

# BANCO DE COMERCIO

2013 ANNUAL REPORT

Lima, March 28, 2014

This document contains accurate and sufficient information with regard to Banco de Comercio business development in 2013. Without prejudice to the issuer's liability, the undersigned take responsibility for the contents hereof pursuant to the legal provisions in force.

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**General Manager**

David Antonio Ambrosini Valdez  
**Manager of the Administration & Finance Division**

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**Manager of the Legal Consultancy Division**

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## 1. LETTER FROM THE CHAIRMAN OF THE BOARD

In an international context characterized by the recovery of the advanced economies in the second half of this year, Peru's performance was based on domestic demand and on the trust in Peruvian economy shown by both consumers and entrepreneurs. This led to a 5.02% economic growth in 2013, whereas the consumer price index reached 2.86%, which is below the BCRP target range.

As of December 2013, the direct credit balance of the financial system showed an accumulated growth of 16.7% compared to December 2012. During this period, the financial system delinquency grew from 2.19% in December 2012 to 2.55% in December 2013.

The bank has performed slightly better than the system during times of economic uncertainty, as its loans grew to a rate of 17.6%. In this context, Banco de Comercio achieved a 1.2% growth in loans, with a 1.72% delinquency, which is less than the average of the system.

At the end of 2013, the financial system was made up of 63 companies and S/. 322.1 billion worth of assets. Among the most outstanding facts, we can mention that in May 2013, CRAC Nuestra Gente turned into a savings bank company after having absorbed Financiera Confianza. Furthermore, in October 2013, Edpyme Nueva Visión became a savings bank company, whereas HSBC was acquired by GNB. It is worth mentioning that the banking companies account for 81.1% of all financial system assets.

As Banco de Comercio is a minor institution in Peru, with a share of less than 1% of the local market, the bank is impacted to a greater extent by regulations of the Superintendence of Banking, Insurance and Private Pension Administrators (SBS, by its Spanish initials) and by adaptations to Basel II and III Standards.

Despite these restrictions, Banco de Comercio managed to consolidate its business and achieved a S/.1.156 billion direct loan and deposits worth S/.1.299 billion in total. Revenues from interests were up to S/.198.2 million and net profits obtained at the end of 2013 were S/.10.5 million. It is worth mentioning that the efforts made for capital strengthening were materialized in continuous capitalization of profits and the successful issuance of junior bonds, the third and fourth series of second public issuance of S/. 4.0 million and S/.3.5 million, respectively.

Through this letter I wish to express my gratitude and appreciation to our shareholders, to the Management Team and to all the people that work for this institution, both on my behalf and

on behalf of the Board of Directors, for their loyalty and permanent trust in Banco de Comercio. The slogan of the Bank: «For your own progress and that of your family» is mine, and I hope that is true for all people who work for the Bank. I wish you all the best of luck for the coming year.

José Ricardo Stok Capella  
Chairman of the Board

## 2. LETTER FROM THE GENERAL MANAGER

Although the risk of an international crisis shrank in 2013, generalized deceleration of global economic growth continued to be a risk factor. New trends have come up within the financial market and new standards have been imposed by the regulating entities (SBS, the Peruvian Central Reserve Bank (BCRP, by its Spanish initials) and the Stock Exchange Superintendence [SMV, by its Spanish initials]), especially, greater capital demand. Banco de Comercio, being immersed in this context and aware of its small market share in terms of total assets, has chosen a conservative view: *“Being a bank that provides superior service in order to be the first financial option for our clients, their families and their companies, aimed at being The Family Bank”*, based on our inspiring objective of providing *superior service* and on the logic of our business and entrepreneurial objectives:

- 1) *growth*
- 2) *niche defense and diversification and*
- 3) *increasing productivity and competitiveness.*

In this context, the strategy assumed by the current Management has been to consolidate the growth of businesses generating greater profitability, such as Peruvian Armed Forces and Police Force (FFAA-PNO, by its Spanish initials) and Medium Sized Enterprise Banking; as well as to penetrate new segments such as micro and small enterprises, which strengthen Personal Banking under the concept of better service oriented towards being the Family Bank. With this objective, priority has been given to resources aiming at adequate business segmentation, product development, delinquency control and continuous improvement of business support processes within a perspective of growing productivity and competitiveness.

I wish to express my satisfaction about the S/.10.5 million net profit achieved during the financial year. These results have been accomplished due to the joint effort of the Board of Directors and the entire staff. I wish to specially thank the Management and the strength and capacity of Banco de Comercio to face the several existing challenges within its limitations.

The above mentioned results have been achieved in the following operational accounts:

- ✓ Direct loans reached a volume of S/. 1,156 million, where the volume reached by total deposits was S/. 1.299 billion.

- ✓ The quality of our consumer loan portfolio is the highest within the banking system; delinquency, which measures the delayed portfolio among gross loans, stands at 0.75%, whereas the banking system average was 3.00%.
- ✓ Financial income reached S/.198.2 million, whereas both interest expenses rose to S/.74.9 million. Furthermore, administrative expenses rose to S/.84.6 million, with a 3.3% change compared to 2012.
- ✓ For the first time in the Bank's history, we have had a primary public emission of junior bonds, third and fourth series, for an amount of S/. 7.5 million, which represents an instrument of capital strengthening, and which has also broadened our financing alternatives.

Important progress has also been made in the following manners:

- ✓ As a result of cost rationalization, Banco de Comercio has saved approximately S/.5 million, which is the result of austere and efficient management.
- ✓ We have reached a Good Corporate Governance Index of 312 out of 312.
- ✓ We rank first in the Ipsos Apoyo Service Quality Survey.
- ✓ We have been authorized by Promperú to use the Peru Brand (*Marca Perú*), in order to contribute to spreading the richness of our country.

Our management team, who are aware of the great challenge the bank is currently facing, has identified four critical risk factors: 1) financial leverage; 2) the human factor and organizational culture; 3) better service and client loyalty; 4) cost management. To date, these have been implemented with control and success from the beginning of our management.

We are a commercial bank and our business is based on serving our clients, whether they are individuals or companies. Therefore, we collect deposits and grant loans, while we perform strict follow-up in case any of our clients has a payment problem. This has always been the commercial culture and business model that has allowed us to generate recurrent operational income in all phases of the economic cycle; a model which, has been also validated by the market with day-by-day increasing profitability and efficiency.

Banco de Comercio will continue to consolidate its businesses and to grow in terms of capital. We will be aware of new opportunities that may come up, based on the criteria of responsibility towards our shareholders, clients and employees, while preserving our solvency and meeting the SBS capital requirements.

Finally, I wish to thank my Board of Directors and their contributions, the bank personnel, for their effort and dedication, and the professional team that is part of Banco de Comercio, who continue to work day by day, as they successfully face the challenges posed by the future, and because they will continue to create trust among our shareholders, investors, the Bank's clients and the general public.

Juan Manuel Echevarría Arellano  
General Manager



### 3. SENIOR TEAM

The 2013 Senior Team was made up of the following members:

Chairman: Enrique Díaz Ortega (1)  
José Ricardo Stok Capella (2)

ViceChairman: César Peñaranda Castañeda (3)  
Julio Enrique Arroyo Rizo Patrón (4)

Directors: Víctor Rolando Castellares Aguilar (5)  
Pedro Patricio Franco Concha (6)  
César Alfredo Lee Chea (7)  
Enrique Gilberto Medri Gonzales (5)  
Luis Montezuma Cárdenas (8)  
Oscar Alfredo Romero Veja (7)  
Jakke Valakivi Alvarez  
Iván Vega Loncharich  
Roger Velasco Botetano (9)

(1) until March 29, 2013

(2) since March 30, 2013

(3) until August 28, 2013

(4) Chairman since March 30, 2013 and Vice Chairman since September 24

(5) until March 29, 2013

(6) since March 30, 2013

(7) since September 9, 2013

(8) until August 28, 2013

(9) until April 15, 2013

#### 4. MANAGEMENT TEAM

Carlos Alberto Mujica Castro	General Manager (1)
Juan Manuel Echevarría Arellano	General Manager (2)
David Antonio Ambrosini Valdez	Manager of the Administration & Finance Division
Fredy Molfino Martínez	Manager of the FFAA & PNP Business Division (3)
Luis Alberto Guevara Flores	Deputy Manager of the Personal Business Banking Division(3)
Marisa Freire de Stewart	Manager of the Personal and SME Risk Division (3) Manager of the Personal & Entrepreneurial Banking Division (4) Manager of the Institutional Agreement Business Division (5)
José Fernando Choza Carro	Manager of the Legal Consultancy Division
Carlos Fernández Rojas	Manager of the Personal, Entrepreneurial & Agency Banking Division (6)
Néstor Alberto Plasencia Angulo	Manager of the Internal Auditing Division
Jorge Alvarado Valdivia	Manager of the Risk Division
César Ignacio Coronado Aguilar	Manager of the Compliance Office
Miguel Ángel Carpio Flores	Manager of the Quality Control Division (3) Manager of the Transport & Special Task Division (4), (7)

Javier Humberto Manrique Vidal	Deputy Manager of the Company Business Banking Division
Rodolfo Nelson Loyola Alba	Deputy Manager of the Technology, Operations & Process Division
Luis Alberto Guevara Flores	Deputy Manager of the Research & Development Division
Mario Alfredo Ballón García	Deputy Manager of the Human Resources Management
Pedro Alberto Solís Torres	Deputy Manager of the Special Credit Department
Miguel Augusto Román Carrasco	Deputy Manager of the Entrepreneurial Banking Department(3)

(1) until September 13, 2013

(2) since September 18, 2013

(3) until January 14, 2013

(4) since January 15, 2013

(5) until December 1, 2013

(6) since December 2, 2013

(7) until November 27, 2013

## 5. INTERNATIONAL CONTEXT

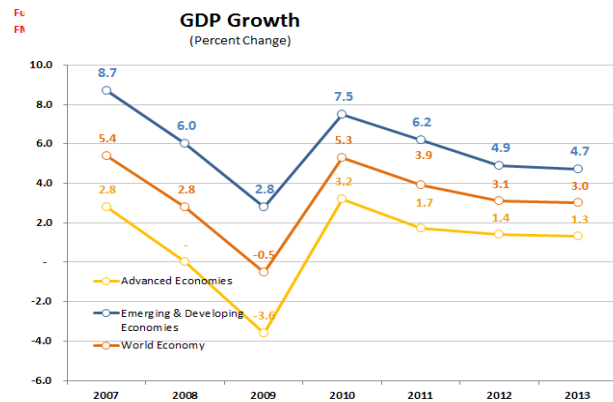
### 5.1. WORLD ECONOMY

The world economy grew by 3.0% in 2013, which is slightly less than the growth recorded in the previous year, due to the decreased growth pace recorded by the advanced economies.

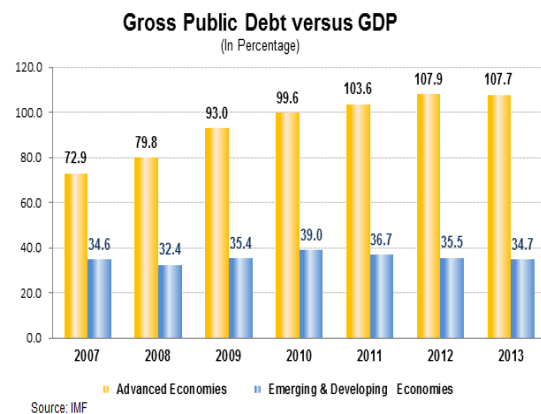
In the United States, the economy grew by 1.9% in 2013, which was mainly the result of a greater increase in exports, increased private investments and the labor market recovery. It should be noted that the US Federal Reserve in December 2013 started to reduce the initial \$85 billion monetary stimulus to \$75 billion per month in assets supported by mortgages (MBS) and Treasury Bonds, which is a sign of the country's strength.

With regard to the Eurozone, it is worth mentioning that the economy did not start the year in a very encouraging manner; however, GDP showed a moderate growth in the second half of the year. Data reflected that the economy of the 17 Eurozone countries in the last quarter of 2013 grew by 0.3%, compared to 0.1% in the third quarter. This is, mainly, due to an increase in exports in the fourth quarter of 2013 (+0.7% compared to the third quarter of 2013), while imports shrank by 1.4% compared to the third quarter of 2013, which shows that the GDP growth reported in the last quarter of 2013 was mainly driven by the increase in net exports.

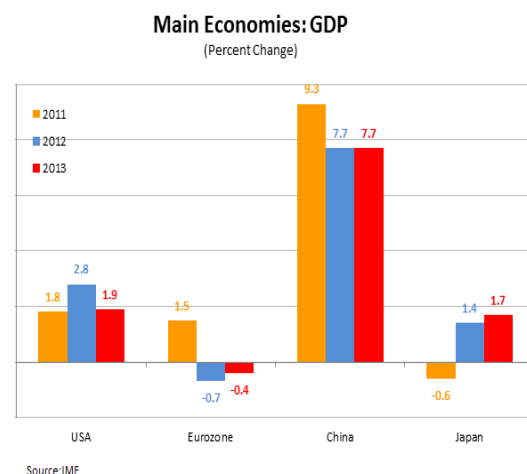
In addition, the industrial production development in November 2013 compensated the decrease of the previous two months due to the increased industrial demand, which seems to reflect the



Source: IMF



Source: IMF

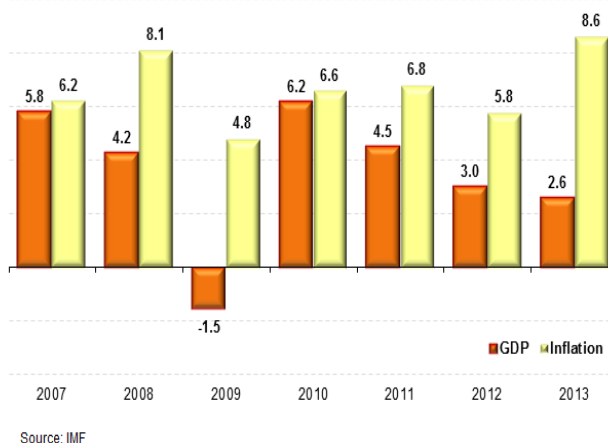


Source: IMF

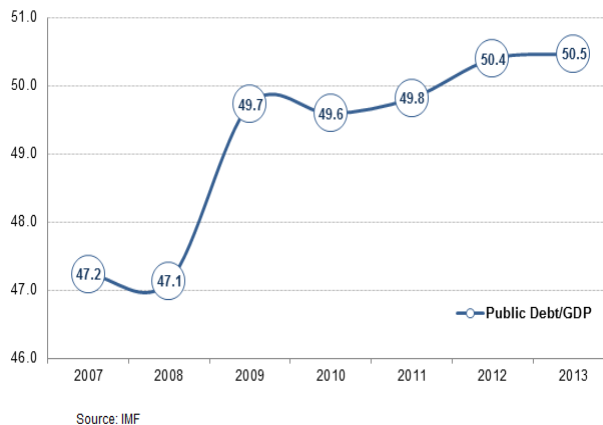
continuous recovery of the industrial sector during the first months of 2014. This way, the increase in retail sales at the end of 2013, in addition to the unemployment stability (12.0% since April 2013) and the moderate inflation rate, reflected that domestic private consumption of the 17 countries contributed to GDP growth in the last months of 2013.

In Asia, the different countries present diverse economic growth. In the northern part of the continent (China and Japan), gross domestic product (GDP) growth remained high; however, in some countries such as India and Indonesia, growth has weakened due to the volatility of capital flow as a result of the uncertainty generated by the Federal Reserve (FED) with regard to the reduced monetary stimulus in 2013. This reflects the great influence of the United States monetary policy movements on said Asian countries. In China, GDP growth stood at 7.7% at the end of 2013, with a series of structural and social reforms, such as the liberalization process that has taken place in the financial sector, the more flexible price controls with regard to public supply services and greater participation of private investment, in order to complete the transaction toward a market economy and to systematically face the risks. In Japan, economic development has been positive in 2013 as a result of the fiscal and monetary stimuli. Japan's GDP grew by 1.7% in 2013, which is more than in 2012 (1.4%).

