accordance with the Investment Policies and Procedures Manual, when the losses due to the devaluation of the price of a debt instrument, plus accrued interest earned from the moment of acquisition of the instrument, was greater than or equal to 5 percent of the acquisition value, the financial instrument must be settled at the best possible value.

The management of structural interest rate risk is made through the monitoring and reporting of regulatory indicators: gains at risk and equity at risk. These indicators are derived from the regulatory annexes required by the SBS: Annex N°7-A "Measuring of the Interest Rate Risk - Gain at Risk" and the Annex No. 7-B "Measuring of Interest Rate Risk – Equity value". The results of the indicators are reported to the Risk Committee and the Assets and Liabilities Management Committee, which decide on actions to mitigate exposure to rate risk.

Repricing gaps –
In order to determine the impact of interest rate movements, an analysis of repricing gaps is performed. The analysis consists of allocating the balances of the operations that will change the interest rate in different time gaps. Based on this analysis, the impact for each gap of the change in the valuation of assets and liabilities is calculated.

The following table summarizes the Fund's exposure to interest rate risks. The Fund's financial and non financial instruments are presented at book value, classified by the period of the contract's interest rate repricing or maturity date, whichever occurs first:

	2017						
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	More than 5 years S/(000)	Non-interest bearing S/(000)	Total S/(000)
Assets							
Cash and due from banks	1,002,478	625,909	1,225,677	-	-	-	2,854,064
Available-for-sale and held to maturity investments	70,018	26,725	347,883	201,061	158,826	-	804,513
Outstanding loans	275	589	2,527	14,744	32,820	-	50,955
Accounts receivable, net (Trust Agreement - COFIDE)	35,993	75,641	324,738	1,841,803	3,928,635	-	6,206,810
Other accounts receivable, net	-	-	-	-	108,740	-	108,740
Accounts receivable for derivative financial instruments	-	-	-	-	-	164,444	164,444
Other assets, net	-	-	-	-	-	111,830	111,830
Total assets	1,108,764	728,864	1,900,825	2,057,608	4,229,020	276,274	10,301,355
Obligations with the public	-	-	216	-	-	-	216
Debts and financial obligations	-	2,390	19,333	154,666	19,333	-	195,722
Securities and bonds outstanding	40,607	39,946	846,228	1,016,964	3,891,942	-	5,835,687
Accounts payable for derivative financial instruments	-	-	-	-	-	124,971	124,971
Other accounts payable, provisions and other liabilities	-	-	-	-	-	939,139	939,139
Net equity	-	-	-	-	-	3,205,621	3,205,621
Total liabilities and net equity	40,607	42,336	865,777	1,171,630	3,911,275	4,269,731	10,301,356
Off-balance sheet items:							
Hedge derivative financial instruments - Assets	-	-	-	-	-	3,411,505	3,411,505
Hedge derivative financial instruments - Liability	-	-	-	-	-	295,276	295,276
Marginal gap	1,068,157	686,528	1,035,048	885,978	317,745	(3,993,456)	-
Accumulated gap	1,068,157	1,754,685	2,789,733	3,675,711	3,993,456	-	-

	2016						
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 to 5 years S/(000)	More than 5 years S/(000)	Non-interest bearing S/(000)	Total S/(000)
Assets							
Cash and due from banks	813,461	244,681	20,089	-	-	-	1,078,231
Available-for-sale and held to maturity investments	34,166	4,187	28,076	317,139	189,461	-	573,029
Accounts receivable, net (Trust Agreement - COFIDE)	31,982	69,719	319,198	1,812,745	3,869,754	-	6,103,398
Other accounts receivable, net	-	-	-	-	83,139	-	83,139
Accounts receivable for derivative financial instruments	-	-	-	-	-	261,392	261,392
Other assets, net	-	-	-	-	-	50,534	50,534
Total assets	879,609	318,587	367,363	2,129,884	4,142,354	311,926	8,149,723
Obligations with the public	107	-	65	-	-	-	172
Debts and financial obligations	-	969	119,808	184,828	50,867	-	356,472
Securities and bonds outstanding	32,882	-	77,128	2,018,222	1,835,731	-	3,963,963
Accounts payable for derivative financial instruments	-	-	-	-	-	64,702	64,702
Other accounts payable, provisions and other liabilities	-	-	-	-	-	438,537	438,537
Net equity	-	-	-	-	-	3,325,877	3,325,877
Total liabilities and net equity	32,989	969	197,001	2,203,050	1,886,598	3,829,116	8,149,723
Off-balance sheet items:							
Hedge derivative financial instruments - Assets	-	-	-	-	-	2,890,380	2,890,380
Hedge derivative financial instruments - Liability	-	-	-	-	-	276,540	276,540
Marginal gap	846,620	317,618	170,362	(73,166)	2,255,756	(3,517,190)	-
Accumulated gap	846,620	1,164,238	1,334,600	1,261,434	3,517,190	-	-

Sensitivity to changes in interest rates -
Following is the sensitivity of the income statement, as well as the valuation of the non-trading book in the face of various interest rate fluctuations. Fluctuations affect both the expected flows and the value of the balances.

