

**BBVA Banco Continental
and Subsidiaries**

Independent Auditors' Report

Consolidated Financial Statements
Years ended December 31, 2012 and 2011

Translation of a report originally issued in Spanish

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and 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** (hereinafter Grupo Continental), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years 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 misstatements, 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 International Auditing Standards, approved for their application in Peru by the Board of Directors of the Council of Deans of Public Accountants Association of Peru. Those standards require that we comply with ethical requirements and plan and perform the audit in order to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.
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 auditors' judgment, including the assessment of the risks of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to Grupo Continental in its preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for 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.

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

Opinion

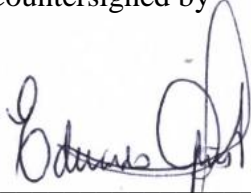
6. In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of BBVA Banco Continental and Subsidiaries as of December 31, 2012 and 2011, its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in Peru for financial entities.

Other matter

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

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

Countersigned by



(Partner)

Eduardo Gris Percovich
CPC Register No. 12159

February 8, 2013

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(Expressed in thousands of Nuevos Soles (S/.000))**

ASSETS	Notes	2012 S/.000	2011 S/.000	LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012 S/.000	2011 S/.000
CASH AND DUE FROM BANKS	4			OBLIGATIONS TO THE PUBLIC	9		
Cash and deposits with Peruvian Central Reserve Bank		12,003,050	7,963,377	Demand Deposits		9,237,771	8,888,960
Deposits in local and foreign banks		519,231	462,668	Savings Deposits		8,005,259	7,115,244
Clearing accounts		109,378	102,100	Time Deposits		14,535,134	13,999,076
Other deposits		5,280	4,556	Other Obligations		159,161	145,065
Accrued interest on cash and due from banks		4,438	2,152	Accrued Interest Payable		117,194	37,092
		<u>12,641,377</u>	<u>8,534,853</u>			<u>32,054,519</u>	<u>30,185,437</u>
INTER-BANK FUNDS	10	32,408	241,459	DEPOSITS FROM FINANCIAL INSTITUTIONS	9	764,991	307,034
INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS AND HELD TO MATURITY INVESTMENTS	5	2,886,773	2,587,154	INTER-BANK FUNDS	10	234,964	125,515
LOANS PORTFOLIO, NET	6	31,770,570	28,922,025	DUE TO BANKS AND CORRESPONDENTS	11	7,156,782	4,770,203
INVESTMENTS IN ASSOCIATED COMPANIES	7	2,461	2,231	SECURITIES, BONDS AND OUTSTANDING OBLIGATIONS	12	3,800,033	1,985,859
PROPERTY, FURNITURE AND EQUIPMENT, NET	7	685,044	603,600	OTHER LIABILITIES	8	1,449,576	1,163,296
DEFERRED INCOME TAXES	21	374,598	317,577	TOTAL LIABILITIES		<u>45,460,865</u>	<u>38,537,344</u>
OTHER ASSETS	8	1,295,971	1,033,508	SHAREHOLDERS' EQUITY	13		
				Capital Stock		2,226,473	1,944,232
				Legal Reserve		722,352	609,365
				Unrealized results		33,743	22,279
				Retained Earnings		1,245,769	1,129,187
				TOTAL SHAREHOLDERS' EQUITY		<u>4,228,337</u>	<u>3,705,063</u>
TOTAL ASSETS		<u>49,689,202</u>	<u>42,242,407</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>49,689,202</u>	<u>42,242,407</u>
CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS	15			CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS	15		
Contingent Accounts		30,428,282	26,994,897	Contingent Accounts		30,428,282	26,994,897
Off-Balance Sheet Accounts		125,534,651	111,537,752	Off-Balance Sheet Accounts		125,534,651	111,537,752
Trusts and Administration		7,927,460	6,405,142	Trusts and Administration		7,927,460	6,405,142
		<u>163,890,393</u>	<u>144,937,791</u>			<u>163,890,393</u>	<u>144,937,791</u>

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, 2012 AND 2011
(Expressed in thousands of Nuevos Soles (S/.000))**

	<u>Notes</u>	<u>2012</u> <u>S/.000</u>	<u>2011</u> <u>S/.000</u>
FINANCIAL INCOME			
Interest and fees from loans	6 (a)	3,025,837	2,549,276
Income from changes in fair value, revenue, interests and gain on sales of investment	5	226,178	130,530
Interest from deposits in financial institutions	4	76,878	64,610
Foreign exchange difference from various transactions, net	3	297,804	296,298
Share profit from associates investments		909	744
Adjustment for indexation		12,460	20,418
Interest and commissions from inter-bank funds		1,400	2,094
Gain from hedging transactions, net	15 (b) and 11 (a)	97,356	9,527
Other		5,352	24,173
		<u>3,744,174</u>	<u>3,097,670</u>
FINANCIAL EXPENSES			
Interest on deposits	9	(542,392)	(432,210)
Interest on obligations with financial institutions and international financial organizations	11	(259,624)	(175,601)
Premium paid to "Fondo de Seguro de Depósito" (Deposit Insurance Fund)		(38,391)	(33,068)
Interest on securities, bonds and outstanding obligations	12	(136,295)	(85,809)
Results from trading financial derivatives, net	15 (b)	(43,174)	(81,323)
Interest and commissions for inter-bank funds	10	(10,103)	(8,044)
Adjustment for indexation		(10,036)	(14,665)
Foreign exchange difference from financial derivatives		(202)	-
Other		(3,627)	(4,505)
		<u>(1,043,844)</u>	<u>(835,225)</u>
Gross Financial Margin		<u>2,700,330</u>	<u>2,262,445</u>
PROVISIONS FOR IMPAIRMENT OF LOAN LOSSES			
Provision	6 (d)	(944,023)	(763,613)
Recovery of provisions	6 (d)	498,729	486,949
		<u>(445,294)</u>	<u>(276,664)</u>
Net Financial Margin		<u>2,255,036</u>	<u>1,985,781</u>
INCOME FROM FINANCIAL SERVICES			
Commissions from contingent operations		169,968	151,160
Income from various financial services, net	16	507,176	480,839
		<u>677,144</u>	<u>631,999</u>
Operating Margin		<u>2,932,180</u>	<u>2,617,780</u>
OTHER EXPENSES AND INCOME			
Employees' and Board of Directors' expenses	17	(553,934)	(507,131)
Administrative expenses	18	(553,932)	(471,824)
Provisions for accounts receivable		(29,050)	(37,543)
Provisions for foreclosed and recovered assets		7,090	(10)
Provisions for contingent operations	15(a)	(51,094)	(44,323)
Other provisions		(7,762)	(2,601)
Depreciation and amortization	7	(73,234)	(65,705)
Income from recovery from previously written-off portfolio		13,191	20,582
Other expenses and income, net	19	1,831	(67)
		<u>(1,246,894)</u>	<u>(1,108,622)</u>
Income Before Income Tax		1,685,286	1,509,158
Income Tax	20 (c)	(439,741)	(380,170)
Net income for the year		<u>1,245,545</u>	<u>1,128,988</u>
Weighted average number of outstanding shares (in thousands of shares)		<u>2,226,473</u>	<u>2,226,473</u>
Basic and diluted earnings per share in Peruvian Nuevos Soles	22	0.56	0.51

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, 2012 and 2011
(Expressed in thousands of Nuevos Soles (S/.000))**

	<u>Capital Stock</u> S/.000 (Note 13)	<u>Reserves</u> S/.000 (Note 13)	<u>Unrealized Results</u> S/.000 (Note 13)	<u>Retained Earnings</u> S/.000 (Note 13)	<u>Total</u> S/.000
Balances as of January 1, 2011	1,843,427	508,640	24,521	1,007,526	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 gain and losses and transfers to the statements 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	1,944,232	609,365	22,279	1,129,187	3,705,063
Capitalization of retained earnings	282,241	-	-	(282,241)	-
Transfer of retained earnings to legal reserve	-	112,896	-	(112,896)	-
Cash dividends	-	-	-	(733,826)	(733,826)
Unrealized gain and losses and transfers to the statements of income for available-for-sale investments	-	-	11,464	-	11,464
Provisions for Special Reserve	-	91	-	-	91
Net income for the year	-	-	-	1,245,545	1,245,545
Balances as of December 31, 2012	2,226,473	722,352	33,743	1,245,769	4,228,337

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, 2012 AND 2011
(Expressed in thousands of Nuevos Soles (S/.000))**

	2012	2011
	S/.000	S/.000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	1,245,545	1,128,988
Reconciliation of net gain to cash and cash equivalents provided by operating activities:		
Provisions for loan losses	445,294	276,664
Depreciation and amortization	73,234	65,705
Provision for realizable, foreclosed and recovered assets, net of recovery	(7,090)	10
Provisions for accounts receivable	29,050	37,543
Provisions for contingent operations	51,094	44,323
Other provisions, net of recoveries	7,762	2,601
Deferred income taxes	(58,285)	(50,047)
Net gain from sale of securities	(6,395)	(15,758)
Net gain from sale of fixed assets and foreclosed assets received as payment and foreclosed	(3,431)	(1,816)
Changes in assets and liabilities:		
Net increase in other assets	(297,408)	(360,009)
Net increase (decrease) in other liabilities	241,537	(9,198)
Cash and cash equivalents provided by operating activities	<u>1,720,907</u>	<u>1,119,006</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, furniture and equipment	(176,130)	(233,196)
Intangible assets	(7,063)	(7,875)
Sale of assets seized and recovered through legal actions	30,589	22,019
Cash and net cash equivalents used in investing activities	<u>(152,604)</u>	<u>(219,052)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in obligations to the public, deposits from financial institutions and inter-bank funds	2,436,488	4,220,741
Net increase (decrease) in due to Banks and correspondents	2,386,579	(242,995)
Net increase in securities, bonds and outstanding obligations	1,814,174	115,530
Net increase in loan portfolio	(3,293,839)	(5,194,540)
Net increase in investments	(280,726)	(312,497)
Cash dividends	(733,506)	(805,662)
Net cash and cash equivalents provided by (used) in financing activities	<u>2,329,170</u>	<u>(2,219,423)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,897,473	(1,319,469)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>8,776,312</u>	<u>10,095,781</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>12,673,785</u></u>	<u><u>8,776,312</u></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, 2012 and 2011 (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 (hereinafter, the Bank) is a subsidiary of Holding Continental S.A. which owns 92.24% of the capital stock. Banco Bilbao Vizcaya Argentaria and Inversiones Breca S.A. own 50% respectively of the capital stock of Holding Continental S.A. 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 No. 3055, San Isidro.

The Bank's operations primarily includes 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 No. 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.

As of December 31, 2012 and 2011, the Bank carried out its business through a national network of 303 and 275 offices, respectively. The total number of employees of the Bank and its subsidiaries as of December 31, 2012 and 2011, was 5,099 and 4740, respectively.