**Latin America: GDP Development & Inflation**  
(In Annual Percent Change)



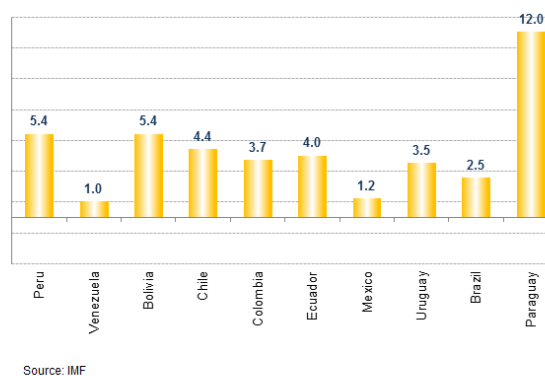
**Development: Public Debt/GDP**  
(In Percentage)



## 5.2. LATIN AMERICAN ECONOMY

The Latin American and Caribbean economy (LAC) grew by 2.6% in 2013, which is less than the growth it presented during the

**2013 GDP Growth: Main Countries**  
(Annual Percent Change)



previous period (3.0%), according to the official figures published by the IMF. The GDP achieved by Latin America and the Caribbean reflected the negative impact generated by the US and European economies during the first quarter, due to their commercial proximity.

In most countries, monetary policies moderated the negative effect of the decreased foreign demand on the economic activity. In countries like Mexico and Brazil, periodic inflation stood at 3.97% and 5.9%, respectively, which is above the upper limit of each country's objective; however, Venezuela recorded the highest inflation rate in the world (56.3%). The region's joint inflation rate was of 8.6%, which is higher than the rate recorded in 2012 (5.8%).

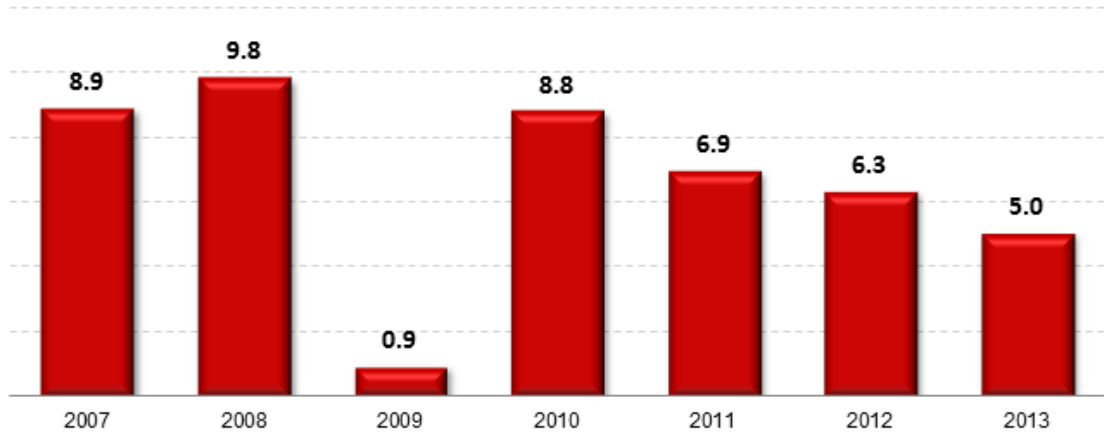
The region's decreased performance occurred at the same time as the strong economic slowdown of two countries: the Mexican economy grew by 1.2%, which is less than the previous year (3.7%), whereas in Venezuela GDP is expected to grow by about 1%. However, Brazil, one of the largest economies in the region, showed a 2.3% growth which is higher compared to the previous year (1.0%).

## **6. NATIONAL CONTEXT**

### **6.1. MACRO ECONOMIC VARIABLES**

In the course of 2013, the Peruvian economy recorded a 5.02% growth but its GDP decelerated compared to the previous period (6.3%); the 2013 result was affected by the decreased growth in private investment and by the weak international economic environment that affected exports. The non-primary sectors, in turn, recorded a larger growth of 5.4%, driven by the construction, trade and other service sectors; whereas growth in the primary sectors was less dynamic (3.1%).

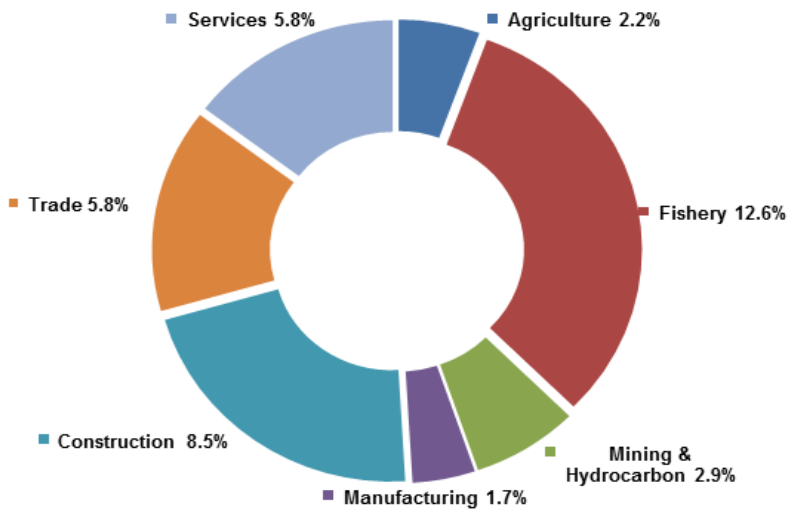
## Gross Domestic Product (Annual % Change)



Source: BCRP

As for the growth per economic sector, the largest growth in 2013 was recorded in fishery and construction, which increased by 12.6% and 8.56%, respectively. Growth in the fishery sector can be explained by the increased landing of species for direct human consumption, which rose by 11.5%, as well as by the landing of species for indirect human consumption (meal and oil), by 27.1%. On the other hand, moderate growth was recorded in the manufacturing, agricultural and mining and hydrocarbon sectors, which grew by 1.71%, 2.20% and 2.91%, respectively.

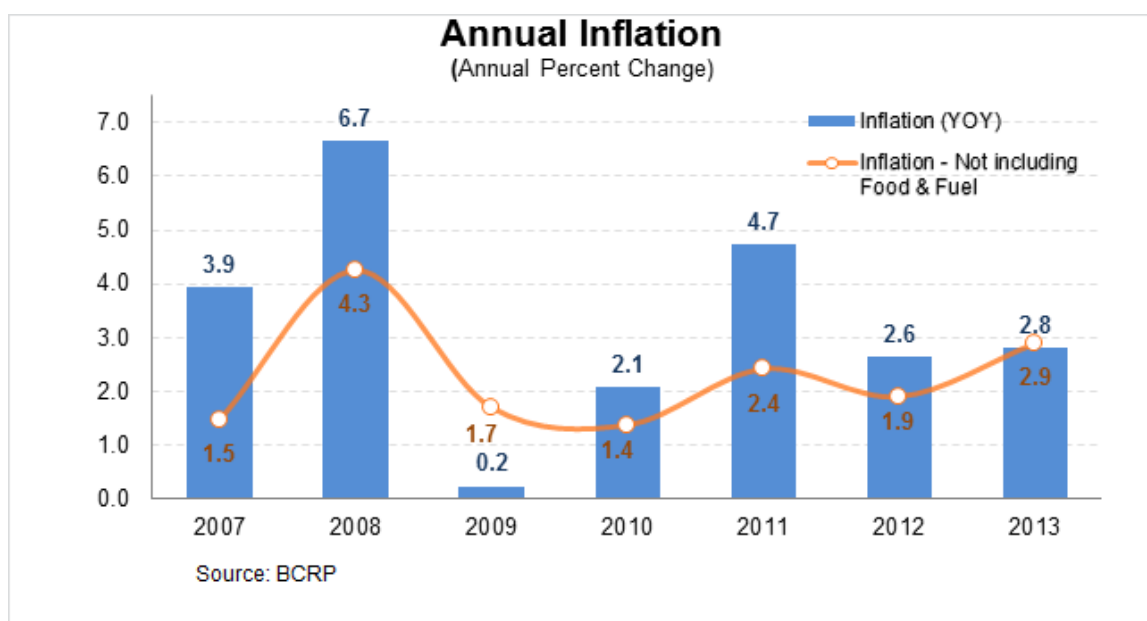
### Accumulated Change in Gross Domestic Product by Sector: 2013



Domestic demand achieved a 5.7% growth in 2013, mainly under the influence of increased private consumption (5.2%) and of the confidence in the Peruvian economy shown by consumers and entrepreneurs, which caused an increase in consumer loans during the period. Public investment accumulated a 14.9% expansion, which mainly reflects the increased expenses on local and national government investment projects.

### Inflation & Exchange Rate

At the 2013 closing, inflation — measured as a the annual consumer price index variation (CPI) — stood at 2.86%, within the goal range established by the BCRP (1% - 3%). It is worth mentioning that there has been a backward movement in food and beverage prices and this decrease continues to reflect the reversion in the shocks presented by the domestic offer during the last quarter of 2013.



On the other hand, the exchange rate closed at 2.80 Nuevos Soles/US\$ in December 2013, with an 8.5% variation compared to the previous year. Among the possible factors that have contributed to this lower exchange rate, we can mention the uncertainty that generated the announcement of the federal reserve with regard to the withdrawal of the monetary stimulus and the decreased entry of dollars through exports.



## External Sector

In 2013, the Peruvian economy recorded a \$365 million trade balance deficit, due to the result generated by the decreased demand of export products. Exports fell by 9.5%, to \$ 41,826 million compared to 2012, which was also due to the decrease in export prices and to a decrease in the consumption of traditional products by China; however, imports rose by 2.6%, to \$42,191 million.

EXTERNAL SECTOR: TRADE BALANCE								
(in Millions of US\$ FOB)								
Area	2007	2008	2009	2010	2011	2012	2013	2012/2013 Change
<b>EXPORTS</b>	<b>28,094</b>	<b>31,018</b>	<b>26,962</b>	<b>35,565</b>	<b>46,268</b>	<b>45,639</b>	<b>41,826</b>	<b>-8.4%</b>
Traditional Products	21,666	232,666	20,622	27,669	35,837	34,247	30,659	-10.5%
Non-traditional Products	6,428	7,753	6,339	7,896	10,431	11,392	10,929	-4.1%
<b>IMPORTS</b>	<b>19,591</b>	<b>28,449</b>	<b>21,011</b>	<b>28,815</b>	<b>36,967</b>	<b>41,113</b>	<b>42,190</b>	<b>2.6%</b>
Consumer Goods	3,308	4,660	4,085	5,718	7,046	8,500	8,827	3.8%
Consumables	10,426	14,556	10,076	14,023	18,255	19,256	19,503	1.3%
Capital Goods	5,854	9,233	6,850	9,074	11,665	13,356	13,649	2.2%
<b>Exchange Terms</b>	<b>137.7</b>	<b>117.8</b>	<b>114.4</b>	<b>135.0</b>	<b>142.3</b>	<b>135.3</b>	<b>128.9</b>	<b>-4.7%</b>
<b>NIR</b>	<b>27,689</b>	<b>31,196</b>	<b>33,135</b>	<b>44,105</b>	<b>48,816</b>	<b>63,991</b>	<b>65,663</b>	<b>2.6%</b>

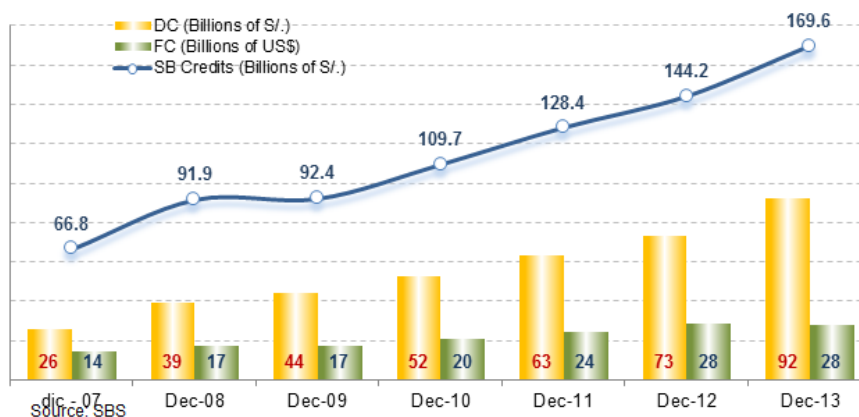
Source: BCRP

## 6.2. FINANCIAL VARIABLES

### Loans

Total direct loans of the Peruvian banking system as of December 2013, rose to S/. 169.555 billion, which is 17.6% higher than the loans recorded during a similar period the previous year, which can be explained by the greater dynamism in consumer credits. As of December 2013, the bank concentrates 83.6% of the total amount of direct loans in the financial system. The accumulation of direct loans in the banking system can also be explained by the greater dynamism in loans directed to the Mining (57.6%), Mortgage (21.1%), Manufacturing (20.5%) and Agricultural (19.4%) sectors, compared to December 2012.

**Banking System Direct Loans**  
(expressed in billions of Nuevos Soles)



<b>BANKING SYSTEM</b>	<b>dic - 07</b>	<b>Dec-08</b>	<b>Dec-09</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13</b>
DC (Billions of S/.)	25.5	39.0	43.9	52.3	62.9	72.5	91.7
FC (Billions of US\$)	13.8	16.8	16.8	20.4	24.3	28.1	27.8
FC (Billions of S/.)	41.3	52.8	48.5	57.4	65.5	71.6	77.8
<b>SB Credits (Billions of S/.)</b>	<b>66.8</b>	<b>91.9</b>	<b>92.4</b>	<b>109.7</b>	<b>128.4</b>	<b>144.2</b>	<b>169.6</b>
Annual Growth (in %)	32.8%	37.5%	0.6%	18.7%	17.0%	12.3%	17.6%
Dollarization	61.8%	57.5%	52.4%	52.3%	51.0%	49.7%	45.9%
Exchange Rate	3.00	3.14	2.89	2.81	2.70	2.55	2.80
Delinquency	1.26	1.27	1.56	1.49	1.47	1.75	2.14

Source: SBS

Compared to 2012, the largest accumulated growth of the loans per segment in the banking system was obtained by Corporate Banking, which grew by 30.3%, followed by Large Sized Enterprise Banking with 18.7%, due to the more dynamic private investments performed by large companies in our country. In contrast, it can be observed that Micro Sized Enterprise Banking decreased by 25.8%.

