

BBVA Banco Continental and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements

Years ended December 31, 2011 and 2010

Translation of a report originally issued in Spanish

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
BBVA Banco Continental and Subsidiaries

1. We have audited the accompanying consolidated financial statements of **BBVA Banco Continental**, a subsidiary of Holding Continental S.A. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Grupo Continental's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Grupo Continental's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

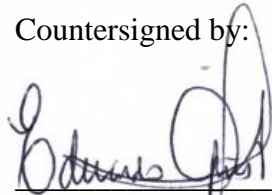
Opinion

6. In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of **BBVA Banco Continental and Subsidiaries** as of December 31, 2011 and 2010, and its consolidated financial performance and its consolidated cash flows for years then ended, in accordance with accounting principles generally accepted in Peru for financial entities.

The translation of this report into English has been made solely for the convenience of the readers.

Beltrán, Gris y Asociados S. Civil de R.L.

Countersigned by:



(Partner)

Eduardo Gris Percovich
CPC Register No.12159

February 10, 2012

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2011 AND 2010

(Expressed in thousands of nuevos soles (S/.000))

ASSETS	Notes	2011 S/.000	2010 S/.000	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2011 S/.000	2010 S/.000
CASH AND DUE FROM BANKS	4			OBLIGATIONS TO THE PUBLIC	9		
Cash and deposits in Peruvian Central Bank		7,963,377	9,578,320	Demand deposits		8,888,960	7,963,184
Deposits in local and foreign banks		462,668	349,722	Savings deposits		7,115,244	5,940,556
Clearing accounts		102,100	114,757	Time deposits		13,999,076	11,553,694
Other deposits		4,556	4,438	Other obligations		145,065	83,181
Accrued interest on cash and due from banks		2,152	8,535	Accrued interest payable		37,092	17,593
Total		8,534,853	10,055,772	Total		30,185,437	25,558,208
INTER-BANK FUNDS	10	241,459	40,009	DEPOSITS FROM FINANCIAL INSTITUTIONS	9	307,034	359,232
INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS, AVAILABLE-FOR-SALE AND HELD TO MATURITY, net	5	2,587,154	2,260,555	INTER-BANK FUNDS	10	125,515	479,805
LOANS, net	6	28,922,025	24,004,149	DUE TO BANKS AND CORRESPONDENTS	11	4,770,203	5,013,198
INVESTMENTS IN ASSOCIATED COMPANIES		2,231	1,995	SECURITIES, BONDS AND OUTSTANDING OBLIGATIONS	12	1,985,859	1,870,329
DEFERRED INCOME TAX	21	317,577	268,352	OTHER LIABILITIES	8	1,163,296	1,125,435
PROPERTY, FURNITURE AND EQUIPMENT, net	7	603,600	447,086	TOTAL LIABILITIES		38,537,344	34,406,207
OTHER ASSETS	8	1,033,508	712,403	SHAREHOLDERS' EQUITY	13		
TOTAL ASSETS		42,242,407	37,790,321	Capital stock		1,944,232	1,843,427
CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS	15			Legal reserve		609,365	508,640
Contingent accounts		26,994,897	25,137,764	Retained earnings		1,151,466	1,032,047
Off-balance sheet accounts		111,537,752	85,113,542	Total Shareholders' Equity		3,705,063	3,384,114
Trusts and administrations		6,405,142	6,567,727	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		42,242,407	37,790,321
Total		144,937,791	116,819,033	CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS	15		
				Contingent accounts		26,994,897	25,137,764
				Off-balance sheet accounts		111,537,752	85,113,542
				Trusts and administrations		6,405,142	6,567,727
				Total		144,937,791	116,819,033

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

BBVA BANCO CONTINENTAL AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in thousands of nuevos soles (S/.000))**

	<u>Notas</u>	<u>2011</u> <u>S/.000</u>	<u>2010</u> <u>S/.000</u>
FINANCIAL INCOME			
Interest from loans	6 (a)	2,549,276	2,081,645
Income from changes in fair value, revenue, interests and gain on sales of investment	5	130,530	198,347
Interest from deposits in financial institutions	4	64,610	34,794
Foreign exchange difference from various transactions	3	296,298	175,882
Dividends and share profit from associates investments		744	554
Adjustment for indexation		20,418	9,825
Interest and commissions from inter-bank funds		2,094	988
Gain from derivative instruments	15 (b)	-	12,120
Gain from hedging transactions	15 (b) and 11 (a)	9,527	12,156
Other		24,173	9,657
Total		<u>3,097,670</u>	<u>2,535,968</u>
FINANCIAL EXPENSES			
Interest on deposits	9 (b)	(432,210)	(250,402)
Interest on obligations with financial institutions and international financial organizations	11	(175,601)	(101,245)
Premium paid to "Fondo de Seguro de Depósito" (Deposit Insurance Fund)		(33,068)	(27,762)
Interest on securities, bonds and outstanding obligations	12	(85,809)	(81,184)
Loss from derivative instruments	15 (b)	(81,323)	-
Adjustment for indexation		(14,665)	(6,171)
Other		(12,549)	(5,217)
Total		<u>(835,225)</u>	<u>(471,981)</u>
Gross financial margin		2,262,445	2,063,987
PROVISIONS FOR IMPAIRMENT OF LOAN LOSSES			
Loans	6 (d)	(763,613)	(674,348)
Recovery of provisions for loan losses	6 (d)	486,949	392,659
Total		<u>(276,664)</u>	<u>(281,689)</u>
Net Financial margin		1,985,781	1,782,298
INCOME FROM FINANCIAL SERVICES			
Commissions from contingent operations		151,160	136,626
Income from various financial services, net	16	480,839	415,888
Total		<u>631,999</u>	<u>552,514</u>
Operating profit margin		<u>2,617,780</u>	<u>2,334,812</u>

(Continue)

BBVA BANCO CONTINENTAL AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in thousands of nuevos soles (S/.000))**

	<u>Notas</u>	<u>2011</u> <u>S/.000</u>	<u>2010</u> <u>S/.000</u>
OTHER EXPENSE AND INCOME			
Employees' and Board of Directors' expenses	17	(507,131)	(438,742)
Administrative expenses	18	(471,824)	(412,077)
Provisions for accounts receivable		(37,543)	(26,345)
Recovery for assets seized and recovered through legal actions		(10)	(1,053)
Provisions for contingent operations	15	(44,323)	(48,694)
Other provisions		(2,601)	(6,375)
Depreciation and amortization	7	(65,705)	(59,487)
Income from recovery of loan portfolio previously written-off		20,582	15,503
Other expenses and income, net	19	<u>(67)</u>	<u>6,407</u>
Total		(1,108,622)	(970,863)
Income before Income Taxes		1,509,158	1,363,949
Income Taxes	20 (c)	<u>(380,170)</u>	<u>(357,640)</u>
Net income		<u>1,128,988</u>	<u>1,006,309</u>
Weighted average number of outstanding shares (in thousands of shares)		1,944,232	1,944,232
Basic and diluted earning per share in Peruvian nuevos soles	22	0.58	0.52

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

BBVA BANCO CONTINENTAL AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010****(Expressed in thousands of nuevos soles (S/.000))**

	Capital Stock S/.000 (Note 13)	Special Reserve S/.000 (Note 13)	Legal Reserve S/.000 (Note 13)	Retained Earnings S/.000 (Note 13)	Total S/.000
Balances as of January 1, 2010	1,471,243	1,180	415,889	1,000,500	2,888,812
Capitalization of reserves and retained earnings	372,184	(1,180)	-	(371,004)	-
Transfer of retained earnings to legal reserve	-	-	92,751	(92,751)	-
Cash dividends	-	-	-	(463,755)	(463,755)
Unrealized gain and losses and transfers to the statements of income for available-for-sale investments	-	-	-	(47,252)	(47,252)
Net income for the year	-	-	-	1,006,309	1,006,309
Balances as of December 31, 2010	1,843,427	-	508,640	1,032,047	3,384,114
Capitalization of retained earnings	100,805	-	-	(100,805)	-
Transfer of retained earnings to legal reserve	-	-	100,725	(100,725)	-
Cash dividends	-	-	-	(805,797)	(805,797)
Unrealized gains and losses and transfers to the statement of income for available-for-sale investments	-	-	-	(2,242)	(2,242)
Net income for the year	-	-	-	1,128,988	1,128,988
Balances as of December 31, 2011	<u>1,944,232</u>	<u>-</u>	<u>609,365</u>	<u>1,151,466</u>	<u>3,705,063</u>

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

BBVA BANCO CONTINENTAL AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010****(Expressed in thousands of nuevos soles (S/.000))**

	<u>2011</u> S/.000	<u>2010</u> S/.000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	1,128,988	1,006,309
Adjustments to reconcile net income to cash provided by operating activities:		
Provisions for loan losses	276,664	281,689
Depreciation and amortization	65,705	59,487
Provision for seized and recovered through legal actions assets	10	1,053
Provision for accounts receivable	37,543	26,345
Provision for contingent operations	44,323	48,694
Other provisions, net of recoveries	2,601	6,375
Deferred income taxes	(50,047)	(24,364)
Net gain from sale of securities	(15,758)	(9,918)
Net gain from sale of seized, recovered through legal actions and fixed assets	(1,816)	(3,012)
Changes in assets and liabilities:		
Net (increase) decrease in other assets	(360,009)	30,124
Net decrease in other liabilities	(9,198)	(49,213)
Cash and cash equivalents provided by operating activities	<u>1,119,006</u>	<u>1,373,569</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, furniture and equipment	(233,196)	(132,250)
Intangible assets	(7,875)	-
Sale of assets seized and recovered through legal actions	22,019	23,568
Cash and cash equivalents used in investing activities	<u>(219,052)</u>	<u>(108,682)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in obligations to the public, deposits from financial institutions and inter-bank funds	4,220,741	4,248,354
Net (decrease) increase in due to Banks and correspondents	(242,995)	2,886,204
Net increase in securities, bonds and outstanding obligations	115,530	97,403
Net (increase) in loan portfolio	(5,194,540)	(4,479,308)
Net (increase) decrease in investments	(312,497)	1,625,532
Cash dividends	(805,662)	(463,503)
Cash and cash equivalents provided by (used in) financing activities	<u>(2,219,423)</u>	<u>3,914,682</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,319,469)	5,179,569
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>10,095,781</u>	<u>4,916,212</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>8,776,312</u>	<u>10,095,781</u>

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

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (Expressed in thousands of nuevos soles (S/.000))

1. CONSTITUTION, ECONOMIC ACTIVITY AND APPROVAL OF FINANCIAL STATEMENTS

(a) Constitution and economic activity

BBVA Banco Continental (formerly Banco Continental) (hereinafter, the Bank) is a subsidiary of Holding Continental S.A. which owns 92.24% of the capital stock of the Bank. The Bank is a public company incorporated in 1951, authorized to operate by the Superintendency of Banking, Insurances and Private Pension Fund Administrators of Peru (hereinafter, the SBS for its Spanish acronym) and domiciled in Peru. The Bank's main office legal address is Av. República de Panamá N° 3055, San Isidro.

By General Shareholders' Meeting on March 31, 2011, was agreed to amend the corporate name to BBVA Banco Continental, may also be identified with the abbreviated name BBVA Continental. The agreement stated in the deed of amendment of bylaws dated June 16, 2011, registered in the Public Registry on August 18, 2011.

The Bank's operations primarily include financial intermediation, which consists of universal banking activities regulated by SBS in accordance with General Law of the Financial and Insurance Systems and Organic Law of the SBS, Law N° 26702 (hereinafter, the General Law) and its amendments. The General Law establishes certain requirements, rights, obligations, guarantees, restrictions and other conditions that legal entities operating in the financial and insurance system are subject to.

The Bank performs its activities through a national network of 275 and 246 offices as of December 31, 2011 and 2010. The total number of employees of the Bank as of December 31, 2011 and 2010 was 4,740 and 4,686, respectively.

As of December 31, 2011 and 2010 the Bank has ownership and voting rights of 100% over the subsidiaries Continental Bolsa - Sociedad de Agente de Bolsa S.A., BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos (formerly Continental S.A. Sociedad Administradora de Fondos), Continental Sociedad Titulizadora S.A. and Inmuebles y Recuperaciones Continental S.A. While the Bank does not participate in the ownership or voting rights of Continental DPR Finance Company (hereinafter, DPR), given the characteristics of its activity and their relationship with the Bank, accounting standards require DPR's financial statements be included in a consolidated basis with the Bank (hereinafter Grupo Continental).

(b) Approval of financial statements

Consolidated financial statements for the year ended December 31, 2011 have been approved by the Bank's Management. These financial statements will be submitted to the Board of Directors and General Shareholder's Meeting to be held within the terms established by the Law, for their approval. The consolidated financial statements for the year ended December 31, 2010 were approved at the General Shareholder's Meeting on March 31, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation and presentation of Grupo Continental's consolidated financial statements are set out below. These policies were consistently applied to all of the years presented, unless otherwise stated.

