BBVA Banco Continental and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements
Years ended December 31, 2014 and 2013

(Translation of a report originally issued in Spanish)

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BBVA BANCO CONTINENTAL AND SUBSIDIARIES

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INDEPENDENT AUDITORS´ REPORT

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

1. We have audited the accompanying consolidated financial statements of **BBVA Banco Continental** (a subsidiary of Holding Continental S.A.) **and Subsidiaries** (hereinafter Grupo Continental), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income, other comprehensive income, changes in 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 Generally Accepted Accounting Principles in Peru applicable to 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 Standards on Auditing, approved for application in Peru by the Peruvian Board of Deans of the Institutes of Certified Public Accountants (Consejo Directivo de la Junta de Decanos de Colegios de Contadores Públicos del 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 auditor's 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 of Grupo Continental for the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Grupo Continental's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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, 2014 and 2013, its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with Generally Accepted Accounting Principles in Peru applicable to financial entities.

Other matters

7. The accompanying separate financial statements were translated into English by the Company for convenience of the English – speaking readers and have been derived from the separate financial statements originally issued in Spanish.

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

Countersigned by:

__________________________(Partner)
Javier Candiotti Egoavil
CPC Registration No.11177

February 10, 2015

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013
In thousands of S/.

ASSETS	Notes	2014	2013
Cash and due from banks	4	14,633,083	11,824,204
Inter-bank funds	10	20,002	25,156
Investments at fair value through profit or loss	5	743,245	556,746
Available-for-sale investments	5	2,327,609	3,083,921
Held-to-maturity investments	5	451,232	443,993
Loan portfolio, net	6	42,056,399	38,245,327
Trading derivatives	15	827,724	577,252
Hedging derivatives	15	18,815	26,789
Receivables		20,086	18,433
Asset seized and recovered through legal actions, net		107,277	46,763
Investments in associates		2,927	2,774
Property, furniture and equipment, net	7	864,156	818,010
Current tax	18	173,436	385,471
Deferred tax	19	364,759	394,011
Other assets	8	271,944	89,587
TOTAL ASSETS		62,882,694	56,538,437
CONTINGENT RISKS AND COMMITMENTS	14	22,716,250	19,224,994

LIABILITIES AND NET EQUITY	Notes	2014	2013
Obligations to the public	9	38,555,172	36,414,890
Inter-bank funds	10	120,011	617,134
Deposits from financial entities and international financial organizations		1,622,746	939,620
Due to banks and financial obligations	11	15,260,159	12,147,526
Trading derivatives	15	727,257	561,001
Hedging derivatives	15	59,127	51,918
Payables	8	389,657	414,820
Current tax	18	1,690	3,214
Provisions	8	399,624	435,426
Deferred tax	19	2,121	3,653
Other liabilities	8	167,106	58,424
TOTAL LIABILITIES		57,304,670	51,647,626
NET EQUITY			
Capital stock	12 (a)	3,246,531	2,724,770
Legal reserves	12 (b)	977,350	846,838
Adjustments to equity	12 (d)	10,208	14,649
Retained earnings	12 (c)	1,343,935	1,304,554
TOTAL NET EQUITY		5,578,024	4,890,811
TOTAL LIABILITIES AND NET EQUITY		62,882,694	56,538,437
CONTINGENT RISKS AND COMMITMENTS	14	22,716,250	19,224,994

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, 2014 AND 2013
In thousands of S/.

	Notes	2014	2013
INTEREST INCOME			
Cash and due from banks		8,705	92,594
Inter-bank funds		678	1,814
Investments at fair value through profit or loss		29,072	5,610
Available-for-sale investments		85,229	112,931
Held-to-maturity investments		29,221	28,041
Direct loan portfolio		3,559,049	3,353,302
Gain from hedging transactions		25,369	32,499
Other financial income		5,382	5,964
		3,742,705	3,632,755
INTEREST EXPENSES			
Obligations to the public		(410,833)	(544,513)
Inter-bank funds		(20,394)	(7,689)
Deposits from financial entities and international financial organizations		(21,716)	(18,765)
Due to banks and financial obligations		(599,522)	(544,008)
Other financial expenses		(2,532)	(1,883)
		(1,054,997)	(1,116,858)
GROSS FINANCIAL MARGIN		2,687,708	2,515,897
Provisions for direct loans		(514,475)	(521,128)
NET FINANCIAL MARGIN		2,173,233	1,994,769
Income from financial services	16	877,423	797,813
Expenses for financial services	16	(147,104)	(132,820)
NET FINANCIAL MARGIN OF INCOME AND EXPENSES FOR FINANCIAL SERVICES		2,903,552	2,659,762
GAIN/LOSS FROM FINANCIAL OPERATIONS (ROF)			
Investments at fair value through profit or loss		6,742	2,969
Available-for-sale investments		13,451	25,475
Trading derivatives		(94,653)	74,482
Gain from hedging operations		-	35,667
Gain from investments in associates		1,364	1,154
Net foreign exchange differences	3	494,657	338,739
Others		31,584	16,917
		453,145	495,403
OPERATING MARGIN		3,356,697	3,155,165
Administrative expenses	17	(1,316,272)	(1,262,527)
NET OPERATING MARGIN		2,040,425	1,892,638
Valuation of assets and provisions		(134,688)	(102,375)
OPERATING REVENUE		1,905,737	1,790,263

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, 2014 AND 2013
In thousands of S/.