In the case of the income statement, the calculation reflects the expected variation of the financial margin for a period equivalent to one year. In doing so, the Fund takes into account the current position of revenues and expenses, and annualizes the effect of the interest rates variations. The figures express the expected change in the value of assets minus liabilities for various time gaps. Likewise, it includes the effect of the derivative financial instruments that are subject to interest rates.

The fluctuations in interest rates are applied equally all through the yield curve, which means that it considers a parallel move of the curve. The effects are considered independently for each of the two currencies presented.

The calculations are based on the interest rate risk regulatory model approved by the SBS in force at the date of the statements of financial position. The sensitivities are calculated before the Income Tax effect.

The interest rate exposure is overseen by the ALCO, as well as the RC, the latter being in charge of approving the permitted maximum limits.

The effects due to estimated changes in interest rates as of December 31, 2017 and 2016, are the following:

	2017				
Currency	**Changes in basis points**	**Net income sensitivity**		**Net equity sensitivity**	
			S/(000)		S/(000)
U.S. dollars	+/-25	+ / -	123	+ / -	(23)
U.S. dollars	+/-50	+ / -	245	+ / -	(47)
U.S. dollars	+ 75	+	368	+	(70)
U.S. dollars	+ 100	+	490	+	(93)
Soles	+/- 50	- / +	13,114	- / +	19,775
Soles	+/-75	- / +	19,671	- / +	29,662
Soles	+/-100	- / +	26,227	- / +	39,549
Soles	+/-150	- / +	39,341	- / +	59,324

	2016				
Currency	**Changes in basis points**	**Net income sensitivity**		**Net equity sensitivity**	
			S/(000)		S/(000)
U.S. dollars	+/-25	+ / -	122	+ / -	26
U.S. dollars	+/-50	+ / -	244	+ / -	52
U.S. dollars	+ 75	+	366	+	78
U.S. dollars	+ 100	+	488	+	104
Soles	+/- 50	- / +	5,870	- / +	244
Soles	+/-75	- / +	8,804	- / +	366
Soles	+/-100	- / +	11,739	- / +	488
Soles	+/-150	- / +	17,609	- / +	732

(c) Foreign exchange risk -

The exchange rate risk is related to the variation of the positions both on and off the statements of financial position that may be negatively affected by exchange rates movements.

Board of Directors sets limits to the exposure to foreign exchange risk, and monitors them daily. Most assets and liabilities designated in foreign currency are held in US dollars.

Exchange rate risk is controlled as from an internal hedge limit, which is in the range of 80 percent and 120 percent with respect to the Fund's exchange position in foreign currency. Likewise, the Fund has an internal limit to the value at risk of the global position equal to 0.75 percent of its regulatory equity.

The Fund monitors foreign exchange risk through the internal limit of hedge on foreign currency exchange position. Regarding the maximum losses from adverse movements of the exchange rate, these are calculated using the value-at-risk internal model and its methodological notes. In addition, the Fund uses the regulatory model and its methodological notes to measure these expected maximum losses (the methodology of the internal model is detailed in the Market Risk Policies Manual of the Fund).

The results of the regulatory and internal value at risk (at 99 percent confidence and with a 10-day settlement period) are shown below:

	2017		2016	
	S/(000)	%	S/(000)	%
Models				
Regulatory	246	0.01%	1,712	0.05%
Internal	4,570	0.14%	2,372	0.07%
Global position	16,001	0.49%	56,602	1.70%
	Overbought		Overbought	

Transactions in foreign currency are accounted for by using the exchange rates prevailing on the market.