As of December 31, 2012 and 2011, the Bank held a 100% shareholding interest and voting rights over its subsidiaries Continental Bolsa Sociedad Agente de Bolsa S.A., BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos, Continental Sociedad Titulizadora S.A. and Inmuebles y Recuperaciones Continental S.A. Although the Bank has no interest in the capital or voting rights in Continental DPR Finance Company (DPR), given the characteristics of the corporate purpose and its relationship with the Bank, accounting standards call for the DPR financial statements to be included, on a consolidated basis, with those of the Bank. All the above companies together with the Bank are referred hereafter as Grupo Continental.

(b) Approval of financial statements

The consolidated financial statements for the year ended December 31, 2012 were approved by the Bank's Management on January 24, 2013. These financial statements will be submitted to the Board of Directors and General Shareholder's Meetings to be held within the terms established by the Law, for their approval. The consolidated financial statements for the year ended December 31, 2011 were approved at the General Shareholder's Meeting on March 29, 2012.

(c) Explanation added for translation into the English language of the original consolidated financial statements issued in Spanish

The accompanying financial statements have been translated into English for convenience of English-speaking readers. In the event of a discrepancy, the Spanish language version prevails.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by Grupo Continental in the preparation and presentation of the consolidated financial statements are set out below. Unless otherwise stated, these policies were consistently applied during 2012 and 2011.

(a) Basis for Preparation

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

The consolidated financial statements have been prepared and presented in accordance with legal regulations and accounting principles generally accepted in Peru (GAAP in Peru) for financial entities, which comprise accounting standards and practices authorized by the SBS by virtue of the authority conferred to it by the General Law. Those standards are contained in the Accounting Manual for the Financial System Companies (hereinafter, Accounting Manual) approved through SBS Resolution No. 895-98 dated September 1, 1998, effective January 1, 2001 and supplemental standards.

The SBS has established that for situations not addressed by such standards, the regulations set forth in GAAP in Peru shall be applied.

In Peru, the GAAP are composed of: the standards and interpretations issued or adopted by the International Accounting Standards Board (hereinafter, IASB) which includes 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 Consejo Normativo de Contabilidad, the Peruvian Accounting Board, (hereinafter, CNC, for its Spanish acronym) for their application in Peru.

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

(a.2) Changes to the Accounting Manual

Through Resolution SBS No. 7036-2012, dated September 19, 2012, the SBS modified the Accounting Manual for financial entities, in order to make a partial adoption of their accounting principles to IFRS, setting forth, among others, the following changes, effective from 2013 onwards:

- Incorporation of the Conceptual Framework of IFRS, in the preparation of financial statements, including definitions of Materiality and Relative Importance.
- Incorporation of the “Statement of Comprehensive Income”, which includes: i) The statements of income; and ii) the Statement of Income and other Comprehensive Result, instead of the Statement of Income.
- Segregation of financial income and expenses in the income statements, from other income or expenses originating from treasury operations.
- Accrual of Income in the periods of loan agreements, including indirect loan commissions.
- Record and presentation of financial lease loans for the disbursed amount.

The additional disclosures required by the new Accounting Manual will be applicable as from December 31, 2013, and their comparative information will be disclosed as may be applicable.

All accounting adjustments that result from the application of the changes to the Accounting Manual will be charged to retained earnings as of January 1, 2013.

Management is of the opinion that the application of the changes to the Accounting Manual will not have a material impact upon its consolidated financial statements from 2013 onwards.

(a.3) Standards and interpretations approved by the CNC for adoption in Peru

By means of Resolution No. 047-2011-EF/30, issued on June 17, 2011, the CNC approved to formalize for application in Peru, as from January 1, 2012, the 2010 version of IAS, IFRS, IFRIC and SIC, adopted by the IASB at the international level.

CNC, through Resolution No. 048-2011-EF/30 dated January 6, 2012, approved the formalization for application in Peru, as from the day following publication, the 2011 version of IFRS, IAS, IFRIC and SIC issued internationally by the IASB.

CNC, through Resolution No. 051-2011-EF/30 dated August 29, 2012, approved the formalization, the 2012 version of IFRS, IAS, IFRIC and SIC which will substitute the standards relating to the 2011 version, approved by the CNC, in accordance with the respective effective date contained in each of the standards formalized via this resolution.

(a.4) New Accounting Pronouncements approved internationally

The following standards and interpretations have been issued internationally as of December 31, 2012 and 2011:

- **Amendments to IFRS 7 “Disclosures – Transfer of Financial Assets”**. Effective for annual periods beginning on or subsequent to July 1, 2011.

- **IFRS 9 “Financial Instruments”**. Effective for annual periods beginning on or subsequent to January 1, 2015.
- **IFRS 10 “Consolidated Financial Statements”**. Effective for annual periods beginning on or subsequent to January 1, 2013.
- **IFRS 11 “Joint Agreements”**. Effective for annual periods beginning on or subsequent to January 1, 2013.
- **IFRS 12 “Disclosure of Interests in Other Entities”**. Effective for annual periods beginning on or subsequent to January 1, 2013.
- **IFRS 13 “Fair Value Measurement”**. Effective for annual periods beginning on or subsequent to January 1, 2013, early adoption is permitted.
- **IAS 19 (reviewed in 2011) “Employee benefits”**. Effective for annual periods beginning on or subsequent to January 1, 2013.
- **IAS 27 (reviewed in 2011) “Separate Financial Statements”**. Effective for annual periods beginning on or subsequent to January 1, 2013.
- **IAS 28 (reviewed in 2011) “Investments in Associates and Joint Ventures”**. Effective for annual periods beginning on or subsequent to January 1, 2013.
- **Amendments to IAS 1 – “Presentation of items of other comprehensive income”**. Effective for annual periods beginning on or subsequent to July 1, 2012.
- **Amendments to IAS 12 – “Deferred Income Tax on - Recovery of assets”**. Effective for annual periods beginning on or subsequent to January 1, 2012.
- **Amendments to IAS 32 – “Financial Instruments: Presentation”**. Effective for annual periods beginning on or subsequent to January 1, 2013 and 2014 with respect to disclosures.
- **Amendments to IFRS “Annual Improvements to IFRS – 2009-2011 Cycle”**. Effective for annual periods beginning on or subsequent to January 1, 2013. The amendments include amendments to IAS 16 “Property, Plant and Equipment”, and to IAS 32 “Financial Instruments: Presentation”.

The management of Grupo Continental considers that the application of the changes to the Accounting Manual, will not have a material impact on its Consolidated Financial Statements.

(b) Consolidation Basis

Grupo Continental is comprised by companies controlled and by a special purpose entity (SPE).

Subsidiaries and SPE

Subsidiaries are all entities for 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 accounts such as assets, liabilities, shareholders' equity and income and expenses of Grupo Continental. Transactions, balances and unrealized gains between the Bank and its subsidiaries have been eliminated. Subsidiaries are consolidated as from the acquisition date, which is the date when control is transferred to the Bank. Subsidiaries' consolidation ends on the date when the Bank no longer exercises control over them.

The Bank uses the acquisition method to record the acquisition of subsidiaries. The acquisition cost is determined as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed as of the exchange date, plus any costs directly attributable to the acquisition.

Continental DPR Finance Company is a SPE created with the objective specified in Note 15 (e) (securitization of foreign remittances).

Following is the summarized structure of the Bank, its Subsidiaries and SPE financial statements as of December 31:

Entity	<u>In millions of Nuevos Soles</u>					
	<u>Assets</u>		<u>Liabilities</u>		<u>Equity</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
BBVA Banco Continental	49,714	42,254	45,486	38,549	4,228	3,705
Continental Bolsa - Sociedad Agente de Bolsa S.A.	65	44	32	14	33	30
BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos	51	48	7	9	44	39
Continental Sociedad Titulizadora S.A.	2	2	-	-	2	2
Inmuebles y Recuperaciones Continental S.A.	20	25	5	8	15	17
Continental DPR Finance Company	1,490	1,129	1,490	1,129	-	-

(c) Responsibility for information and estimates

The Management of Grupo Continental 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 experience and other relevant factors. Final results could differ from those estimates.

The estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized, by recording the effects of changes in the corresponding 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 Grupo Continental's 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 sundry accounts receivable.
- Provision for foreclosed assets.
- Useful life assigned to property, furniture and equipment.
- Register of contingent liabilities.
- Deferred income taxes.
- Financial derivatives.

(d) Preparation and presentation currency

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

(e) Allowance for loan losses

The allowance for loan losses is determined in accordance with the criteria and percentages established by SBS Resolution No. 11356-2008 “Regulations for the Evaluation and Classification of a Debtor and the Required Provision”.

The SBS has established quantitative criteria (sales and borrowing levels in the financial system) and qualitative criteria for the classification of the direct and indirect loan portfolio according, as follows:

- (i) Corporate
 - This category will additionally consider the following:
 - (a) Multilateral Development Banks
 - (b) Sovereign
 - (c) Public sector entities
 - (d) Stock brokers
 - (e) Financial System Companies
- (ii) Large businesses
- (iii) Medium businesses
- (iv) Small businesses
- (v) Micro-enterprises
- (vi) Revolving consumer loans
- (vii) Non-revolving consumer loans
- (viii) Mortgage loans

Provisions for indirect loans are calculated 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 sub-paragraphs.	100%

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

The provision for loan losses includes the general and specific portions. The specific portion 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 provisions include those with respect to debtors classified as normal in accordance with the requirements of the SBS, as well as general voluntary provisions.

Mandatory general provisions 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 provisions 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.

The Management of Grupo Continental 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 financial entities.

Additionally, pursuant to SBS Resolution No. 041-2005, the Bank assesses the exposure to credit exchange risks for loans in foreign currency.

The minimum percentages required for loan provisions are as follows:

Normal Category

Types of Loans	Fixed Component	Procyclical Component
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, 2012 and 2011, the pro-cyclical component for the provision for loan losses was in place (Multiple Official Letter No. 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 loan portfolio

Financial lease operations are recorded as loans in accordance with SBS rules and IAS 17. The initial recording of transactions is made based on the gross value of the loan, composed of principal, interest, commission and other financing concepts as agreed with the customer, 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) Financial Derivatives

In accordance with SBS Resolution No. 1737-2006 “Regulation for Trading and Accounting of Derivative Products in Financial System Companies” and its amendments, derivative financial instruments are initially recorded on the trade date.

Trading:

Financial derivatives are initially recognized in Grupo Continental’s general consolidated balance sheet, at cost; and subsequently maintained at their fair value. On a monthly basis, financial derivatives for trading are measured at their fair value. In the case of foreign currency forwards, interest rate swaps, currency swaps and currency options are booked at their estimated market value, recognizing assets or liabilities, as the case may, in the consolidated balance sheet; and the gain or loss of the valuation or settlement of the financial derivatives is booked in the period’s results. The financial instruments’ face value is recorded in their respective currency as committed or agreed upon, in the off-balance sheet accounts (Note 15 (b)).