## Banking System: Loans per Segment

(in Billions of Nuevos Soles)

Segment	dic-10	Dec-11	Dec-12	Dec-13	Annual % Change
Corporations	23.3	26.5	26.1	34.0	30.3
Large Enterprises	21.0	22.4	25.2	29.9	18.7
Medium Sized Enterprises	20.0	23.9	27.4	32.3	18.0
Small Enterprises	8.7	11.1	13.0	13.3	2.3
Micro Enterprises	2.5	2.5	2.6	1.9	-25.8
Consumption	18.7	22.7	26.4	29.6	12.3
Mortgage	15.5	19.2	23.6	28.6	21.2
<b>TOTAL</b>	<b>109.7</b>	<b>128.4</b>	<b>144.2</b>	<b>169.6</b>	<b>17.6</b>

Source: ASBANC

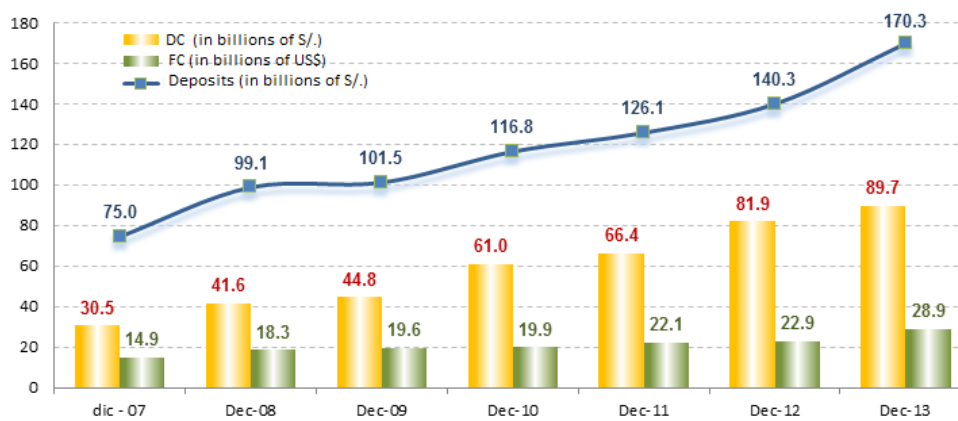
Prepared by: Economic Planning & Studies

## Deposits

Total deposits of the Banking System as of December 2013 rose to S/. 170.32 billion (21.4%) with regard to December 2012. Deposits in Peruvian currency rose to S/. 89.7 billion, which means an increase of 9.5%, whereas deposits in foreign currency (expressed in local currency) rose to S/. 80.7 billion, which means a 38.1% growth.

### Banking System Direct Loans

(expressed in billions of Nuevos Soles)



Source: SBS

BANKING SYSTEM	dic - 07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
DC (in billions of S/.)	30.49	41.62	44.83	60.98	66.42	81.90	89.66
FC (in billions of US\$)	14.86	18.31	19.60	19.86	22.13	22.91	28.86
FC (in billions of S/.)	44.51	57.50	56.64	55.78	59.65	58.43	80.66
<b>Deposits (in billions of S/.)</b>	<b>75.0</b>	<b>99.1</b>	<b>101.5</b>	<b>116.8</b>	<b>126.1</b>	<b>140.3</b>	<b>170.3</b>
<b>Annual Growth</b>	<b>24.2%</b>	<b>32.1%</b>	<b>2.4%</b>	<b>15.1%</b>	<b>8.0%</b>	<b>11.3%</b>	<b>21.4%</b>
Dollarization	59.3%	58.0%	55.8%	47.8%	47.3%	41.6%	47.4%

Source: SBS

Over the past twelve months, a growing trend could be observed in the dollarization of the banking system deposits (47% of all deposits), as a result of the recent dollar appreciation due to the FED decisions regarding withdrawal of monetary stimulus.

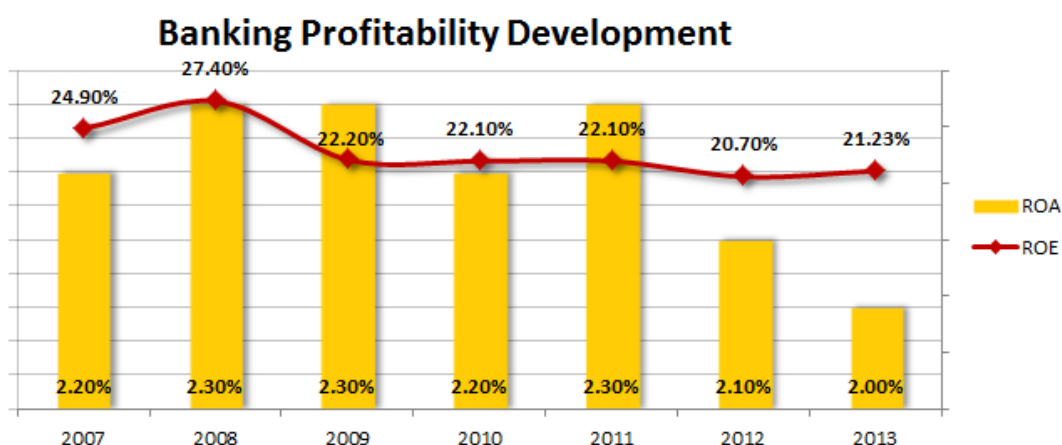
### Financial Indicators

The quality of the banking system portfolio, measured through delinquency, increased slightly to 2.14%, and therefore exceeded the result obtained in December 2012 (1.75%).

This way, delinquency of the banking system in 2013 continued to show a growing trend, after it had decreased in December 2012. The provision coverage ratio, in turn, decreased from 223% in December 2012 to 187% at the closing of 2013.

Profits made by the banking system — not including branches located abroad — totaled S/. 4.967 billion in 2013. Thus, an increase of S/. 352.4 million (7.6%) was recorded compared to the previous year. The increase in profits is a response to the increased financial income, which mainly consists of credit interest and commissions, which were favored by the continuous growth in loans placed by the system in the most dynamic sectors of the economy.

A slight decrease was observed in the banking system's profitability, which is measured by return on assets. Return on capital, in turn, closed 2013 at 21.2%, which is higher than the figure obtained in December 2012.

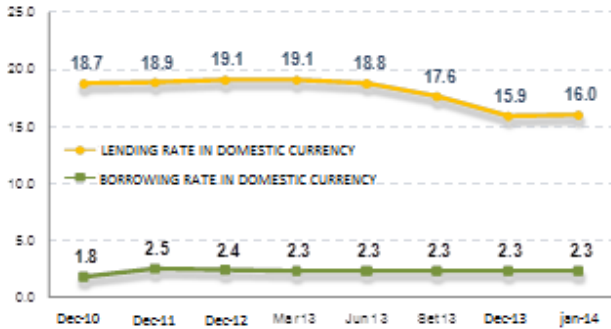


Source: SBS

## Interest Rates

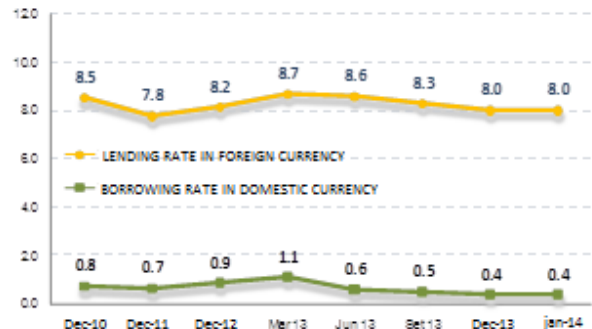
The average lending interest rate in local currency as per December 2013 had fallen from 19.1% in 2012 to 15.9% in 2013, as a result of the decreased lending interest rate in most of the segments; however, the consumption segment recorded an increase with regard to 2012. Nevertheless, the borrowing interest rate in local currency remained constant in 2013 (2.3%).

Banking System: Lending and Borrowing Rate in Domestic Currency (In percentage)



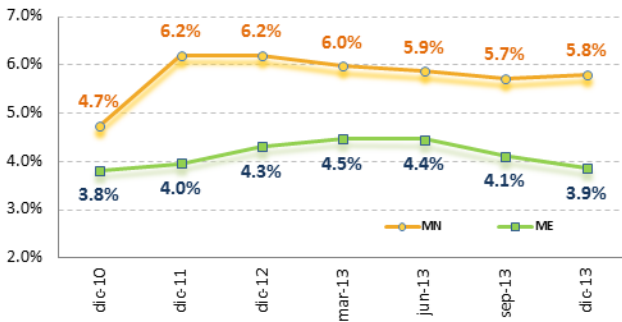
Source: BCRP

Banking System: Lending and Borrowing Rate in Foreign Currency (In percentage)



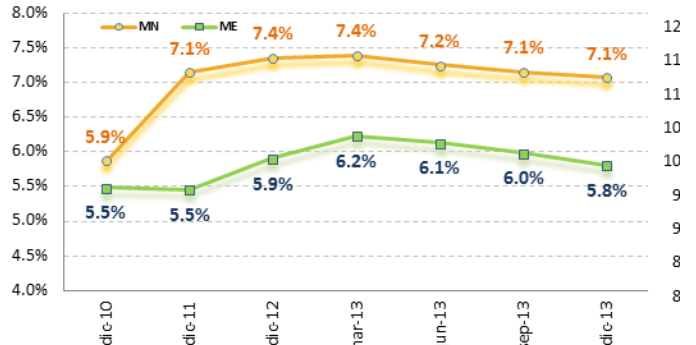
Source: BCRP

Corporate Segment



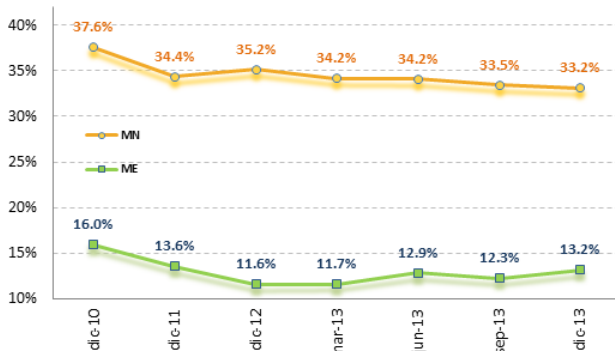
Source: ASBANC

Large Enterprise Segment



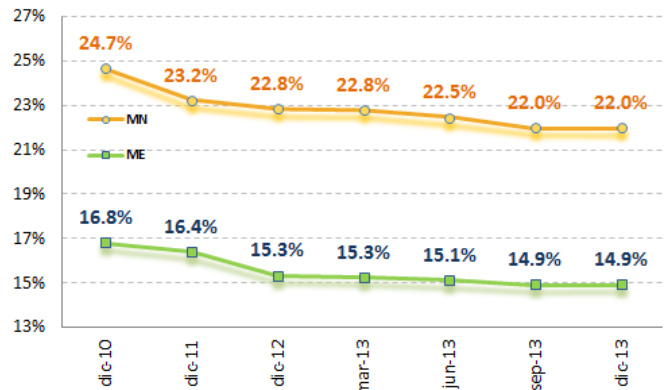
Source: ASBANC

Micro Enterprise Segment

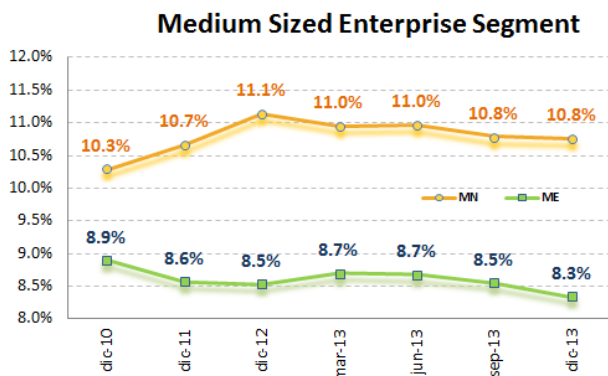


Source: ASBANC

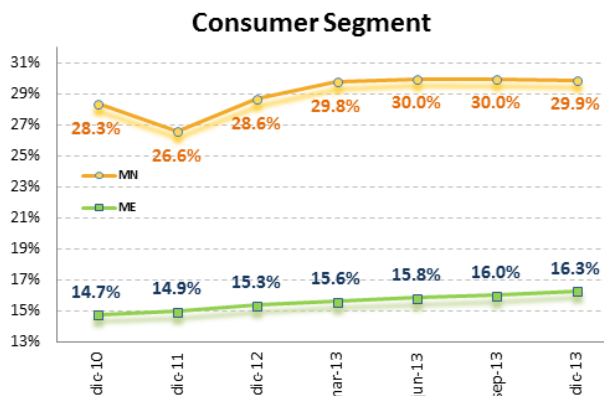
Small Enterprise Segment



Source: ASBANC



Source: ASBANC



Source: ASBANC

## 7. VISION & MISSION

### 7.1. VISION

Our vision is to be a Bank that provides Excellent Service in order to be a convenient financial option focused on our clients, their families and their companies, aimed at being the Family Bank.

### 7.2. MISSION

It is our mission to promote the progress of our clients, their families and/or companies, through employees committed to the Bank's vision and who provide the best service in the market, while generating value for our shareholders.

## 8. MANAGEMENT REPORT

### 8.1. STATEMENT OF RESULTS

The Bank's net profits as per December 31, 2013 increased to S/. 10.5 million, which is less than the result obtained in the same period the previous year, when it had risen to S/. 14.5 million. During the 2013 period, the Bank continued to expand its businesses by changing the direction of its growth towards the Medium Sized Enterprise Banking sector, which has lower capital

requirement than the payroll deduction loans of the consumer segment. This strategy seeks to optimize scarce capital resources, in order to increment the profitability of our businesses.

Financial income increased during the period analyzed and ended at S/. 198.0 million, which is S/. 2,6 million less compared to 2012, which can be explained by a reduction in loans in the Micro Sized Enterprise segment, which has an annual loan rate of approximately 30%. On the other hand, the Bank's financial expenses decreased by S/.0.9 million compared to a similar period of the previous year, as a result of the decreased borrowing rate, mainly in fixed-term and Employment Termination Compensation (CTS, by its Spanish initials) products, aimed at strengthening the gross margin.

Finally, the company's administrative expenses increased to S/. 84.6 million, which is 3.3% more than in 2012, due to the restructuring of the business model implemented by the Bank.

<b>INCOME STATEMENT</b>								
(in Millions of Nuevos Soles)								
SECTORS	2007	2008	2009	2010	2011	2012	2013*	2012/2013 Change
Financial Income	110.1	129.5	150.0	164.1	190.2	200.6	198.2	-2.4
Financial Expenses	40.3	51.4	61.7	56.2	70.2	75.8	74.9	-0.9
<b>Gross Financial Margin</b>	<b>69.9</b>	<b>78.1</b>	<b>88.3</b>	<b>107.9</b>	<b>120.0</b>	<b>124.8</b>	<b>123.3</b>	<b>-1.5</b>
Prov. Deviat. Invest. & Bad Debts	9.5	11.6	14.6	29.2	27.3	33.0	28.6	-4.4
<b>Net Financial Margin</b>	<b>60.3</b>	<b>66.6</b>	<b>73.8</b>	<b>78.7</b>	<b>92.7</b>	<b>91.7</b>	<b>96.7</b>	<b>4.9</b>
Financial Service Income	12.7	15.0	17.9	20.6	18.7	18.6	21.1	2.5
Financial Service Expenses	4.5	5.2	6.7	8.1	10.1	10.1	8.7	-1.4
<b>Operating Margin</b>	<b>68.5</b>	<b>76.4</b>	<b>85.0</b>	<b>91.3</b>	<b>101.3</b>	<b>100.3</b>	<b>109.1</b>	<b>8.9</b>
Administrative Expenses	47.8	57.7	64.5	69.2	79.7	81.9	84.6	2.7
<b>Net Operating Margin</b>	<b>20.7</b>	<b>18.7</b>	<b>20.5</b>	<b>22.0</b>	<b>21.6</b>	<b>18.4</b>	<b>18.8</b>	<b>0.4</b>
Asset & Provision Valuation	3.4	6.0	4.6	6.9	6.7	7.4	6.8	-0.6
<b>Operating Income</b>	<b>17.4</b>	<b>12.7</b>	<b>15.9</b>	<b>15.2</b>	<b>14.9</b>	<b>11.0</b>	<b>12.1</b>	<b>1.0</b>
<b>Income before Taxes</b>	<b>19.5</b>	<b>18.2</b>	<b>21.2</b>	<b>21.9</b>	<b>20.9</b>	<b>17.2</b>	<b>11.7</b>	<b>-5.5</b>
Income Tax & Profit Sharing	-6.3	-5.1	-6.6	-6.9	-4.3	-2.7	-1.2	1.5
<b>NET PROFIT</b>	<b>13.2</b>	<b>13.1</b>	<b>14.7</b>	<b>15.0</b>	<b>16.6</b>	<b>14.5</b>	<b>10.5</b>	<b>-4.0</b>

Source: Administration & Finance Division

\*Note: For 2013, income statements were adapted to the 2012 Fiscal Identification Number (NIF, by its Spanish initials), for comparison purposes.