(a) Statement of compliance, basis for preparation, presentation and accounting change

(a-1) Statement of compliance, and basis for preparation and presentation

Consolidated Financial statements have been prepared and presented in conformity with legal regulations and accounting principles generally accepted in Peru for financial entities, which comprise accounting standards and practices authorized by the SBS by virtue of the authority conferred in accordance with General Law. Those standards are contained in the Accounting Manual for the Financial System Companies (hereinafter, Accounting Manual) approved through SBS Resolution N° 895-98 dated September 1, 1998, effective January 1, 2001 as well as supplemental standards and amendments.

The SBS has established that in the event of situations not addressed by such standards, regulations set forth in Generally Accepted Accounting Principles in Peru (GAAP in Peru) shall be applied.

GAAP in Peru is composed of: the standards and interpretations issued or adopted by the International Accounting Standards Board (hereinafter, IASB) which include International Financial Reporting Standards (hereinafter, IFRS), International Accounting Standards (hereinafter, IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter, IFRIC) or by the former Standing Interpretation Committee (hereinafter, SIC) adopted by IASB, made official by the Peruvian Accounting Board (hereinafter, CNC, for its Spanish acronym) for its application in Peru.

In the preparation and presentation of these consolidated financial statements, the Bank's Management has followed the compliance with the SBS regulations in force in Peru as of December 31, 2011 and 2010.

(a-2) Harmonization with International Financial Reporting Standards (IFRS)

The aforementioned standards and interpretations referred in Section (a-3) will be applicable to the Bank when directed by the SBS or for situations not addressed in the Accounting Manual.

There is a normative project that includes changes to the Accounting Manual in order to harmonize the accounting standards issued by the SBS to IFRS. Management believes that the implementation of this project will have no material impact on the financial and economic situation of the Bank.

(a-3) Standards and interpretations approved by the CNC which will be adopted in Peru during 2012 and 2013

By means of Resolution N° 047-2011-EF/30, issued on June 17, 2011, the CNC approved for application to formalize Peru, from January 1, 2012, the 2010 version of IAS, IFRS and IFRIC SIC, adopted by the IASB internationally.

CNC, through Resolution N° 048-2011-EF/30 dated January 6, 2012, formalized the application from January 1, 2012 to the current versions of 2011 of IFRS 1 to 13, the IAS 1 to 41, the statements 7 to 32 of the Standing Interpretations Committee (SIC) and Interpretations of Financial Reporting Standards (IFRIC) 1 to 19, and the changes to October 2011 to the IAS, IFRS and IFRIC issued internationally by the IASB.

Grupo Continental's management is considering how these standards might have an impact on the preparation and presentation of financial statements from 2012 onwards.

(a-4) New Accounting Pronouncements approved internationally which application is not mandatory in Peru

The following standards and interpretations have been issued internationally as of December 31, 2011, and until the date of this report have not been approved yet by the CNC:

- **Amendments to IFRS 7 “Disclosures – Transfer of Financial Assets”**. Effective for annual periods beginning on or after July 1, 2011.
- **IFRS 9 “Financial Instruments”**. Effective for annual periods beginning on or after January 1, 2013.
- **IFRS 10 “Consolidated Financial Statements”**. Effective for annual periods beginning on or after January 1, 2013.
- **IFRS 11 “Joint Agreements”**. Effective for annual periods beginning on or after January 1, 2013.
- **IFRS 12 “Disclosure of Interests in Other Entities”**. Effective for annual periods beginning on or after January 1, 2013.

- **IAS 27 (reviewed 2011) “Separate Financial Statements”**. Effective for annual periods beginning on or after January 1, 2013.
- **IAS 28 (reviewed 2011) “Investments in Associates and Joint Ventures”**. Effective for annual periods beginning on or after January 1, 2013.
- **IFRS 13 “Fair Value Measurements”**. Effective for annual periods beginning on or after January 1, 2013, early adoption is permitted.
- **Amendments to IAS 1 – “Presentation of items of other comprehensive income”**. Effective for annual periods beginning on or after July 1, 2012.
- **Amendments to IAS 12 – “Deferred Income Tax on - Recovery of assets”**. Effective for annual periods beginning on or after January 1, 2012.
- **IAS 19 (reviewed 2011) “Employee benefits”**. Effective for annual periods beginning on or after January 1, 2013.

(a-5) Change in accounting policy made in 2010

According to the clarifications of the Standing Interpretations Committee of the International Financial Reporting Standards (IFRIC) made in September and November 2010, they concluded, among others, that the employees’ profit sharing must be registered in accordance with IAS 19 Employee benefits and not by analogy with IAS 12 Income Taxes and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Accordingly, the recognition of employee’ profit sharing should be recorded only for the compensation for services rendered in the fiscal year, and consequently should not be registered an asset or deferred liability for temporary differences as referred to the IAS 12.

The Bank, as a result of the above and applying the option of Multiple Official Letter N° 4049-2011 SBS and given the low materiality of the effect of the change, decided to recognize the deferred employee’ profit sharing, which is considered a change in accounting policy and adjusted the accumulated balance as of December 31, 2009 in the statement of income of 2010.

(b) Consolidation basis

Grupo Continental is composed of controlled entities and a special purpose entity.

Subsidiaries and Special Purpose Entity

Controlled entities are all entities over which the Bank has the power to control the financial and operating policies generally owning more than half of its voting shares. The consolidated financial statements include the assets, liabilities, and income and expenses of Grupo Continental. Inter-company transactions between the entities composing Grupo Continental, including balances and unrealized gains are eliminated upon consolidation. The subsidiaries are fully consolidated from the date on which effective control is

transferred to the Bank, consolidation is stopped when the Bank no longer exercises control.

Acquisitions of the subsidiaries by the Bank are recorded using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets received, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus directly attributable costs.

Continental DPR Finance Company is a special purpose entity created with the objective described in Note 15 (e) (securitization of remittances).

The main balances of the Bank, its subsidiaries, and the special purpose entity as of December 31, are:

<u>Entity</u>	<u>In millions of Peruvian nuevos soles</u>					
	<u>Assets</u>		<u>Liabilities</u>		<u>Equity</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
BBVA Banco Continental	42,254	37,785	38,549	34,401	3,705	3,384
Continental Bolsa - Sociedad Agente de Bolsa S.A.	44	38	14	15	30	23
BBVA Asset Management Continental S.A. - Sociedad Administradora de Fondos	48	39	9	5	39	34
Continental Sociedad Titulizadora S.A.	2	2	-	-	2	2
Inmuebles y Recuperaciones Continental S.A.	25	25	8	5	17	20
Continental DPR Finance Company	1,129	1,317	1,129	1,317	-	-

(c) Responsibility for the information and estimates

Grupo Continental's management is responsible for the information contained in these consolidated financial statements. Certain estimates made to quantify some assets, liabilities, revenues, expenses and commitments recorded therein have been made based on the experience and other relevant factors. Final results could differ from those estimates.

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized, by recording the effects of changes in the corresponding consolidated income accounts for the year in which the corresponding reviews are conducted.

The most important estimates and sources of uncertainty related with the preparation of the Grupo Continental consolidated financial statements refer to:

- Investments at fair value through profit and loss, available for sale investments and investments in associates
- Provision for loan losses
- Other assets and contingent claims
- Provision for accounts receivable
- Provision for assets seized
- Useful life assigned to property, furniture and equipment
- Register of contingent liabilities
- Deferred income tax
- Financial derivatives instruments

(d) Preparation and presentation currency

Grupo Continental prepares and presents its consolidated financial statements in Peruvian Nuevos Soles (S/.), which is its functional currency. The functional currency is the currency of the main economic environment in which an entity operates.

(e) Allowance for loan losses

The Allowance for loan losses is determined in accordance with the criteria and percentages established by the SBS Resolution N° 11356-2008 “Regulations for the Evaluation and Classification of a Debtor and the Required Provision”.

The SBS has established quantitative criteria (level of sales and borrowing in the financial system) for the classification of the loan portfolio per type and categories of direct and indirect loans. Until June 2010, the segmentation of the loan portfolio was made in four categories (commercial, micro and small business, consumer and mortgage loans). The new segmentation effective from July 1, 2010 is outlined below:

1. Corporate
In this category will be considered further:
 - a. Multilateral Development Banks
 - b. Sovereign
 - c. Public sector entities
 - d. Stock brokers
 - e. Financial System Companies
2. Large business
3. Medium business
4. Small Businesses
5. Micro-business
6. Revolving consumer loans
7. Non-revolving consumer loans
8. Mortgage loans

Provisions for indirect loans are calculated from July 2010 after adjusting balances through the application of the following credit conversion factors:

Indirect loans	Conversion factor
a) Confirmed irrevocable letters of credit of up to one year, when the issuing bank is a first class financial system company	20%
b) Issuance of letters of guarantee supporting affirmative and negative covenants	50%
c) Issuance of guarantees, import letters of credit and stand by letters not included in paragraph "b)", and confirmations of letters of credit not included in paragraph "a)" and bank acceptances	100%
d) Undisbursed Loans granted and unused lines of credit	0%
e) Other indirect loans not covered in previous subparagraphs	100%

Debtors are classified and allowance for loan losses are recorded within the following categories: normal, with potential problems, substandard, doubtful and loss.

The allowance for loan losses includes general and specific portion. The specific allowance estimated for commercial loans is calculated based on percentages set by the SBS, which vary depending on the customer's classification and the type of guarantee received.

General allowances include those with respect to debtors classified as normal in accordance with requirements of the SBS, as well as general voluntary provisions.

Mandatory general allowances are determined based on percentage rates that include a fixed component and a variable component (pro-cyclical) and vary depending on the type of loan. The rule for determining the pro-cyclical component is activated or deactivated upon communication of the SBS, which depends upon a periodical measurement of annual percentage variations (in moving averages) in the actual Gross Domestic Product of Peru (GDP) published by Banco Central de Reserva del Peru (BCRP).

Voluntary general allowances have been determined by the Bank based on the economic situation of customers within the refinanced and restructured loan portfolio, prior experience and other factors that, in management's opinion, may result in possible losses in the loan portfolio. The amount of the voluntary general provision is reported to SBS.

In conformity with current standards, management reviews and analyzes the non-retail loan portfolio classifying debtors according to the assessment of their cash flows, global indebtedness with third parties and level of compliance with the payment of such debts. Retail loan portfolio (small business, micro-business, revolving consumer, non-revolving consumer and mortgage loans) is classified and provisioned in accordance with the delay in loan payments and takes into account the classification of the debtors by other entities of the financial system. Additionally, pursuant to SBS Resolution N° 041-2005, Grupo Continental assesses the exposure to credit exchange risks for loans in foreign currency.

The minimum percentages required for loan allowances, are as follows:

Normal Category

Loans	Fixed Component	Variable Component (Procyclical)
Corporate loans	0.70%	0.40%
Corporate loans with customer deposit guarantees	0.70%	0.30%
Large business loans	0.70%	0.45%
Large business loans with customer deposit guarantees	0.70%	0.30%
Medium business loans	1.00%	0.30%
Small business loans	1.00%	0.50%
Micro business loans	1.00%	0.50%
Revolving consumer loans	1.00%	1.50%
Non-revolving consumer loans	1.00%	1.00%
Revolving consumer loans under eligible agreements	1.00%	0.25%
Mortgage loans	0.70%	0.40%
Mortgage loans with customer deposit guarantees	0.70%	0.30%

As of December 31, 2011 and 2010 the pro-cyclical component for the allowance for loan losses is activated (Multiple Official Letter N° B-2193-2010-SBS).

Other risk categories and per type of guarantee are as follows:

Risk Category	No Guarantee	Preferred Guarantee	Readily liquid preferred guarantees
With potential problems	5.00%	2.50%	1.25%
Substandard	25.00%	12.50%	6.25%
Doubtful	60.00%	30.00%	15.00%
Loss	100.00%	60.00%	30.00%

(f) Financial lease portfolio

Financial lease operations are recorded in accordance with SBS rule and IAS 17, as loans. The initial recording of transactions is made by the gross value of the loan, composed of principal, interest, commission and other financing concepts as agreed with the customer, and the difference between the gross amount of the loan and value of the goods, is recognized as “unearned interest and commission”, presented net of loans and recognized as income on an accrual basis.

(g) Derivative financial instruments

In accordance with SBS Resolution N° 1737-2006 and its amendments, derivative financial instruments are initially recognized at trade date.

Trading:

The measurement and initial recognition are made at fair value. Monthly, trading derivative financial instruments are measured at fair value. The gain or loss in valuation or settlement of trading derivative financial instruments is recorded in the statements of income. The nominal value of derivative financial instruments is recorded in their respective committed or agreed currency in off-balance sheet accounts (Note 15 (b)).