Hedging:

A derivative financial instrument that seeks to ensure financial hedging of a given risk is recorded as being for hedging purposes if, in its trading, it is expected that changes in the 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 trading 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 that the documentation is unsatisfactory or finds weaknesses in the methodologies used, it may require the dissolution of the hedge and the recording of the derivative financial product 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 consolidated statements of income within the term of the hedged item.

(h) Investments at fair value through profit and loss and held to maturity investments

The investment portfolio is classified and valued in accordance with SBS Resolution No. 10639-2008 which approved the “Regulations for Classification and Valuation of Investment of Financial System Companies” and amendments.

(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 consolidated 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 associates.

These securities are initially recorded at the fair value, including any transaction costs which will be directly attributable to the acquisition of such investments. Any subsequent measurement of such investments will be made at fair value and the gain or loss from the fluctuation of the fair value of the investment instrument classified in this category, will be directly recognized in equity, until such time as the instrument is sold or realized, when, any profit or loss previously recognized in equity, is transferred and recorded in the consolidated statements of income, except for the impairment losses that are recorded in the consolidated statements of income (Note 2(m)).

(h.3) Held-to-maturity investments

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

These securities are initially recorded at the fair value, including any transaction costs which will be directly attributable to the acquisition of such investments. Thereafter, the measurement of these investments is performed on the basis of the amortized cost, using the effective interest rate. Any impairment losses of value are recognized in the consolidated statements of income (Note 2(m)).

(i) Investments in associates

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

(j) Property, plant and equipment

Property, plant 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 using the straight-line method based on the estimated useful life of assets, as follows:

	<u>Years</u>
Buildings	33
Facilities	33 - 10
Leasehold improvements	10
Furniture and equipment	10 - 4
Vehicles	5

The disbursements subsequently incurred which are related to assets the cost of which can be reliably measured and from 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.

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

(k) Realizable assets and assets recovered through legal actions

Seized assets are included in "Other assets".

Seized assets 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, the Bank records the following provisions on seized assets:

- 20% of the value of goods received at the 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 is 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 to be 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 are 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 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 or at their fair value with changes in results. Interest earned is recognized in the consolidated statement of income. Any discounts granted on the premiums generated during their placement are deferred and amortized during the effective term of the related liabilities.

(o) Provisions

Provisions are recognized only when the Bank 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 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 financial statements, except when the likelihood of an outflow of

resources to cover a contingent liability is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated 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 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.

In the case of the subsidiaries, according to legal regulations, there will be no determination of employee profit sharing, since the number of employees of each subsidiary does not exceed 20.

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

Employees' annual vacations paid absences and other employees' 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 consolidated balance sheet date.

(q.3) Accrual for seniority indemnities

The accrual for seniority indemnities comprises all the liabilities related to 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 loans, restructured loans, and under legal collection loans, as well as interests on 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 expenses are recognized on an accrual basis.

(s) Foreign exchange gains and losses

Foreign currency transactions are translated at the closing 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 consolidated statement of income for the period during which such gains or losses arise.

(t) Income Tax

Current and deferred income tax, are recognized in profit or loss included in the consolidated 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 income 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 using the income tax rate enacted or substantially in effect at the related consolidated balance sheet date expected to be applied to the taxable income in the year in which the liabilities are settled or the assets are recovered.

(u) Dividend distributions

Dividend distributions are 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 the consolidated net 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 where Grupo Continental acts as a holder, trustee or agent, have been excluded from the consolidated financial statements. Such assets are controlled in separate financial statements and presented in off-balance sheets accounts.

(x) 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 cash flow using the indirect method. In the consolidated balance sheet, bank overdrafts are reclassified as liabilities.

(y) SBS pronouncements

During 2012, the SBS issued, among others, the following important rules:

<u>Resolution / Circular / Multiple Official Letter SBS No.</u>	<u>Description of Standard</u>	<u>Publication Date</u>	<u>Effective Date</u>
Resolution 9605-2012	Amendments to the Credit Cards Regulations (SBS Resolution No. 264-2008) and the Regulations governing Information Transparency and Provisions applicable to contracting with users of the financial system (SBS Resolution No. 1765-2005).	29/12/2012	January 2013
Circular B-2205-2012	Categories and denomination of commissions applicable to the financial products are established: Credit cards, consumer loans, savings and current accounts and Fixed Term Deposits.	29/12/2012	January 2013
Circular B-2206-2012	Guidelines for the methodology to calculate the minimum payment in credit card credit lines and other revolving methods, for credits for small businesses, microenterprises and consumer loans.	29/12/2012	January 2013
Resolution 9076-2012	Amendments to the Regulations for Exchange Risk Management: Limits to foreign currency positions.	05/12/2012	December 2012
Resolution 9075-2012	Approval of regulations for Liquidity Risk Management.	05/12/2012	December 2012
Resolution 8548-2012	Amendments to the Regulations for Regulatory Capital Requirement by Credit Risk, via SBS Resolution No. 14354-2009, and its amending norms.	09/11/2012	January 2013

Resolution 8181-2012	Regulations governing Information Transparency and Contracting with Users of the Financial System.	25/10/2012	January 2013
Resolution 7197-2012	Incorporation of Annexes 7-A and 7-B into Chapter V of the Accounting Manual for Companies forming part of the Financial System.	20/09/2012	November 2012
Resolution 7036-2012	Amendments to the Accounting Manual for Companies forming part of the Financial System.	19/09/2012	January 2013
Resolution 7033-2012	Approval of New Regulations for the Classification and Valuation of Investments by Companies forming part of the Financial System.	19/09/2012	January 2013
Resolution 7068-2012	Amendments to the Regulations governing Global Risk Management.	19/09/2012	September 2012
Resolution 3127-2012	Substitution of Article 3 of the Regulations for Regulatory Capital Requirement by Operational Risk, approved by SBS Resolution No. 2115-2009.	31/05/2012	June 2012

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 2012 and 2011, for each currency. These balances are summarized as follows:

	<u>2012</u> US\$000	<u>2011</u> US\$000
Assets:		
Cash and due from banks and inter-banks	2,601,244	2,470,364
Investments at fair value through profit and loss and held to maturity investments	25,557	23,882
Loan portfolio, net	6,335,369	5,492,616
Other assets	<u>73,347</u>	<u>50,447</u>
Total	<u>9,035,517</u>	<u>8,037,309</u>
Liabilities:		
Obligations to the public and deposits from financial institutions	5,354,582	5,652,696
Inter-bank funds, due to banks and correspondents	2,696,646	1,645,567
Securities, bonds and outstanding obligations	1,038,520	335,590
Other liabilities	<u>69,455</u>	<u>68,893</u>
Total	<u>9,159,203</u>	<u>7,702,746</u>
Net balance sheet position	<u>(123,686)</u>	<u>334,563</u>
Forward contracts and other derivatives, net of sales	<u>45,438</u>	<u>(279,084)</u>
Net global position	<u><u>(78,248)</u></u>	<u><u>55,479</u></u>

Most of the assets and liabilities in foreign currency are denominated in U.S. dollars. As of December 31, 2012, the exchange rate established by the SBS for these amounts in Nuevos Soles (S/.) was S/.2.55 per US\$1.00 (S/.2.696 as of December 31, 2011).

In 2012, Grupo Continental recorded foreign exchange gains amounting to S/.297.6 million (S/.296.3 million in 2011), which are presented in the “Foreign Exchange difference from various transactions, net” item in the consolidated statement of income.

The revaluation percentages of the Peruvian Nuevo Sol as compared to the U.S. Dollar, calculated were 5.42% and 4.02% for 2012 and 2011, respectively; the inflation percentages, in accordance with the Índice de Precios al Por Mayor, Domestic Wholesale Price Index (IPM for its Spanish acronym), were -0.59% and 6.26% for 2012 and 2011, respectively.

4. CASH AND DUE FROM BANKS

	<u>2012</u> S/.000	<u>2011</u> S/.000
Cash	1,670,898	1,392,647
Peruvian Central Bank - BCRP	10,332,152	6,570,730
Banks and other local financial entities	197,876	120,521
Foreign Banks and other foreign financial entities	321,355	342,147
Clearing accounts	109,378	102,100
Other deposits	5,280	4,556
Accrued interest on cash and due from banks	4,438	2,152
	<hr/>	<hr/>
Total	<u>12,641,377</u>	<u>8,534,853</u>

As of December 31, 2012, cash and due from banks includes approximately US\$2,429 million and S/.2,496 million (US\$2,214 million and S/.1,833 million as of December 31, 2011) 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 BCRP.

Special reserve funds, representing the legal minimum, which is 9%, do not bear interest. Special reserve funds corresponding to the additional reserve required in foreign currency and domestic currency, bear interest at an annual nominal rate set by the BCRP. As of December 31, 2012, interest income was S/.33.5 (S/.20.8 million as of December 31, 2011), included in the category "Interest from deposits in financial institutions" of the consolidated statement of income. Pursuant to legal provisions in force, special reserves cannot be seized.

As of December 31, 2012 and 2011, cash and due from banks included restricted funds for S/.1.2 million required in connection with legal proceedings against the Bank to guarantee any potential liabilities generated by these lawsuits.

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS AND HELD TO MATURITY INVESTMENTS

Investments in securities are classified by Grupo Continental as follows:

	<u>2012</u> S/.000	<u>2011</u> S/.000
Available-for-sale investments (Note 13 (d))	2,289,134	2,071,277
Held to maturity investments (Note 13 (d))	436,829	431,279
Investments at fair value through profit and loss	160,810	84,598
	<hr/>	<hr/>
Total	<u>2,886,773</u>	<u>2,587,154</u>

The following are details of investments in securities by financial instrument type:

	<u>2012</u>	<u>2011</u>
	<u>S/.000</u>	<u>S/.000</u>
Available for-sale investments		
BCRP Certificates of Deposits (a)	1,971,223	1,421,368
Peruvian Treasury Bonds (b)	225,871	580,946
Domestic Stocks (c)	47,763	31,192
Peruvian Global Treasury Bonds (d)	26,277	24,736
Foreign Stocks	17,993	12,979
Other Investments	7	56
	<u>2,289,134</u>	<u>2,071,277</u>
Held-to-maturity investments		
Peruvian Treasury Bonds (b)	<u>436,829</u>	<u>431,279</u>
Investments at fair value through profit and loss		
Peruvian Treasury Bonds (b)	115,632	24,694
Mutual Fund Investments (e)	39,223	43,461
Corporate Bonds	5,586	-
Domestic Stocks	369	5,540
US Treasury Bonds	-	10,903
	<u>160,810</u>	<u>84,598</u>

- (a) BCRP certificates of deposits are freely tradable securities in domestic currency, with maturities due up to May 2014, which were acquired in public auctions or secondary markets. As of December 31, 2012, the annual interest rate of these certificates ranged between 3.79% and 4.20% (between 3.95% and 4.24% as of December 31, 2011).
- (b) Treasury bonds are issued by the Peruvian Government. As of December 31, 2012 those bonds accrued annual interest at rates between 1.00% and 5.11% (1.00% and 6.55% at December 2011) in local currency and 6.57% in foreign currency (5.14% and 6.57% as of December 31, 2011), and terms of up to February for both periods.
- (c) As of December 31, 2012, mainly included stocks listed in the Lima Stock Exchange (BVL) for a total value of S/36.4 million (S/19.8 million at December 2011).
- (d) Peruvian Treasury Global bonds are in foreign currency. They accrued annual interest at the rate of 3.69% (4.88% at December 2011) and a term of up to March 2037 (term up to November 2033 at December 2011).