## 8.2. LOANS

In 2013, Banco de Comercio's total loan portfolio increased to S/.1,512.5 million, which exceeds the amount recorded in December 2012 by S/. 96.6 million (6.8%), mainly due to an increase in indirect loans.

Banco de Comercio's direct loan portfolio rose to S/. 1,156.2 million, which means a S/. 13.7 million (1.2%) increase compared to the loans recorded at the closing of 2012, which is the result of an

increase in loans in the medium sized enterprise segment. With regard to the situation of the portfolio, a vertical analysis shows that the structure of the existing loans grew from 95.9% in December 2012 to 97.2% in December 2013.

The increased gross loan volume of Banco de Comercio is a result of the growth in credits through loans, which experienced a S/.37.7 million (3.7%) growth compared to 2012; however, it should be mentioned that during this period, direct payroll deduction loans decreased, which is a measure that was considered in the budget in order to face the greater regulatory requirements imposed by the SBS.

Indirect loans, in turn, grew to S/. 356.3 million, showing an S/. 82.6 million (30.2%) increase compared to indirect loans recorded at the end of the previous year, mainly due to the greater dynamism in Letters of Guarantee (19.1%), directed towards the construction sector, a segment which showed sustained growth in 2013.

The bank's high risk portfolio— which is the sum of the delayed portfolio and the refinanced and restructured portfolios— was established at S/.32 million (S/. 15.4 million below the stock obtained in the previous year). It is worth mentioning that during 2013, portfolio punishments for an amount of S/.28.5 million were executed, which was totally (100%) in accordance with the projected amount.

<b>PRODUCT LOANS</b>								
<b>(in Millions of Nuevos Soles)</b>								
<b>PORTFOLIO</b>	<b>YEAR</b>							<b>2012/2013</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Change</b>
<b>1. OUTSTANDING</b>	<b>596.9</b>	<b>814.8</b>	<b>910.4</b>	<b>1,040.1</b>	<b>1,099.2</b>	<b>1,095.1</b>	<b>1,124.1</b>	<b>29.0</b>
1.1 Advance Payments	4.1	10.9	12.8	8.2	4.7	6.6	4.0	-2.5
1.2 Overdrafts	3.2	3.9	7.0	2.4	2.6	0.5	1.7	1.2
1.3 Credit Card	8.9	8.6	7.0	5.7	4.7	3.9	3.0	-0.9
1.4 Discounts	49.3	54.2	52.7	58.1	28.7	20.8	28.2	7.5
1.5 Loans	479.0	657.7	769.5	916.2	1,018.3	1,006.5	1,044.2	37.7
1.6 Leasing	31.9	49.9	53.3	39.5	25.1	22.9	14.2	-8.7
1.7 Mortgages	5.1	7.5	8.2	10.0	15.0	14.9	15.2	0.3
1.8 Other	15.4	22.1	0.0	0.0	0.0	19.1	13.5	-5.5
<b>2. REFINANCED &amp; RESTRUCTURED</b>	<b>6.8</b>	<b>6.3</b>	<b>14.1</b>	<b>17.1</b>	<b>35.0</b>	<b>22.5</b>	<b>12.1</b>	<b>-10.4</b>
<b>3. PAST DUE</b>	<b>8.9</b>	<b>12.8</b>	<b>22.5</b>	<b>18.2</b>	<b>18.2</b>	<b>24.9</b>	<b>19.9</b>	<b>-5.0</b>
<b>DIRECT LOANS</b>	<b>612.6</b>	<b>833.9</b>	<b>947.0</b>	<b>1,075.4</b>	<b>1,152.4</b>	<b>1,142.5</b>	<b>1,156.2</b>	<b>13.7</b>
<b>INDIRECT LOANS</b>	<b>178.2</b>	<b>215.7</b>	<b>238.9</b>	<b>314.3</b>	<b>239.6</b>	<b>273.7</b>	<b>356.3</b>	<b>82.6</b>
<b>TOTAL LOANS</b>	<b>790.8</b>	<b>1,049.6</b>	<b>1,185.9</b>	<b>1,389.7</b>	<b>1,392.1</b>	<b>1,416.2</b>	<b>1,512.5</b>	<b>96.3</b>

Source: Administration & Finance Division



### 8.3. DEPOSITS

The Bank's deposit and obligation volume increased to S/. 1,369.4 million, exceeding the figure recorded the previous year by S/. 23.6 million (1.8%), which can be partly explained by the S/. 4.7 million increase in deposits. This growth reflects the trust our clients have in our institution.

This growth in deposits was influenced by demand deposits, which, in turn, increased by 12.7% compared to 2012. Demand deposits, in contrast, decreased by 1.7%, as a result of measures adopted by the Administration in order to improve the institution financial margin. It is important to note that term deposits (including CTS) decreased from 76.2% in 2012 to 75.1% at the end of 2013, which shows that during this analysis period the growth of low cost deposit, such as demand deposits, was prioritized.

Due to the nature of our clients, personal deposits rose to S/. 945.0 million, which is 24.7% more with regard to the result obtained the previous year. This growth is a response to the competitive rates maintained by our institution, the greater confidence families have in our bank and the sustained growth of the per capita income of families, with allows them generating greater savings. On the other hand, corporate deposits fell to S/. 364.8 million (14.9%).

<b>DEPOSITS &amp; OBLIGATIONS BY PRODUCT</b>								
<b>(in Millions of Nuevos Soles)</b>								
SECTOR	YEAR							2012/2013 Change
	2007	2008	2009	2010	2011	2012	2013	
<b>1. DEPOSITS</b>	<b>671.8</b>	<b>845.8</b>	<b>985.0</b>	<b>1,196.3</b>	<b>1,335.6</b>	<b>1,294.7</b>	<b>1,299.4</b>	<b>4.7</b>
1.1 Demand	95.4	102.8	117.5	228.8	252.1	138.5	156.0	17.5
1.2 Savings	104.6	109.6	134.4	163.2	157.7	169.9	167.0	-2.9
1.3 Term	471.9	633.4	733.1	804.3	925.8	986.3	976.4	-9.9
<b>2. OBLIGATIONS</b>	<b>30.5</b>	<b>25.2</b>	<b>37.4</b>	<b>38.6</b>	<b>62.8</b>	<b>51.1</b>	<b>70.0</b>	<b>18.9</b>
<b>DEPOSITS &amp; OBLIGATIONS</b>	<b>702.4</b>	<b>871.0</b>	<b>1,022.4</b>	<b>1,234.9</b>	<b>1,398.5</b>	<b>1,345.8</b>	<b>1,369.4</b>	<b>23.6</b>

Source: Administration & Finance Division

### 8.4. FINANCIAL INDICATORS

Banco de Comercio's portfolio quality rates showed improvement with regard to the banking average. The delinquency ratio stood at 1.72% at the closing of 2013, which is below the average of the banking system (2.14%), which reflects greater control and management with regard to the portfolio. The provisioning index ended at 260%, which is higher than the figure that had been achieved by the closing of 2012 (203%) and above the banking system average (188%). As can be seen, the index is significant and shows a capacity to absorb eventual losses that may occur such as foreign or domestic shocks which have a negative impact on the Peruvian economy.

Both in local as well as foreign currency, the liquidity index exceeded the value required by the SBS; as of December 2013, the liquidity index expressed in local currency stood at 38.7%, which is above the index recorded in December 2012 (33.2%). However, the liquidity index expressed in foreign currency stood at 69.0%, which is below the index obtained in the previous period (75.1%), but above the banking average (56.1%).

The Banco de Comercio operating management ratio, in turn, increased from 40.8% in 2012 to 42.7% in December 2013, which was the result of the new restructuring of the Institution business model, oriented towards the Medium Sized Enterprise Banking segment.

The Basel Index (Effective Risk/Capital Weighed Assets) stabilized at 8.46 times and the said indicator ended above the system's average (7.3 times); however, it was within the limit set by the regulating entity. It should be mentioned that during this period, Resolution 8548-2012 entered into force (as of September 2013) which requires larger capital for credits with a residual term of more than three years, which explains the Basel index growth.

Finally, Banco de Comercio's profitability, measured with the ROE, stabilized at 6.5%, which is below the performance obtained during the same period in the previous year, as a result of greater capital requirements by the SBS, which slow down the dynamism of banks with low capital levels.

## FINANCIAL INDICATORS

(In Percentage)

ITEM	YEAR						
	2007	2008	2009	2010	2011	2012	2013
<b>Portfolio Quality</b>							
Past Due Portfolio / Gross Loans	1.46%	1.53%	2.38%	1.69%	1.58%	2.18%	1.72%
Provisions / Past Due Portfolio	226%	223%	165%	232%	245%	203%	260%
<b>Liquidity</b>							
Liquidity Index in Domestic Currency	25.2%	15.1%	16.5%	18.9%	24.1%	33.2%	38.7%
Liquidity Index in Foreign Currency	41.1%	47.8%	52.3%	56.8%	69.6%	75.1%	69.0%
<b>Leverage</b>							
Basel Ratio (times)	9.28	9.20	8.51	8.58	8.56	8.12	8.46
<b>Management</b>							
<u>Operating Cost</u> Financial Income	43.4%	44.5%	43.0%	42.2%	41.9%	40.8%	42.7%
<u>Operating Cost</u> Total Income	38.9%	39.9%	38.4%	37.5%	38.1%	37.3%	38.6%
<b>Profitability</b>							
<u>Financial Result</u> Financial Income	63.4%	60.3%	58.9%	65.7%	63.1%	61.2%	60.7%
<u>Net Profit (ROA)</u> Total Asset	1.6%	1.3%	1.2%	1.1%	1.0%	0.9%	0.6%
<u>Net Profit (ROE)</u> Equity	15.2%	13.3%	13.0%	11.8%	11.7%	9.2%	6.5%

Source: Administration & Finance Division

### 8.5. RISK CLASSIFICATION

Throughout 2013, Banco de Comercio received the following risk classifications from PacificCredit Rating andEquilibrium:

<b>Pacific Credit Rating</b>		<b>Equilibrium</b>
<b>Financial Strength</b>	<b>B+</b>	<b>B</b>
Category Definition	Solvent company with great intrinsic financial strength, adequately positioned within the system, total coverage of existing risks and little vulnerability to certain future risks.	The entity has a good financial and economic structure and good capacity to pay its debts within the terms and conditions agreed, but it is sensitive to slight deterioration in the case of possible changes within the entity, its industry or the economy.
<b>Short Term Deposits</b>	<b>Category II</b>	<b>EQL 2-.pe</b>
Category Definition	Good quality. Very low probability of noncompliance with the terms agreed. Very good payment capacity. The risk of noncompliance in the Worst Case Scenario for the economy, is low.	Good quality. The entity reflects good capital and interest payment capacities within the terms and conditions agreed.
<b>Medium &amp; Long Term Deposits</b>	<b>pA</b>	<b>BBB+.pe</b>
Category Definition	Deposits in entities with good credit quality and adequate protection factors, but greater and more variable risks in periods of low economic activity.	The company reflects adequate capacity to pay capital and interest within the terms and conditions agreed. Payment capacity in this category is more sensitive to possible negative changes in the economic context than in the higher categories.
<b>Subordinate Obligations</b>	<b>pA</b>	<b>BBB-.pe</b>
Category Definition	Emissions with good credit quality and adequate protection factors, but greater and more variable risks in periods of low economic activity.	The company reflects adequate capacity to pay capital and interest within the terms and conditions agreed. Payment capacity in this category is more sensitive to possible negative changes in the economic context than in the higher categories.

It is worth mentioning that the above mentioned classifications are subject to permanent revision, in accordance with the applicable laws. The risk classifications granted are not a recommendation to buy, retain or sell the values issued by Banco de Comercio.

## **9. BUSINESS UNITS**

### **9.1. MEDIUM SIZED ENTERPRISE BANKING**

Medium Sized Enterprise Banking, in order to reach the 2013 objectives, defined strategic products according to pre-established parameters, as goal market, profitability and funding sources. It concentrated commercial efforts in sectors with larger growth perspectives and the operations of which highly needed financing. And it classified itself within the defined risk parameters. As of December 2013, loans rose to S/. 618.4 million, an amount that is 41.28% higher than the amount recorded for a similar month in the previous year, mainly driven by guarantee letter, credit and foreign trade loans (S/.227million, S/.213million and S/.106million, respectively).The latter was driven by the greater availability of the correspondent bank lines.

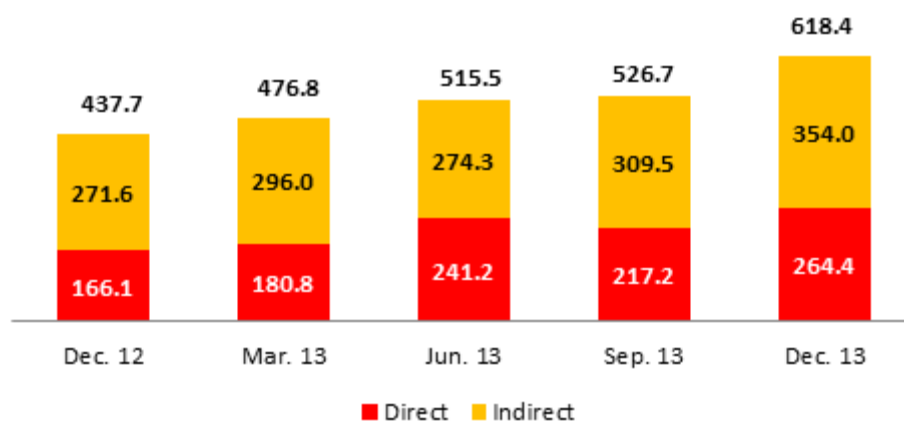
The effective commercial management model was also continued to be implemented, aimed at greater commercial efficiency according to the constant development of human potential with regard to prioritizing and programming visits, credit culture, streamlining approval times and improving client portfolio management. In this regard, 147 new clients were incorporated, who were all linked to the construction, manufacturing, trading and agricultural sectors.

Medium Sized Enterprise Banking, in turn, maintained its policy of generating deposits parallel to credit operations, mainly through endorsements and guarantees. This caused the term-deposit balance as of December 2013 to be S/. 189 million, whereas savings deposits totaled S/. 33 million. In line with the type of deposits that dominate in our banking, the deposit balance closed at S/. 366 million.

Within the framework of profitability improvement, the provision reduction strategy is maintained as well as an adequate loan structure. Both actions generated improvements in the qualifications received by our clients, on the one hand, and increased income, on the other hand, by prioritizing the most profitable operations and trying to generate collateral businesses by managing relational banking.

## Medium Sized Enterprise Banking

(in Millions of Nuevos Soles)



Source: Banco de Comercio

### 9.2. BUSINESSES WITH PUBLIC & PRIVATE ENTITIES

The Public & Private Entity Business Department is a business unit dedicated to covering the financial needs of both public entities and private non-profit organizations. This service is provided using the personal treatment that distinguishes Banco de Comercio.

To serve this segment, at the end of 2013, thirteen special offices and eighteen agencies were set up, strategically located inside the abovementioned organizations, in order to provide quality service and to be present in such institutions at a lower cost. Furthermore, at the closing of 2013, more than one hundred fifty active clients were counted, including municipalities, universities, professional schools, cooperatives, Government bodies and other associations, which have been important fund suppliers for the bank, especially from fund raising and auction agreements.