As of December 31, 2017 and 2016, the weighted average free market exchange rate published by SBS for the accounting of foreign currency assets and liabilities accounts is as follows:

	Symbol	2017	2016
U.S. dollar	US$	3.241	3.356
Euros	€	3.893562	3.295364
Swiss francs	CHF	3.326491	3.533747

The table below presents the detail of the Fund's currency position as of December 31, 2017 and 2016:

	2017					2016				
	US dollar S/(000)	Soles S/(000)	Euros S/(000)	Swiss francs S/(000)	Total S/(000)	US dollar S/(000)	Soles S/(000)	Euros S/(000)	Swiss francs S/(000)	Total S/(000)
Assets										
Cash and due from banks	55,044	2,797,053	1,967	-	2,854,064	305,251	769,575	3,405	-	1,078,231
Available-for-sale investments	6,541	27,575	-	-	34,116	-	-	-	-	-
Held to maturity investments	707,536	62,861	-	-	770,397	538,862	34,167	-	-	573,029
Loan portfolio	159	50,796	-	-	50,955	-	-	-	-	-
Accounts receivable, net (Trust Agreement - COFIDE)	172,961	6,033,849	-	-	6,206,810	247,352	5,856,046	-	-	6,103,398
Other accounts receivable, net	20,285	88,455	-	-	108,740	121	83,018	-	-	83,139
Accounts receivable for derivative financial instruments	7,583	156,861	-	-	164,444	2,863	258,529	-	-	261,392
Others	20	111,810	-	-	111,830	-	-	-	-	-
	970,129	9,329,260	1,967	-	10,301,356	1,094,449	7,001,335	3,405	-	8,099,189
Liabilities										
Obligations with the public	-	216	-	-	216	-	172	-	-	172
Debts and financial obligations	-	-	195,722	-	195,722	-	180,505	175,967	-	356,472
Securities and bonds outstanding	3,027,178	1,971,617	-	836,892	5,835,687	2,698,784	437,140	-	828,039	3,963,963
Accounts payable for derivative financial instruments	5,383	119,588	-	-	124,971	7,363	57,339	-	-	64,702
Other accounts payable	2,184	928,641	-	-	930,825	1,566	434,361	-	-	435,927
Others	4,965	3,349	-	-	8,314	-	-	-	-	-
	3,039,710	3,023,411	195,722	836,892	7,095,735	2,707,713	1,109,517	175,967	828,039	4,821,236
Forward position, net	(172,109)	-	-	33,119	(138,990)	158,777	-	-	23,068	181,845
Currency swaps position, net	2,252,203	-	194,678	808,337	3,255,218	2,064,242	-	176,688	800,773	3,041,703
Net monetary position	10,513	6,305,849	923	4,564	6,321,849	609,755	5,891,818	4,126	(4,198)	6,501,501

The Fund manages foreign exchange risk through the matching of its asset and liability operations, overseeing the global exchange position on a daily basis. The Fund's global exchange position is equivalent to the result of long positions minus short positions in currencies different to the sol. The global exchange position includes the spot positions and also the derivative positions.

Following are the sensitivities for U.S. dollar, Euro and Swiss franc variations. The negative variations represent potential losses, while the positive ones represent potential gains.

Sensitivity analysis	**Changes in exchanges rates** %	**2017** S/(000)	**2016** S/(000)
Revaluation -			
U.S. dollar	5	526	30,488
U.S. dollar	10	1,051	60,976
Devaluation -			
U.S. dollar	5	(526)	(30,488)
U.S. dollar	10	(1,051)	(60,976)

Sensitivity analysis	**Changes in exchanges rates** %	**2017** S/(000)	**2016** S/(000)
Revaluation -			
Euros	5	46	207
Euros	10	92	413
Devaluation -			
Euros	5	(46)	(207)
Euros	10	(92)	(413)

Sensitivity analysis	**Changes in exchanges rates** %	**2017** S/(000)	**2016** S/(000)
Revaluation -			
Swiss francs	5	228	210
Swiss francs	10	456	420
Devaluation -			
Swiss francs	5	(228)	(210)
Swiss francs	10	(456)	(420)

26.3 Liquidity risk -

The liquidity risk consists of the Fund's inability to comply with the maturity of its obligations, thus incurring into losses that importantly affect its equity position. This risk may arise as result of diverse events such as: the unexpected decrease of funding sources, the inability to rapidly settle assets, among others.

Liquidity risk management focuses on the development of a portfolio of assets and liabilities seeking the diversification of sources of financing in order to achieve the fit between the terms of assets and liabilities.

The internal control indicators are the internal liquidity ratio, liquidity gaps, resource duration analysis and stress analysis. These internal control indicators are prepared in accordance with internal and regulatory methodologies (contained in the Liquidity Risk Policy and Management Manual of the Fund and in the methodological notes of the SBS for the preparation of regulatory liquidity annexes, respectively). In any event that could give rise to a liquidity risk, the Fund has a liquidity contingency plan, which considers the liquidation of certain assets, debt issuance or debt collection.