- (e) As of December 31, 2012 and 2011, investments in Mutual Funds relate to the participation units maintained by Grupo Continental in the various mutual funds managed by BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos.

The investment portfolio has the following schedule of maturities:

	<u>2012</u>		<u>2011</u>	
	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>
Up to 1 month	101,595	4	367,944	14
More than 1 month and up to 3 months	1,207,626	42	460,088	18
More than 3 months and up to 6 months	94,203	3	241,113	9
More than 6 months and up to 1 year	286,048	10	352,223	13
More than 1 year and up to 5 years	414,423	14	224,019	9
More than 5 years	677,530	23	848,595	33
No contractual maturity	105,348	4	93,172	4
Total	<u>2,886,773</u>	<u>100</u>	<u>2,587,154</u>	<u>100</u>

6. LOAN PORTFOLIO, NET

(a) The balances comprises:

	<u>2012</u>		<u>2011</u>	
	S/.000	%	S/.000	%
Direct Loans:				
Loans	11,761,407	37	11,023,578	38
Mortgages	7,148,709	23	5,842,095	20
Leasing	4,585,583	15	4,601,173	16
Consumer	3,274,544	10	2,766,925	10
Foreign trade	2,656,836	8	2,375,187	8
Discounted notes	1,048,364	3	968,416	3
Other	<u>3,063,952</u>	<u>10</u>	<u>2,939,218</u>	<u>10</u>
	33,539,395	106	30,516,592	105
Plus: Accrued interest on cash and due from banks	<u>245,070</u>	<u>1</u>	<u>226,464</u>	<u>1</u>
	33,784,465	107	30,743,056	106
Less: Deferred income from leasing transactions	<u>(518,658)</u>	<u>-2</u>	<u>(544,133)</u>	<u>-2</u>
	33,265,807	105	30,198,923	104
Deferred income from loans	(30,668)	-	(26,964)	-
Allowance for loan losses	<u>(1,464,569)</u>	<u>-5</u>	<u>(1,249,934)</u>	<u>-4</u>
	<u>31,770,570</u>	<u>100</u>	<u>28,922,025</u>	<u>100</u>
Indirect Loans (Note 15(a))	<u>10,250,869</u>		<u>8,687,388</u>	

Loans can be secured by guarantees granted by customers, principally comprising mortgages, deposits, letters of guarantee, warrants and financial lease operations, which as of December 31, 2012 and 2011, amounted to S/.26,784 million and S/.23,836 million, respectively.

As of December 31, 2012, a debt with Fondo Mi Vivienda – Mi Hogar was secured by a loan portfolio of up to S/.445.9 million (S/.336.1 million as of December 31, 2011) (Note 11 (c)).

As of December 31, 2012 and 2011, the annual weighted average rates for the main products were as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Placements in</u>		<u>Placements in</u>	
	S/.	US\$	S/.	US\$
	%	%	%	%
Loans and discounts	9.40	7.62	9.34	7.35
Mortgages	9.59	8.66	9.85	8.98
Consumer	23.01	15.29	23.40	16.20

- (b) The loan portfolio under the segmentation established by SBS Resolution No. 11356-2008 is as follows:

	<u>2012</u>		<u>2011</u>	
	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>
Medium business	9,335,339	28	8,207,285	27
Mortgage	7,235,433	21	5,913,334	19
Large business	6,618,530	20	6,425,048	21
Corporate	4,382,493	13	4,537,883	15
Consumer	3,397,306	10	2,873,116	9
Small business	1,595,010	4	1,403,849	5
Stock brokers	307,077	1	393,293	1
Micro business	241,248	1	230,918	1
Financial system companies	231,196	1	190,555	1
Public sector entities	174,927	1	293,693	1
Other	20,836	-	47,618	-
Total	<u><u>33,539,395</u></u>	<u><u>100</u></u>	<u><u>30,516,592</u></u>	<u><u>100</u></u>

- (c) The credit risk classification of the Bank's loan portfolio in accordance to the SBS standards is summarized as follows:

	<u>2012</u>				<u>2011</u>							
	<u>Direct loans</u>		<u>Indirect loans</u>		<u>Total</u>		<u>Direct loans</u>		<u>Indirect loans</u>		<u>Total</u>	
	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>
Normal	31,060,046	95	10,083,460	98	41,143,506	95	28,488,684	95	8,575,045	99	37,063,729	96
With potential problems	810,700	2	131,613	1	942,313	2	580,981	2	66,037	1	647,018	2
Substandard	420,600	1	20,958	1	441,558	1	321,139	1	31,769	-	352,908	1
Doubtful	384,170	1	6,540	-	390,710	1	293,888	1	10,005	-	303,893	1
Loss	314,553	1	8,298	-	322,851	1	260,803	1	4,532	-	265,335	-
	<u>32,990,069</u>	<u>100</u>	<u>10,250,869</u>	<u>100</u>	<u>43,240,938</u>	<u>100</u>	<u>29,945,495</u>	<u>100</u>	<u>8,687,388</u>	<u>100</u>	<u>38,632,883</u>	<u>100</u>
Deferred income from leasing transactions	518,658		-		518,658		544,133		-		544,133	
Deferred income from loan transactions	<u>30,668</u>		<u>-</u>		<u>30,668</u>		<u>26,964</u>		<u>-</u>		<u>26,964</u>	
Total	<u><u>33,539,395</u></u>		<u><u>10,250,869</u></u>		<u><u>43,790,264</u></u>		<u><u>30,516,592</u></u>		<u><u>8,687,388</u></u>		<u><u>39,203,980</u></u>	

Grupo Continental, in compliance with current regulations has identified borrowers exposed to exchange rate risk and it considers that it does not need to make an additional provision for this concept.

During 2012, Grupo Continental wrote off non-accrual interest of S/.16 million (S/.11 million in 2011) relating to interest for past due loans or loans undergoing legal collection.

The loan portfolio was distributed in the following economic sectors:

	<u>2012</u>		<u>2011</u>	
	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>
Mortgages and consumer	10,632,738	32	8,786,449	29
Commerce	5,953,832	18	5,190,967	17
Manufacturing	5,648,424	17	5,577,385	18
Real estate	2,605,520	8	2,363,157	8
Transport, storage and communications	2,226,933	6	2,115,384	7
Electricity, gas and water	1,061,542	3	857,404	3
Agriculture and livestock	1,051,168	3	860,912	3
Construction	778,987	2	966,620	3
Hotels and restaurants	705,837	2	627,120	2
Mining	618,088	2	883,776	3
Other	2,256,326	7	2,287,418	7
Total	<u>33,539,395</u>	<u>100</u>	<u>30,516,592</u>	<u>100</u>

(d) As of December 31, 2012 and 2011, the change in the allowance for loan losses was:

	<u>2012</u>	<u>2011</u>
	<u>S/.000</u>	<u>S/.000</u>
Balances as of January 1	1,249,934	1,049,352
Provisions	944,023	763,613
Recoveries and reversals	(458,043)	(443,836)
Write-offs	(1,098)	(2,051)
Sale of portfolio	(251,987)	(102,942)
Foreign exchange differences and other adjustments	(18,260)	(14,202)
Balances as of December 31	<u>1,464,569</u>	<u>1,249,934</u>

Management considers that level of the provision for loan losses is adequate to cover potential losses in the portfolio as of the consolidated balance sheet date. All provisions of the current norm have been complied with. As of December 31, 2012, the general provision of loan portfolio of S/.926.7 million (S/.815.1 million at December 2011) includes pro-cyclical provisions of S/.142.8 million (S/.129.7 million at December 2011). Grupo Continental also maintains voluntary provisions of S/.529 million and S/.453 million as of December 31, 2012 and 2011, respectively.

During 2012, Grupo Continental sold a fully provisioned portfolio for approximately S/.212.7 million (S/.301.4 million during 2011). The selling price was S/.20.1 million (S/.23.7 million as of December 31, 2011), recorded in the "Other Income, net" in the consolidated statement of income.

(e) The loan portfolio had the following maturities schedule:

	<u>2012</u>		<u>2011</u>	
	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>
Up to 1 month	4,055,321	12	3,340,867	11
More than 1 month and up to 3 months	4,839,106	15	4,481,635	15
More than 3 months and up to 6 months	3,160,508	10	3,361,886	11
More than 6 months and up to 1 year	3,806,832	11	3,982,563	13
More than 1 year and up to 5 years	10,869,748	32	10,105,495	33
More than 5 years	6,408,603	19	4,964,436	16
Past due and in legal collection loans	<u>399,277</u>	<u>1</u>	<u>279,710</u>	<u>1</u>
Total	<u>33,539,395</u>	<u>100</u>	<u>30,516,592</u>	<u>100</u>

7. PROPERTY, FURNITURE AND EQUIPMENT, NET

	<u>Land</u> S/000	<u>Buildings and</u> <u>Facilities</u> S/000	<u>Furniture</u> <u>and</u> <u>Equipment</u> S/000	<u>Vehicles</u> S/000	<u>Facilities and</u> <u>Leasehold</u> <u>Improvements</u> S/000	<u>Work in</u> <u>Progress</u> S/000	<u>Receivable</u> <u>and</u> <u>substituting</u> <u>units</u> S/000	<u>Total</u> S/000
Cost:								
Balance as of January 1, 2011	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)
Balance as of December 31, 2011	100,293	498,831	284,755	4,384	101,194	65,170	7,731	1,062,358
Additions	3,401	20,733	56,275	632	11,383	73,752	9,954	176,130
Disposal	-	-	(14)	-	-	-	-	(14)
Adjustments or other	-	79,884	(5,525)	-	29,291	(112,188)	(11,055)	(19,593)
Balance as of December 31, 2012	<u>103,694</u>	<u>599,448</u>	<u>335,491</u>	<u>5,016</u>	<u>141,868</u>	<u>26,734</u>	<u>6,630</u>	<u>1,218,881</u>
Accumulated depreciation :								
Balance as of January 1, 2011	-	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)
Balance as of December 31, 2011	-	301,406	127,877	3,223	26,252	-	-	458,758
Additions	-	27,747	32,938	674	11,319	-	-	72,678
Disposal	-	-	(14)	-	-	-	-	(14)
Adjustments or other	-	(805)	3,736	-	(516)	-	-	2,415
Balance as of December 31, 2012	<u>-</u>	<u>328,348</u>	<u>164,537</u>	<u>3,897</u>	<u>37,055</u>	<u>-</u>	<u>-</u>	<u>533,837</u>
Net Cost:								
Balance as of December 31, 2012	<u>103,694</u>	<u>271,100</u>	<u>170,954</u>	<u>1,119</u>	<u>104,813</u>	<u>26,734</u>	<u>6,630</u>	<u>685,044</u>
Balance 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>