	Notes	2014	2013
OTHER INCOME AND EXPENSES		(18,942)	(7,204)
PROFIT FOR THE YEAR BEFORE INCOME TAX		1,886,795	1,783,059
Income tax	18(c)	(543,076)	(478,757)
NET PROFIT FOR THE YEAR		1,343,719	1,304,302
Weighted average number of outstanding shares (in thousands of shares)	20	3,246,531	3,246,531
Basic and diluted earnings per share in Peruvian Nuevos Soles		0.414	0.402

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

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
In thousands of S/.

	2014	2013
NET PROFIT FOR THE YEAR	1,343,719	1,304,302
Other comprehensive income:		
Available-for-sale investments	(1,156)	(27,532)
Cash flow hedging	(332)	4,442
Income tax on other comprehensive income items	(2,953)	3,996
Other comprehensive income for the year, net of tax	(4,441)	(19,094)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,339,278	1,285,208

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

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
In thousands of S/.

		Reserves			Adjustments to Equity			
	Capital stock	Mandatory reserves	Voluntary reserves	Retained earnings	Cash flow hedging	Available-for-sale investments	Total adjustments to equity	Total net equity
	Note 12 (a)	Note 12 (b)	Note 12 (b)	Note 12 (c)	Note 12 (d)	Note 12 (d)		
Balances as of January 1, 2013	2,226,473	722,261	91	1,245,769	-	33,743	33,743	4,228,337
Changes in equity:								
Comprehensive income:								
Profit for the year	-	-	-	1,304,302	-	-	-	1,304,302
Other comprehensive income	-	-	-	-	3,110	(22,204)	(19,094)	(19,094)
Total comprehensive income	-	-	-	1,304,302	3,110	(22,204)	(19,094)	1,285,208
Changes in net equity (not included in comprehensive income)								
Cash dividends	-	-	-	(622,759)	-	-	-	(622,759)
Issuance of capital stock (not related to “Business Combination”)	498,297	-	(91)	(498,206)	-	-	-	-
Transfers to reserves and others	-	124,552	25	(124,552)	-	-	-	25
Total changes in equity	498,297	124,552	(66)	58,785	3,110	(22,204)	(19,094)	662,474
Balances as of December 31, 2013	2,724,770	846,813	25	1,304,554	3,110	11,539	14,649	4,890,811
Balances as of January 1, 2014	2,724,770	846,813	25	1,304,554	3,110	11,539	14,649	4,890,811
Changes in equity:								
Comprehensive income:								
Profit for the year	-	-	-	1,343,719	-	-	-	1,343,719
Other comprehensive income	-	-	-	-	(882)	(3,559)	(4,441)	(4,441)
Total comprehensive income	-	-	-	1,343,719	(882)	(3,559)	(4,441)	1,339,278
Changes in net equity (not included in comprehensive income)								
Cash dividends	-	-	-	(652,168)	-	-	-	(652,168)
Issuance of capital stock (not related to “Business Combination”)	521,761	-	(25)	(521,736)	-	-	-	-
Transfers to reserves and others	-	130,537	-	(130,434)	-	-	-	103
Total changes in equity	521,761	130,537	(25)	39,381	(882)	(3,559)	(4,441)	687,213
Balances as of December 31, 2014	3,246,531	977,350	-	1,343,935	2,228	7,980	10,208	5,578,024

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, 2014 AND 2013
In thousands of S/.

	2014	2013
RECONCILIATION OF NET PROFIT OF THE GROUP WITH CASH FLOWS AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES:		
Profit for the year	1,343,719	1,304,302
Adjustments	1,016,581	1,071,147
Depreciation and amortization	90,702	80,378
Provisions	558,724	566,957
Other adjustments	367,155	423,812
Net changes in assets and liabilities	(2,484,320)	(3,629,031)
Net (increase) decrease in assets	(5,416,536)	(7,465,219)
Loans	(3,082,300)	(5,441,197)
Investments at fair value through profit or loss	(186,499)	(395,936)
Available-for-sale investments	678,679	(1,889,653)
Receivables and other accounts	(2,826,416)	261,567
Net increase (decrease) in liabilities	2,932,216	3,836,188
Financial liabilities, unsubordinated debt	2,755,048	3,915,226
Payables and other accounts	177,168	(79,038)
Profit for the period, after net changes in assets and liabilities and adjustments	(124,020)	(1,253,582)
Paid income taxes	(540,679)	(630,729)
	(664,699)	(1,884,311)
NET CASH FLOWS FROM OPERATING ACTIVITIES		
INVESTMENT ACTIVITIES:		
Purchases of intangibles and property, furniture and equipment	(198,128)	(226,407)
Other proceeds related to investment activities	15,556	27,074
	(182,572)	(199,333)
NET CASH FLOWS FROM INVESTMENT ACTIVITIES		
FINANCING ACTIVITIES:		
Issuance of subordinated financial liabilities	892,478	122,980
Cash dividends	(652,056)	(623,099)
NET CASH FLOWS TO (FROM) FINANCING ACTIVITIES	240,422	(500,119)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE FLUCTUATION	(606,849)	(2,583,763)
Effect of exchange rate fluctuation on cash and cash equivalents	720,432	682,492
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	113,583	(1,901,271)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12,068,597	13,969,868
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12,182,180	12,068,597

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, 2014 AND 2013
In thousands of S/.