Hedge:

A derivative financial instrument that seeks to ensure financial hedge of a given risk is accounted for as hedging purposes if, in its negotiation, it is expected that changes in fair value or cash flows will be highly effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk from the beginning, which should be documented in the negotiation of the derivative, and during the period of hedging. A hedge is considered highly effective if it is expected that changes in fair value or cash flows of the hedged item and hedge financial instrument are within a range of 80% to 125%.

If the SBS considers the documentation deemed as unsatisfactory or find weaknesses in the methodologies used, it may require the dissolution of the hedging and the recording of the derivative financial instrument, as trading.

For fair value hedges that qualify as such, the change in fair value of the hedging derivative is recognized in the statements of income.

Changes in the fair value of the hedged item attributable to the hedged risk are recorded as part of the balance of the hedged item and recorded in the statements of income.

If the hedging instrument expires, is sold, terminated or exercised, or the time when the hedge no longer meets the criteria for hedge accounting, the hedging relationship is ended prospectively and the effects of such action are recorded in the statements of income within the term of the hedged item.

(h) Investments at fair value through profit and loss, available for sale investments and held to maturity investments

The investment portfolio is classified and valued in accordance with SBS Resolution N°10639-2008 which approved the “Regulations for Classification and Valuation of Investment of Financial System Companies”.

The initial recording is at acquisition cost, excluding acquisition expenses such as taxes, broker fees, rights and other commissions.

(h-1) Investments at fair value through profit or loss

Investments maintained for sale in the short-term, having a pattern of making short-term gains or having been designated by the Bank in this category since its initial recording are

valued at fair value. The gain or loss on the valuation or sale of these investments is recorded in the statements of income.

(h-2) Available-for-sale investments

This category includes all investments instruments that are not classified as investments at fair value through profit or loss, held to maturity investments or investments in subsidiaries and associates.

The changes in the fair value of investment in this category are recognized directly in equity until the instrument is disposed, at which the gain or loss previously recognized in equity is transferred and recorded in profit or loss except for the impairment losses that are recorded in the statement of income (Note 2 (m)).

(h-3) Held-to-maturity investments

This category includes the investment instruments that meet the following requirements: (i) were acquired or reclassified with the intention to hold them until maturity and for which the Bank must have the financial capacity to maintain the instrument investment until maturity, and (ii) shall be classified by at least two local or foreign risk credit rating and they must be within the parameters set by the SBS.

The valuation of these investments is carried at amortized cost using the effective interest rate method. The impairment loss is recorded in the statement of income (Note 2 (m)).

(i) Investments in associates

It comprises the capital values acquired for the purpose of having equity participation. These investments are initially recorded at acquisition cost and they are subsequently valued using the equity method.

(j) Property, furniture and equipment

Property, furniture and equipment are recorded at cost, which includes acquisition-related disbursements and are presented net of accumulated depreciation. Annual depreciation is expensed, and determined on a cost basis through the straight-line method based on the estimated useful life of assets, as follows:

	<u>Years</u>
Buildings	33
Fixed and not-fixed facilities	33-10
Leasehold improvements	10
Furniture and equipments	10-4
Vehicles	5

The disbursements subsequently incurred, related to assets the cost of which can be reliably measured and as to which it is likely that future economic benefits will be obtained from

such asset, are capitalized or recognized as property, furniture and equipment. Disbursements for maintenance and repairs are expensed during the period as incurred. When a fixed asset is sold or disposed of, the corresponding cost and accumulated depreciation are eliminated in the accounts and the resulting gain or loss is recognized in the consolidated statements of income.

Grupo Continental requests valuations of its properties in a period no longer than 2 years.

Banks are prohibited from using fixed assets as collateral except for assets acquired under financial leasing transactions.

(k) Assets seized and recovered through legal actions

Seized assets included in “Other assets” of the consolidated balance sheet are initially recorded at the lower of the market value or the unpaid value of the debt based on the value assigned through legal proceedings or out of court settlements. Assets recovered by resolution of contract, are initially recorded at the lower of the outstanding debt or the net realizable value. If the outstanding debt value is greater, the difference is recognized as a loss, if there is no probability of recovery.

In addition, in accordance with SBS standards, Grupo Continental records the following provisions on seized assets:

- 20% of the value of goods received at acquisition date.
- For buildings, a monthly impairment allowance is recorded effective from the 12th month following the acquisition or recovery, which shall be constituted over a term of 42 months or less, based on the net value obtained during the 12th month. Likewise, the net carrying amount of real estate is annually compared to the realization value determined by an independent appraiser, and if this value is lower, an impairment provision shall be constituted.
- For assets other than buildings, the remaining balance is provisioned within a term no longer than 12 months.

(l) Intangible assets

Intangible assets with finite useful lives are recorded at acquisition cost less accumulated amortization and accumulated impairment losses. Amortization is recognized as an expense and is determined under the straight-line method based on the estimated useful life of the assets, represented by equivalent depreciation rates. The useful life of these assets has been estimated between 1 and 5 years.

Costs related with developing or maintaining computer software are recognized as expenses when incurred. Costs directly related to unique and identifiable software products, controlled by Grupo Continental which is likely to generate economic benefits for more than a year are recognized as intangible assets.

The costs incurred in developing computer programs recognized as assets are amortized over their estimated useful lives.

(m) Impairment loss

When there are events or circumstantial economic changes indicating that the value of an asset might not be recoverable, management reviews the book value of these assets at each balance sheet date. If after this analysis the book value of the asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income. Recoverable amounts are estimated for each asset.

(n) Due to banks and correspondents –Securities, bonds and outstanding obligations

Due to banks and correspondents and securities' issuances (corporate, subordinate and leasing bonds) are recorded at their nominal value and interests earned are recognized in the consolidated statements of income for the period at their effective rate.

Premiums and discounts granted in the placement of bonds are deferred and amortized throughout the bonds lifetime.

(o) Provisions

Provisions are recognized only when Grupo Continental has a present obligation (legal or implicit) as a result of a past event, it is probable that resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are reviewed periodically, and adjusted to reflect the best estimate as of the consolidated balance sheet date. When the effect of the time value of money is material, the amount recorded as a provision is equal to the present value of future payments required to settle the obligation.

(p) Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in a note to the consolidated financial statements. When the likelihood of an outflow of resources to cover a contingent liability is remote, such disclosure is not required. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when it is probable that there will be an inflow of resources.

Items previously treated as contingent liabilities are recognized in the consolidated financial statements in the period in which the change in probabilities occurs; that is when it is determined to be likely, or virtually certain, that an outflow of resources will take place. The amounts treated as contingent assets, are recognized in the consolidated financial statements in the period in which it is determined that it is virtually certain to produce an inflow of resources.

(q) Employees' benefits

(q-1) Employees' profit Sharing

The Bank recognizes a liability and an expense for employees' profit sharing on the basis of 5% of the tax base determined in accordance with current tax legislation.

According to legal regulations, subsidiaries are not required to determine employees' profit sharing when the number of their employees is less than twenty.

(q-2) Employees' vacations and other employees' benefits

Annual vacations of employees, paid absences and other employee benefits are recognized on the accrual basis. Provisions for annual vacations, paid absences and other benefits to employees resulting from services rendered by employees are recognized at the balance sheet date.

(q-3) Accrual for seniority indemnities

The accrual for seniority indemnities comprises all the liabilities related to the employees' vested rights according to the current legislation. Payments are deposited mainly at the Bank, which is the financial institution elected by the employees.

(r) Income and expense recognition

Interest income and expenses and commissions from services are recognized in the consolidated statements of income on an accrual basis in the period related to the relevant transaction.

Interest on past-due loans, refinanced, restructured loans, and under legal collection loans, as well as interests of loans classified as doubtful or loss, are recognized in the consolidated statements of income when collected.

When the debtor's financial condition is determined to have improved thus eliminating the uncertainty as to the recoverability of principal, the interest is again recorded on an accrual basis.

Other income and expense are recognized on an accrual basis.

(s) Foreign exchange gains (losses)

Foreign currency transactions are translated at the current exchange rate established by the SBS at the transaction date.

Exchange gains and losses from the settlement of monetary items denominated in foreign currency, or from the adjustment of assets and liabilities for exchange rate variations after initial recording, are recognized as an income or an expense in the statement of income for the period during which such gains or losses arise.

(t) Income tax

Current and deferred tax, are recognized in profit or loss included in the statement of income, except when they related to items recognized in equity accounts, in which case, the current income and deferred tax is also recognized in equity accounts.

Current income tax is calculated using tax rates that have been enacted by current tax laws to net taxable for the year. Current tax income is recognized as an expense for the period.

Deferred income taxes liabilities are recognized for all taxable temporary differences arising from comparing the book values of assets and liabilities to their tax basis, regardless of when such temporary differences are expected to be reserved. Deferred income taxes assets are recognized for deductible temporary differences, arising from comparing the book values of assets and liabilities to their tax basis, to the extent that it is probable that Grupo Continental will have future taxable income against which the deductible temporary differences can be applied, within the established time-limit, in accordance with law. Assets and liabilities are measured at the income tax rate in effect at the related balance sheet date expected to be applied to the taxable income in the year in which the liabilities are settled or the asset are recovered.

(u) Dividend distribution

Dividend distribution is recognized as a liability in the consolidated financial statements in the year when the dividends are approved by Grupo Continental's shareholders.

(v) Basic and diluted earnings per share

Basic earnings per share were computed by dividing net consolidated income by the weighted-average number of ordinary shares outstanding during each year. Since Grupo Continental does not have financial instruments with diluting effects, basic and diluted earnings per share are the same.

(w) Fiduciary activity

Assets derived from fiduciary activities where there is a commitment to return those assets to the customers and when Grupo Continental acts as a holder, trustee or agent, have been excluded from the consolidated financial statements. Such assets are presented in the off-balance sheets accounts.

(x) Reclassifications

By Official Letter SBS N° 4049-2011 dated January 21, 2011 and SBS Resolution N° 2740-2011 of February 25, 2011, SBS instructed that the employees' profit sharing for services rendered during the year should be recorded as payroll expenses and an asset or deferred tax liability should not be generated by this expense.

For comparative purposes as of December 31, 2010 the employees' profit sharing expense amounting to S/.49.9 million corresponding to 2010 was reclassified to Employees and Board of Director's expenses.

(y) Cash and cash equivalents

Cash and cash equivalents shown in the consolidated statement of cash flow comprises balances in cash and due from banks and inter-bank funds. Based on SBS regulation, Grupo Continental prepares and presents the consolidated cash flow using the indirect method.

Bank overdrafts are reclassified as liabilities.

(z) Pronouncements of SBS

During 2011, the SBS issued, among others, the following rules:

**Resolution (R) /
Circular (C)
SBS N°**

Standard

Effective date

R. 2740 – 2011	Modification of the Accounting Manual: Presentation of Employees' Profit Sharing in the Statement of Income as "Employees and Board of directors expenses", without generating assets or deferred tax liability in this connection.	January 2011
R.3780 - 2011	Regulation of Credit Risk Management	December 2011
R.8425-2011	Regulations for the requirement of additional regulatory capital.	July 2012
R.10454-2011	Limit to the net position in financial derivatives in foreign currency. The absolute value of the net position in financial derivatives in foreign currency, will not exceed thirty percent (30%) of its regulatory capital or three hundred fifty million nuevos soles (S /.350 million), the biggest.	October 2011

3. FOREIGN CURRENCY TRANSACTIONS AND EXPOSURE TO FOREIGN EXCHANGE RISK

The balances of financial assets and liabilities denominated in foreign currency are expressed in the consolidated financial statements in peruvian nuevos soles (S/.) at the weighted average exchange rate published by the SBS, set on at the end of 2011 and 2010, for each currency. These balances are summarized as follows:

	<u>2011</u> US\$000	<u>2010</u> US\$000
Assets:		
Cash and due from banks	2,470,364	1,676,850
Investments at fair value through profit and loss, available-for-sale and held to maturity, net.	23,882	85,476
Loans, net	5,492,616	4,355,312
Other assets	50,447	19,792
	<u>8,037,309</u>	<u>6,137,430</u>
Liabilities:		
Obligations to the public and deposits from financial institutions	5,652,696	4,120,393
Inter-bank funds and due to banks and correspondents	1,645,567	1,825,027
Securities, bonds and outstanding obligations	335,590	385,621
Other liabilities	68,893	107,406
	<u>7,702,746</u>	<u>6,438,447</u>
Balance sheet position	334,563	(301,017)
Forward contracts and other derivatives, net of sales position	<u>(279,084)</u>	<u>282,042</u>
Net global position	<u><u>55,479</u></u>	<u><u>(18,975)</u></u>

Most of the assets and liabilities in foreign currency are denominated in U.S. dollars. As of December 31, 2011 the exchange rate established by SBS used to express these amounts in nuevos soles (S/.) was S/.2.696 per US\$1.00 (S/.2.809 as of December 31, 2010).