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

8. OTHER ASSETS AND OTHER LIABILITIES

	<u>2012</u> S/.000	<u>2011</u> S/.000
Other assets:		
Accounts receivable from derivatives (Note 15 (b))	652,410	446,160
Tax credit from Value Added Tax (a)	320,518	353,410
Advance payments, deferred charges and intangible assets (b)	237,886	159,486
Transactions in process (c)	59,434	39,578
Assets seized and recovered through legal actions, net		
Realizable assets received as payment and seized, net	16,132	15,773
Other accounts receivable (d)	8,248	17,758
Other assets	1,343	1,343
	<u>1,295,971</u>	<u>1,033,508</u>
Total		
Other liabilities:		
Other provisions (e)	397,180	398,492
Accounts payable for derivatives (Note 15(b))	375,293	326,129
Suppliers	280,640	195,340
Transactions in process (c)	132,236	21,834
Dividends and employees' profit sharing payable	88,596	77,949
Other accounts payable	79,489	59,530
Provision for indirect loans (Note 15 (a))	70,119	60,457
Deferred income	15,646	14,653
Other	10,377	8,912
	<u>1,449,576</u>	<u>1,163,296</u>
Total		

(a) Corresponds mainly to the tax credit on the acquisition of assets for financial leasing, which is recovered via invoicing of installments to the customers.

(b) As of December 31, 2012, the balance is mainly comprised of deferred charges by S/.76.8 million (S/.64.3 million as of December 31, 2011), S/.159.7 million (S/.86.8 million as of December 31, 2011) of prepaid income tax.

(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) As of December 31, 2012 and 2011, other accounts receivable were net of accumulated provisions of S/.81.1 million and S/.81.9 million, respectively.

- (e) Other provisions mainly include among others, provisions for litigation, claims, and provisions for staff. As of December 31, 2012 and 2011, Grupo Continental had several pending lawsuits litigation and other processes that are related to the activities carried out, which in the opinion of Management and legal counsel, no additional provisions are needed. Therefore, as of December 31, 2012 and 2011, Management had not considered it necessary to make a provision higher than what is recorded for these contingencies and processes in “Other Liabilities” on the consolidated balance sheet, which amounted to S/.209.1 million and S/.207.5 million, respectively.

Below is the change of the Other Provisions account:

	<u>2012</u> S/.000	<u>2011</u> S/.000
Balance as of January 1	398,492	405,788
Provisions	6,531	2,485
Recoveries	(786)	(385)
Other	<u>(7,057)</u>	<u>(9,396)</u>
Balance as of December 31	<u>397,180</u>	<u>398,492</u>

9. OBLIGATIONS TO THE PUBLIC AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	<u>2012</u> S/.000	<u>2011</u> S/.000
Obligations to the public	32,054,519	30,185,437
Deposits from financial institutions	<u>764,991</u>	<u>307,034</u>
Total	<u>32,819,510</u>	<u>30,492,471</u>

Obligations to the public include restricted deposits received as collateral from debtor customers forming part of Grupo Continental’s loan portfolio for S/.546.7 million in domestic currency, and US\$114 million in foreign currency (S/.540.2 million and US\$111 million, respectively, as of December 31, 2011).

Obligations to the public and deposits from financial institutions have the following maturities:

	<u>2012</u>		<u>2011</u>	
	<u>S/.000</u>	<u>%</u>	<u>S/.000</u>	<u>%</u>
Up to 1 month	9,692,069	30	9,765,343	32
More than 1 month and up to 3 months	5,429,558	17	5,859,745	19
More than 3 months and up to 6 months	3,351,128	10	2,171,311	7
More than 6 months and up to 1 year	4,388,732	13	2,034,700	7
From 1 to 5 years	9,587,466	29	8,848,155	29
More than 5 years	<u>370,557</u>	<u>1</u>	<u>1,813,217</u>	<u>6</u>
Total	<u>32,819,510</u>	<u>100</u>	<u>30,492,471</u>	<u>100</u>

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>2012</u>		<u>2011</u>	
	<u>Accounts in</u>		<u>Accounts in</u>	
	<u>S/.</u>	<u>US\$</u>	<u>S/.</u>	<u>US\$</u>
	<u>%</u>	<u>%</u>	<u>%</u>	<u>%</u>
Checking Accounts	0.00-1.20	0.00-0.60	0.00-1.20	0.00-0.60
Savings Deposits	0.20-2.00	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

As of December 31, 2012, inter-bank funds' assets had current maturities, accrued interest at an average annual interest rate of 4.25% in local currency and 1.80% in foreign currency (0.25% in foreign currency as of December 31, 2011) and were unsecured.

As of December 31, 2012, inter-bank funds' liabilities had current maturities, accrued interest at an average annual interest rate of 4.22% in local currency, (4.25% as of December 31, 2011) and 1.61% in foreign currency (0.25% as of December 31, 2011) and were unsecured.

11. DUE TO BANKS AND CORRESPONDENTS

	<u>2012</u> S/.000	<u>2011</u> S/.000
Foreign Financial Institutions (a)	4,876,093	2,545,968
International Financial Organizations (b)	1,278,644	1,287,790
Fondo Mi Vivienda - Mi Hogar (My Housing - My Home Fund) Fondo Mi Vivienda - Mi Hogar (c)	445,894	336,126
Private debt agreement (d)	433,500	539,200
Corporación Financiera de Desarrollo – COFIDE	57,417	30,000
Accrued interest payable	<u>65,234</u>	<u>31,119</u>
Total	<u>7,156,782</u>	<u>4,770,203</u>

Some of the loan agreements include standard covenants regarding attainment of financial ratios, the use of funds and other administrative matters. In Management's opinion, as of December 31, 2012 and 2011, these covenants are being adequately abided by in all regards and they do not represent any sort of restriction to Grupo Continental's operations.

(a) Foreign financial institutions

As of December 31, 2012, these balances accrued interest based on market rates in effect, ranging between 0.5% and 7.4% (1% and 7.4% as of December 31, 2011). The breakdown of these transactions is as follows:

<u>Name of Creditor</u>	<u>Balances as of</u> <u>December 31, 2012</u>		<u>Balances as of</u> <u>December 31, 2011</u>		<u>Due Dates</u>
	<u>US\$000</u>	<u>S/.000</u>	<u>US\$000</u>	<u>S/.000</u>	
Goldman Sachs Bank (i)	491,446	1,253,187	-	-	January 2017
Deutsche Bank (ii)	369,425	942,034	366,077	986,944	November 2020
Credit Suisse (iii)	200,000	510,000	200,000	539,200	October 2040
Wells Fargo Bank	164,955	420,634	110,000	296,560	January 2013/October 2013
Standard Chartered	122,197	311,602	58,000	156,368	January 2013/October 2013/May 2014
JP Morgan Chase Bank	80,000	204,000	-	-	January 2013
Bank of America	70,000	178,500	-	-	April 2013
Citibank NA	70,000	178,500	-	-	January 2013
DEG Deutsche Investitions (iv)	55,000	140,250	60,000	161,760	October 2017/June 2018
Sumitomo Bank	55,000	140,250	-	-	January 2013
China Development Bank	50,000	127,500	50,000	134,800	December 2016
Bank of Nova Scotia	39,000	99,450	-	-	January 2013
Bank of Montreal	25,000	63,750	-	-	March 2014
Commercebank NA	25,000	63,750	-	-	May 2014
Bank of New York	25,000	63,750	-	-	January 2013
Toronto Dominion Bank	24,000	61,200	-	-	January 2013 and April 2014
BBVA Madrid	19,831	50,569	-	-	January 2013/February 2013
HSBC Bank PLC	15,263	38,921	-	-	January 2013
Fifth Third Bank	11,000	28,050	-	-	January 2013
Other	77	196	273	736	January 2013
Syndicated Loan (v)	-	-	100,000	269,600	October 2012
	<u>1,912,194</u>	<u>4,876,093</u>	<u>944,350</u>	<u>2,545,968</u>	

- (i) In January 2012, the Bank took on a loan in the nominal amount of US\$ 500 million, agreed upon at a fixed rate of 5.75% with the principal maturing ("bullet") in January 2017. Furthermore, on the same date, there was an Interest Rate Swap (Note 15(b)) whereby the Group booked as of December 31, 2012, a S/.22 million gain from the variation of the loan's fair value (Note 25), which is included in the "Gain from Hedging Operations, net", of the consolidated statement of income.

- (ii) Loan for a nominal amount of US\$350 million, at a fixed rate of 5.5% and maturity in November 2020, which is recorded at fair value. This loan is hedged by an Interest Rate Swap (IRS) (Note 15 (b)). As of December 31, 2012, the Bank had recorded losses of S/.8.7 million corresponding to the change in the loan's fair value (Note 25), which is included in the "Gain from Hedging Operations, net" entry, of the consolidated statement of income (as of December 31, 2011, it recorded a gain of S/.109.1 million).
- (iii) It corresponds to a subordinated loan approved by the SBS and it is considered as part of TIER 1 Regulatory Capital to the limit permitted by the General Law.
- (iv) It corresponds to a subordinated loan for an amount of US\$30 million approved by the SBS. It is considered part of TIER 2 Regulatory Capital.
- (v) Syndicated loan for US\$100 million with Standard Chartered Bank, Wells Fargo Bank, Banco de Chile, Bank of Taiwan, Banca Monte Dei Paschi di Siena S.p.A and Mizuho Corporate Bank Ltd, paid off in October 2012. The agreed rate was Libor plus spread.

(b) International Financial Organizations

Debts to international financial organizations accrued interest at international market rates between 1.2% and 6.4% as of December 31, 2012 (1.5% and 6.4% as of December 31, 2011), and are unsecured.

<u>Name of Creditor</u>	<u>Balances as of</u> <u>December 31, 2012</u>		<u>Balances as of</u> <u>December 31, 2011</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)	170,000	433,500	275,000	741,400	February 2014/ 2017/ 2019/ August 2015
International Finance Corporation	126,429	322,393	112,667	303,750	December 2018/June 2022
Corporación Andina de Fomento	100,000	255,000	50,000	134,800	March 2013/May 2013
Corporación Interamericana de Inversiones	40,000	102,001	40,000	107,840	June 2013/August 2014
Banco Latinoamericano de Exportación	<u>65,000</u>	<u>165,750</u>	<u>-</u>	<u>-</u>	January 2013
Total	<u>501,429</u>	<u>1,278,644</u>	<u>477,667</u>	<u>1,287,790</u>	

- (i) This 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, in accordance with legal provisions in force.