	2014	2013
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR WITH ACCOUNTS BALANCES IN THE FINANCIAL POSITION STATEMENTS		
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	12,182,180	12,068,597
Guarantee funds	2,583,206	-
Inter-bank funds	(20,002)	(25,156)
Held-to-maturity investments (less than 90 days – term)	(112,301)	(219,237)
CASH AND DUE FROM BANKS PER CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	14,633,083	11,824,204

1. INCORPORATION, ECONOMIC ACTIVITY AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Incorporation 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 of the Bank. 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 Peruvian Banking Regulator (The Superintendency of Banking, Insurance and Private Administrators of Pension Funds, hereinafter the SBS, for its Spanish acronym) based in Lima, Peru. The Bank's main office legal address is Av. República de Panamá No. 3055, San Isidro, Lima.

The Bank's operations primarily include financial intermediation corresponding to multiple banks; activities regulated by the SBS in accordance with Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la SBS (General Law of the Financial and Insurance Systems and Organic Law of the SBS), Law No. 26702 and its amendments (hereinafter the General Law). The General Law establishes certain requirements, rights, obligations, guarantees, restrictions and other conditions that private right legal entities operating in the financial and insurance system are subject to.

As of December 31, 2014 and 2013, the Bank carried out its activities through a network of 338 and 312 offices, respectively. The total number of employees of the Bank and its subsidiaries as of December 31, 2014 and 2013, was 5,455 and 5,363, respectively.

As of December 31, 2014 and 2013, the Bank held 100% of the capital stock and voting rights of 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 share capital or voting rights of Continental DPR Finance Company (DPR), given the characteristics of its corporate purpose and its relationship with the Bank, accounting standards require the DPR´s financial statements to be included, on a consolidated basis, with those of the Bank. All the above companies together with the Bank are hereinafter referred to as Grupo Continental.

(b) Approval of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2014 were approved for issuance by the management of Grupo Continental on February 9, 2015. These consolidated financial statements will be submitted to the Board of Directors and Annual Mandatory Shareholders Meeting to be held within the term established by law, for their approval. The consolidated financial statements for the year ended December 31, 2013 were approved at the Annual Mandatory Shareholders Meetingon March 31, 2014.

(c) Additional explanation about the translation into English of the original financial statements issued in Spanish

The accompanying financial statements have been translated into English for the convenience of English – speaking readers and have been derived from the financial statements originally issued in Spanish. In the event of 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 to all the years presented.

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

The consolidated financial statements have been prepared and presented in accordance with legal regulations and Peruvian Generally Accepted Accounting Principles (Peruvian GAAP) applicable to 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 Financial System Companies (hereinafter the Accounting Manual) approved under SBS Resolution No. 895-98 dated September 1, 1998, effective January 1, 2001 and supplemental standards and amendments.

The SBS has established that for situations not addressed in those standards, the regulations set forth in the International Financial Reporting standards issued by the International Accounting Standards Board (IASB) and endorsed for application in Peru by the Peruvian standard setter, ("Consejo Normativo de Contabilidad", Spanish acronym) shall be applied.

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

The following standards and interpretation as well as amendments to the existing standards were published for mandatory application in the accounting periods beginning on or after January 1, 2014 but they were not relevant for the operations of Grupo Continental:

Standards, Interpretations and Amendments	Mandatory application for:
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	Effective for annual periods beginning on or after January 1, 2014, early application permitted.
Amendments to IAS 32 offsetting financial assets and financial liabilities	Effective for annual periods beginning on or after January 1, 2014, and 2013 regarding disclosures.

Further, new IFRS or IFRIC issued and applicable after the date of release of the financial statements are as follows:

Standards, Interpretations and Amendments	Mandatory application for:
IFRS 9 Financial Instruments	For annual periods beginning on or after January 1, 2017.
IFRS 14 Regulatory deferral accounts	Effective for first annual IFRS financial statements for a period beginning on or after January 1, 2016.
IFRS 15 Revenue from Contracts with Customers	Effective for annual periods beginning on or after January 1, 2017.
Amendments to IFRS 11 Joint arrangements	Effective for annual periods beginning on or after January 1, 2016.
Amendments to IAS 16 and IAS 38 Acceptable methods of Depreciation and Amortization	Effective for annual periods beginning on or after January 1, 2016.
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	Effective for annual periods beginning on or after January 1, 2015.

Management of Grupo Continental considers that the application of these standards and amendments will not have a significant impact on the consolidated financial statements of Grupo Continental in the event those standards were adopted by the SBS.

(b) Reclassifications

The SBS through the Resolution SBS No 3225-2014 dated May 29, 2014 ruled that marketable certificates of deposits should be recorded in “Other equity instruments” within the liability caption of “Securities”.