In 2011, Grupo Continental recorded foreign exchange gains amounting to S/.296.3 million (S/.175.9 million in 2010), which are presented net in the “Foreign Exchange difference from various transactions” item in the statements of income.

The revaluation percentages of the Peruvian Nuevo Sol as compared to the US dollar, calculated on the buying and selling exchange rate published by the SBS, were 4.02% and 2.84% for 2011 and 2010, respectively; the inflation percentages, in accordance with the

Domestic Wholesale Price Index (IPM for its Spanish acronym), were 6.26% and 4.57% for 2011 and 2010, respectively.

4. CASH AND DUE FROM BANKS

	<u>2011</u> <u>S/.000</u>	<u>2010</u> <u>S/.000</u>
Cash	1,392,647	1,099,948
Peruvian Central Bank - BCRP	6,570,730	8,478,372
Local Banks and other local financial entities	120,521	98,378
Foreign Banks and other foreign financial entities	342,147	251,344
Clearing	102,100	114,757
Other deposits	4,556	4,438
Accrued interest	2,152	8,535
	<u>8,534,853</u>	<u>10,055,772</u>
Total	<u>8,534,853</u>	<u>10,055,772</u>

As of December 31, 2011, cash and due from banks includes approximately US\$2,214.2 million and S/.1,832.7 million (US\$1,567.3 million and S/.1,288.9 million in 2010) which represent the legal reserve that Peruvian entities must maintain as a guarantee of third party deposits. These funds are deposited in Bank's vaults and in the Peruvian Central Bank (BCRP for its Spanish acronym).

As of December 31, 2010, Grupo Continental maintained deposits with the Central Bank by S/.3,734 million which have current maturity and accrue annual interests in local currency from 2.95% to 3.19%.

As of December 31, 2011 and 2010, legal reserve in local and foreign currencies has a legal minimum reserve of 9%. Total obligations subject to legal reserve requirements (TOSE for its Spanish acronym) in local and foreign currency according to the regulations as of December 31, 2011, are affected to an implicit rate in local currency of 13.0245% and 37.31% in foreign currency, based on information of February 2011 (as of December 31, 2010, a rate of 33.17% of liabilities based on TOSE dated on July 2010); additionally excess deposits in local currency are subject to an additional reserve of 25% and 55% foreign currency. Debt to international financial institutions and financial organisms in foreign currency, with maturity less than 2 years, are subject to a special rate of 60% (35%, 40%, 50%, 65% and 75% depending on the date of the agreement as of December 31, 2010).

The legal minimum reserve funds are not interest-bearing. The legal additional reserve amount in foreign currency accrues interest at annual nominal rate established by the BCRP. As of December 31, 2011, interest income on reserves amounted to S/.20.8 million (S/.6.4 million as of December 31, 2010), and were included in the "Interest from deposits in financial institutions", in the statements of income. According to effective legal provisions, legal reserves cannot be seized.

As of December 31, 2011, cash and due from banks includes restricted funds for S/.1.2 million (S/.2.1 million as of December 31, 2010) required in connection with legal proceedings against Grupo Continental to guarantee any potential liabilities generated by these lawsuits.

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS, AVAILABLE-FOR-SALE INVESTMENTS AND HELD TO MATURITY INVESTMENTS, NET

	<u>2011</u> S/.000	<u>2010</u> S/.000
Investments at fair value through profit and loss	84,598	263,558
Available-for-sale investments (Note 13 (c))	2,071,277	1,589,246
Held to maturity investments	431,279	419,530
Impairment provision	-	(11,779)
Total	<u>2,587,154</u>	<u>2,260,555</u>

Investments in securities according to the type of financial instrument were as follows:

	<u>2011</u> S/.000	<u>2010</u> S/.000
Investments at fair value through profit and loss		
Mutual funds (a)	43,461	34,143
Peruvian Treasury Bonds (b)	24,694	34,089
US Treasury Bonds (c)	10,903	-
Local Stock	5,540	21,504
Peruvian Global Treasury Bonds (d)	-	170,754
Foreign Stock	-	3,068
	<u>84,598</u>	<u>263,558</u>
Available-for-sale investments		
BCRP certificates of deposits (e)	1,421,368	606,458
Peruvian Treasury Bonds (b)	580,946	887,867
Local Stock (f)	31,192	28,497
Peruvian Global Treasury Bonds (d)	24,736	37,222
Foreign Stock	12,979	12,308
Asset basket securities	-	8,461
Corporate Bonds	-	8,237
Other investment	56	196
	<u>2,071,277</u>	<u>1,589,246</u>
Held-to-maturity investments		
Peruvian Treasury Bonds (b)	<u>431,279</u>	<u>419,530</u>

- (a) As of December 31, 2011 and 2010, mutual fund investments correspond to participation quotes held by Grupo Continental with various mutual funds managed by the subsidiary BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos.
- (b) Treasury bonds are issued by the Peruvian Government. As of December 31, 2011 those bonds accrued annual interest at rates between 2.10% and 6.64% (1.48% and 6.8% in 2010) in local currency and between 2.10% and 2.98% (3.20% and 4.08% in 2010) in foreign currency, and terms up to 30 years.
- (c) US Treasury Bonds accrued annual interest at rate of 1.88% and a term up to 10 years.
- (d) Peruvian Treasury Global bonds, issued by the Peruvian Government, accrued annual interest at rate of 4.82% in foreign currency (between 2.89% and 6.14% for 2010) and a term up to 22 years.
- (e) BCRP certificates of deposits are trading securities with maturities due within one year acquired in public auctions or secondary markets, based on prices offered by the financial institutions. As of December 31, 2011 annual interest rates on local currency range between 4.05% and 4.17% (0.09% and 3.02% in 2010) and with terms of up to 360 days.
- (f) As of December 31, 2011 local stock includes Lima Stock Exchange Securities (BVL) amounting to S/.19.8 million. As of December 31, 2010, part of this investment in BVL amounting S/.17.7 million was pledged to the Securities Exchange Superintendency (SMV) by Continental Bolsa Sociedad Agente de Bolsa in compliance with the article N° 136 of the Compiled Text of the Securities Markets Law, which established the obligation to provide guarantees in favor of the SMV in any of the following forms: Cash Deposits, Collateral Securities or Letter of Guarantee. As of December 31, 2011, Grupo Continental decided to provide a Letter of Guarantee to fill this requirement.

As of December 31, 2011 and 2010, the investment portfolio has the following terms to maturity:

	<u>2011</u>		<u>2010</u>	
	<u>S/.000</u>		<u>S/.000</u>	
Up to 1 month	367,944	14%	182,002	8%
More than 1 month and up to 3 months	460,088	18%	183,746	8%
More than 3 months and up to 6 months	241,113	9%	257,407	12%
More than 6 months and up to 1 year	352,223	13%	205,203	9%
More than 1 year and up to 5 years	224,019	9%	339,891	15%
More than 5 years	848,595	33%	1,004,565	44%
No contractual maturity	93,172	4%	87,741	4%
Total	<u>2,587,154</u>	<u>100%</u>	<u>2,260,555</u>	<u>100%</u>

6. LOANS, NET

(a) The balances comprises:

	<u>2011</u>		<u>2010</u>	
	S/.000		S/.000	
Direct credits:				
Loans	11,023,578	38%	9,562,760	40%
Mortgage loans	5,842,095	20%	4,695,209	20%
Leasing transactions	4,601,173	16%	3,794,109	16%
Consumer loans	2,766,925	10%	2,257,613	9%
Loans for foreign trade	2,375,187	8%	2,260,669	9%
Discounted notes	968,416	3%	791,280	3%
Other	2,939,218	10%	2,001,027	9%
	<u>30,516,592</u>	<u>105%</u>	<u>25,362,667</u>	<u>106%</u>
Plus:				
Accrued interest	<u>226,464</u>	<u>1%</u>	<u>160,994</u>	<u>1%</u>
Less:				
Deferred income from leasing transactions	<u>(544,133)</u>	<u>(2%)</u>	<u>(447,649)</u>	<u>(2%)</u>
	<u>30,198,923</u>	<u>104%</u>	<u>25,076,012</u>	<u>105%</u>
Deferred income from loans	(26,964)	-	(22,511)	(1%)
Allowance for loan losses	<u>(1,249,934)</u>	<u>(4%)</u>	<u>(1,049,352)</u>	<u>(4%)</u>
	<u>28,922,025</u>	<u>100%</u>	<u>24,004,149</u>	<u>100%</u>
Indirect loans (Note 15)	<u>8,687,388</u>		<u>7,721,418</u>	

Loans are collateralized with guarantees granted by customers, principally comprising mortgages, deposits, letter of guarantee, warrants and finance leasing operations, which as of December 31, 2011 and 2010 amounted to S/.23,836 million and S/.13,491 million, respectively.

As of December 31, 2011, a debt with Fondo Mi Vivienda – Mi Hogar was secured by a loan portfolio up to S/.336.1 million (S/.201.8 million as of December, 2010) (Note 11 (d)).

The annual weighted average rates for the main products were as follows:

	<u>2011</u>		<u>2010</u>	
	S/.	US\$	S/.	US\$
Loans and discounts	9.34%	7.35%	7.68%	6.68%
Mortgage	9.85%	8.98%	9.88%	9.37%
Consumer	23.40%	16.20%	21.91%	16.83%
Credit cards	37.97%	31.30%	40.36%	31.60%
Loans	16.00%	11.19%	14.68%	11.39%

(b) The loan portfolio under the segmentation established by SBS Resolution N° 11356-2008 is as follows (Note 2 (d)):

	<u>2011</u>		<u>2010</u>	
	S/.000		S/.000	
Medium business	8,207,285	27%	6,375,605	25%
Large business	6,425,048	21%	5,594,678	22%
Mortgage	5,913,334	19%	4,757,799	19%
Corporate	4,537,883	15%	3,959,563	16%
Consumer	2,873,116	9%	2,344,116	9%
Small business	1,403,849	5%	1,261,794	5%
Stock brokers	393,293	1%	319,865	1%
Public sector entities	293,693	1%	275,608	1%
Micro business	230,918	1%	208,556	1%
Financial system companies	190,555	1%	188,708	1%
Other	47,618	-	76,375	-
Total	30,516,592	100%	25,362,667	100%

(c) The credit risk classification of the Bank's loan portfolio made by the Management, according to SBS standards is as follows:

	<u>2011</u>						<u>2010</u>					
	Direct loans		Indirect loans		Total		Direct loans		Indirect loans		Total	
	S/.000		S/.000	S/.000		S/.000	S/.000	S/.000	S/.000	S/.000		
Normal	28,488,684	95%	8,575,045	99%	37,063,729	96%	23,572,919	95%	7,650,361	99%	31,223,280	96%
With potential problems	580,981	2%	66,037	1%	647,018	2%	522,388	2%	46,550	1%	568,938	2%
Substandard	321,139	1%	31,769	-	352,908	1%	297,897	1%	11,082	-	308,979	1%
Doubtful	293,888	1%	10,005	-	303,893	1%	323,724	1%	5,802	-	329,526	1%
Loss	260,803	1%	4,532	-	265,335	1%	175,579	1%	7,623	-	183,202	-
Total	29,945,495	100%	8,687,388	100%	38,632,883	100%	24,892,507	100%	7,721,418	100%	32,613,925	100%
Deferred income from leasing transactions	544,133		-		544,133		447,649		-		447,649	
Deferred income from loan transactions	26,964		-		26,964		22,511		-		22,511	
Total	30,516,592		8,687,388		39,203,980		25,362,667		7,721,418		33,084,085	

Grupo Continental has identified borrowers exposed to exchange rate risk and considers that their risk level is appropriate. Therefore, no additional provision has been recorded for this concept.

During 2011, Grupo Continental wrote off non-accrual interest of S/.11 million (S/.5 million in 2010) relating to interest for past due loans or loans in legal collection.

The loan portfolio was distributed in the following economic sectors:

	<u>2011</u>		<u>2010</u>	
	S/.000		S/.000	
Mortgage and consumer loans	8,786,449	29%	7,101,915	28%
Manufacturing	5,577,385	18%	5,091,480	20%
Commerce	5,190,967	17%	4,124,824	16%
Real estate	2,363,157	8%	1,841,812	7%
Transport, storage and communications	2,115,384	7%	2,233,474	9%
Construction	966,620	3%	656,396	3%
Mining	883,776	3%	516,357	2%
Agriculture and livestock	860,912	3%	608,252	2%
Utilities	857,404	3%	715,967	3%
Hotels and restaurants	627,120	2%	490,020	2%
Other	<u>2,287,418</u>	<u>7%</u>	<u>1,982,170</u>	<u>8%</u>
Total	<u><u>30,516,592</u></u>	<u><u>100%</u></u>	<u><u>25,362,667</u></u>	<u><u>100%</u></u>

(d) The change in the allowance for loan losses is shown below:

	<u>2011</u>	<u>2010</u>
	S/.000	S/.000
Balances as of January 1	1,049,352	882,358
Provision	763,613	674,348
Recoveries and reversals	(443,836)	(327,563)
Write-offs	(2,051)	(21,034)
Sale of portfolio	(102,942)	(148,733)
Foreing Exchange differences and other adjustments	<u>(14,202)</u>	<u>(10,024)</u>
Balances as of December 31	<u><u>1,249,934</u></u>	<u><u>1,049,352</u></u>

The level of the allowance for loan losses is adequate to cover potential losses in the portfolio as of the balance sheet date. As of December 31, 2011 the general provision of loan portfolio of S/.815.1 million (S/.655.5 million as of December, 2010) includes pro-cyclical of S/.129.7 million (S/.100.5 million as of December, 2010). Grupo Continental also maintains voluntary provisions for S/.453 million and S/.364 million as of December 31, 2011 and 2010, respectively.