(c) Fondo Mi Vivienda - Mi Hogar

As of December 31, 2012, these debts mainly include the resources obtained for the social housing program "Mi Vivienda" in local currency for S/.400.5 million and foreign currency for US\$ 10.4 million (S/.283.2 and US\$12.1 million as of December 31, 2011, respectively). These loans have different maturities, up to December 2033 and they accrue 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 domestic currency portion.

The obligation to the Fondo Mi Vivienda – Mi Hogar of S/.445.9 million as of December 31, 2012 (S/.336.1 million as of December 31, 2011) was secured 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 meet, as well as administrative terms.

Due to banks and correspondents have the following maturities:

	<u>2012</u>		<u>2011</u>	
	S/.000	%	S/.000	%
Up to 1 month	1,419,525	20	164,656	3
More than 1 month and up to 3 months	165,747	2	285,274	6
More than 3 months and up to 6 months	348,019	5	32,981	1
More than 6 months and up to 1 year	315,953	4	555,642	12
From 1 to 5 years	2,738,875	39	934,741	20
More than 5 years	2,168,663	30	2,796,909	58
Total	<u>7,156,782</u>	<u>100</u>	<u>4,770,203</u>	<u>100</u>

(d) Private debt agreement

As of December 31, 2012, debts included a private debt agreement (Note 15(e)) for a total of US\$ 170 million.

12. SECURITIES, BONDS AND OUTSTANDING OBLIGATIONS

	<u>2012</u>	<u>2011</u>
	S/.000	S/.000
Corporate Bonds	2,185,719	830,761
Notes (debt instruments) - Note 15(e)	980,196	539,200
Subordinated Bonds	457,857	459,866
Leasing bonds	133,750	137,400
Accrued expenses payable	42,511	18,632
Total	<u>3,800,033</u>	<u>1,985,859</u>

Securities, bonds and outstanding obligations have the following maturities:

	<u>2012</u>		<u>2011</u>	
	S/.000	%	S/.000	%
Up to 1 month	3,895	-	717	-
More than 1 month and up to 3 months	54,155	2	50,641	3
More than 3 months and up to 6 months	53,528	1	7,273	-
More than 6 months and up to 1 year	-	-	217,756	11
From 1 to 5 years	1,096,393	29	819,605	41
More than 5 years	2,592,062	68	889,867	45
Total	<u>3,800,033</u>	<u>100</u>	<u>1,985,859</u>	<u>100</u>

The detail of the outstanding issued bonds 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>Balances as of December 31, 2012 S/000</u>	<u>Balances as of December 31, 2011 S/000</u>	<u>Maturity Date</u>
Corporate Bonds								
Second	US\$50 million or S/.160 million	First	A	PEN	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
Third	US\$100 million or S/.315 million	First	A	PEN	40,000	-	40,000	December 2012
		Second	A	PEN	40,000	-	40,000	March 2012
		Third	A	US\$	9,969	-	26,876	September 2012
		Fourth	A	US\$	8,533	21,759	23,005	September 2014
		Sixth	A	US\$	30,000	-	80,880	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	100,000	August 2018
Fifth	US\$250 million	First	A	PEN	50,000	50,000	50,000	December 2016
		Second	A	PEN	150,000	150,000	150,000	December 2026
		Fifth	Only	PEN	200,000	215,065	-	October 2019
		Sixth	A	US\$	54,000	137,700	-	July 2016
First International Issuance	US\$500 million	First	Only	US\$	500,000	1,261,195	-	August 2022
						2,185,719	830,761	
Subordinated Bonds								
First	US 50 million or S/.158.30 million	First	A	PEN	40,000	39,721	39,793	May 2022
		Second	A	US\$	20,000	50,681	53,661	May 2027
		Third	A	PEN	55,000	66,169	64,453	June 2032
Second	US\$100 million	First	A	US\$	20,000	51,000	53,920	September 2017
		Second	A	PEN	50,000	58,912	57,384	November 2032
		Third	A	US\$	20,000	51,000	53,920	February 2028
		Fourth	Only	PEN	45,000	51,166	49,840	July 2023
		Fifth	Only	PEN	50,000	56,118	54,663	September 2023
		Sixth	A	PEN	30,000	33,090	32,232	December 2033
						457,857	459,866	
Leasing bonds								
First	US\$200 million	First	A	US\$	25,000	63,750	67,400	April 2016
		Second	A	PEN	30,000	30,000	30,000	September 2014
		Third	A	PEN	40,000	40,000	40,000	November 2014
						133,750	137,400	
Notes								
	US\$250 million	First	2008-A	US\$	250,000	382,500	539,200	December 2015
	US\$235 million	Second	2012-A, 2012-B, 2012-C and 2012-D	US\$	235,000	597,696	-	June 2017 and June 2022
						980,196	539,200	
						3,757,522	1,967,227	

Corporate bonds are unsecured and accrue annual interest at rates between 5.8% and 7.9% for local currency as of December 31, 2012 and 2011 and between 4.7% and 6.4% for foreign currency as of December 31, 2012, (between 6.2% and 6.4% December 2011).

Corporate bonds for S/.200 million is hedged by a Currency Swap (Note 15(b)). As of December 31, 2012, the Bank booked losses of S/.15 million relating to the variation of the issuance's fair value (Note 25) and it is included in the "Gain from Hedging Operations, net" category, of the consolidated statement of income.

In August 2012, the Bank conducted an international issuance for a nominal amount of US\$500 million, at a fixed rate of 5%, maturing in August 2022. The principal will be fully paid off upon maturity. This financial instrument is carried in the books at fair value and the variation of its fair value is hedged by an Interest Rate Swap (Note 15(b)). As of December 31, 2012, the Bank has booked losses for S/.13.7 million corresponding to the variation of the Issuance's fair value (Note 25), which is included in the "Gain from Hedging Operations, net" category" of the consolidated statement of income.

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 accrue interest at a nominal annual rate of 6.3% for local currency and 7.2% for foreign currency and they are backed by credit operations in the form of leasing contracts. They have been financed by the said bonds.

13. SHAREHOLDERS' EQUITY

(a) Capital Stock

As of December 31, 2012, the authorized, issued and fully paid capital stock of the Bank consisted of 2,226,472,773 outstanding ordinary shares with a face value of S/.1 each, (1,944,231,963 shares as of December 31, 2011).

The General Shareholders' Annual Meetings held on March 29, 2012 and March 21, 2011, authorized an increase of the capital stock of S/.282.2 million and S/.100.8 million, respectively, by means of the capitalization of retained earnings.

The Bank's ordinary stock is listed in the Lima Stock Exchange (hereinafter, BVL for its Spanish acronym). As of December 31, 2012 and 2011, the stock market quotation value of the Bank's stock was S/.6.66 and S/.5.51 per share, respectively, with a negotiation frequency of 100% in both years.

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

<u>Percentage of individual interest</u>	<u>Number of shareholders</u>	<u>Total interest</u>
Up to 1	8,262	7.76%
From 80.01 to 100	<u>1</u>	<u>92.24%</u>
Total	<u>8,263</u>	<u>100.00%</u>

(b) Reserves

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 the Bank's net income for 2012 will be recognized upon the approval of the financial statements at the next General Shareholders' Meeting to be held in 2013.

The General Shareholders' Annual Meetings held on March 29, 2012 and March 31, 2011 approved an allocation to the legal reserve for the equivalent of 10% of the net income for year 2011 (S/.112.9 million) and year 2010 (S/.100.7 million) respectively.

(c) Retained Earnings

General Shareholders' Annual Meetings held on March 29, 2012 and March 31, 2011, agreed to distribute dividends for approximately S/.733.8 and S/.805.8 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.

The General Shareholders' Annual Meeting held on March 29, 2012 and March 31, 2011, approved the capitalization of retained earnings by S/.282.2 million and S/.100.8 million, respectively.

On June 28, 2012, the Bank's Board of Directors, in the exercise of the delegation conferred upon it by the Annual General Shareholders' Meeting held on March 29, 2012, and pursuant to the provisions of Article 184 "Regulatory Capital", Item A), Point 2 of the General Law, unanimously resolved to commit to the capitalization of the 2012 profits for S/.400 million. The formalization of this commitment will become effective during the General Shareholders' Meeting to be held in March 2013.

(d) Unrealized results

Unrealized results include S/.30.89 million worth of unrealized profits from the portfolio of investments available for sale (S/.19.28 million as of December 31, 2011) and S/.2.85 million corresponding to unrealized profits from investments on maturity (S/.3 million as of December 31, 2011).

14. REGULATORY CAPITAL AND LEGAL LIMITS

According to the General Law, the regulatory capital amount cannot be less than 10% of credit, market and operational risk average weighted assets and contingent loans. As of December 31, 2012, the Bank used the standard method for the calculation of the Regulatory Capital by credit, market and operational risk. In addition, on July 20, 2011, SBS Resolution No. 8425-2011 (Regulations governing Additional Regulatory Capital Requirements) was published, directing companies to apply the requirements for economic cycle, market concentration risk, interest rate risk in the banking books and other risks. This Additional Regulatory Capital Requirement must be achieved in five years, with its first tranche being 40% of the total requirement as from July 2012. Its gradual increase is annual, at a rate of 15%, reaching 100% on July 31, 2016. These regulations are enabled and disabled on the basis of pro-cycle provisions rule applicable to credits.

As of December 31, 2012, Bank's Regulatory Capital calculated following SBS regulations was S/.4,844 million (S/.4,043 million as of December 31, 2011). This amount is used to calculate certain limits and restrictions applicable to all financial entities in Peru. In Grupo Continental's Management opinion, such limits and restrictions have been fully met by the management.

Credit, and operational risk weighted average assets calculated in accordance with applicable regulations, amount to S/.38,961 million as of December 31, 2012 (S/.32,455 million as of December 31, 2011).

As of December 31, 2012 and 2011, the Bank's capital adequacy ratio by credit, market and operational risk was 12.43% and 12.46%, respectively.

15. CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS

	<u>2012</u> <u>S/.000</u>	<u>2011</u> <u>S/.000</u>
Contingent Transactions:		
Indirect loans: (a)		
Guarantees and Letters of Guarantee	9,487,925	8,037,821
Letters of credit and bank acceptances	<u>762,944</u>	<u>649,567</u>
	<u>10,250,869</u>	<u>8,687,388</u>
Derivative financial instruments (b)	13,507,793	12,165,881
Unused lines of credits	<u>6,669,620</u>	<u>6,141,628</u>
	<u>30,428,282</u>	<u>26,994,897</u>
Off-Balance Sheet Accounts:		
Collateral for loans granted (c)	64,970,181	53,635,462
Securities and assets received in custody	20,976,667	23,822,059
Forward interest rate trades (b)	7,010,961	5,033,665
Securities under custody by CAVALI (d)	6,117,928	5,727,039
Own securities and assets in custody	3,137,250	3,219,133
Securities received as collection	1,968,634	1,919,660
Loan return and income in escrow	669,973	319,042
Advised letters of credit	274,385	321,570
Securities and assets pledged as collateral	137,280	173,487
Loans written-off	51,060	61,914
Consignments received	309	338
Other credit accounts (e)	10,363,179	8,788,067
Other debit accounts	<u>9,856,844</u>	<u>8,516,316</u>
	<u>125,534,651</u>	<u>111,537,752</u>
Trust and Administration (f)	<u>7,927,460</u>	<u>6,405,142</u>
	<u>163,890,393</u>	<u>144,937,791</u>

(a) Indirect loans (Contingent transactions)

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

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

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, 2012.

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

	<u>2012</u> S/.000	<u>2011</u> S/.000
Balance as of January 1	60,457	55,322
Provision	51,094	44,323
Recoveries and reversals	(40,674)	(38,582)
Exchange rate differences and other adjustments	(758)	(606)
Balance as of December 31	<u>70,119</u>	<u>60,457</u>

As of December 31, 2012, the general provision of indirect loan portfolio of S/.63.1 million (S/.53.8 million as of December 31, 2011) includes pro-cyclical provisions of S/.20.6 million (S/.17.3 million as of December 31, 2011).

(b) Financial Derivatives

Grupo Continental has commitments to enter 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 instruments (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 customers, and a Frame Contract for local customers. 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.

As of December 31, 2012 and 2011, the notional amount equivalent in Nuevos Soles and the fair value of derivative financial instruments were as follows:

	Nominal Value S/.000	2012	
		Asset S/.000	Liability S/.000
Trading Derivatives			
Currency forward	7,216,383	89,991	62,481
Commodities options and other	1,793,352	27,847	27,847
Interest Rate Options	114,164	279	279
Currency Swap	4,305,678	347,015	168,224
Interest Rate Swap	3,275,797	28,400	116,462
Hedging Derivatives			
Currency Swap (i)	192,380	17,010	-
Interest Rate Swap (ii)	3,621,000	141,868	-
Total	20,518,754	652,410	375,293
	Nominal value S/.000	2011	
		Asset S/.000	Liability S/.000
Trading Derivatives			
Currency Forward	5,721,589	55,937	54,083
Commodities options and other	2,420,116	65,796	65,796
Currency Swap	4,024,176	218,756	69,250
Interest Rate Swap	4,090,065	32,974	137,000
Hedging Derivatives			
Interest Rate Swap (ii)	943,600	72,697	-
Total	17,199,546	446,160	326,129

- (i) As of December 31, 2012, the Bank has entered into a Currency Swap to hedge the fair value of the bonds issued, in the nominal amount of S/.192 million. Through this Currency Swap, the Bank converts its fixed-rate domestic currency issuance into a variable-rate US Dollar issuance. As of December 31, 2012, the fair value of the Currency Swap amounted to S/.15.9 million (profit), and this is included in the "Gain from Hedging Operations, net" entry of the consolidated statement of income.

(ii) As of December 31, 2012, the Bank had entered into Interest Rate Swap for a nominal amount of S/.3,621 million to hedge interest rates for debts received. Through these Interest Rate Swaps, the Bank gets a fixed interest rate in US Dollars and pays for a variable interest rate in the same currency. As of December 31, 2012, the total variation of the fair value of interest rate swaps amounted to S/.67.9 million (gain), which is included in the “Gain from Hedging Operations, net” entry of the consolidated statement of income (as of December 31, 2011, the fair value generated a S/.118.7 million gain).

(c) Guarantees received for loans granted

The amount of the “Guarantees Received” entry 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) Securities in custody of CAVALI

This relates to the nominal value of investments traded by customers of Continental Bolsa - Sociedad Agente de Bolsa S.A., which are under the custody of Cavali S.A. ICLV.

(e) Other Creditors

In December 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\$ 150 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 11).

In April 2010, Continental DPR Finance Company, entered into a debt agreement through a private contract totaling US\$ 170 million (Series 2010-A) as of December 31, 2012. This series expires on March 15, 2017 with quarterly coupons with a 2-year grace period. The aforementioned debt accrues interest at Libor plus a spread (Note 12).

In June of 2012, Continental DPR Finance Company conducted an issuance via a private notes offering (debt instruments) for US\$ 235 million, of which, US\$ 70 million are recorded at fair value because of the taking of an Interest Rate Swap (Note 15(b)). As of December 31, 2012, Grupo Continental recorded gains for S/.1.5 million, corresponding to the variation in the fair value of the hedged portion (Note 25), which is included in the “Gain from Hedging Operations, net” entry of the consolidated statement of income. The issuance of these notes features two maturities: (i) US\$125 million maturing on June 15, 2017 and (ii) US\$ 110 million maturing on June 15, 2022. All notes have quarterly coupons, take two-year and three-year grace periods into account respectively, and accrue interest at a rate of Libor plus a Spread, except for part of the 10-year issuance for US\$ 70 million, which was issued at a fixed rate (Note 12).

The liabilities issued by Continental DPR Finance Company are secured by the Bank's selling to Continental DPR Finance Company the present and future flows generated by electronic payment orders of customers (Diversified Payments Rights - DPR) sent to the Bank using the SWIFT (Society for Worldwide Interbank Financial Telecommunications Network) system. The mentioned sale, conducted just once, took place on December 31, 2008.

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. The Bank's Management believes it was in compliance with such conditions as of December 31, 2012.

(f) Trust and Administrations

Grupo Continental provides fund management services to third parties, and this gets Grupo Continental involved in the selection and decisions to buy and sell investments on behalf of third parties. These assets, which are kept in trust, are not included in the Consolidated Financial Statements.

As of December 31, 2012, the equity of the mutual funds for investment in securities and of securitized assets managed by Grupo Continental, amount to approximately S/.4,328 million and S/.109 million, respectively (S/.3,037 million and S/.129 million, respectively, as of December 31, 2011).

16. INCOME FROM VARIOUS FINANCIAL SERVICES, NET

Other income for the years ended December 31, 2012 and 2011 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>2012</u> S/.000	<u>2011</u> S/.000
Salaries	202,002	182,873
Bonuses	239,804	223,774
Social contributions and other	51,160	44,336
Accrual for seniority indemnities	27,200	25,549
Vacation	17,533	15,032
Other	16,235	15,567
	<hr/>	<hr/>
Total	<u>553,934</u>	<u>507,131</u>

18. ADMINISTRATIVE EXPENSES

Administrative expenses for 2012 and 2011 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>2012</u> S/.000	<u>2011</u> S/.000
(Net) profit from sales of unused and seized but recovered assets	2,137	1,198
Expenses related to administrative penalties	(1,059)	(2,342)
Uninsured losses	(3,163)	(3,476)
Other profits	3,916	4,553
Total	<u>1,831</u>	<u>(67)</u>

20. TAX SITUATION

(a) Income Tax Regime

(i) Income Tax

Pursuant to current legislation, consolidated determination of taxes is not permitted. The Bank and its subsidiaries have individually made this determination.

Management is of the opinion that it has determined the taxable matter under the general income tax regime in accordance with current tax legislation in force, which requires adding to and subtracting from the result appearing on the financial statements, any entries which the mentioned legislation acknowledges as either taxable or non-taxable, respectively. The income tax rate for 2012 and 2011 is 30%.

(ii) Income Tax Rates

The income tax rate for domiciled legal entities was 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 or workers, among others, outside business expenses or shareholders participation, which are assumed by the legal entity.

Legal entities not domiciled in Peru and individuals, will pay a 4.1% tax on distributed dividends.

(iii) Transfer Pricing

For the purposes of income tax calculation and Value Added Tax 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's operations, management and internal legal advisors believe that as a result of the implementation of these standards will not contingencies relevant to Grupo Continental as of December 31, 2012.

(b) Significant Changes to Income Tax Regime in Peru

In Law No. 29884, the Peruvian Congress delegated attributions to the Executive Branch, so that via legislative decrees, it will amend the tax regime in effect, in order to improve the Peruvian Tax System.

Pursuant to such provisions, the following laws were decreed: Legislative Decrees No. 1112, No. 1116, No. 1120 and No. 1124, introducing amendments to income tax in Peru, mostly in effect as from the 2013 fiscal period. Below is a summary of the most important amendments:

- Cost basis. It is hereby established that the cost basis must be supported by the corresponding validly issued receipt of payment.
- Disposal of stocks or security titles. In order to determine the market value, consideration will be given to the higher of the higher available value between the transaction amount, the stock exchange quotation price, if relevant, the equity value or any other value to be established by the regulations. For the purposes of determining the market value, consideration will be given to the higher available value between the transaction amount, the stock exchange value, if applicable, the equity value, and any other value set forth by the regulations, with due consideration to that effect. On the other hand, it is hereby established that there will be no deduction of the loss of capital by third parties, a category, which, upon disposal, prior or subsequent thereto, within a term not exceeding 30 calendar days, there is the acquisition of stock shares or security titles of the same type as those which were disposed of, or purchase options with regard thereto.
- Transfer Prices. All transactions with related entities, whether local or foreign, as well as those conducted with offshore haven residents will be subject to a transfer prices analysis. There will only be price adjustments whenever a lower tax is

determined in the country, ruling out the possibility of making negative adjustments in the event of over-payment of taxes, at a disadvantage for the taxpayer.

Any transactions generating presumed or apparent income, carried out between related parties; or, if applicable, with offshore havens, will be subject to the transfer prices regulations. In the case of non-domiciled subjects, there will only be adjustments to transactions generating Peruvian source taxable income and/or deductions for the determination of taxes in the country. With respect to Advance Price Agreements, it is set forth that the Tax Administration (SUNAT) may enter into such agreements with other tax administrations from countries with which it may have entered accords to avoid international double taxation.

Transfer prices norms relating to the determination of VAT are no longer applicable.

- Depreciation. The depreciation percentage must be applied to the result from the addition of subsequent costs incurred, to the value of acquisition, production and construction. These are defined as any costs incurred with respect to an asset which has been affected to the generation of taxable income, which, pursuant to accounting rules, must be recognized as cost.

The deductible amount or maximum deductible will be the amount referred to in the previous paragraph, unless the last deductible period is greater than the value of the asset to be depreciated, in which case, the latter will be deducted.