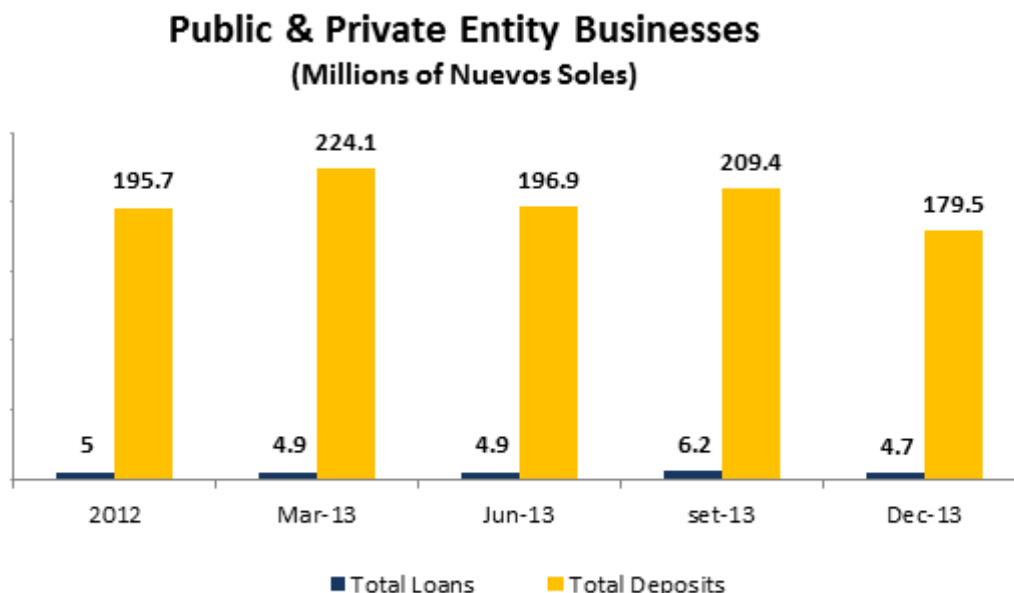
The deposits<sup>1</sup> of said institutions totaled S/.179.5 million at the closing of 2013.Said deposits were generated by public and private fund raising and auction agreements.

The Public & Private Entity Business Department has maintained loans through infrastructure loans, work capital and leasing, among other credit facilities granted to several public and private institutions, which generated a total of S/. 4.7 million at the closing of 2013.

This business unit has acquired a prominent role in the past years in generating cross-selling opportunities for other bankoperations. This occurs with payroll deduction loans, personal loans, CTS,which the Personal Banking Division grants with quite dynamism to its employees, family

<sup>1</sup>Including Treasury Auctions.

heads or the teachers of private and public schools with which the bank has entered into raising and collection agreements.



Source: Banco de Comercio

### 9.3. INTERNATIONAL BUSINESSES & CORRESPONDENT BANKS

The International Business and Correspondent Department, in accordance with the strategic plan of the Business and Enterprise Banking Division, defined three main objectives to be achieved during the year: to strengthen and increase the foreign correspondent bank network to adequately meet the bank needs and those of our clients; to promote growth of the Division's strategic products, such as Foreign Trade and Letters of Guarantee and to provide operational support of superior quality. All of this aiming at meeting the requirements of our target market, which is that of the small and medium sized enterprises, without ignoring the corporate segment.

In this direction, new credit lines were obtained with correspondent banks for an amount of S/. 28.5 million, 33 new clients were added and S/.140.31 million in loans was achieved. In addition, correspondent banks diversified with the entrance of new financing lines through Banca Popolare Dell'Emilia Romagna, AKA ExportFinance and Bayerische Landesbank AG, which will allow for operations to grow while prospecting new correspondent banks. The lines with the traditional correspondent banks, to meet the operational needs, also increased.

A S/. 47.5 million growth was recorded in 2013, with a 54% increase in commissions compared to 2012. This was possible due to an increase in new resource lines from abroad, which increased by 43.2% with regard to 2012.

It is worth mentioning that the objective plan for portfolio expansion was complied with, which was translated into new clients that have joined the bank as part of its growth and diversification strategy, which was of 28.06% in comparison with 2012.

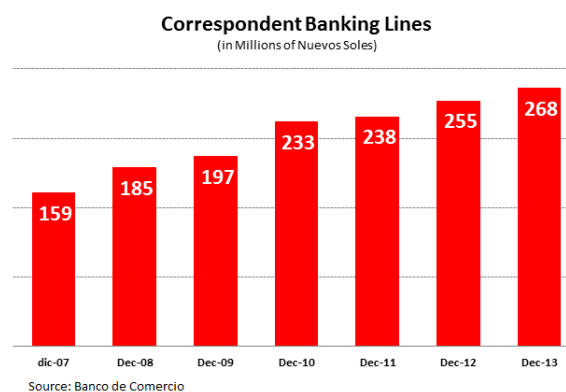
On the other hand, the procedure to obtain authorization for use of the Country Brand (*Marca País*) by the bank was successfully completed and license to use the image was obtained. It should be mentioned that the license to use the Country Brand provides access to the Business Directory, which is a tool the Bank can use to promote products, events and for institutional aims.

Furthermore, the International Business & Correspondent Department generated trainings for Enterprise Banking, Analysis & Risk and products and services and managed to help our internal customers become familiar with the processes.

Finally, we participated in important international events, in which the Bank had the opportunity to build up relationships with the most important banks and financial institutions in the world to generate business lines through correspondent banks.

No.	FINANCIAL INSTITUTION	COUNTRY	CURRENCY
1	BANK OF MONTREAL	CANADA	DOLLAR
2	BLADEX	PANAMA	DOLLAR
3	COMMERZBANK AG.	GERMANY	EUROS
4	STANDARD CHARTERED BANK	USA	DOLLAR
5	BANQUE DE COMMERCE ET DE PLACEMENT S.A.	SWITZERLAND	DOLLAR
6	US CENTURY BANK	USA	DOLLAR
7	ISRAEL DISCOUNT BANK OF NEW YORK	USA	DOLLAR
8	BANCO DE OCCIDENTE	COLOMBIA	DOLLAR
9	DANSKE BANK	DENMARK	DOLLAR
10	UBS AG	SWITZERLAND	DOLLAR
11	BANCO GALICIA Y BUENOS AIRES S.A.	ARGENTINA	DOLLAR
12	BANCO SUPERVIELLE	ARGENTINA	DOLLAR
13	BANCO INTERNACIONAL DE COSTA RICA - BICSA S.A.	PANAMA	DOLLAR
14	BANCO POPULAR ESPAÑOL	SPAIN	EUROS
15	DEUTSCHE BANK TRUST AMERICAS NEW YORK - USDA CCC	USA	DOLLAR
16	BAYERISCHE LANDESBANK - BAYERNLB	GERMANY	DOLLAR
17	BANCA POPOLARE DELL'EMILIE ROMAGNA	ITALY	EUROS
18	AKA Ausfuhrkredit-Gesellschaft m.b.H - EXPORT FINANCE BANK	GERMANY	EUROS
19	BHF BANK AG	GERMANY	EUROS
20	BANCO DE COMERCIO EXTERIOR DE MEXICO - BANCOMEXT	MEXICO	DOLLAR
21	POHJOLA BANK PLC	FINLAND	DOLLAR
22	BANBAJO (BANCO DEL BAJIO)	MEXICO	DOLLAR
23	DnB NOR BANK	NORWAY	DOLLAR
24	NORDEA BANK PUBL	SWEDEN	DOLLAR
25	LACAIXA BANK	SPAIN	EUROS
26	UNICREDITO ITALIANO	ITALY	EUROS
27	UBI BANCA	ITALY	EUROS
28	BANCA POPOLARE DI VICENZA	ITALY	EUROS
29	ZURCHER KANTONALBANK ZKB	SWITZERLAND	DOLLAR
30	KOREA EXCHANGE BANK - KEB	KOREA	DOLLAR
31	ABN-AMRO BANK	THE NETHERLANDS	DOLLAR
32	BANK OF COMMUNICATIONS	CHINA	DOLLAR
33	INDUSTRIAL & COMMERCIAL BANK OF CHINA	USA	DOLLAR
34	AGRICULTURAL BANK OF CHINA	CHINA	DOLLAR
35	BANCO SANTANDER	CHILE	DOLLAR
36	BBVA BANCO FRANCES	ARGENTINA	DOLLAR
37	US BANK N.A	USA	DOLLAR
38	BANCO BRADESCO	BRASIL	DOLLAR
39	STATE BANK OF BIKANER & JAIPUR	INDIA	DOLLAR
40	COFIDE COMEX	PERU	DOLLAR

Source: Banco de Comercio





Due to the new SBS regulations with regard to capital requirements for Payroll Deduction Loan Agreements, aimed at regulating people's over-indebtedness, the Bank reduced its loan terms from 72 to 60 months, which caused the loan portfolio to decrease by 51 million Nuevos Soles, with a delinquency ratio far below the rest of the Banking segment indicators.

The Civil Service and Budget Law publications opened a window of opportunities within this segment, by establishing the rules of participation in discounts of financial entities, cooperatives and welfare funds, and by guaranteeing an intangible amount in police salaries and/or pensions. The level of over-indebtedness is expected to shrink gradually over the next few years, as is delinquency.

Our position in this sector, the friendly relationship we have maintained during the years we have worked with the military and police institutions, as well as the knowledge the Bank has of this segment, have consolidated our presence, despite the strong competition we faced.

In 2013 we took part in a variety of promotional activities on the most representative dates of each institution, as well as in important publications such as the book titled Technology, Science & Social Inclusion (*Tecnología, Ciencia e Inclusión Social*), which was edited to mark the 84<sup>th</sup> anniversary of the Peruvian Armed Forces, and in FFAA and PNP high circulation magazines such as *Actualidad Militar*, published by the Peruvian Army.

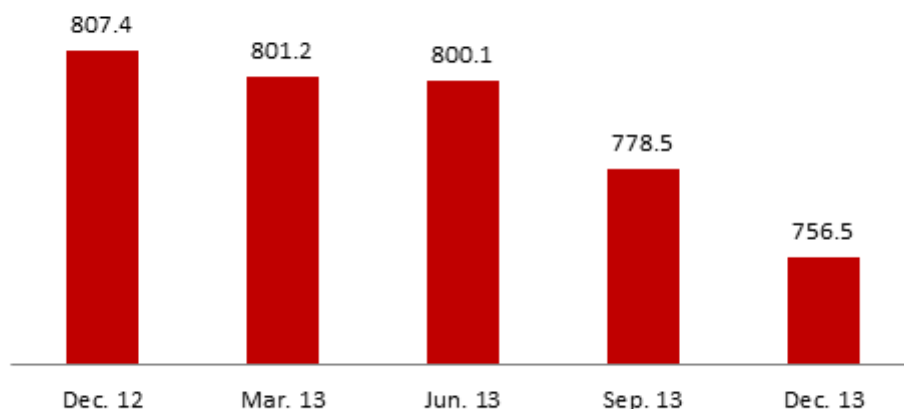
Through the Banco de Comercio Foundation we contributed to social responsibility activities, such as donating orthopedic equipment for police personnel members who got injured as a result of the service they provide. This way, we contribute to their rehabilitation and recovery.

The Institutional Agreement Business Division organized fairs, talks and flyer distribution programs in order to promote new loans and to improve customer loyalty. The Division also coordinated promotional trips with the province managers, thus strengthening our presence in the largest police detachments located in the interior of the country.

All the above helped us exceeding the goal established with regard to the Division loans for 2013. The Peruvian Police sector experienced the largest growth and accounts for 42.30% of the total portfolio of the Bank, followed by the Peruvian Army (EP), the Peruvian Armed Forces (FAP) and the Peruvian Navy (MGP).

## Loans to AAFF - PNP

(in Million of Nuevos Soles)



Source: Banco de Comercio

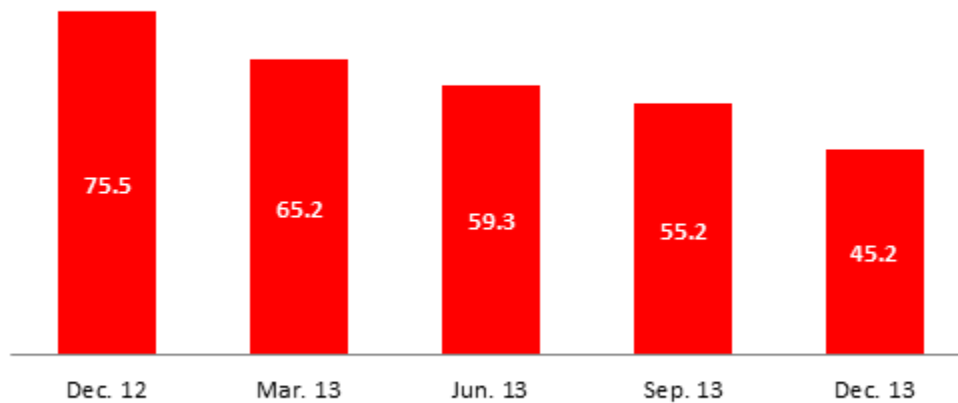
### 9.5. ENTREPRENEURIAL BANKING

Through Entrepreneurial Banking, the Bank seeks to meet the financial needs of micro and small-sized businesses with annual sales equal to or lower than S/. 4 million, designed for credit for working capital, campaigns and debt purchases. In other words, the Bank supports its customers through financing in each of its business activities.

In 2013, in the light of the developments in the Micro Financing sector in banks, finance companies, municipal savings banks, rural savings banks and Development Entities for Small and Micro Sized Enterprises, which was characterized by an increase in over-indebtedness, delinquency and provisions, the Bank decided to include the MSEs in the high amount segment (>S/.60,000), by prioritizing smaller range credits (S/.1,000 to S/. 45,000). This preventive measure led to a significant reduction in the portfolio balance and, to a lesser extent, in the number of clients.

## Entrepreneurial Banking

(in Millions of Nuevos Soles)



Source: Banco de Comercio

Entrepreneurial Banking		
Year	Payment (in Millions of S./.)	Clients
2009	12	846
2010	53	2747
2011	94	3600
2012	113	4818
2013	61	4282

Source: Banco de Comercio

The Pledging Product, or Credit Secured by Gold Jewelry, is a financing alternative that offers immediate availability, aimed at meeting the needs of undertaking a business or for persons who need to meet short-term consumption needs.

Throughout 2013, which was the third year of its functioning, the product has continued to expand and its total client portfolio grew by 22% compared to 2012 and its market acceptance continues as a result of its simplicity, flexibility and fast payment. However, a decrease was recorded in its credit balances, as international gold prices shrank by 20% in 2013.

One of the objectives of Entrepreneurial Banking is to achieve bank loan diversification. This way, we seek to improve profitability by expanding our customer base.

## 9.6. PERSONAL BANKING

The personal banking business seeks to meet the needs of our customers and their families, by building long-term commercial relations and providing a global service, offering not only financial products but also permanent consultancy with the personalized treatment and quality that reflect the highest quality of service.

As a result of the above, in 2013 the Bank managed to rank first in the Financial System Customer Service Quality Ranking, in the survey carried out by Ipsos Apoyo, Opinión and Mercado SA.