During 2011, Grupo Continental entered into agreements to sale certain loans and the related rights over that portfolio of approximately S/.301.4 million (S/.191.5 million in 2010). Proceeds from these sales of S/.23.7 million (S/.11.6 million in 2010) were recognized as “Other income and expenses, net” in the consolidated statements of income.

The loan portfolio had the following maturities schedule:

	<u>2011</u>		<u>2010</u>	
	<u>S/.000</u>		<u>S/.000</u>	
Up to 1 month	3,340,867	11%	2,696,317	11%
More than 1 month and up to 3 months	4,481,635	15%	3,740,449	15%
More than 3 months and up to 6 months	3,361,886	11%	2,763,354	11%
More than 6 months and up to 1 year	3,982,563	13%	3,060,340	12%
More than 1 year and up to 5 years	10,105,495	33%	8,673,105	34%
More than 5 years	4,964,436	16%	4,164,467	16%
Past due and in legal collection loans	<u>279,710</u>	<u>1%</u>	<u>264,635</u>	<u>1%</u>
Total	<u><u>30,516,592</u></u>	<u><u>100%</u></u>	<u><u>25,362,667</u></u>	<u><u>100%</u></u>

7. PROPERTY, FURNITURE AND EQUIPMENT, NET

The change in cost and accumulated depreciation of property, furniture and equipment in 2011 and 2010 were as follows:

	<u>Land</u> S/000	<u>Buildings and facilities</u> S/000	<u>Furniture and equipment</u> S/000	<u>Vehicles</u> S/000	<u>Facilities and leasehold improvements</u> S/000	<u>Work in progress</u> S/000	<u>Units to receive</u> S/000	<u>Total</u> S/000
Cost:								
As of January 1, 2010	55,378	413,529	141,439	4,560	52,651	33,314	33,667	734,538
Additions	27,965	29,583	39,062	2	19,538	12,129	3,971	132,250
Disposal	-	(1,246)	(6,712)	-	(700)	-	-	(8,658)
Adjustments or other	8,304	3,937	25,170	-	8,189	(23,698)	(37,483)	(15,581)
As of December 31, 2010	91,647	445,803	198,959	4,562	79,678	21,745	155	842,549
Additions	6,788	36,633	86,813	-	14,214	72,574	16,174	233,196
Disposal	-	-	(4)	-	-	-	-	(4)
Adjustments or other	1,858	16,395	(1,013)	(178)	7,302	(29,149)	(8,598)	(13,383)
As of December 31, 2011	<u>100,293</u>	<u>498,831</u>	<u>284,755</u>	<u>4,384</u>	<u>101,194</u>	<u>65,170</u>	<u>7,731</u>	<u>1,062,358</u>
Accumulated depreciation:								
As of January 1, 2010	-	260,071	71,870	1,714	12,209	-	-	345,864
Additions	-	20,079	32,112	890	6,406	-	-	59,487
Disposal	-	(1,205)	(6,376)	-	(636)	-	-	(8,217)
Adjustments or other	-	(889)	(1,084)	-	302	-	-	(1,671)
As of December 31, 2010	-	278,056	96,522	2,604	18,281	-	-	395,463
Additions	-	22,883	33,523	789	8,510	-	-	65,705
Disposal	-	-	(4)	-	-	-	-	(4)
Adjustments or other	-	467	(2,164)	(170)	(539)	-	-	(2,406)
As of December 31, 2011	<u>-</u>	<u>301,406</u>	<u>127,877</u>	<u>3,223</u>	<u>26,252</u>	<u>-</u>	<u>-</u>	<u>458,758</u>
Net cost								
As of December 31, 2011	<u>100,293</u>	<u>197,425</u>	<u>156,878</u>	<u>1,161</u>	<u>74,942</u>	<u>65,170</u>	<u>7,731</u>	<u>603,600</u>
As of December 31, 2010	<u>91,647</u>	<u>167,747</u>	<u>102,437</u>	<u>1,958</u>	<u>61,397</u>	<u>21,745</u>	<u>155</u>	<u>447,086</u>

Grupo Continental maintains current insurance coverage for its main assets, according to policies established by management.

8. OTHER ASSETS AND LIABILITIES

	<u>2011</u> S/.000	<u>2010</u> S/.000
Other assets:		
Accounts receivable from derivatives (Note 15 (b))	446,160	301,121
Tax credit from General Sales Tax (a)	353,410	260,827
Prepaid expenses, deffered charges and intangible assets (b)	159,486	80,815
Transactions in process (c)	39,578	27,802
Assets seized and recovered through legal actions, net	15,773	24,023
Other accounts receivable (d)	17,758	16,502
Other assets	1,343	1,313
	<u>1,033,508</u>	<u>712,403</u>
Total		
Other liabilities:		
Other provisions (e)	398,492	405,788
Accounts payable from derivatives (Note 15 (b))	326,129	287,036
Suppliers (f)	195,340	200,332
Other accounts payable	59,530	53,009
Allowance for contingent credits (Note 15 (a))	60,457	55,322
Transactions in process (c)	21,834	42,396
Deferred income	14,653	15,995
Dividends and employees' profit sharing	77,949	58,337
Other	8,912	7,220
	<u>1,163,296</u>	<u>1,125,435</u>
Total		

- (a) Corresponds to the tax credit on the acquisition of assets for leasing.
- (b) As of December 31, 2011, the balance is mainly comprised of deferred charges by S/.64.3 million (S/.77.6 million as of December 31, 2010), S/.86.8 million (S/.2.6 million as of December 31, 2010) of prepaid income tax and intangible assets by S/.8.2 million (S/.0.4 million as of December 31, 2010).
- (c) Transactions in process primarily refer to transactions carried out during the last days of the month, which are reclassified in the next month to their specific accounts in the balance sheet. These transactions do not affect the net income of Grupo Continental.
- (d) Other accounts receivable are net of accumulated provision of S/.81.9 million and S/.77.7 million, respectively.
- (e) Other provisions mainly include among others, provisions for litigation, claims, and provisions for staff. As of December 31, 2011, the Bank has several pending lawsuits, litigation and other processes that are related to the activities carried out, which in management and legal counsel's opinion no additional provisions are needed.

Therefore, Management has not considered necessary a higher provision than there recorded for these contingencies and processes in “Other liabilities” on the consolidated balance sheet, which amounted to S/.207.5 million (S/.213.7 million as of December 31, 2010).

- (f) Includes provisions for services of Grupo Continental’s ordinary activities.

9. OBLIGATIONS TO THE PUBLIC AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	<u>2011</u> S/.000	<u>2010</u> S/.000
Obligations to the public	30,185,437	25,558,208
Deposits from financial institutions	<u>307,034</u>	<u>359,232</u>
Total	<u><u>30,492,471</u></u>	<u><u>25,917,440</u></u>

Deposits include accounts that have been pledged in favor of the Bank to secure credit operations of S/.540.2 million and US\$111 million as of December 31, 2011 (S/.400.5 million and US\$71.5 million as of December 31, 2010).

- (a) Obligations to the public and deposits from financial institutions have the following maturities:

	<u>2011</u>		<u>2010</u>	
	S/.000		S/.000	
Up to 1 month	9,765,343	32%	9,375,337	36%
More than 1 month and up to 3 months	5,859,745	19%	4,826,214	19%
More than 3 months and up to 6 months	2,171,311	7%	1,891,998	7%
More than 6 months and up to 1 year	2,034,700	7%	1,716,840	7%
More than 1 year and up to 5 years	8,848,155	29%	6,641,975	26%
More than 5 years	<u>1,813,217</u>	<u>6%</u>	<u>1,465,076</u>	<u>5%</u>
Total	<u><u>30,492,471</u></u>	<u><u>100%</u></u>	<u><u>25,917,440</u></u>	<u><u>100%</u></u>

- (b) Interest rates on deposits and other obligations accounts are established by Grupo Continental, based on current market interest rates. The prevailing annual interest rates were as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Accounts in</u>		<u>Accounts in</u>	
	S/.	US\$	S/.	US\$
	%	%	%	%
Checking accounts	0.00 - 1.20	0.00 - 0.60	0.00 - 1.20	0.00 - 0.60
Saving deposits	0.25 - 2.00	0.125 - 1.00	0.25 - 2.00	0.125 - 1.00
Time deposits and CBME	0.50 - 1.35	0.10 - 1.15	0.50 - 1.35	0.10 - 1.15
Superdeposits	1.00 - 1.35	0.45 - 1.00	1.00 - 1.35	0.45 - 1.00
Severance deposits	2.75 - 4.00	0.50 - 3.50	2.75 - 4.00	0.50 - 3.50

10. INTER-BANK FUNDS

Inter-bank funds' assets have current maturities, accrue interest at an average annual interest rate of 0.25% in foreign currency (3% in local currency as of December 31, 2010) and are unsecured.

Inter-bank funds liabilities have current maturities, accrue interest at an average annual interest rate of 0.25% in foreign currency, 4.25% in local currency (3% as of December 31, 2010) and are unsecured.

11. DUE TO BANKS AND CORRESPONDENTS

	<u>2011</u>	<u>2010</u>
	S/000	S/000
Foreign Financial Institutions (a)	2,545,968	2,715,691
International Financial Organizations (b)	1,287,790	1,473,650
Private debt contract (c)	539,200	561,800
Programa Mi Vivienda - Mi Hogar (My Housing - My Home program) (d)	336,126	201,785
Corporación Financiera de Desarrollo - COFIDE	30,000	30,000
Accrued interest payable	31,119	30,272
Total	<u>4,770,203</u>	<u>5,013,198</u>

Loan agreements signed with certain foreign financial institutions and international financial organizations, include covenants that require compliance with financial ratios and other specific conditions that, as of December 31, 2011 and 2010, Grupo Continental's Management believes it is compliance with these covenants.

(a) Foreign financial institutions

As of December 31, 2011, the loan balance with foreign financial institutions accrued interest based on market rates between 1% and 7.4% (0.6% and 7.4% as of December 31, 2010). The breakdown of these transactions is as follows:

<u>Name of creditor</u>	<u>Balances as of</u> <u>December 31, 2011</u>		<u>Balances as of</u> <u>December 31, 2010</u>		<u>Due dates</u>
	<u>US\$000</u>	<u>S/.000</u>	<u>US\$000</u>	<u>S/.000</u>	
Deutsche Bank (i)	366,077	986,944	325,984	915,689	November 2020
Credit Suisse (ii)	200,000	539,200	200,000	561,800	October 2040
Wells Fargo Bank	110,000	296,560	40,000	112,360	January 2012 and October 2013
Syndicated loan (iii)	100,000	269,600	100,000	280,900	October 2012
DEG Deutsche Investments (iv)	60,000	161,760	65,000	182,585	October 2017 y June 2018
Standard Chartered	58,000	156,368	-	-	October 2013
China Development Bank	50,000	134,800	-	-	December 2016
JP Morgan Chase Bank	-	-	70,000	196,630	January 2011
Citibank NA	-	-	70,000	196,630	January 2011
Bank of America	-	-	46,000	129,214	January 2011
Sumitomo Bank	-	-	30,000	84,270	January 2011
HSBC Bank PLC	-	-	15,000	42,135	February 2011
Other	273	736	4,798	13,478	January 2012
Total	<u>944,350</u>	<u>2,545,968</u>	<u>966,782</u>	<u>2,715,691</u>	

- (i) Loan for an amount of US\$350 million, fixed rate of 5.5% and maturity in November 2020, which is recorded at fair value. The change in fair value is hedged by an Interest Rate Swap (IRS) (Note 15 (b)). As of December 31, 2011, Grupo Continental has recorded losses of S/.109.1 million corresponding to the change in fair value, which is included in the "Gains from hedging transactions" item, of the statements of income (as of December 31, 2010 recorded a gain of S/.56.9 million).
- (ii) Corresponds to subordinated debt, and it is considered as part of TIER 1 Regulatory Capital to the limit permitted by General Law.
- (iii) In September 2010, the Bank entered into a syndicated loan for US\$100 million with the participation of the following foreign financial entities: Standard Chartered Bank, Wells Fargo Bank, Banco de Chile, Bank of Taiwan, Banco Monte Dei Paschi di Siena S.p.A. and Mizuho Corporate Bank Ltd. The applicable rate is Libor plus a spread. The term of the loan is 25 months with settlement of principal at maturity. Interest will be paid every six months.
- (iv) Corresponds to subordinated debt for an amount of US\$30 million approved by the SBS. It is considered part of TIER 2 Regulatory Capital.