- Donations. For the deduction of expenses due to donations, it is set forth that the grading of the entity earning the deductible donation will be performed by the SUNAT – no longer by the Ministry of the Economy and Finance (MEF). This change is effective as from June 30, 2012.
- Non-deductible expenses. Any expenses incurred from the difference between the nominal value of a credit originated between related parties and its value in a transfer to third parties assuming the debtor's credit risk are not deductible.

In the event that these credits generate accounts receivable in favor of the transferor, any provisions and/or write offs for non-collection of these accounts are not a deductible expense.

- Exchange difference. The norms governing the capitalization of the difference in exchange for liabilities in foreign currency related to stock and fixed assets are eliminated as from the year 2013. Notwithstanding the above, it has been set forth that any exchange differences generated up to December 2012, which has been activated on the basis of the current legislation, will continue to be governed by the previous treatment.
- Staff training expenses. The limit to the deduction of staff training expenses is eliminated.

- Technical Assistance. With respect to the application of the 15% rate, the requirement to have a sworn declaration from the company providing the service its eliminated. The requirement to have a report issued by an auditing firm, certifying the provision of technical assistance services, has been set forth only for services, which total consideration exceeds 140 UIT (tax units) in effect on the date when the agreement was entered into. This norm will be in force as from August 1, 2012.
- Monthly payments on account. There has been a reduction from 2% to 1.5% with respect to the aliquot applicable under the percentage system, and the system used in the calculation of payments on account has been modified. The modification involves making a monthly advance payment in the amount which is greater between the comparison of the amount resulting from the application the factor system with the amount resulting from the application of the 1.5% percentage. The possibility of changing the percentage based on the May monthly advance payment has been incorporated, and on the basis of the results shown by the statement of income as of April 30, applying the factor resulting from the said financial statement. Specific provisions have been issued for the case of advance payments between August and December 2012, since this modification came into force as from the August 2012 payment on account.

(c) Income tax expenses are comprised as follows:

	<u>2012</u> S/.000	<u>2011</u> S/.000
Current income taxes	484,727	466,654
Deferred income taxes	(58,590)	(50,047)
Income Tax (recovery provision)	<u>13,604</u>	<u>(36,437)</u>
	<u>439,741</u>	<u>380,170</u>

(d) Tax Situation

The income tax returns of the Bank and subsidiaries pending review by the tax administration are as follows:

<u>Companies</u>	<u>Years Subject to Fiscalization</u>
BBVA Banco Continental	2007 to 2012
Continental Bolsa Sociedad Agente de Bolsa S.A.	2008 to 2009
Continental Bolsa Sociedad Agente de Bolsa S.A.	2011 to 2012
BBVA Asset Management Continental Sociedad Administradora de Fondos	2008 to 2012
Continental Sociedad Titulizadora S.A.	2008 to 2012
Inmuebles y Recuperaciones Continental	2008 to 2012

The Tax Administration (SUNAT, for its Spanish acronym) is authorized to perform reviews within four years following the year of submittal of the corresponding income tax. At present, the SUNAT is auditing the statement of the period 2007 of BBVA Banco Continental, and it will start inspection of the 2008 fiscal period. In addition, the inspection of the Continental Bolsa - Sociedad Agente de Bolsa S.A. 2010 fiscal period return has been completed. Management considers that no significant liabilities will arise from the 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 net income (loss) 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, 2012.

21. DEFERRED INCOME TAXES

The change in the net income taxes asset in 2012 and 2011 and the description of related temporary differences were as follows:

<u>2012</u>	Additions / Recoveries		Ending Balances
	Beginning Balances	Net Income	
	S/.000	S/.000	S/.000
Assets			
General allowance for loans	244,527	-	278,019
Allowance for contingent loans - general	16,143	-	19,913
Allowance for seized assets	6,948	-	4,828
Allowance for contingent credits - specific	2,141	-	2,345
Allowance for suppliers	29,824	-	56,697
Labor allowance	24,169	-	37,524
Advancement of depreciation	565	-	656
Non-accrual interest	5,809	-	5,809
Total Assets	<u>330,126</u>	<u>-</u>	<u>405,791</u>
Liabilities			
Investments available for sale	7,881	1,569	9,450
Other	-	-	16,287
Leveling of assets and liabilities	4,668	-	5,456
Total Liabilities	<u>12,549</u>	<u>1,569</u>	<u>31,193</u>
Deferred income tax, net asset	<u>317,577</u>	<u>(1,569)</u>	<u>374,598</u>

<u>2011</u>	<u>Beginning</u>	<u>Additions / Recoveries</u>		<u>Ending</u>
	<u>Balances</u>	<u>Equity</u>	<u>Net</u>	<u>Balances</u>
	<u>S/.000</u>	<u>S/.000</u>	<u>Income</u>	<u>S/.000</u>
			<u>S/.000</u>	
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 Assets	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
Deferred income tax, net asset	268,352	(822)	50,047	317,577

Changes in deferred income tax assets were as follows:

	<u>2012</u>	<u>2011</u>
	<u>S/.000</u>	<u>S/.000</u>
Deferred taxes recognized :		
Deferred taxes at the beginning of the year	317,577	268,352
Debit to equity	(1,569)	(822)
Credit to the year's results	58,590	50,047
Credit to income of the year	374,598	317,577

22. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per ordinary share were computed by dividing net income by the weighted-average number of ordinary shares outstanding during each year. Since there were no ordinary shares with potentially diluting effects, meaning financial instruments or other contracts entitling to the right to obtain ordinary shares, the basic and diluted earnings per share are the same.

The basic and diluted earnings per share were as follows:

	Quantity of shares	
	(in millions)	
	<u>2012</u>	<u>2011</u>
Outstanding at beginning of the year	1,944	1,843
Capitalization of results	282	101
Adjustment due to correction of shares not generating increase of resources	-	282
	<u>2,226</u>	<u>2,226</u>
Outstanding at end of the year	2,226	2,226
Net income (in thousands of Nuevos Soles)	<u>1,245,545</u>	<u>1,128,988</u>
Basic and diluted earnings per share (S/.)	<u>0.56</u>	<u>0.51</u>

23. TRANSACTIONS WITH RELATED PARTIES

As of December 31, 2012 and 2011, Grupo Continental has granted loans, provided and requested banking services correspondent services, operations involving financial derivatives booked at their nominal values, among others, with related companies, which balances are detailed below:

	<u>2012</u>	<u>2011</u>
	S/.000	S/.000
Assets:		
Cash and due from banks	34,551	47,727
Loan portfolio	79	4,174
Other assets	241,929	122,082
Liabilities:		
Deposits and obligations	596,162	106,657
Debts	50,569	-
Other liabilities	128,010	140,327
Off-balance sheet accounts:		
Contingent	5,743,597	4,029,834
Off-balance sheet accounts	1,755,288	1,826,948

The balances with related companies shown above have had the following effect on Grupo Continental's consolidated statement of income:

	<u>2012</u> S/.000	<u>2011</u> S/.000
Financial Income	21	52
Financial Expenses	(11,129)	(9,686)
Other Income (expenses), net	(51,855)	(57,388)

Personnel Loans

As of December 31, 2012 and 2011, directors, executives and employees of Grupo Continental maintain permitted operations with the Bank in accordance with the General Law, which regulates and establishes certain limits on transactions with directors, executives and employees of banks in Peru. As of December 31, 2012 and 2011, direct loans to employees, directors, executives and key personnel were S/.314.5 million and S/.265.7 million, respectively.

In addition, as of December 31, 2012, key staff salaries and director salaries amounted to S/.9.9 million (S/.9 million as of December 31, 2011).

24. FINANCIAL RISK MANAGEMENT

Management, based on Grupo Continental'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 in its financial performance.

Market Risks

Grupo Continental 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 customers 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 in 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's financial instrument have the following considerations:

- (i) Cash and due from the Bank and inter-bank funds represent cash or short-term deposits which do not represent significant credit risks.
- (ii) Fair value of investments at fair value through profit and loss and available for sale has been determined based on quotations of the market or quotations of underlying (sovereign risk rate) to the date of financial statements. Held to maturity investments correspond to debt instruments investments accrue interest substantially at market rates.

- (iii) The loan portfolio is net of its corresponding provisions for non-collection of loans, allowing Management to consider it as the estimated amount of recovery as of the date of the financial statements. The current loan portfolio accrues interest at market rates, while the non-current portfolio is pegged to a fixed interest rate; thus, it is subject to market volatility.
- (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 those of other similar liabilities.
- (v) Debts and financial obligations and outstanding securities, bonds and obligations generate interest at fixed and variable rates and have short and long-term maturities. Securities with variable rates represent their market value and those with fixed rates are subject to variations of the market's interest rates. Grupo Continental has designated, at fair value, the following financial liabilities:

	<u>2012</u>				<u>2011</u>			
	<u>Fair Value / Book</u>		<u>Nominal Value</u>		<u>Fair Value / Book</u>		<u>Nominal Value</u>	
	<u>US\$000</u>	<u>S/.000</u>	<u>US\$000</u>	<u>S/.000</u>	<u>US\$000</u>	<u>S/.000</u>	<u>US\$000</u>	<u>S/.000</u>
DEBTS AND FINANCIAL OBLIGATIONS (Note 11)								
Goldman Sachs Bank	491,446	1,253,187	500,000	1,275,000	-	-	-	-
Deutsche Bank	369,425	942,034	350,000	892,500	366,077	986,944	350,000	943,600
	<u>860,871</u>	<u>2,195,221</u>	<u>850,000</u>	<u>2,167,500</u>	<u>366,077</u>	<u>986,944</u>	<u>350,000</u>	<u>943,600</u>
SECURITIES, BONDS AND OUTSTANDING OBLIGATIONS (Note 12)								
Corporate bonds – International First Issuance	494,586	1,261,195	500,000	1,275,000	-	-	-	-
Corporate bonds – Fifth program single series	-	215,065	-	200,000	-	-	-	-
Notes	69,390	176,946	70,000	178,500	-	-	-	-
	<u>563,976</u>	<u>1,653,206</u>	<u>570,000</u>	<u>1,653,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>1,424,847</u>	<u>3,848,427</u>	<u>1,420,000</u>	<u>3,821,000</u>	<u>366,077</u>	<u>986,944</u>	<u>350,000</u>	<u>943,600</u>

- (vi) As described in Note 15 (a), Grupo Continental has granted guarantees, letters of guarantee and letters of credit and it has received guarantees backing-up the 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 significant by Management.
- (vii) Foreign currency and interest rate financial derivatives are recorded at their estimated market value. The Bank values derivatives operations discounting respective flows at present value using the market curves, which are calculated on a daily basis to this effect. These curves are built using inputs that can be found with price vendors or trading systems (Datatec, Bloomberg, Reuters, etc.).

26. SUBSEQUENT EVENTS

We are not aware of any subsequent events, having occurred from the 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 29, 2013, the Bank performed a second international bonds issue in 144/RegS format, in the nominal amount of US\$300 million, for a 3.5-year term. The principal will be paid in full upon maturity.