For comparative purposes, S/.65 million was reclassified from “Obligations to the public” to “Securities” in the Statement of Financial Position at December 31, 2013 and S/. 1 million in interest expense of the item obligations to the public was reclassified to expenses in interest on securities in the statement of income.

(c) Changes in the Accounting Manual for Entities within the Financial System

The SBS through the Resolution No. 7036-2012, dated September 19, 2012, modified the Accounting Manual for Entities within the Financial System to converge their accounting principles with the International Financial Reporting Standards (IFRS). Those amendments came into effect in 2013 as follows:

(c.1) Accounting policies

- Incorporation of the Conceptual Framework of IFRS, in the preparation of financial statements, including definitions of Materiality.

- Accrual of Income over the effective periods of loan agreements, including indirect loan commissions.

- Recognition and disclosure of finance leases and discount transactions on the disbursed amount.

(c.2) Presentation of information

Statement of financial position

- Reclassification of liabilities arising from client's collections from obligations to the public to accounts payable

- The provision for country risk is presented net of the respective asset affected.

- Separate disclosure of caption "Current taxes" in the consolidated statement of financial position. Its presentation is the net balance of tax assets and liabilities both for VAT (IGV in Peru) and Income Tax.

- Item "Securities and Bonds", which includes debt issuances, is included in the caption "Due to bank and other financial obligations".

Statement of Income

- Presenting a "Statement of Comprehensive Income" that includes: i) Statement of income and ii) Statement of Income and Other Comprehensive Income.

- Reclassification of some items of "Gross Financial Margin" to "Gain/loss from Financial Transactions", such as: exchange gains or losses, mark-to-market of investments in securities and derivatives financial instruments; proceeds from sales of securities and accounting for investment in associates under the equity method.

- "Gains from hedging transactions" of the gross financial margin includes the accrual of interest rate for the effect of hedging instrument on certain financial liabilities.

- Reclassification of the reversal of provisions for indirect loans from "Provisions for loans losses" to "Provision for indirect loans".

- Reclassification of the reversal of provisions for doubtful accounts from "Other income and expenses" to "Provisions for bad debts"

- Reclassification of other income and expenses.

Statement of cash flows

- Change in the criteria set for items to qualify as operating activities, including Financial intermediation and the definition of items to be included within "Cash and cash equivalents"; and the effect of changes in exchange rates on cash flows is also included.

Management of Grupo Continental considers that the application of these changes in the Accounting Manual only affected the presentation of the Financial Statements and had no impact on the results or equity of Grupo Continental.

(c.3) Disclosures

Additional information on financial instruments and risks-related matters should be disclosed in the notes to the consolidated financial statements.

(d) Consolidation basis

Grupo Continental comprises controlled entities and one special purpose entity (SPE).

Subsidiaries and SPE (Special Purpose Entities)

Subsidiaries are all entities over which the Bank has the power to control over the financial and operating policies generally owning more than half of its voting shares. The consolidated financial statements include accounts such as assets, liabilities, net 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 ceases on the date when the Bank no longer exercises control over them.

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

Continental DPR Finance Company is a SPE formed with the purpose specified in Note 11(d) (securitization of foreign remittances).

Below are the main balances of the Bank, its Subsidiaries and SPE as of December 31:

	(In millions of Peruvian soles)					
	Assets		Liabilities		Equity	
	2014	2013	2014	2013	2014	2013
Entity						
BBVA Banco Continental	62,896	56,548	57,318	51,658	5,578	4,890
Continental Bolsa - Sociedad Agente de Bolsa S.A.	35	66	8	37	27	29
BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos	68	59	13	9	55	50
Continental Sociedad Titulizadora S.A.	2	2	-	-	2	2
Inmuebles y Recuperaciones Continental S.A.	32	27	24	18	8	9
Continental DPR Finance Company	1,168	1,378	1,168	1,378	-	-

(e) Responsibility for information and estimates

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

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

The most important estimates and sources of uncertainty related with the preparation of Grupo Continental's consolidated financial statements include:

- Investments at fair value through profit or loss, available for sale investments and associates.
- Allowance for loan losses.
- Other assets and contingent credits.
- Provision for accounts receivable.
- Provision for Assets seized and recovered through legal actions
- Useful life assigned to property, furniture and equipment.
- Record of contingent liabilities.
- Deferred income tax.
- Financial derivative instruments.

(f) Functional and presentation currency

Grupo Continental prepares and presents its consolidated financial statements in Peruvian Nuevos Soles (S/.), which is its functional currency. Functional currency is the currency of the main economic environment in which an entity operates, which influences transactions performed and services rendered, among other factors.

(g) Foreign currency transactions

Foreign currency transactions are stated at initial recognition using the Bank's functional currency. For that purpose, balances in foreign currency are translated into the functional currency at the exchange rate prevailing at the date of transaction, which is the date in which the transaction meets the recognition criteria:

At each reporting date, the following criteria should be met:

(a) Monetary assets and liabilities are translated at the exchange rate prevailing at the accounting close date;

(b) Non-monetary assets and liabilities, not recognized at fair value, are translated at the Exchange rate prevailing at the date of transaction.

(c) Non-monetary assets and liabilities recognized at fair value are translated at the accounting Exchange rate prevailing at the date fair value was determined.