(b) International financial organizations

Debts to international financial organizations accrued interest at international market rates between 1.5% and 6.4% as of December 31, 2011 (1.4% and 6.4% as of December 31, 2010), and are unsecured. The breakdown is as follows:

<u>Name of creditor</u>	<u>Balances as of</u> <u>December 31, 2011</u>		<u>Balances as of</u> <u>December 31, 2010</u>		<u>Due Dates</u>
	<u>US\$000</u>	<u>S./000</u>	<u>US\$000</u>	<u>S./000</u>	
Banco Interamericano de Desarrollo (i)	275,000	741,400	275,000	772,476	February 2012/2014/2017/2019 and August 2015
Internacional Finance Corporation	112,667	303,750	165,333	464,420	December 2012/2018
Corporación Andina de Fomento	50,000	134,800	50,000	140,450	December 2012
Corporación Interamericana de Inversiones	40,000	107,840	34,284	96,304	June 2013/August 2014
	<u>477,667</u>	<u>1,287,790</u>	<u>524,617</u>	<u>1,473,650</u>	

(i) Includes two subordinated loans for an amount of US\$50 million, approved by the SBS and it is considered as part of TIER 2 Regulatory Capital.

(c) Debt private contract

As of December 31, 2011, due to banks and correspondents include a debt private contract from a securitization of remittances (Note 15 (e)) for an amount of US\$200 million.

(d) Programa Mi Vivienda - Mi Hogar (My Housing – My home Program)

Resources obtained for the social housing program “Mi Vivienda” in local currency for S/.283.2 million and foreign currency for US\$12.1 million. This loan amortizes through December 2031 and accrues interest at an effective annual rate of 7.75% on the foreign currency portion and 6.25% plus the Constant Adjustment Index (hereinafter VAC for its Spanish acronym) on the local currency portion.

The obligation to the Fondo Mi Vivienda – Mi Hogar of S/.336.1 million as of December 31, 2011 (S/.201.8 million as of December 31, 2010) is collateralized by a portion of the mortgage loan portfolio up to that amount (Note 6). Loans include specific agreements about how these funds must be used, financial conditions that the borrower must have, as well as administrative terms.

As of December 31, 2011 and 2010, the financial obligations have the following maturities:

	<u>2011</u>		<u>2010</u>	
	<u>S/.000</u>		<u>S/.000</u>	
Up to 1 month	164,656	3%	733,582	15%
More than 1 month and up to 3 months	285,274	6%	42,823	1%
More than 3 months and up to 6 months	32,981	-	47,432	1%
More than 6 months and up to 1 year	555,642	12%	5,731	-
More than 1 year and up to 5 years	934,741	20%	890,796	18%
More than 5 years	2,796,909	59%	3,292,834	65%
Total	<u>4,770,203</u>	<u>100%</u>	<u>5,013,198</u>	<u>100%</u>

Some of the loans in US dollars are associated with "IRS" contracts to reduce the interest rate risk (Note 15 (b)).

12. SECURITIES, BONDS AND OUTSTANDING OBLIGATIONS

	<u>2011</u>	<u>2010</u>
	<u>S/.000</u>	<u>S/.000</u>
Corporate Bonds	830,761	556,242
Notes (debt instruments) - Note 15 (e)	539,200	702,250
Subordinated Bonds	459,866	455,128
Leasing Bonds	137,400	140,225
Accrued expenses payable	18,632	16,484
Total	<u>1,985,859</u>	<u>1,870,329</u>

Securities, bonds and outstanding obligations have the following maturities:

	<u>2011</u>		<u>2010</u>	
	<u>S/.000</u>		<u>S/.000</u>	
Up to 1 month	717	-	21,372	1%
More than 1 month and up to 3 months	50,641	3%	9,033	-
More than 3 months and up to 6 months	7,273	-	6,079	-
More than 6 months and up to 1 year	217,756	11%	-	-
More than 1 year and up to 5 years	819,605	41%	1,128,492	60%
More than 5 years	889,867	45%	705,353	39%
Total	<u>1,985,859</u>	<u>100%</u>	<u>1,870,329</u>	<u>100%</u>

The detail of issued bonds and notes is as follows:

<u>Program</u>	<u>Authorized amount</u>	<u>Issuance</u>	<u>Series</u>	<u>Currency</u>	<u>Amount of Disbursed Currency</u>	<u>2011 S/000</u>	<u>2010 S/000</u>	<u>Maturity Date</u>
<u>Corporate Bonds</u>								
Second	US\$50 million or S/.160 million	First	A	PEN	70,000	70,000	70,000	October 2012
		First	B	PEN	23,000	23,000	23,000	March 2013
		First	C	PEN	30,000	30,000	30,000	April 2013
		First	D	PEN	17,000	17,000	17,000	May 2013
		Second	A	PEN	20,000	-	20,000	January 2011
Third	US\$100 million or S/.315 million	First	A	PEN	40,000	40,000	40,000	December 2012
		Second	A	PEN	40,000	40,000	40,000	March 2012
		Third	A	USD	9,969	26,876	28,003	September 2012
		Fourth	A	USD	8,533	23,005	23,969	September 2014
		Sixth	A	USD	30,000	80,880	84,270	October 2012
		Seventh	Only	PEN	60,000	60,000	60,000	May 2018
Fourth	US\$ 100 million	First	Only	PEN	40,000	40,000	40,000	August 2020
		Second	A	PEN	80,000	80,000	80,000	August 2020
		Third	A	PEN	100,000	100,000	-	August 2018
Fifth	USD250 millones	First	A	PEN	50,000	50,000	-	December 2016
		Second	A	PEN	150,000	150,000	-	December 2026
						<u>830,761</u>	<u>556,242</u>	
<u>Subordinated Bonds</u>								
First	US\$50 million or S/.158.30 million	First	A	PEN	40,000	39,793	39,773	May 2022
		Second	A	USD	20,000	53,661	55,892	May 2027
		Third	A	PEN	55,000	64,453	61,594	June 2032
Second	US\$100 million	First	A	USD	20,000	53,920	56,180	September 2017
		Second	A	PEN	50,000	57,384	54,839	November 2032
		Third	A	USD	20,000	53,920	56,180	February 2028
		Fourth	Only	PEN	45,000	49,840	47,629	July 2023
		Fifth	Only	PEN	50,000	54,663	52,238	September 2023
		Sixth	A	PEN	30,000	32,232	30,803	December 2033
						<u>459,866</u>	<u>455,128</u>	
<u>Leasing Bonds</u>								
First	US\$200 million	First	A	USD	25,000	67,400	70,225	April 2016
		Second	A	PEN	30,000	30,000	30,000	September 2014
		Third	A	PEN	40,000	40,000	40,000	November 2014
						<u>137,400</u>	<u>140,225</u>	
<u>Notes</u>								
First	US\$250 million	First	A	USD	250,000	<u>539,200</u>	<u>702,250</u>	December 2015

Corporate bonds are unsecured and accrued annual interest at rates between 5.8% and 7.9% for local currency and between 6.2% and 6.4% for foreign currency as of December 31, 2011 and 2010, respectively.

Subordinated bonds were issued according to General Law requirements and with annual interest rates between 5.9% and VAC plus a spread for local currency and between Libor plus a spread and 6.5% for foreign currency.

Leasing bonds are secured by the same assets financed by the Bank with interest at a nominal annual rate of 6.3% for local currency and 7.2% for foreign currency.

13. SHAREHOLDERS' EQUITY

(a) Capital stock

As of December 31, 2011, the authorized, issued and fully paid capital stock of the Bank consisted of 1,944,231,963 outstanding ordinary shares with a face value of S/.1 each, (1,843,427,288 shares as of December 31, 2010).

The Bank General Shareholders' Annual Meetings held on March 31, 2011 and March 30, 2010, authorized an increase of the capital stock of S/.100.8 million and S/.372.2 million, respectively, by means of the capitalization of special reserve and retained earnings.

The Bank's common stock is listed on the Lima Stock Exchange (hereinafter, BVL for its Spanish acronym). As of December 31, 2011 and 2010, the stock market quotation value of the Bank's stock was S/.5.51 and S/.7.70 per share, respectively, with a negotiation frequency of 100% in both years.

The number of shareholders and the ownership structure were as follows:

<u>Percentage of individual interest</u> %	<u>Number of shareholders</u>	<u>Total interest</u> %
Up to 1	4,226	6.62%
1.01 to 5	1	1.14%
More than 80.01 to 100	1	92.24%
	<u>4,228</u>	<u>100%</u>

(b) Legal and special reserve

Pursuant to applicable law, all Peruvian banks must create and maintain a legal reserve. Each year a Peruvian bank must allocate 10% of its net income to its legal reserve until the legal reserve is equal to 35% of its paid-in capital stock.

Legal reserve for net income for 2011 will be recognized upon the approval of the financial statements of that year at the next General Meeting of Shareholders to be held in 2012.

The General Shareholders' Annual Meetings held on March 31, 2011 and March 30, 2010 approved an allocation to the legal reserve for equivalent of 10% of net income for year 2010 (S/.100.7 million) and year 2009 (S/.92.8 million), respectively..

The Special reserve has been established by appropriation of Retained earnings and is considered freely available.

The General Shareholders' Annual Meeting held on March 30, 2010 approved the capitalization of special reserves by S/.1.2 million.

(c) Retained earnings

General Shareholders' Annual Meetings held on March 31, 2011 and March 30, 2010, agreed to distribute dividends for S/.805.8 and S/.463.8 million, respectively.

Dividends distributed to shareholders other than domiciled legal entities, are subject to the rate of income tax rate of 4.1% which should be withheld by the Bank.

Retained earnings include S/.19.3 million of unrealized loss of the available-for-sale investments (S/.21.4 million of unrealized gains as of December 31, 2010), S/.3 million corresponding to unrealized gain of held to maturity investments (S/.3.1 million as of December 31, 2010).

The General Shareholders' Annual Meeting held on March 31, 2011 and March 30, 2010, approved the capitalization of retained earnings by S/.100.8 million and S/.371 million, respectively.

14. REGULATORY CAPITAL AND LEGAL LIMITS

As of December 31, 2011, Bank's regulatory capital calculated following SBS regulations was S/.4,043 million (S/.3,807 million as of December 31, 2010). This amount is used to calculate certain limits and restrictions applicable to all financial entities in Peru. In the Bank's Management opinion, such limits and restrictions are fully met by the Bank.

According to the General Law, as of December, 31, 2011, the regulatory capital amount cannot be less than 10% of credit, market and operational risk average weighted assets and contingent loans (9.8% as of December 31, 2010).

SBS Resolution N° 14354-2009 "Rules for Regulatory Capital Requirement for Credit Risk" entered into effect on July 1, 2010, and provides that financial institutions can calculate their regulatory capital requirement for credit risk using the standard or the internal ratings based methods.

- (i) In the standard method, SBS establishes the methodology for calculating the exposure, the acceptable mitigating, the weighting factors for credit risk depending on the type of exposure, type of debtor and its external rating of credit risk.
- (ii) In the internal ratings based methods, its use is subject to compliance with the minimum requirements of the regulations and the approval of the SBS. Under these methods, organizations can calculate their regulatory capital requirements using internal estimates of risk components: probability of default (PD), loss given default (LGD), exposure at default (EAD) and maturity (M).

The Bank uses the standard method for calculating regulatory capital requirement for credit risk.

Credit, market and operational risk average weighted assets calculated in accordance with applicable regulations amount to S/.32,455 million as of December 31, 2011 (S/.25,984 million as of December 31, 2010).

As of December 31, 2011 and 2010, the Bank's capital adequacy ratio is 12.46% and 14.65%, respectively.

15. CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS

	<u>2011</u> S/.000	<u>2010</u> S/.000
Contingent transactions:		
Indirect loans: (a)		
Guarantees and Letter of Guarantee	8,037,821	6,899,642
Letters of credit and bank acceptances	<u>649,567</u>	<u>821,776</u>
Total	8,687,388	7,721,418
Derivative financial instruments (b)		
Unused lines of credits	<u>6,141,628</u>	<u>4,134,284</u>
Total	<u>26,994,897</u>	<u>25,137,764</u>
Off-balance sheet accounts:		
Collateral for loans given (c)	53,635,462	28,249,049
Securities and assets received in custody	23,822,059	24,715,309
Owned securities and assets in custody	3,219,133	2,996,907
Securities received as collection	1,919,660	1,603,977
Letter of credit	321,570	594,120
Securities and assets as a collateral	173,487	220,881
Non-accrual interest	319,042	189,596
Loans written-off	61,914	161,622
Consignments received	338	418
Securities in custody of CAVALI (f)	5,727,039	5,734,033
Interest rate derivatives (b)	5,033,665	5,620,084
Other debtors	8,516,316	6,195,179
Other creditors (e)	<u>8,788,067</u>	<u>8,832,367</u>
Total	111,537,752	85,113,542
Trusts and administrations (d)	<u>6,405,142</u>	<u>6,567,727</u>
Total	<u><u>144,937,791</u></u>	<u><u>116,819,033</u></u>

(a) Indirect loans

Grupo Continental participates in transactions with off-balance sheet risk in the normal course of business. These transactions expose Grupo Continental to credit risk in addition to the amounts recognized in the consolidated balance sheet.

The credit risk in contingent operations is related to the possibility that one of the counterparties does not comply with the established terms. The corresponding contracts reflect amounts that would be assumed by Grupo Continental for loan losses in contingent operations.

Grupo Continental uses similar credit policies in evaluating and granting direct loans and contingent loans. In management's opinion, contingent transactions do not represent an exceptional credit risk, since it is expected that a portion of these contingent loans expire without being called and the total amounts of contingent loans do not represent necessarily future cash disbursements for Grupo Continental.

Grupo Continental's management does not expect significant losses for contingent operations in force as of December 31, 2011.

The change of allowance for contingent operations (indirect loans) included in "Other liabilities" on the balance sheet was as follows:

	<u>2011</u> S/.000	<u>2010</u> S/.000
Balances as of January 1	55,322	70,680
Provision	44,323	48,694
Recoveries and reversals	(38,582)	(63,143)
Exchange rate differences and other adjustments	<u>(606)</u>	<u>(909)</u>
Balances as of December 31	<u>60,457</u>	<u>55,322</u>

As of December 31, 2011, the general provision of indirect loan portfolio of S/.53.8 million (S/.49.3 million as of December 31, 2010) includes pro-cyclical provisions of S/.17.3 million (S/.16.2 million as of December 31, 2010).

(b) Derivative Financial Instruments

The Bank enters into forward agreements for the purchase and sale of foreign currency (Forwards), interest rates swaps (IRS), cross currency swaps (CCS), and purchase and sale of options on several underlying (exchange rate, index, commodities, etc.).

Forward contracts for buying and selling foreign currency are agreements to deliver a currency at a future date at a pre-established price.

IRS operations are agreements in which the exchange of periodic cash flows are calculated on the basis of the application of either a variable or fixed interest rate according to the terms and conditions based on the definitions and regulations developed by the International Swaps and Derivatives Association, Inc. (ISDA) for

foreign clients, and a Frame Contract for local clients. The cross currency swaps are agreements in which the exchange amount is agreed in one currency for amounts in another currency, setting the exchange rate at the end of the operation.

Options are agreements whereby the holder has the option -rather than the obligation- to purchase or sell an underlying by prices defined at the day of closing, for which pays a premium to the seller of the options, calculated in accordance with market conditions.

The risk arises from the possibility that counterparties do not comply (Risk of Counterparty) with agreed terms and the fluctuations of the risk factors involved in this transaction (exchange rate and interest rate risks).

Derivative financial instruments are valued according to the financial theories recognized by the market. The inputs (exchange rates, interest rate curves, implied volatility, swap points, etc.) are captured from public sources of information if the data is quotable, or built, in the case of no quotations available.

The notional amount equivalent in nuevos soles and the fair value of derivative financial instruments were as follows:

	<u>2011</u>		
	<u>Nominal Value</u>	<u>Asset</u>	<u>Liability</u>
	S/.000	S/.000	S/.000
Trading Derivatives			
Currency Forward	5,721,589	55,937	54,083
Options	2,420,116	65,796	65,796
CCS - Cross Currency Swap	4,024,176	218,756	69,250
Interest Rate Swap	4,090,065	32,974	137,000
Hedging Derivatives			
Interest Rate Swap (i)	943,600	72,697	-
	<u>17,199,546</u>	<u>446,160</u>	<u>326,129</u>
	<u>2010</u>		
	<u>Nominal Value</u>	<u>Asset</u>	<u>Liability</u>
	S/.000	S/.000	S/.000
Trading Derivatives			
Currency Forward	9,131,591	61,788	34,593
Options	527,824	13,335	13,270
CCS - Cross Currency Swap	3,622,647	183,820	53,853
Interest Rate Swap	4,636,934	42,178	140,503
Hedging Derivatives			
Interest Rate Swap (i)	983,150	-	44,817
	<u>18,902,146</u>	<u>301,121</u>	<u>287,036</u>

- (i) As of December 31, 2011, the Bank entered into an IRS to hedge the exposure to changes in fair value of the loan from Deutsche Bank for US\$350 million, which was agreed at a fixed rate of 5.50% and maturity in November 2020 (Note 11 (a)). Through interest rate swap, the Bank receives a fixed rate in U.S. dollars and delivers a variable interest rate in that currency. As of December 31, 2011, the fair value of interest rate swap has been increased in S/.118.7 million (gain), which is recorded under "Gain from hedging transactions" of the consolidated statements of income. As of December 31, 2010, the fair value of IRS was S/.44.8 million (loss).

Interest rate derivatives are recorded in off-balance sheet accounts, amounting to S/.5,034 million as of December 31, 2011 (S/.5,620 million as of December 31, 2010), other derivatives are recorded in contingent accounts amounting to S/.12,166 million as of December 31, 2011 (S/.13,282 as of December 31, 2010).

Accounts receivable and payable from derivative financial instruments transactions on the consolidated balance sheet consisted mainly of accrued amounts corresponding to the fluctuations resulting from derivative financial instruments valuations (exchange and interest rate); these are presented in the line Gain/Loss from derivative instruments, net in the consolidated statements of income.

- (c) Guarantees received for loans given

Collateral is reflected at the agreed value on the date of the loan contract. This amount does not necessarily represent the market value of collateral held by Grupo Continental.

- (d) Trusts and administrations

Grupo Continental renders asset management services to third parties such that Grupo Continental is involved in the selection and decisions of purchases and sales of investments on behalf of third parties. These assets which are maintained in trusts are not included in the consolidated financial statements.

As of December 31, 2011 the equity of mutual fund investment and of securitizations managed by Grupo Continental amounts S/.3,037 million and S/.129 million, respectively (S/.3,342 million and S/.271 million, respectively, as of December 31, 2010).

- (e) Other creditors

In 2008, Continental DPR Finance Company, a special purpose entity incorporated in the Cayman Islands, issued Notes through a private placement of debt instruments for US\$250 million. The maturity date of the notes is December 15, 2015 and they have quarterly coupons with a 2-year grace period. The debt instruments bear interest at Libor rate plus a spread (Note 12).

During April 2010, Continental DPR Finance Company, entered into a debt through a private contract totaling US\$200 million (Series 2010-A). This series expire on March 15, 2017 with quarterly coupons with a 2-year grace period. The aforementioned debt accrues interest at Libor plus a spread (Note 11 (c)).

The debt and the issuance of the Note are secured by present and future flows generated by electronic payment orders of clients (Diversified Payments Rights - DPR) sent to the Bank using the SWIFT (Society for Worldwide Interbank Financial Telecommunications Network) system.

The operative documents for the issuance of the notes include covenants requiring compliance by the Bank with certain financial ratios and other specific conditions related to transferred flows. Grupo Continental management believes it was in compliance with such conditions as of December 31, 2011.

(f) Securities in custody in CAVALI S.A.

Corresponds to the face value of investments negotiated by Grupo Continental on behalf of clients of Continental Bolsa - Sociedad Agente de Bolsa S.A. which are in the custody of Cavali S.A. ICLV.

16. INCOME FROM VARIOUS FINANCIAL SERVICES, NET

Other income for years ended December 31, 2011 and 2010 comprises commissions for credit and debit cards renewals, maintenance fees for savings accounts, collection, transferances, bank drafts, checking accounts operations and clearing, financial advisory and other services related to credit or intermediation activities.

17. EMPLOYEES' AND BOARD OF DIRECTORS' EXPENSES

	<u>2011</u> S/.000	<u>2010</u> S/.000
Salaries	182,873	162,552
Bonuses	223,774	186,507
Social contributions and other	44,336	38,929
Accrual for seniority indemnities	25,549	22,155
Vacations	15,032	14,401
Other	<u>15,567</u>	<u>14,198</u>
Total	<u><u>507,131</u></u>	<u><u>438,742</u></u>

18. ADMINISTRATIVE EXPENSES

Administrative expenses for 2011 and 2010 mainly comprised expenses for technology services fees and transport of money, taxes, advertising and promotions, insurances, general services expenses, security and surveillance, among others.

19. OTHER EXPENSES AND INCOME, NET

	<u>2011</u> S/.000	<u>2010</u> S/.000
Gain from sales of seized and recovered assets	1,198	1,879
Administrative penalties	(2,342)	(809)
Uninsured losses	(3,476)	(4,616)
Other income	<u>4,553</u>	<u>9,953</u>
Total	<u>(67)</u>	<u>6,407</u>

20. TAX SITUATION

(a) Income tax regime

(i) Income tax rates

The income tax rate for domiciled legal entities is 30%.

Legal entities are subject to an additional rate of 4.1% on any amount that may be considered indirect income, including, among others, amounts charged to expenses and unreported income, expenses which may have benefited the shareholders, outside business expenses or shareholders, which are assumed by the legal entity.

(ii) Transfer Pricing

For the purposes of income tax calculation and General Tax on Sales in Peru, legal entities engaged in transactions with related companies or with companies resident in territories with low or no taxation, shall: (a) file an annual affidavit for transfer pricing information when the amount of their transactions with related parties being greater than S/.200,000 (b) have a Transfer Pricing Technical Study, including the supporting documentation for this study. This formal obligation arises when the amount of accrued income exceeds S/.6,000,000 and the entity has conducted transactions with related companies for an amount over S/.1,000,000.

Both formal obligations will also be required in the event that at least one transaction to, from or through countries with low or no taxation had been made.

Based on the analysis of Grupo Continental operations, management and internal legal advisors believe that as a result of the implementation of these standards will not contingencies relevant to the Bank as of December 31, 2011.

(b) Significant changes to income tax

As of December 31, 2011, no new regulations significantly amending income taxes effective January 1, 2012 have been enacted.

(c) The income tax expense is comprised as follows:

	<u>2011</u> <u>S/.000</u>	<u>2010</u> <u>S/.000</u>
Current income taxes	466,654	383,954
Deferred income taxes	(50,047)	(26,314)
Income tax (recovery provision)	<u>(36,437)</u>	<u>-</u>
Total	<u><u>380,170</u></u>	<u><u>357,640</u></u>

(d) Tax situation

Income tax returns of Grupo Continental which are pending for review by the tax administration are as follows:

<u>Companies</u>	<u>Years subject to review</u>
BBVA Banco Continental	2007 to 2011
Continental Bolsa Sociedad Agente de Bolsa S.A.	2007 to 2011
BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos	2007 to 2011
Continental Sociedad Titulizadora S.A.	2007 to 2011
Inmuebles y Recuperaciones Continental S.A.	2008 to 2011

The Tax Administration is authorized to perform reviews within four years following the year of submittal of the corresponding income tax return. Management considers that no significant liabilities will arise resulting from pending reviews. As of today, the tax administration is reviewing the income tax for 2007 of BBVA Banco Continental and the income tax for 2010 of Continental Bolsa – Sociedad Agente de Bolsa S.A. Management considers that no significant liabilities will arise from pending reviews.

Due to possible interpretations that tax authorities may make on legal regulations in force, it is not possible to determine whether liabilities for Grupo Continental will result from future reviews, so that any eventual higher tax or charge that might result from fiscal reviews will be charged to the statements of income for the year in which they are determined. However, management considers that no potential additional settlement of taxes would be significant for the consolidated financial statements as of December 31, 2011.