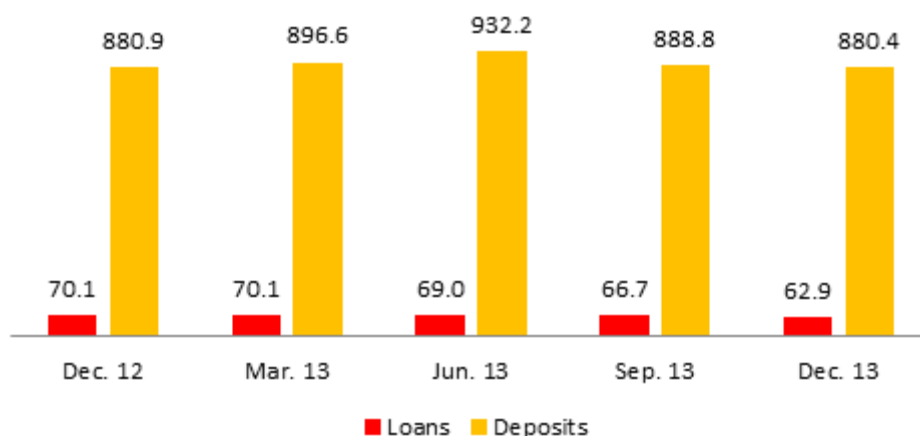
At the closing of 2013, Personal Banking was an important source of funds for the Bank, through products for clients; individuals who account for 66.5% share in the total amount of deposits.

CTS account deposits rose to S/. 47.4 million, compared to the result achieved at last year's closing, due to wide acceptance by our clients and to competitive rates, benefits such as free life insurance and the high quality service provided by our institution. Personal Banking has been focused on loan structure diversification, in order to expand in businesses with a good financial margin, such as financing for the purchase of Natural Gas Vehicles and the new "My House" loans (*Prestamos Nuevo Mi Vivienda*). Basically, the Bank's strategy is to build long-term relationships with its clients and to increase product cross-selling. By the end of 2013, direct loans of this Banking business had increased to 54.9 million. This portfolio is made up of loans through agreements with companies for their personnel through Payroll Deduction Loans, *Prestamos Nuevo Mi Vivienda* and Consumer Loans.

Currently, processes that are efficient in terms of quality and opportunity and that allow for very high standard customer service are continued to be developed, with an excellent team committed to a culture focused on results and permanent customer service.

## Loans & Deposits: Personal Banking

(In Millions of Nuevos Soles)



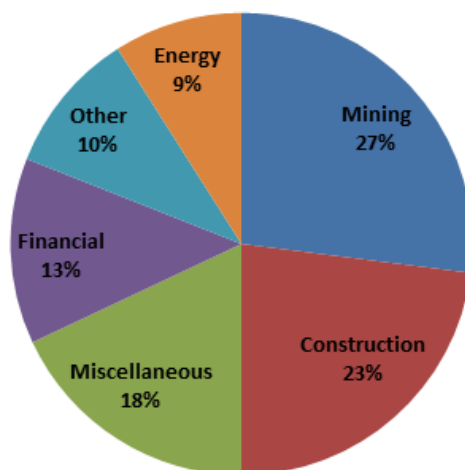
Source: Banco de Comercio

### 9.7. CAPITAL MARKET

As a result of the unstable economic and financial situation in the international markets, the world's stock markets recorded a high level of volatility and uncertainty throughout 2013. In this context, the Bank, through the Stock Market Department, continued to administer its investment portfolio in variable income by applying, in accordance with the guidelines established by its Investment Committee, a conservative strategy with regard to the amounts invested, and diversify investment in terms of sectors, types of operations and values, currencies and markets. The process implemented also allows for investments to be made based on fundamental and technical analyses, with the necessary controls to manage the autonomies, limits and stop loss levels, in order to reduce the risks involved in this type of transactions.

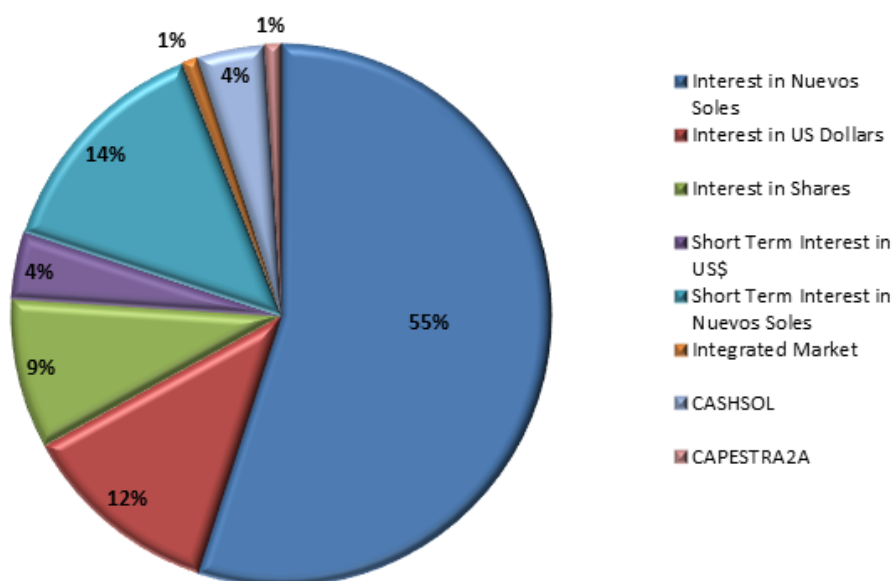
All operations performed at the Lima Stock Exchange (LSE) and the New York Stock Exchange (NYSE) were carried out through local and foreign brokers, who provide a variety of specialized reports regarding the local and global stock markets, whereas settlement of all trades was carried out through the Peruvian Central Securities and Settlement Depository (CAVALI ICLV, by its Spanish initials), under the Delivery vs. Payment (DVP) scheme.

The following graph shows the portfolio composition by sector upon closing of the year.



Source: Banco de Comercio

In addition, under the Bank's agreement with SURA SAF S.A.C., mutual funds of the various types administered by this company were placed. The following figure shows the structure of these loans by type of fund at the closing of 2013.



Source: Banco de Comercio

## 9.8. TREASURY

In 2013, the Treasury Department granted interbank loans in local currency for a total amount of S/. 953 million, while receiving S/. 30 million. In foreign currency, interbank loans were granted for an

amount of US\$ 983 million, whereas the amount received was US\$ 5 million. As for fixed income operations, S/.8.664 billion were invested in BCR time deposits and a total of S/. 38 million in BCR CDs.

With regard to exchange transactions, purchases and sales for a total of US\$ 535 million were made, US\$ 302 million of which were operations undertaken by the Treasury Department with financial institutions; US\$ 162 million to clients in Business Banking; and US\$ 71 million to Personal Banking customers.

Finally, S/. 4.25 billion were earned in exchange profits, S/. 2.9 million of which were generated by the Treasury Department; S/. 1.11 billion by Business Banking and S/. 242 thousand by Personal Banking.

Finally, Treasury met all the requirements established by the regulatory bodies, the BCRP and the SBS, such as control of reserves and liquidity ratios.

## **10. SUPPORT UNITS**

### **10.1. HUMAN RESOURCES MANAGEMENT**

In 2013, important achievements were made in human resources management, always aimed at providing a team of competent employees, who are motivated and identify themselves with the Organization and its objectives and at promoting the best benefits for people working for the institution.

The skills management model was continued to be implemented and the main actions developed included the career development, succession and training plan, which is aimed at identifying personnel with high development potential, to prepare them, through a training process, so they can assume strategic positions.

In terms of training and preparation, the e-learning platform became a fundamental tool for the development of regulatory programs, achieving high levels of participation. A total of 18,985 man hours of training were achieved, which means a 36% growth compared to 2012. In non-regulatory topics, 9 out of 10 Bank employees received at least one training.

With regard to personnel recruitment procedures, new technological tools were used, such as *reclutamiento 2.0*, (*portales*, linkedin, facebook). In addition, as a part of the internal application process, the campaign called «Collecting Experiences» (*Coleccionando experiencias*) was carried

out, which allowed employees to comment on their development and growth within the Bank. An important factor has been the development of the company brand, as a strategy to attract resources, and therefore our participation in employment fairs, either online or physical, turned out to be an important means of contact.

The knowledge each of our employees has with regard to the benefits offered by the company, has been promoted using several means of communication, such as the internal magazine «Getting to know each other better» (*Conociéndonos*), printed wall newspapers placed in the offices of both the headquarters and the branches, online messages and by handing each employee a «Benefit Book», in order for them to have the information at hand on their desk.

All the above measures have allowed our employees to be aware of the fact that providing wellbeing at a personal and family level is also included in the Organization objectives.

The institution created strategic initiatives, such as guiding the Organization towards Global Risk Management and an Ecological Risk culture, and it emphasized occupational risk prevention through a health monitoring campaign for its workers, in order to identify and control the occupational risks the worker is facing. In this context, communication actions were developed to raise awareness regarding operational risk culture and the Alternative Standardized Approach «ASA» certification was obtained. Furthermore, the first stage in awareness raising regarding Ecological Risk was developed, and savings were promoted in terms of water, power and paper consumption and recycling was encouraged.

In addition, the Youth Job Training Program has maintained its high standard, for the benefit of our employees' children aged between 13 and 17. The program is aimed at discovering skills in the participants that will enable them to successfully face the situations they will need to deal with during adolescence.

<b>Number of Personnel (*)</b>	
Payroll	429
Hired	312
Interns	33
<b>Total Personnel</b>	<b>774</b>

(\*) as of December 31, 2013

Source: HR Division



## 10.2. RESEARCH& DEVELOPMENT

The objective of this Division is to identify and analyze the financial characteristics and needs of our clients in order to meet their requirements, by creating innovative products, services and campaigns. The Division is also provided with differentiating attributes such as support to commercial bank businesses, and they are managed through methodological and organized development, which has improved the Bank's competitiveness and helps create value for our shareholders.

To achieve this, the Division is supported by the Project Management Area which provides the organization with a methodological framework that allows for adequate management and knowledge of the projects being implemented and those that are yet to be executed. It also allows for more formal management of the General Project Portfolio, which includes all of the institution projects, which, due to its size, are cross-organizational and need to be top priority for the Management Committee. The underlying objective is to maximize return on investment, to correctly deploy resources and to guarantee that only projects that adapt themselves to the business objectives in the best possible manner are considered, in accordance with the Bank's strategic objectives. The portfolio administered in the General Project Portfolio corresponds to new project or services development, the creation of new service channels, operation process automation and adaptation to external or internal regulations.

Through the Commercial Intelligence Area, data could be turned into knowledge, by analyzing and using information, in order to support decision making and to define business strategies that will enable us to differentiate ourselves from our competitors and to achieve success. During this fiscal year, the area created and launched the Commercial Information System, through which new financial needs could be identified and analyzed, mainly within the Armed Forces and Police Force business banking and personal banking segments. Furthermore, client information was strengthened for the use of cross-selling, by identifying related data bases of active and passive products in coordination with the commercial and product areas. In addition, sales channels have received support through prospecting and through promotional campaigns for potential clients who could enable us to diversify and increase our banking business. This area aims at continuing to identify financial needs by developing predictive models in order to achieve efficient commercial campaigns.

In 2013, the Product Development Department was in charge of creating new products and services, as well as providing the already existing ones with new attributes, in order to analyze the information prepared by Commercial Intelligence. The main products and services included launching a loan to improve the premises and a loan for fixed asset acquisition, directed towards

the entrepreneurial segment in order to diversify the portfolio and minimize risks. It has also developed the free interbank transfer service (*TIN Popular*), and participated in campaigns for pledging loans, financing for entrepreneurs and personal loans for clients with CTS. Additionally, the department is in the process of launching the possibility to collect funds through salary accounts, in addition to the ASBANC collection agreements and conclusion of the online wallet (for utility payment), *Hermes* correspondent ATMs and mobile banking.

### **10.3. TECHNOLOGY, OPERATIONS & PROCESSES**

The main objective of the Technology, Operations & Process Division is to provide systems, integrated solutions and operational support, in order to increase productivity and safety of information regarding the Bank's internal users. It helps the different areas improve their intrinsic processes. It also protects the confidentiality of the Bank's customer information that is required to help them in a fast and timely manner.

To achieve these objectives and given the fact that the banking system is highly competitive, Banco de Comercio bets on investment in technology. To this end, the bank keeps its systems and operations management updated so they enable the organization to achieve the abovementioned objectives. The Bank has therefore mainly invested in its new central system and in updating its endpoint system, alternate site and technological architecture.

In 2013, the Bank continued to implement its new central system and made improvements in its client and cash modules, as well as in its passive, operation and production modules. Furthermore, asset management modules were developed, which will be implemented in the course of 2014.

Using this new technological architecture, other projects were developed, such as the new website, mobile banking, insurance banking, correspondent banking and collections. Some of these have already been implemented, while other projects will be implemented in the first quarter of 2014.

This progress will allow us to quickly develop our products in order to timely meet market demand, as well as to enrich the client database, which contains information used by the Commercial Intelligence units for new product development and to improve the way used by the Bank to reach each of its clients.

Throughout 2013, the regulatory requirements established by the regulating bodies were met as well as those with regard to information safety and business continuity. In this context, we

managed to obtain the ASA (Alternative Standard Method) certification, for computing the operational risk capital charge.

#### **10.4. INTEGRATED RISK MANAGEMENT**

Importantly, in July 2013, Banco de Comercio met the objective of obtaining SBS's authorization to use the Alternative Standardized Approach for Computing of the Operation Risk Capital Charge (ASA), through which a large adaptation process was concluded aimed at meeting the requirements established by the regulatory body. Said process was started in 2011 and allowed for the Bank to develop and implement the best Operational Risk management practices, Business Continuity and Information Security, based on the standards established by prestigious international bodies such as the Basil Committee and the Business Continuity Institute (BCI).

Authorization to use the ASA method, apart from leading to the start-up of a management system that allows for considerably reducing exposure to operational risk, has benefited the Bank by significantly reducing the amount of regulatory capital assigned due to such risk. It is worth mentioning that the adaptation executed has been supported by successful implementation of the Risk Management Culture throughout the Organization.

Banco de Comercio executes risk management in order to identify, evaluate and respond to the contingencies that effect the objectives established in the Bank's strategic plan. To this end, the development of such risks is duly observed and timely spread within the Institution.

In addition, the different risks are managed by the Bank through policies established by the Board of Directors, based on the regulations in force and in accordance with the characteristics of Bank's business. The policies are laid down in the Annual Integrated Risk Management Manual and in several manuals for each specific risks.

The Bank is therefore organized for risk management and to this end the Board of Directors is established as the highest body. The Bank also has a risk committee in which three members of the Board of Directors and members of the management team take part. Up to 2012, there were two divisions which operated as executive units:

- The Risk Division, which was responsible for the Credit Risk Department (which evaluates entrepreneurial credit admission and proposes credit-related policies), Credit Control (which is in charge of debtor evaluation and classification, as well as credit portfolio behavior follow-up), Risk Management (in charge of market, county and operational risk

management) and the Credit Management Department (which is responsible for credit formalization assessment before payment, and, also, for credit guarantee management).

- The Personal Risk and MSEs Division carried out specialized management with regard to admission and follow-up of their credit, through management modules including policies, procedures and processes that respond to the profiles and risks appetite approved by the Bank, to the service quality objectives and to the general guidelines for integrated risk management, and to over-indebtedness risk management given by the Superintendence of Banking and Insurances. This Division was responsible for the Personal and Entrepreneurial Banking Credit Risk Departments.

Since February 2013, the Risk and Personal and MSEs Divisions became one, and the Personal Risk and MSEs Risk Departments were transferred to the organizational structure of the Risk Division.

Furthermore, as part of the abovementioned organic restructuring, the Information Security management function was transferred from the Quality Management Control division, which was deactivated, to the Risk Management Department, which is part of the Risk Division. As a result, said Department was restructured and now consists of a head unit and four sections: Operational Risk, Business Continuity, Market Risks and Information Security, which is the unit that has assumed the functions referred to above.

## **CREDIT RISK**

### **Personal Credit Risk**

For Banco de Comercio, consolidation of the risk culture is very important, as well as good credit risk management with regard to the two personal business segments:

- a) consumer customers with credit through an agreement with the Armed Forces and Police Force; and
- b) consumer, mortgage and agreement customers, individuals.