Liquidity risk is managed through the analysis of contractual maturities. The main component of the Fund's assets are accounts receivable (Trust Agreement - COFIDE). The maturities are based on the monthly maturities of the loans made. Another component of the assets are held to maturity and available-for-sale investments, which are distributed according to contractual term.

Following are the Fund's cash flows payable as of December 31, 2017 and 2016 by agreed contractual maturity, the amounts disclosed are the undiscounted cash flows and include their respective accrued interests.

	2017					
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 a 5 years S/(000)	Over 5 years S/(000)	Total S/(000)
Financial liabilities by type -						
Obligations with the public	-	-	216	-	-	216
Debts and financial obligations	-	1,134	20,725	161,609	19,685	203,153
Securities and bonds outstanding	1,797	11,958	937,686	1,610,411	4,235,101	6,796,953
Other accounts payable	578,772	146	658	-	350,792	930,368
Total non - derivate liabilities	580,569	13,238	959,285	1,772,020	4,605,578	7,930,690
Derivatives financial liabilities (*) -						
Contractual amounts receivable (inflow)	9,711	28,666	930,945	526,666	2,102,518	3,598,506
Contractual amounts payable (outflow)	(31,297)	(33,277)	(946,243)	(732,415)	(1,928,529)	(3,671,761)
Total	(21,586)	(4,611)	(15,298)	(205,749)	173,989	(73,255)

	2016					
	Up to 1 month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	From 1 a 5 years S/(000)	Over 5 years S/(000)	Total S/(000)
Financial liabilities by type -						
Obligations with the public	-	-	172	-	-	172
Debts and financial obligations	-	1,018	129,227	195,851	53,411	379,507
Securities and bonds outstanding	-	33,770	75,734	2,305,235	2,212,685	4,627,424
Other accounts payable	119,295	144	4,757	-	311,731	435,927
Total non - derivate liabilities	119,295	34,932	209,890	2,501,086	2,577,827	5,443,030
Derivatives financial liabilities (*) -						
Contractual amounts receivable (inflow)	-	2,633	15,656	1,366,572	1,695,737	3,080,598
Contractual amounts payable (outflow)	(13,032)	(7,333)	(72,553)	(1,538,002)	(1,457,118)	(3,088,038)
Total	(13,032)	(4,700)	(56,897)	(171,430)	238,619	(7,440)

(*) Include derivatives contracts designed as hedge accounting.

26.4 Capital management -

As of December 31, 2017 and 2016, the Fund has complied with the mandates of Legislative Decree N°1028 and SBS Resolutions N°2115–2009, N°6328-2009, N°14354-2009, N°8425 -2011, N°4128-2014 and their amendments, which contain the Regulations on Effective Equity Requirements for Operational Risk, Market Risk and Credit Risk, respectively, and amendments. These Regulations mainly establish the methodologies to be used by the financial entities to calculate the requirements of regulatory equity.

26.5 Fair value -

(a) Fair value is the amount by which an asset can be exchanged between a buyer and a seller duly informed, or the amount by which an obligation between a debtor and a creditor with sufficient information can be canceled under the terms of a transaction of free competition.

Fair value is a market-based measurement, so a financial instrument traded in a real transaction in a liquid and active market has a price that supports its fair value. When the price for a financial instrument is not observable, the fair value should be measured using another valuation technique, seeking to maximize the use of relevant observable variables and minimize the use of unobservable variables.

To calculate the fair value of an instrument that is not listed on liquid markets, the market value of an instrument that is actively listed in the market and which has similar characteristics can be used or can be obtained by some analytical technique, such as analysis of discounted flows or valuation by multiples.

The assumptions and calculations used to determine the fair value of financial assets and liabilities are as follows:

(i) Financial instruments recorded at fair value - The fair value is based on market prices or some other methods of financial valuation. The positions valued at market prices are mainly investments traded on centralized mechanisms. The positions valued by some method of financial valuation include derivative financial instruments and instruments that may not have market prices in which case their fair value is mainly determined by using the market interest rate curves and the price vector provided by the SBS.

(ii) Instruments whose fair value is similar to their book value – For the financial assets and liabilities that are liquid or have short-term maturities (less than three months), it is considered that the book value is similar to the fair value. This assumption is also applicable to term deposits, savings accounts without a specific maturity and variable-rate financial instruments.