21. DEFERRED INCOME TAXES

The change in the net income taxes asset in 2011 and 2010 and the description of related temporary differences were as follows:

<u>2011</u>	Additions/Recoveries			Ending Balances S/.000
	Beginning Balances S/.000	Equity S/.000	Net income S/.000	
Assets:				
General allowance for loans	198,734	-	45,793	244,527
Allowance for contingent loans - general	14,774	-	1,369	16,143
Allowance for seized assets	6,938	-	10	6,948
Allowance for contingent credits - specific	1,838	-	303	2,141
Allowance for suppliers	33,318	-	(3,494)	29,824
Labor allowance	24,558	-	(389)	24,169
Advancement of depreciation	810	-	(245)	565
Non-accrual interest	1,129	-	4,680	5,809
Total asset	282,099	-	48,027	330,126
Liabilities:				
Investments available for sale	7,059	822	-	7,881
Other	4,848	-	(4,848)	-
Leveling of assets and liabilities	1,840	-	2,828	4,668
Total liabilities	13,747	822	(2,020)	12,549
Deffered income tax, net asset	268,352	(822)	50,047	317,577
<u>2010</u>	Additions/Recoveries			Ending Balances S/.000
Beginning Balances S/.000	Equity S/.000	Net income S/.000		
Assets:				
General allowance for loans	178,348	-	20,386	198,734
Allowance for contingent loans - general	20,386	-	(5,612)	14,774
Allowance for seized assets	6,704	-	234	6,938
Allowance for contingent credits - specific	2,535	-	(697)	1,838
Allowance for suppliers	35,582	-	(2,264)	33,318
Labor allowance	7,556	-	17,002	24,558
Advancement of depreciation	3,049	-	(2,239)	810
Non-accrual interest	-	-	1,129	1,129
Total asset	254,160	-	27,939	282,099
Liabilities:				
Investment available for sale	5,109	1,950	-	7,059
Other	-	-	4,848	4,848
Leveling of assets and liabilities	5,063	-	(3,223)	1,840
Total liabilities	10,172	1,950	1,625	13,747
Deffered income tax, net asset	243,988	(1,950)	26,314	268,352

According to Note 2 (a-5), Grupo Continental adjusted the effect of modification of treatment of deferred employees' profit sharing, which represented a lower balance in the net income for the year 2010, for an amount of S/.25.4 million.

During 2010, Grupo Continental recorded temporary items of deferred income tax related to labor liabilities and securitization of remittances for previous years. The effect of this situation resulted in a greater balance of the net income for 2010 for an amount of S/.14.7 million.

Changes in deferred income tax assets were as follows:

	<u>2011</u> S/.000	<u>2010</u> S/.000
Deferred taxes recognized:		
Deferred taxes at the beginning of the year	268,352	243,988
Debit to equity (Note 2 (t))	(822)	(1,950)
Credit to income of the year	<u>50,047</u>	<u>26,314</u>
Deferred income taxes asset at end of the year	<u><u>317,577</u></u>	<u><u>268,352</u></u>

22. BASIC AND DILUTED EARNINGS PER SHARE

	Quantity of shares (in million)	
	<u>2011</u>	<u>2010</u>
Outstanding at beginning of the year	1,843.4	1,471.2
Special reserve capitalization	-	1.2
Retained earnings capitalization	<u>100.8</u>	<u>471.8</u>
Outstanding at end of the year	<u><u>1,944.2</u></u>	<u><u>1,944.2</u></u>
Net income for the year (in thousands of nuevos soles)	<u>1,128,988</u>	<u>1,006,309</u>
Basic and diluted earnings per share	<u><u>0.58</u></u>	<u><u>0.52</u></u>

23. TRANSACTIONS WITH RELATED PARTIES

The main transactions with related companies and subsidiaries for credits, financial services and corresponding relationships recorded at nominal values, among others, were as follows:

	<u>2011</u> S/.000	<u>2010</u> S/.000
Assets:		
Cash and due from banks	47,727	25,482
Loans, net	4,174	135
Other assets	122,082	77,144
Liabilities:		
Deposits and Obligations to the public	106,657	429,495
Other liabilities	140,327	129,165
Contingent and off-balance sheet accounts:		
Contingent accounts	4,029,834	4,927,095
Off-balance sheet accounts	1,826,948	1,724,479

Transactions of Grupo Continental with related parties have been carried out in the normal course of operations and in conditions that could have been granted to third parties.

Operations carried out with related parties, included in the consolidated statements of income for 2011 and 2010 were the following:

	<u>2011</u> S/.000	<u>2010</u> S/.000
Financial income	52	9
Financial expenses	(9,686)	(4,580)
Other income (expenses), net	(57,388)	(47,442)

Personnel Loans

Directors, executives and employees of the Bank maintain permitted operations with the Bank in accordance with General Law, which regulates and establishes certain limits on transactions with directors, executives and employees of banks in Peru. As of December 31, 2011 and 2010, direct loans to employees, directors, executives and key personnel were S/.265.7 million and S/.232.8 million, respectively.

As of December 31, 2011, key staff salaries and director salaries amounted to S/.9 million (S/.7.7 million as of December 31, 2010).

24. FINANCIAL RISK MANAGEMENT

Management, based on the Bank's policies and on its knowledge of the market and experience in the sector, establishes policies for the control of business risks to minimize potential adverse effects.

Market risks

The Bank is exposed to market risks during the normal performance of its transactions. Market risk consists of the risk of loss due to future negative movements regarding prices of the products in financial markets where the Bank has open positions.

The Bank uses Value at Risk (hereinafter VaR) as a methodological tool to estimate market risks based on a series of assumptions for certain changes in the general conditions of financial markets, showed in distortions of, for instance, interest rates or exchange rates, under the assumption that the portfolio would remain unchanged during a temporary period. This tool follows a parametric model to reach a 99% level of reliability and a 1-day time horizon.

In this context, the Bank establishes a policy of limits whose axis is the VaR and are daily followed to control that consumption does not exceed the established limits and/or alerts.

The Bank has established a pattern of weekly backtesting and limits within which the VaR is accepted (up to 4 negative exceptions), which are monitored on a weekly basis with daily information.

In addition, the Bank has Stress Testing scenarios, which have been established based on the historical series to establish the Stress Testing scenarios, which are monitored on a daily basis.

Liquidity risk

Liquidity risk closely related to banking business. Liquidity risk management is the possibility that an entity may not meet its payment commitments or that, in order to meet them; it may have to obtain funds under unfavorable conditions.

The liquidity risk management is based on a series of principles and policies described below: the self-financing of investment activity by business segments themselves, long-term management through adequate financial policy that seeks to anticipate possible tensions on procurement of funds markets, an adequate segregation of duties which allows to assign clear responsibilities and objectives and the establishment of an adequate system of transfer pricing.

Through a system of limits and alerts is constantly monitored that the liquidity Management is according with the policies of the entity. In this scheme, the Bank has limits on the funding structure which are measured as a minimum percentage of stable clients to finance loans, limit liquidity management that seeks to measure the ability to react to market's tensions. This capacity is understood as the existence of explicit sufficient assets to use in

case of failure to renew deposits collected by Global Markets payments or dealing with wholesale counterparties. The Bank also has alerts for qualitative indicators of liquidity; these reflect early warnings of future worsening liquidity conditions and general market's own entity.

In addition to measuring liquidity risks, the Bank has a Contingency Plan of Liquidity, which considers scenarios of very low liquidity and the role that would correspond to each area of the Bank.

Interest rate risk

Structural Interest Risk refers to the impact that variations in interest rates may have over the finance margin and the economic value of an entity. The starting point of this methodology is the analysis of temporary gaps of repricing of assets and liabilities of the balance (Bank book) as per currency and length of the term.

Exposure to interest rate risk is measured under a triple perspective: effect in net income, economical value and economical capital. From the effect in net income perspective, the analysis is limited to a 12-month time horizon, where incidence of variations in the interest rates over the annual finance margin is evaluated. Under the perspective of the economic value, the horizon analysis goes over the whole balance through the evaluation of the effect of movements in the market curves in the value of assets and liabilities. According to the criteria of the economical capital, 105 rate scenarios are built, which are used to calculate the same number of economical values and, with a given level of reliability, to determine maximum expected loss.

There is also active and permanent follow-up of limits and alerts for these indicators, which allows active management of the balance sheet by the Bank.

Exchange rate risk

Exchange rate risk is the risk that the value of positions on the balance sheet could be negatively affected by the fluctuations of exchange rates. Value of positions issued in foreign currency could decrease due to movements of exchange rates. This risk depends on the position of the currency and the volatility of exchange rates.

An important part of the assets and liabilities are denominated in US dollars. The Bank minimizes the exchange rate risk by matching assets and liabilities.

Credit risk

Credit risk consists of the probability of incurring losses due to non-compliance with credit obligations by counterparty.

Management of credit risk of the Bank is based on an integral approach at all stages of the process: analysis, admission, follow-up and recovery, which strengthen tools designed for risk management.

Regarding the follow-up stage, a permanent activity is the monitoring of portfolio quality at the Bank level, segments of businesses and their geographic distribution, evaluating their behavior according to different indicators which include ratios of delayed and weighted portfolio, as well as entries and exits of delay in payment, evaluating in the former ones, profiles of delay per product and to which group they correspond, the activity that has the objective of providing guidelines of admission of credit risk, establishing corrective measures.

Also, credit risk is monitored through evaluation and analysis of individual transactions such as credit concentration of economic groups, individual limits to grant credits, evaluation of economic sectors, expected portfolio losses, preferred guarantees and requirement of working capital.

Financial assets that potentially present credit risk mainly consist of cash and cash equivalents, deposits banks accruing interests, investments in securities, loans and other assets. Cash and cash equivalents, as well as time deposits are placed in prestigious financial institutions.

Information related to interest rates applicable to credits, maturities and levels of loan concentrations are presented in Note 6.

Operational risk

Operational risk is defined as the risk of having losses as a consequence of failures in processes, systems, human errors or due to external circumstances. The general policy of the Bank regarding the operating risk is based on the good governance concept. The Bank understands that good management of operating risk needs to establish methodologies and procedures allowing identification, evaluation and follow-up of this type of risks in order to establish measures to mitigate according to appetite and tolerance of it, reducing their impact on the organization.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise simultaneously to a financial asset in a company and a financial liability or equity instrument in another company. In the case of Grupo Continental, the financial instruments are generally primary instruments such as accounts receivable, accounts payable and capital shares in other companies and derivative instruments (forward and swaps contracts).

Financial instruments are classified as of liability or as capital according to the nature of contractual agreement which originated it. Interests, dividends, the gains and losses generated by a financial instrument classified as a liability, are registered as expenses or income in the statements of income. Payments to holders of financial instruments recorded as capital are recorded directly in stockholders' equity. Financial instruments are settled when Grupo Continental has legal right to liquidate them and management has the intention to cancel them over a net basis, or to realize the asset and cancel the liability, simultaneously.

Fair value is the amount by which an asset could be exchanged between a well-informed buyer and seller, or an obligation which can be settled between a debtor and creditor with sufficient information, when conducted in an open market.

In cases where a quoted value is not available, fair value is estimated based on a quoted value of a financial instrument with similar characteristics, the present value of expected cash flows or other valuation techniques, which are significantly affected by different assumptions. Even though management uses its best criteria to estimate fair value of its financial instruments, there are weaknesses inherent to any technical valuation. As a consequence, fair value might not be an approximate estimation of net realizable value or value of liquidation.

The fair value measurements of Grupo Continental financial instrument have the following considerations:

- (i) Cash and due from the Bank and inter-bank funds represent cash or short-termed deposits which do not represent significant credit risks.
- (ii) Fair value of investments has been determined based on quotations of the market or quotations of underlying (sovereign risk rate) to the date of financial statements. Debt instruments investments accrue interests at market rates.
- (iii) Fair value of loan portfolio is similar to book value, due to fact that they are net of their corresponding allowance for loan losses, which allows management to consider it as an estimated amount of recovery as of the dates of financial statements. In addition, short term credit portfolio mainly accrues interest at current market rates and long-term credit portfolio at fixed interest rate is affected by the variations of the market value.
- (iv) Market value of obligations to the public and deposits from financial entities and inter-bank funds corresponds to its respective book value mainly due to its current nature and to the fact that rates of interest are comparable to that of other similar liabilities.
- (v) Debts and financial obligations and outstanding securities, bonds and obligations generate interests at fixed and variable rates and have maturities of short and long-term. Securities with variable rates represent its market value and those with fixed rates are subject to variations of the market interest rates.
- (vi) As described on Note 15, Grupo Continental granted guarantees, letters of guarantees and letters of credits and has received guarantees backing-up credits granted. Based on the level of commissions currently charged for granting those contingent loans and considering due dates and interest rates, together with current solvency of counterparts, the difference between book value and fair value is not considered as significant by management.
- (vii) Foreign currency and interest rate derivative financial instruments are recorded at their estimated market value. The Bank values the derivatives operations discounting respective flows into present value using the market curves, which are calculated on a

daily basis for it. These curves are built using inputs that are observable public contributors (price vendors) or trading systems (Datatec, Bloomberg, Reuters, etc.).

26. SUBSEQUENT EVENTS

We are not aware of any subsequent events, having occurred from the consolidated financial statements closing date to date of this report, which have not been disclosed therein or could significantly affect the financial statements, except that:

On January 18, 2012, the Bank received a loan from Goldman Sachs Bank USA amounting to US\$500 million with maturity within five years at a 5.75% fixed interest rate. Payment of principal of the loan will be made in full at maturity.