Each of these business units has a model especially developed to serve its customers. With regard to admission and follow-up, policies have been established according to the profiles of each of the segments listed. Therefore, in 2012, the Bank has continued to improve its mechanisms for monitoring credit risk management, implementing the necessary adjustments in line with our

policies and methodologies for risk management, and these management systems are continually applied by our Credit Risk units.

These policies and strategies result in efficient monitoring and follow-up of credit portfolios while credit is active; and in turn, the information gathered this way generates coordinated actions in the Business and Collection Unit segments. The ongoing follow-up conducted becomes very important, since consumer portfolio has a greater share within the Bank. Through its results it has been possible to identify, measure, manage and control risks, including guidelines for each of the warning signals established for the customers as well as for the Risk Appetite and Risk Tolerance segments defined.

**a) Admission:**

The Bank has a decentralized business model for the admission and evaluation of consumer loans, as well as a parameter-driven technological platform, a predictive risk model that incorporates a scoring method, and the incorporation of autonomy levels for employees, who are permanently trained, in order for them to be prepared for the growth of the business and the defined service standards.

The Bank is provided with an automated credit evaluation process, a linkage system, in which our risk policies are consolidated, and which are applied by performing a series of qualitative validations (history and behavior) and quantitative calculations (debt capacity).

**b) Follow-up:**

In 2013, control and monitoring of the retail loans portfolio which correspond to the personal segment were adequate, as during these processes provisions, bad debts, estimated loss, containment and write-offs were monitored, according to the variables of each business, while periodic compliance reports were prepared.

Follow up on retail portfolios is performed based on the admission method, which, due to its execution in a decentralized model, is monitored through ex post-periodic and sample-like reviews, which make it possible to identify deviations and the need for adjustments to be made in the lending processes.

The follow up and control actions are aimed at anticipating and ensuring performance of the retail loans as a portfolio, as well as timely compliance with and repayment of loans, and also at anticipating risks and proposing actions to deal with situations to divert

towards the objectives planned and to provide timely information to allow for commercial officers to anticipate and plan preventive and collection actions.

These actions are performed in two levels: firstly, by the Credit Control Department; and secondly, by the Personal Risk Department Information Analysis Unit.

The Information Analysis Unit has established systematic information procedures using tools such as databases (Access and Quick View) to provide information that allows for follow-up with various frequencies, in terms of customers, portfolios, sectors, products and harvests. It has also consolidated our service level monitoring system as part of the credit process at its various stages, allowing for deviation adjustment and continuous improvement of timing.

**c) Over-indebtedness Risk Management:**

With regard to indebtedness risk management, in 2013, Banco de Comercio remains strong in identification, quantification, reporting and analysis of this risk in the personal banking segment through the following instruments:

- I. **Warning Sign Reports:**In accordance with the set of compliance criteria within the Bank and the banking system, and with the development of the over-indebtedness indicators, the Bank's risk exposure indicators are identified as not exposed, potentially exposed and exposed to this risk. The last two segments indicated are analyzed and certain actions are taken to compensate the negative trend that could be occurring.
- II. **Sensitivity Analysis Report:**This report involves making changes to the debt indicator calculation parameters, such as indebtedness level and number of creditors, so as to subsequently perform actions according to the results generated.
- III. **Stress Report:**This report consists of creating critical - but possible - scenarios, to measure indebtedness indicators and to create contingency plans according to the results generated.
- IV. **Harvest Report:**This report consists of reviewing indebtedness indicators based on the disbursement date.
- V. **Appetite and Credit Risk Tolerance Reports:**These reports are a constant evaluation of participation and expense of provision specified by risk profiles (ranges of number of creditors, debt level and level of income).

## MSE Credit Risk

Given the situation of the Micro and Small Enterprise segment in the country, Banco de Comercio has taken special care with regard to credit risk in this client segment, which is taken care of by the Entrepreneurial Banking Department.

In the course of 2013, continuous improvements were performed in the credit risk management monitoring mechanisms, by making the necessary adjustments in our risk management policies and methodologies, as these management systems are permanently applied by our credit risk units and our participants in the admission and follow-up process.

These policies and strategies include following up the loan portfolio during the term of the loan, while generating actions in coordination with the Entrepreneurial Banking and the Special Loan Department, thus identifying warning signals and continuous improvements to the process.

### a) Admission:

For the admission of Entrepreneurial Banking clients to the portfolio, the Bank uses the dual *Business/Risk* model. Field evaluations are performed with regard to all loan requests, which are performed by the commercial area and by the Risk area, according to the client profile.

For a loan to be approved, knowledge with regard to the client as a person and as an entrepreneur is fundamental, as well as the loan intended purpose, with both quantitative and qualitative factors.

The microfinance sector is very dynamic and our admission policies are constantly reviewed so that we are provided with the necessary tools to ensure our competitiveness in the sector and to anticipate to possible movements within it.

### b) Follow-up:

Throughout 2013, control of the Entrepreneurial Banking portfolio was adequate. Control processes included observing provisions, bad-debts, estimated loss, contention and write-offs, and periodic compliance reports where prepared.

Follow up on MSE portfolios is performed by ex post-periodic and sample-like reviews, which make it possible to identify deviations and the need for adjustments to be made in the lending process.

The follow up and control actions are aimed at anticipating and ensuring performance of the retail loans as a portfolio, as well as timely compliance with and repayment of loans, and also at anticipating risks and proposing actions to deal with situations to divert towards the objectives planned and to provide timely information to allow for commercial officers to anticipate and plan preventive and collection measures.

**c) Indebtness Risk Management:**

With respect to indebtedness risk management, in 2013, Banco de Comercio remains strong in identification, quantification, reporting and analysis of this risk on the MSE portfolio through the following instruments:

- VI. **Warning Sign Reports:** In accordance with the set of compliance criteria within the Bank and the banking system, and with the development of over-indebtness indicators, the Bank's risk exposure indicators are identified as not exposed, potentially exposed and exposed to this risk. The last two segments indicated are analyzed and certain actions are taken to compensate the negative trend that could be occurring.
- VII. **Sensitivity Analysis Report:** This report involves making changes to the debt indicator calculation parameters, such as indebtedness level and number of creditors, so as to subsequently perform actions according to the results generated.
- VIII. **Stress Report:** This report consists of creating critical - but possible - scenarios, to measure indebtedness indicators and to create contingency plans according to the results generated.
- IX. **Harvest Report:** This report consists of reviewing indebtedness indicators based on the disbursement date.
- X. **Appetite and Credit Risk Tolerance Reports:** These reports are a constant evaluation of participation and expense of provision specified by risk profiles (ranges of number of creditors, debt level and level of income).

**Business Banking Credit Risk**

Banco de Comercio mainly caters the credit needs of medium- and small-sized enterprises. It is organized and prepared to evaluate the credit risk admission of these segments, through two independent methods. The Business Banking Division has a Credit Analysis Department which is in charge of assessing in detail all economic-financial analyses of credit proposals requested by



customers. It is also responsible for evaluating the economic sector in which the business operates while taking into consideration trends, forecasts and other relevant variables.

The following evaluation method is implemented by the Credit Risk Department in the Risk Division. As part of the credit risk management of non-retail portfolio, the admissions area performs, by reviewing credit proposals submitted by business officers of the Division of Business Banking (corporate, large, medium and small businesses, as well as Institutional Banking operations and the real estate unit), an evaluation and analysis of the individual credit requests — these take into consideration the customers' knowledge (nature), behavior, capacity and loan use, within the profiles identified and policies approved that are set out in the policy and procedures manuals that were renovated and updated in 2012. Disbursement of the operation is made by the Credit Management Department, once compliance with the approved conditions, the autonomies and the existence of all documentation has been verified.

## **CREDIT RISK FOLLOW UP**

The Bank has implemented mechanisms to appropriately control credit quality of its medium and large business banking portfolio, which are the responsibility of the Risk Division.

These mechanisms are implemented to deal with situations resulting from the stated objectives and provide timely information to enable business officers to anticipate and plan preventive actions and collections.

Follow-up is based on a continuous, permanent monitoring process which allows for early detection of incidents which may be produced in risk evolution, the operations, the customers and the environment, in order to take mitigation steps.

To this end, for the medium and large business banking portfolio, there is a monitoring system known as Portfolio Surveillance (VICA, by its Spanish initials), which establishes four grades according to the level of concern of circumstances found (follow, reinforce, diminish and extinguish). Inclusion of customers in VICA does not necessarily mean there have been defaults, but that specific strategies should be adopted regarding them. This involves identifying those responsible and the deadlines by which they must be performed. The degree of customer surveillance in VICA is reviewed at least quarterly. The VICA agenda is reviewed twice a month, with participation of the business, special credits and credit control areas. The ways in which a customer is rated in VICA is the result of the actual surveillance, review by the various units

involved in the risk evolution, and mainly through the business officer who manages the customer's account.

Also worth mentioning is the ongoing monitoring, which is performed on the loan portfolio that finances economic sectors, the loans of which are managed by the medium and large business banking area and the banking for entrepreneurs area. This monitoring is based on the maximum participation assigned to each sector, conformation of which is reviewed and approved on a quarterly basis.

Portfolio conformation is reviewed jointly with credit approval. This involves timely detection of any deviation which could be given in the established concentrations. In addition, definition is based on a study of various factors, such as macroeconomic analyses of the GDP productive sectors and their growth prospects, credit development by sector funded by the Bank, credit behavior analysis and coverage level. Portfolio surveillance, however, is complemented by a regular survey of the sectorial outlook, which includes the export portfolio and prospects, a useful tool for decision-making in the commercial area.

## **MARKET & LIQUIDITY RISKS**

The Bank manages its market risks on the basis of its exposure in exchange transactions and investments in fixed and variable income, for which it has developed and modified various internal models to evaluate these risks.

In the case of interest rate risk, constant follow-up on the indicators is performed, as per the current regulatory requirements. In the case of liquidity risk, several internal indicators are used to measure the Bank's real liquidity position and strict monitoring is carried out on the limits established to manage such risk.

Banco de Comercio is provided with a Managerial-Level Investment Committee, which evaluates investment made by the Bank through its Capital Markets Department. There is also a Managerial-Level Assets and Liabilities Management Committee, which assesses the Bank's exposures to market and liquidity risks. Both committees report to the Risk Committee.

The Risks Division publishes a daily report on all the indicators that measure Banco de Comercio's exposure to market and liquidity risks, and this information is given to Management for adequate decision-making.

In 2013, the Bank met the requirements regarding adaptation to the new rules issued on liquidity risks in line with Basel III, by adopting new methodologies and management indicators established by the supervisory body, through SBS Resolution 975-2012.

## **OPERATIONAL RISK**

Banco de Comercio has implemented an organizational operational risk management structure which is set out by the Board of Directors in defining the general policy for such risk management, by adequately allocating the corresponding resources required. Therefore, the Board of Directors delegates tasks to the Risks Committee, which defines the appetite and tolerance of the operational risk that the Bank is willing to accept. The Committee, therefore, needs to be aware of the main operational risks and establish the guidelines to manage them appropriately.

The Risks Division, through the Risk Management Department, centralizes the general coordination, support and consultancy for all of the Bank's units, to ensure adequate operational risk management within each unit. To this end, operational risk agents and coordinators have been appointed to support the management in their corresponding units. Furthermore, an Operational Risk Support Team reviews and approves the operational risk evaluation reports and reviews and approves the action plans to mitigate any risks identified. This entire procedure for managing operational risk is evaluated by the Internal Audit unit, according to the legal provisions in force.

The tasks performed by the Business Continuity Management System (BCMS) are the responsibility of the Risk Management Department, which is also in charge of coordinating the Business Continuity Management System (BCMS).

The tasks of the Information Security Management System (ISMS) were performed by the Information Security Officer since this was the duty of the Quality Control Management Division Manager, who oversaw the SGCN. It was supported by the Computer Security and Security & Maintenance Departments. With the amendment of the Bank's organizational structure, the role of information security management has become dependent on risk division through its Risk Management Department, whose Information Security Section office has taken over the duties of Information Security Officer.

Meanwhile, the Board of Directors has established an incentive system for appropriate operational risk management, which was implemented in 2011. This system includes monetary and non-monetary incentives for managers, agents and risk coordinators and other Bank personnel.

Operational risk management in 2013 was based on operational risk management methodologies and in finding an adequate operational risk management performance.

Below is a description of each of the management methods, as they are being executed, including the improvements already made in each of the methods:

### **Risk and Control Self-Assessment - RCSA**

This method consists of the identification, analysis and evaluation of operational risks and controls in the Bank's main processes by implementing self-assessment workshops and establishing action plans for addressing risks requiring so, according to the risk appetite and risk tolerance set by the Bank's Board of Directors. This methodology is also used to evaluate the operational risk prior to new product launches and in the event of significant changes in the operational and automated environment. During 2012, eleven critical processes were evaluated using the risk control and self-assessment methodology. A new operational risk matrix was obtained with identified risks, along with their respective controls and action plans and KRI (key risk indicators) defined in the process.

### **Loss Event Database**

This method consists in collecting and managing all loss events presented in the Bank's various processes. Based on this record, a loss event database for operational risk is created. The loss event report in response to the risk culture implemented within the institution, is generated by the areas related to the processes that caused the event, in compliance with the established procedures. These reports are reconciled with two sources: The accounting through which the follow-up on the expense accounts and coordination with centralizing units of cost information is carried out, which allows for reconciling what has been reported and what has taken place. Proper database administration involves reviewing the risks involved in the event, according to the processes involved. In the 2012 period, the event report achieved high levels of compliance as a result of the Bank employees' awareness of risk management culture.

### **Operational Risk Assessment in Significant Subcontracting**

This method involves analyzing the operational risk associated with outsourcing, which the Bank could carry out in order to engage third parties partly or fully implementing a process which may be part of their duties. This assessment is supported by a report that should contain the evaluation of supplier selection criteria and of the issues contained in agreements entered into by the Bank and the selected supplier. After having carried out the sub-contracting, the critical suppliers are regularly monitored through questionnaires or visits, to ensure adequate service.

### **Follow up on Key Risk Indicators (KRI)**

This consists of monitoring and periodic monitoring of indicators to follow up the evolution of the risks identified and according to the appetite and risk tolerance defined by the Bank, which require action to be taken on the level at which they are, according to the defined thresholds values or objectives. This methodology states that for all extreme and high risks, indicators should be defined to be assigned to those responsible within the processes, who should report any events presented with respect to these indicators, for evaluation and monitoring regarding their relevant risks. In 2013, compliance with key risk indicator reports has reported high levels of compliance.

### **Information Security Management System (ISMS)**

The purpose of this system is to protect the information while establishing, implementing, operating, monitoring, reviewing, maintaining and improving security management with regard to information kept in the Bank.

In 2013, Banco de Comercio continued to work on the continuous improvement process with regard to the Information Security Management System, and started the project aimed at optimizing data escape prevention which will allow for better control of confidential information. On the other hand, training and spreading programs have been developed to raise awareness among all of the personnel with regard to information security.

### **Information Security Risk Assessment**

This involves identifying, analyzing and assessing the risk the Bank's information assets are exposed to, with respect to loss of confidentiality, integrity and availability. This methodology is based on maintaining an updated inventory of information assets which are used in the various Bank processes, through interviews with the leaders of the different areas involved in the process. This makes possible to measure the impact and frequency of possible violations of these assets, and the effectiveness and efficiency of the information security controls established by the Bank. The evaluation carried out produces a Risk Treatment Plan, which contains the necessary adjustments to be made to the information security controls, such as policies and procedures, computer tools or additional training.