(iii) Financial instruments at fixed rate – The fair value of the financial liabilities at fixed rate and at amortized cost is determined by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. In the case of quoted issued debt, the fair value is determined on the basis of the quoted market prices. The fair value of the loan portfolio and deposits and obligations, according to SBS Multiple Official Letter N°1575-2014, corresponds to the book value.

(b) Financial instruments measured at fair value and fair value hierarchy -

The following table presents an analysis of the financial instruments that are measured at fair value as of December 31, 2017 and 2016, including the level of the fair value hierarchy.

The amounts are based on the balances presented in the statements of financial position:

	As of December 31, 2017				As of December 31, 2016			
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Financial assets -								
Available-for-sale investments								
Debt instruments	-	34,116	-	34,116	-	-	-	-
Accounts receivable for derivative financial instruments	-	164,444	-	164,444	-	261,392	-	261,392
	-	198,560	-	198,560	-	261,392	-	261,392
Accrued interest				-				-
Total financial assets				198,560				261,392
Financial liabilities -								
Accounts payable for derivative financial instruments	-	124,971	-	124,971	-	64,702	-	64,702
Total financial liabilities	-	124,971	-	124,971	-	64,702	-	64,702

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

The financial instruments included in Level 2 are valued with the market prices of other instruments possessing similar characteristics or with financial valuation models based on information of variables that can be available on the market (interest rate curves, price vectors, etc.).

The financial assets included in Level 3 are valued by using assumptions and data that do not correspond to prices of operations traded on the market

During 2017 and 2016, there were no transfers of financial instrument from Level 3 to Level 1 or to Level 2.

(c) Financial instruments not measured at fair value -

Set out below is the disclosure of the comparison between the carrying amounts and fair values of the financial instruments, which are not measured at fair value, presented in the statements of financial position by level of the fair value hierarchy:

	As of December 31, 2017					As of December 31, 2016				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	2,854,064	-	2,854,064	2,854,064	-	1,078,231	-	1,078,231	1,078,231
Held-to-maturity investments	-	789,482	-	789,482	770,397	586,411		-	586,411	573,029
Accounts receivable, net (Trust Agreement - COFIDE)	-	6,206,810	-	6,206,810	6,206,810	-	6,103,398	-	6,103,398	6,103,398
Loan portfolio, net	-	50,955	-	50,955	50,955	-	-	-	-	-
Other accounts receivable, net	-	108,740	-	108,740	108,740	-	83,139	-	83,139	83,139
Total	-	10,010,051	-	10,010,051	9,990,966	586,411	7,264,768	-	7,851,179	7,837,797
Liabilities										
Obligations with the public	-	216	-	216	216	-	172	-	172	172
Debts and financial obligations	-	195,722	-	195,722	195,722	-	356,472	-	356,472	356,472
Securities and bonds outstanding	-	6,144,416	-	6,144,416	5,835,687	-	4,422,473	-	4,422,473	3,963,963
Other accounts payable	-	930,825	-	930,825	930,825	-	435,927	-	435,927	435,927
Total	-	7,271,179	-	7,271,179	6,962,450	-	5,215,044	-	5,215,044	4,756,534

27. Subsequent events

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

28. Explanation added for English language translation

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

Nº 0064271

COLEGIO DE CONTADORES PÚBLICOS DE LIMA

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

R.U.C. 20106620106

Nº

63910

Constancia de Habilitación

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

PAREDES, BURGA & ASOCIADOS SOC. CIVIL DE RESPONSABILIDAD LIMITADA

MATRICULA : S0761

FECHA DE COLEGIATURA : 05/11/2002

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

31/03/2018

Lima,

16 de Febrero de 2017

Elsa R. Ugarte V.

CPCC Elsa Rosario Ugarte Vásquez
Decana

Penadillo C.

CPCC Moisés Manuel Penadillo Castro
Director Secretario

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

Comprobante de Pago: 102-00001005

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

EY | Auditoría | Consultoría | Impuestos | Transacciones y Finanzas Corporativas

Acerca de EY

EY es la firma líder en servicios de auditoría, consultoría, impuestos, transacciones y finanzas corporativas. La calidad de servicio y conocimientos que aportamos ayudan a brindar confianza en los mercados de capitales y en las economías del mundo. Desarrollamos líderes excepcionales que trabajan en equipo para cumplir nuestro compromiso con nuestros stakeholders. Así, jugamos un rol fundamental en la construcción de un mundo mejor para nuestra gente, nuestros clientes y nuestras comunidades.

Para más información visite ey.com/pe