Recognition of fair value is subject to the following considerations:

(a) Exchange differences arising from the settlement of monetary assets and liabilities or when translating those items at exchange rates other than those used at their initial recognition that have arisen during the current or prior years will be recognized inthe results of the year in which they arise.

(b) When any gains or losses resulting from a non-monetary items is recognized in the statement of comprehensive income, any difference on exchange included in those gains or losses will also be recognized in other comprehensive income.

For non-monetary items, the gains or losses of which are recognized in profit or loss for the year, any difference on exchange included in those gains or losses will also be recognized in the results for the year.

(h) Financial instruments

The substance of a financial instrument, rather than its legal form, governs its classification on the Bank's consolidated statement of financial position as assets, liabilities or equity. Interest, profit and loss from a financial instrument classified as a liability are recorded as expenses or income in the consolidated statement of income.

Offsetting of a financial asset and a financial liability is required when there is a legal right to off-set and Management has the intention to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

(h.1) Classification of financial instruments

Grupo Continental records its financial statements on the trading date in conformity with SBS standards, classifying them as follows: i) loans and receivables, ii) at fair value through profit or loss, iii) Available-for-sale, iv) Held-to-maturity, v) liabilities at amortized cost and fair value, and vi) other liabilities.

Financial assets

(i) Loans and receivables

This category includes financial assets with fixed or determinable cash flows where total disbursements by the entity will be recovered, except for reasons attributable to the debtor's solvency. This category shall include both the investment from typical lending activities, such as cash amounts used and remaining to be amortized by clients on loans or deposits with other entities, regardless of their legal form; and debts contracted by purchasers of goods, or users of services, that are part of the Bank's business.

Loans and receivables are initially recorded at the historical cost and valued based on the impairment of the debtor's creditworthiness; interests earned on financial assets and impairment losses are recognized in the consolidated statement of income. Grupo Continental's intention is to hold these instruments until maturity.

(ii) Financial assets at fair value through profit or loss

These financial assets are held for trading in the near term, have a pattern of short-term profit-taking or have been initially designated in this category. These assets are initially recorded at fair value without considering the respective transaction costs, which are recorded as expenses.

Subsequently, they are measured at fair value and any gains or losses resulting from the appreciation or sale of these financial assets is recorded in the consolidated statement of income for the year.

(iii) Available-for sale financial assets

This category includes financial assets that are not classified as financial assets at fair value through profit or loss or as held to maturity.

These assets are initially measured at fair value including transaction costs that are directly attributable to the acquisition of these financial assets. Subsequent to initial recognition, these financial assets are measured at fair value, and the gain or loss from fluctuation in the fair value of the instruments classified in this category is directly recognized in equity until sale or realization of the instrument, and any gain or loss previously recognized in equity is transferred and recognized in the consolidated statement of income for the year, except for impairment losses that are recorded in results.

(iv) Held-to-maturity financial assets

This category includes financial investment instruments that meet the following criteria: (i) they were acquired or reclassified with the intention of holding them until maturity and which the Bank has the financial capacity to keep until maturity, and (ii) are classified by at least two local or foreign risk credit rating agencies and they must meet the criteria set by the SBS; excluded from this requirement are those instruments of Central Banks of countries with sovereign debt obtaining at a minimum, the same risk rating given to Peru's sovereign debt.

These securities are initially accounted for at fair value, including any transaction costs that will be directly attributable to the acquisition of such investments.

These financial assets are subsequently measured at the amortized cost using the effective interest rate method. Any impairment losses are recognized in profit or loss for the year.

Financial liabilities

(i) Liabilities at amortized cost and at fair value

These liabilities include obligations to the public, deposits with financial system companies, due to banks, securities and bonds (corporate, subordinate and leasing bonds). Due to banks, securities and bonds are recorded at cost plus any interests earned using the effective interest method. The amortized cost is recognized using the effective interest method. Amortized cost is calculated considering any discount or Premium on issuance and the costs that are an integral part of the effective interest rate; also they are amortized over the effective period of the related liabilities. Interest accrued are recognized in the statement of income.

Financial liabilities classified at fair value through profit or loss (FVTPL) when they are recognized as financial liabilities held for trading and those designated as at FVTPL on initial recognition.

Financial liabilities are designated as held for trading when:

- there is actual intent to repurchase the instrument in the foreseeable future;
- it is a part of a portfolio of financial instruments held for trading purposes that are managed jointly and for which there is evidence of a recent pattern of short-term economic benefits or
- it is neither a derivative that is not a financial guarantee nor a derivative that has been designated as a hedging instruments and meets the effectiveness qualifying criteria.

Financial liabilities other than held for trading can be classified as at fair value through profit or loss when:

- it is intended to reduce significantly any inconsistency in measurement or recognition; or
- Financial liabilities are part of a group of financial assets, financial liabilities or both that are managed and assessed at fair value following a well-documented investment or risk management strategy of the Bank and on the basis of which information is reported internally; or
- it is a party to a contract that contains one or more embedded derivatives and IAS 39
- allows designating the entire hybrid contract (combined) as a financial asset or financial liability at fair value through profit or loss.

Financial liabilities at fair through profit or loss are stated at fair value. Gains or loss on changes in the fair value of these liabilities are recognized in "Gains or losses on financial transactions" in the Consolidated Statements of Comprehensive Income.