The information security risk methodology is aligned to the operational risk assessment methodology, so it recognizes the appetite and risk tolerance set by the Bank's Board of Directors. Additionally, the information provided in the information security risk matrix is incorporated into the Bank's operational risk matrix.

## **Business Continuity Management System (BCMS)**

Throughout 2013, Banco de Comercio continued to work on enhancing its BCMS. To this end, special emphasis has been given to this system by updating its entire management process, while new Business Impact Analysis (BIA) assessments were developed on the basis of the new Process Map and Continuity Risk Assessment (RA). To achieve this, the Bank engaged Ernst & Young, with which, during the first quarter of 2013, strategy definition and continuity plan updating were completed in the course of the year.

### **10.5. MONEY LAUNDERING PREVENTION SYSTEM**

The undoubted benefits globalization brings, also carries new risks associated with financial flow movement. The need to operate efficiently in terms of operational performance can sometimes be unduly exploited to channel funds from dubious sources, which cover activities that today are punished internationally, as in the case of drug trafficking and terrorism.

This context puts our Company to the test in terms of risk management, as there are several risks such as credit, operational and even reputational risk. This reinforces the need for caution with regard our financial health, but mainly to protect the assets of our depositors.

As Banco de Comercio is aware of the above and as part of its current supervisory approach, the bank has a compliance officer within its organizational structure, who is responsible for giving instructions to manage a risk management system regarding money laundering and terrorist financing, in order to prevent our institution in a timely manner from being used as a tool for channeling illegal proceeds.

Notably, our compliance officer has been granted the title of Certified Professional in Anti Money Laundering (CPAML) by the Florida International Bankers Association (FIBA) after being subjected to the examinations of Florida International University (FIU).

## **11. ORGANIZATIONAL CULTURE**

### **11.1. GOOD CORPORATE GOVERNANCE**

A good corporate governance regime helps ensuring that corporations effectively use their capital and establish relationships with their owners and the stock market based on trust generated by transparency. Such regime also reflects the responsibility of its directors with regard to the

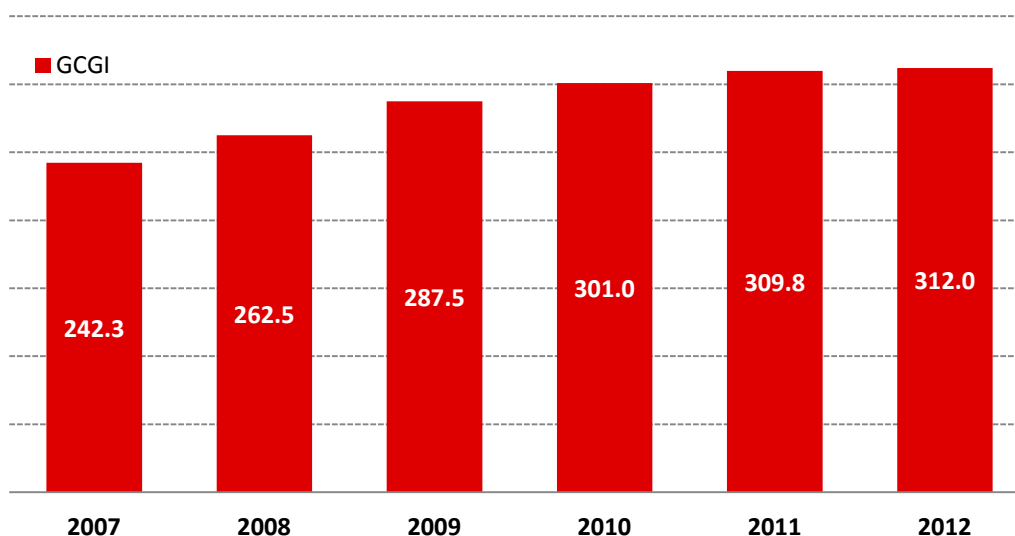
company and its shareholders, to make sure the company operates for the benefit of the community and contributes to its well-being.

The Good Corporate Governance Index (GCGI), which has been published for the past two years by the Lima Stock Exchange, presents the values of corporations that use such good corporate governance practices. The task of determining the degree to which a corporation meets the good corporate governance principles is the responsibility of the validating companies, who vouch for the relationship between the shareholders and the corporation, assigning an objective ranking on a 0 - 312 point scale.

In the case of Banco de Comercio, Pacific Credit Rating (PCR) acted as validator for the past five years. As in 2012, the 2013 results for Banco de Comercio are expected to be highly encouraging and to be included within a select group of companies that use good corporate governance practices.

### Good Corporate Government Compliance

(Source: Pacific Credit Rating )



### 11.2. SOCIAL & CULTURAL RESPONSIBILITY

Over the years, Banco de Comercio has worked steadily in order to promote corporate social responsibility as part of its organizational culture, both externally and internally. To achieve this, the bank has assumed a commitment with society and with its employees, so as to generate a relationship of cooperation and support, to help improve the living conditions in the communities where it operates and the development of their employees and families.

In 2013, a policy aimed at encouraging sport and training development was maintained, oriented towards workers and their families. In this context, we wish to mention the following activities which were carried out and/or supported during the 2013 fiscal year.

### **Participation in Sports Contests**

Banco de Comercio once again became champion in the Masters Category of the Interbank Soccer Tournament, organized by the Peruvian Bank Association. In the Open Category, the Bank reached the quarter finals. Besides, employees were encouraged to participate in Interbank Marathon, during which our distance runner Rubén Sáenz became second in the Open Category. Earlier, participation of our employees in the Adidas-Movistar Marathon was encouraged and supported, which turned out to be a huge event at both national and international level.

### **Banco de Comercio's successful 2012 Youth Training Program**

At the beginning of the 2013 fiscal year, the Youth Training Program was organized, which is a program intended for our employees' children (between the age of 13 and 17) and which seeks to develop the participants' skills that will enable them to successfully deal with the situations they will face during adolescence.

The Banco de Comercio Youth Training Program takes place in February and has the following objectives:

- To strengthen Banco de Comercio's mission and vision and to project a family image by developing the skills of our employees' children.
- To promote good use of free time among the youth participating in the Program.
- To develop both business and social skills among the participants.
- To create a link to their parents' job and to give advice on topics of interest they may discuss with their children.

The above is performed through psycho-informative talks, social skills workshops by young entrepreneurs, coaching and leadership workshops, vocational assessments and consultancy, as well as workshops and psychological consultancy for parents.

Participants attend twice a week in two groups: Monday and Wednesday or Tuesday and Thursday, and they perform activities within the different areas of the Institution, so they can orientate themselves and *vividly* get to know the different tasks performed, as well as how they are performed and for what purpose, which will contribute to their future decisions regarding their professional training. They also become aware of the value of their parents' jobs.



The Youth Training Program was started in 2005 as an alternative to the so-called useful vacation programs (*vacaciones útiles*) which are normally provided by companies during the summer break of their employees' children.

## **BANCO DE COMERCIO FOUNDATION**

In addition, the Banco de Comercio Foundation, which is the social responsibility arm of our institution, has executed training projects for micro entrepreneurs and has promoted social inclusion as well as social support and support in terms of employment to the disabled members of the Armed Forces and the Police Force.

### **Activities carried out in 2013**

- **Entrepreneurial Training**

In 2013, the Banco de Comercio Foundation, with the cooperation of the Lima Chamber of Commerce, organized six (6) workshop seminars for entrepreneurs in Lima, Callao, Arequipa and Piura on Business Management Topics such as: Management & Organization, Marketing & Sales and Import Management. In addition, lots were drawn among those who attended those seminars for a scholarship for a graduate course at the Lima Chamber of Commerce, which was won by Félix Astoyauri Ccahuay.

- **RSE Activity: "WE ARE ALL LIGHT" (*TODOS SOMOS LUZ*) Christmas Campaign**

In December 2013, the Foundation sponsored the initiative of a group of Banco de Comercio employees to organize an activity for more than 137 children who live in the human settlement known as 8 de Octubre, in the district of Villa María del Triunfo. The children enjoyed the performance of the Magic Christmas show, a snack of hot chocolate with panetonne, and at the end they received presents donated by the Bank personnel. It is worth mentioning that a group of workers helped as volunteers in order to design, coordinate and execute the event.

- **Wheelchairs, crutches, walking sticks and walking frames donated to the Peruvian Police Forces**

In compliance with their social task of support to the Peruvian National Police Force, the Foundation donated eighty (80) medical rehabilitation instruments (wheelchairs, crutches, walking frames and walking sticks) to the Welfare Division of the Peruvian Police Force, as a response to meet the needs of police personnel members who got injured while on duty.

- **Campaign LET'S HELP FIGHT THE COLD IN AREQUIPA**

In coordination with the Bank's Human Resources Division, it launched the internal campaign called "LET'S HELP FIGHT THE COLD IN AREQUIPA" (*AYUDEMOS A COMBATIR EL FRIAJE EN AREQUIPA*), which provided the institution workers with the opportunity to help through a contribution, as they managed to collect two hundred (200) blankets which were delivered to the diocesan organization *Cáritas - Arequipa*, to help the most needy inhabitants of the high Andean regions.

- **Presents donated because of the Day of Persons with Disabilities**

To mark the National Day of Persons with Disabilities, on October 16, 2013, the Foundation donated forty (40) presents, including baskets and personal use items to the Welfare Division of the Peruvian Police Force and to the Welfare Office of the Peruvian Air force.

- **Christmas donations to the Peruvian Armed Forces and Police Force**

For Christmas, the Banco de Comercio Foundation delivered ten (10) boxes of panettonnes and twenty (20) Christmas baskets, as well as one hundred and twenty (120) balls for the families of all FF.AA. and PNP members with disabilities.

- **Donation to the Peruvian Association called "Real Life in God"**

For Christmas, the Foundation also delivered 120 panettonnes to the Association called "Real Life in God" (*La Verdadera Vida en Dios*). This non-profit organization has a *Casa de María* charity soup kitchen, where it serves free lunches to adults, children and elderly people in extreme poverty.

## 11.3. BRANCHES & OFFICES NETWORK

### Branches in Lima

Branch	Address	Business Hours	Telephone	Fax
Arenales	Av. Arenales 797, Santa Beatriz, downtown Lima	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6003	626-7003
Chacarilla	Calle Monterrey 188 C.C. Caminos del Inca, Surco	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6004	626-7004
Faucett	Av. Elmer Faucett 525, San Miguel	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6005	626-7005
Jesus María	Av. General Garzón 1299, Jesús María	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6006	626-7006
Jockey Plaza	C.C. Jockey Plaza, Centro Financiero Interior, Número CF-B11, Surco	Monday - Friday from 10:30 a.m. to 7:30 p.m.	513-6020	626-7020
Lampa	Jr. Lampa 560, downtown Lima	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6008	626-7008
Miraflores	Av. Paseo de la República 4870, Miraflores	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6009	626-7009
Paseo Prado	Av. Jorge Basadre 536, San Isidro	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6010	626-7010
San Borja	Calle Morelli 201, San Borja	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6011	626-7011
San Isidro	Av. Canaval y Moreyra 454, San Isidro	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6000	626-7030
Santa Anita	Calle Las Alondras 269, Santa Anita	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6012	626-7012
Simón Salguero	Calle Simón Salguero s/n Cdra. 5 Esq. c / Sor Tita, Surco	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6007	626-7007
Villa El Salvador	Jr. Forjadores Cdra. 3 Mz. H Lt. 1D, Parcela II Pq. Industrial, Villa El Salvador	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6018	626-7018

### Branches in Provinces

Branch	Address	Business Hours	Telephone	Fax
Arequipa	Av. Ejército 711, Yanahuara	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	(054)604-400	(054)604-425
Iquitos	Jr. Arica 455	Monday - Friday from 9:00 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	(065)223120	
Pisco	Calle Callao 172-176, Pisco	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6023	(056)532-200
Piura	Calle Libertad 905, Piura	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	(073)606-161	606-161

## Special Branches

Branch	Address	Business Hours	Telephone	Fax
La Marina Central Bazaar	Av. Venezuela Cdra. 34 s/n, San Miguel	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 01:00 p.m.	513-6025	--
Army Headquarters	Av. Boulevard s/n, San Borja	Monday - Friday from 9:00 a.m. to 5:30 p.m.	513-6014	626-7014
Armed Forces Headquarters	Av. 28 de Julio s/n 1º piso, Block B and extended window Block A, Jesús María	Monday - Friday from 8:00 a.m. to 4:30 p.m.	513-6015	626-7015
La Negrita	Av. Venezuela Mz. C Lote 3-B, opposite of the La Negrita Mall, Urb. Ampliación La Negrita - Arequipa	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:00 p.m.	(054)604-410	--
Sedapar	Calle Virgen del Pilar 1701, downtown Arequipa	Monday - Friday from 7:45 a.m. to 4:45 p.m. Saturday from 9:30 a.m. to 12:00 p.m.	(054)604-414	--
Arequipa Public Lighting Services (SEAL, by its Spanish initials)	Calle Consuelo 310 - downtown Arequipa	Monday - Friday from 7:45 a.m. to 4:45 p.m.	(054)224-902	
Municipality of La Molina	Calle Chalana 152, Urb. Las Lagunas, La Molina.	Monday - Friday from 8:30 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 01:15 p.m.	513-6016	626-7016
Federico Villarreal National University (UNFV)-Post Graduate	Jr. Camaná Cdra.11, downtown Lima, inside the Post Graduate school of Federico Villarreal National University.	Monday - Friday from 9:30 a.m. to 8:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6019	626-7019
Univ. Inca Garcilaso de la Vega	Av. Arequipa 3610, San Isidro	Monday - Friday from 8:00 a.m. to 8:00 p.m.	513-6024	--
Univ. Inca Garcilaso de la Vega	Av. Bolívar 165, Pueblo Libre	Monday - Friday from 8:00 a.m. to 4:00 p.m.	513-6026	--
Univ. Inca Garcilaso de la Vega	Av. Petit Thouars 421, Santa Beatriz	Monday - Friday from 9:00 a.m. to 6:00 p.m. Saturday from 9:00 a.m. to 12:00 p.m.	513-6029	--
Alas Peruanas University - Arequipa	Urbanización Daniel Alcides Carrión G-14 José Luis Busta.m. ante y Rivero	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 09:30 a.m. to 13:30 p.m.	513-6000	4542
Municipality of Lince	Av. José de Zela 480, Lince	Monday - Friday from 8:00 a.m. to 5:00 p.m. Saturday from 9:00 a.m. to 01:00 p.m.	513-7051	--

## Informative Branches

Branch	Address	Business Hours	Telephone	Extension
Ministry of the Interior	Plaza 30 de Agosto s/n, Urb. Córpac, San Isidro	Monday - Friday from 9:00 a.m. to 4:00 p.m.	513-6000	--
Callao Naval Station	Base Naval del Callao - Callao.	Monday - Friday from 9:00 a.m. to 3:00 p.m.	513-6000	4246
Informative Office of the Peruvian Army Intelligence School (COEDE)	Av. Escuela Militar s/n, Chorrillos. Chorrillos Military School - Main Entrance	Monday - Friday from 9:00 a.m. to 6:00 p.m.	513-6000	3531
Las Palmas	Av. Jorge Chávez s/n, Surco (located inside the Las Palmas Airbase)	Monday - Friday from 8:30 a.m. to 5:00 p.m.	513-6000	4810
Air Group 8	Av. Elmer Faucett s/n, Callao	Monday - Friday from 8:00 a.m. to 5:00 p.m.	513-6000	4245
Cusco	Av. Tomasa Tito Condemayta 162-A2 Wanchaq, Cusco	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	084-256475	--
Huancayo	Av. Giraldez 440, Huancayo	Monday - Friday from 9:15 a.m. to 6:00 p.m. Saturday from 9:30 a.m. to 12:30 p.m.	513-6000	4890