(ii) Other liabilities

Other liabilities comprise accounts payable to suppliers, sundry payables, accounts payable for dividends, remunerations and obligations with the deposit insurance fund and obligations with tax collection institutions, among others. These items are recognized at fair value and then at their amortized cost.

(h.2) De-recogniton of financial assets and liabilities

Financial assets are derecognized when the risks and rewards have been transferred to a third party. Likewise, financial liabilities are derecognized when a contractual obligation has been discharged, cancelled or they expire. Gains or losses arising from derecognition of financial assets or liabilities are recorded in the consolidated statement of income.

Grupo Continental derecognizes a financial asset only when the contractual rights to obtain cash flows from the financial asset expire or the risks and rewards inherent to the ownership of the financial assets are transferred to another party. Financial liabilities are derecognized by Grupo Continental when its contractual obligations are discharged, canceled or they expire.

For the loan portfolio, gains arising from a transfer of portfolio are recognized as income; however, as this transfer was performed through a barter or financing such gains are recognized as deferred earnings, which is being accrued in proportion to the cash inflows that may be obtained from the realization of the assets received under swap arrangements; or proportionally to the payment received from the party that is acquiring the loan portfolio being transferred.

(h.3) Impairment of financial assets

The impairment of financial assets and the corresponding provisions recorded are assessed by Grupo Continental according with the standards established by the SBS. Any impairment loss is recognized in the consolidated statement of income.

(i) Investments in associates

Investments in associates comprise representative principal amounts to maintain significant influence. As established in the Manual of Accounting, these investments are initially measured at cost and after initial recognition by applying the equity method.

(j) 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 to classify direct and indirect loan portfolio per type and category, as follows:

(i) Corporate

This category also includes 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-businesses
(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 credits	Conversion factor (%)
(a) Confirmed irrevocable letters of credit of up to one year, when the issuing bank is a first-class foreign 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.	-
(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 allowance for loan losses includes the generic and specific portions. The specific portion for commercial loans is calculated based on percentages set by the SBS, which vary depending on the customer’s classification and the type of collateral received.

Generic allowances include those preventively constituted for debtors classified as normal in accordance with the requirements of the SBS, as well as general voluntary provisions.

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

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

The Management of Grupo Continental reviews and analyzes the non-retail loan portfolio (corporate, large businesses and medium businesses) classifying and provisioning debtors according to their cash flows, global indebtedness with creditor 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 based on the number of days in arrears and the classification debtors from other financial entities. Additionally, pursuant to SBS Resolution No. 041-2005, the Bank assesses the exposure to credit exchange risk for loans denominated in foreign currency.

The minimum percentages required for constituting loan portfolio provisions are as follows:

Normal category

Types of credits	**Fixed Component (%)**	**Pro-cyclical Component (%)**
Corporate loans	0.70	0.40
Corporate loans with customer deposit guarantees	0.70	0.30
Large businesses loans	0.70	0.45
Large businesses loans with customer deposit guarantees	0.70	0.30
Medium businesses loans	1.00	0.30
Small businesses loans	1.00	0.50
Micro businesses 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, 2014 the pro-cyclical component for the placement provisions was deactivate (Circular SBS N° B-2224-2014) and as of December 31, 2013, t was activate (Multiple Official Letter No. B-2193-2010-SBS).

Other risk categories and by type of guarantee are as follows

Risk category	**No collateral (%)**	**Preferred collateral (%)**	**Readily liquid preferred collateral (%)**
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

(k) Financial lease loan portfolio

Financial lease operations are recorded as loans in accordance with SBS rules in effect and IAS 17 "Leases". The initial recording of transactions is made based on the disbursement value of the transaction (net lease investment).

(l) Financial derivative instruments

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

Trading

Financial derivatives are initially recognized at cost in Grupo Continental's consolidated statement of financial position; and subsequently stated at fair value. On a monthly basis, trading financial derivatives are measured at their fair value. 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 statement of financial position; and the gain or loss of the valuation or settlement is booked in the period's results. The financial instruments' face value is recorded in their respective committed or agreed upon currency, in the contingent or memoranda accounts (Note 15).

For 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 directly attributable to the hedged risk as 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.

(l.1) Fair value hedging

For fair value hedges that qualify as such, changes in the fair value of the hedging derivative and the hedged risk of the hedged item, are recognized from the date the hedge is designated effective in the consolidated 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 consolidated statements of financial position.

(l.2) Cash flow hedging

For cash flow hedges, the hedging derivative is measured and recognized at its fair value and may affect both the equity and results accounts. The effective portion of changes in the fair value of derivatives is recognized in the equity account, (statement of income and other comprehensive income), while the ineffective portion shall be recognized in the Consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the hedge accounting criteria. Amounts previously recognized in the consolidated statement of financial position and in the consolidated statement of income and other comprehensive income (equity), as applicable, are transferred to the consolidated statement of income over the effective term of the hedged item.

(m) Property, furniture and equipment

Property, furniture and equipment are recorded at cost, which includes acquisition-related disbursements and are presented net of accumulated depreciation and accumulated impairment loss, if any. 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:

	Years
Property	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 from the accounts and the resulting gain or loss is recognized in the consolidated statement of income.

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

(n) Asset seized and recovered through legal actions

Asset seized and recovered through legal actions are measured at the court-ordered or off-court awarding value or at the value agreed in the in-kind payment agreement. Assets recovered by termination 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% value as of the award or recovery date for all goods received.

- For property, in a maximum 42-year term, an even monthly provision must be constituted upon net value obtained in the twelfth (12°) or eighteenth (18°) month from its awarding or recovery, depending on the SBS extension and until completing 100% of the carrying amount of the asset. On an annual basis, carrying amount of property is compared to realizable value determined by an independent appraiser and, in the event that this value is lower, an impairment provision is constituted.

- For assets other than property, the remaining balance is provisioned in a term not exceeding a 18-12 month-period if an extension is granted by the SBS.

(o) 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. The useful life of these assets has been estimated to be between 1 and 5 years.

Costs related to 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.

(p) Non-current assets held for sale

Non-current assets held for sale are measured at their previous carrying amount or fair value less costs to sell the lower. Non-current assets are classified as held for sale only when the asset is available for sale and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(q) Impairment of non-financial assets

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

(r) Employee benefits

The short and long terms employee benefits are accrued as follows:

Short-term benefits

(r.1) Vacations and other 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 date of the consolidated statement of financial position.

(r.2) Severance indemnities

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

(r.3) Employees' profit sharing

Grupo Continental recognizes a liability and an expense for employees' profit sharing calculating of 5% on the taxable amount determined in accordance with current tax legislation.

For subsidiaries, according to laws and regulations currently in effect, there will be no employees' profit sharing liabilities, since the number of employees does not exceed 20.

Long-term benefits

Post-employment benefits for active and non-active staff of Grupo Continental mainly related to seniority awards and healthcare benefits have been recognized based on actuarial calculations individually determined, considering future salary levels consistent with market expectations and the historical average cost of healthcare expenses and other benefits adjusted for inflation as well as the likelihood of occurrence. All these future cash flows have been discounted using the interest rates prevailing in the market on the issuance of high credit rating bonds.

(s) Provisions, contingent liabilities and contingent assets

Provisions are recognized only when the Bank has a current obligation (legal or implicit) resulting from 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 date of the consolidated statement of financial position. When the effect of the time value of money is material, the amount recorded as a provision is equal to the present value of the future payments required to settle the obligation.

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. Items 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.

(t) Share-based payment transactions

Grupo Continental has share-based compensation plans agreed with certain employees. Share-based payments to personnel are recognized at market rates as an expense within remunerations in the statement of income proportional to the services rendered by employees. These services are measured at the fair value of the committed equity instruments taking into account the date on which the commitments time periods, among other conditions were assumed.

The share-based compensation plan consists of the annual grant of a number of share options to each employee, which is the basis to determine the number of shares to be granted based on accomplishment of three key indicators set each year by Grupo BBVA, related to the evolution of the Parent Company´s shares and its contribution to the Group.

At each year-end close, the number of options granted is divided by the above-mentioned indicators based on the weight assigned to them at the time; then each of them is multiplied by a coefficient ranging between 0 and 2 based on the schedule set out each year for each of those indicators.

The shares resulting from the above calculation are subject to the following withholding criteria:

- 40% of the number of shares received shall be used at the discretion of the beneficiary from the date they are delivered;
- 30% of the number of shares received shall be released one year after the settlement date of the incentive; and
- The remaining 30% shall be released at the second following year after the settlement date of the incentive.

At December 31, 2014 and 2013 the coefficient applicable to each beneficiary was 0.4775 and 0,4675 respectively, which would give rise to an initial total number of shares of 52,163 and 58,647 for the entire number of beneficiaries, respectively.

(u) Revenue and expense recognition

Interest income and expenses and commissions on services are recognized in the consolidated statements of income on an accrual basis in the period transactions occurred.

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 recorded during the period in which they accrue.

(v) 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.

(w) Consolidated statement of income and other comprehensive income, and consolidated statement of changes in equity

The consolidated statement of income and other comprehensive income includes the unrealized gains or losses arising from the mark to market of available-for-sale financial assets as well as the mark to market of the derivatives designated as cash flow hedging instruments. Deferred tax on these items is treated as indicated in the corresponding note.

The consolidated statement of changes in net equity shows the consolidated comprehensive income for the period, the cumulative effect of changes in accounting policies or correction of errors, if any, transactions of shareholders such as payment of dividends and capital contributions, and reconciliation between beginning and ending balances disclosing each movement or change.

(x) Cash and cash equivalents

Cash and cash equivalents shown in the consolidated statement of cash flows include cash and due from banks, inter-bank funds, as well as cash equivalents corresponding to short-term highly liquid financial investments readily convertible into a specific cash amount, subject to an insignificant risk of changes in value, with maturity dates not exceeding 90 days from acquisition date. As established by the SBS, Grupo Continental prepares and presents this statement by applying the indirect method.

In the consolidated statement of financial position, bank overdrafts are reclassified to liabilities.

(y) Current and deferred income tax

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

Under tax laws currently in force, current income tax is calculated using tax rates that are effective for the current year and it is recognized as an expense.

Deferred income taxes liabilities are recognized for all taxable temporary differences arising from comparing the carrying amounts of assets and liabilities to their tax basis, regardless of when such temporary differences are expected to be reversed. Deferred income taxes assets are recognized for deductible temporary differences, arising from comparing the carrying amounts of assets and liabilities to their tax basis, to the extent that it is probable that Grupo Continental will obtain future taxable income against which the deductible temporary differences can be applied, within the established time-limit, as required by law. Deferred income tax assets and liabilities are measured using the income tax rate expected to be applied to the taxable income in the year in which the liability is settled or the asset is realized using the enacted or substantially enacted tax rate at the date of the consolidated statement of financial position date.

At December 31, 2014 as a result of the reduction in the income tax rates for fiscal years 2015 onwards (notes 18-b and 19), the Bank changed the rate applicable to the temporary items underlying the deferred income tax from 30% to 27%. The downward adjustment to the deferred income tax was estimated to be S/.41 million and was recognized in the results for the year.

(z) Provision for country risk

Pursuant to Resolution SBS No. 505-2002, the provision for country risk is calculated as the difference between maximum provisions based on the nature of the asset transaction and those determined by the aforementioned resolution.

The SBS has determined a table of provisions that is dependent on factors relating to the country with which exposure is maintained; one of those factors is the internal risk rating assigned by the entity to the country; another factor is the exposure level to the regulatory capital requirement that the entity maintains in the country.

(aa) Dividend distribution

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

(bb) Earnings per share

Basic earnings per share was 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, the basic and diluted earnings per share are the same.

(cc) Standards with accounting impact recently issued by the SBS

During 2014, the SBS has published the following significant standards, among others:

Resolution / Circular Letter / Multiple Official Letter SBS No.	Description of Standard	Publication Date	Effective Date
Resolution SBS N° 3225-2014	Change in the Manual of Accounting for Entities of the Peruvian Financial System	29/05/2014	July 2014
Resolution SBS N° 5790-2014	Rules for reporting transactions applicable to Entities of the Peruvian Financial System	01/09/2014	September 2014
Resolution SBS N° 439-2014	Extension for holding assets seized and recovered through legal actions until December 31, 2014, for those companies requiring to do so, with no need for request of authorization or resolution by the SBS.	22/01/2014	2014

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, prevailing at 2014 and 2013 year-ends, for each currency. These balances are summarized as follows:

	2014			2013		
	US dollar	**Other currencies**	**Total**	**US dollar**	**Other currencies**	**Total**
Monetary assets						
Cash in hand	4,020,759	50,946	4,071,705	3,477,170	65,818	3,542,988
Interbank funds	-	-	-	9,000	-	9,000
Trading and held-to-maturity investments	63,450	-	63,450	84,235	-	84,235
Loan portfolio	6,125,315	4,231	6,129,546	6,577,253	736	6,577,989
Other assets	85,511	4,773	90,284	59,444	181	59,625
Total monetary assets	10,295,035	59,950	10,354,985	10,207,102	66,735	10,273,837
Monetary liabilities						
Obligations to the public	5,942,555	54,850	5,997,405	5,488,144	494,448	5,982,592
Deposits of financial system companies	390,953	-	390,953	164,653	-	164,653
Due to bank and other financial obligations	3,633,848	472	3,634,320	3,751,966	4,185	3,756,151
Payables	32,060	72	32,132	40,927	139	41,066
Provisions	21,818	262	22,080	18,786	559	19,345
Other liabilities	10,976	403	11,379	8,344	29	8,373
Total monetary liabilities	10,032,210	56,059	10,088,269	9,472,820	499,360	9,972,180
Asset (liability) position, net	262,825	3,891	266,716	734,282	(432,625)	301,657
Asset derivatives	5,250,385	508,332	5,758,717	3,075,577	618,938	3,694,515
Liability derivatives	5,358,827	512,221	5,871,048	3,758,536	186,464	3,945,000
Net monetary position	154,383	2	154,385	51,323	(151)	51,172

Most of the assets and liabilities in foreign currency are denominated in U.S. dollars. As of December 31, 2014, the exchange rate established by the SBS used to convert these amounts into Nuevos Soles (S/.) was S/.2.986 per US$1.00 (S/.2.795 as of December 31, 2013).

In 2014 Grupo Continental recorded foreign exchange gains amounting to S/.495 million (S/.339 million in 2013), which are shown in “Foreign Exchange difference from various transactions, net” in the consolidated statement of income.

The calculated depreciation percentages of the Peruvian Nuevo Sol as compared to the U.S. dollar, were 6.83% and 9.61% for 2014 and 2013, respectively; inflation percentages, according with the Domestic Wholesale Price Index (IPM for its Spanish acronym), were 1.47% and 1.55% for 2014 and 2013, respectively.

4. CASH AND DUE FROM BANKS

In thousands of S/.	2014	2013
Banco Central de Reserva del Perú (BCRP)	8,370,009	8,917,842
Cash	2,992,256	1,984,613
Guarantee funds	2,583,206	-
Banks and other foreign financial institutions	500,938	673,808
Clearing accounts	106,791	58,982
Banks and other local financial system companies	68,046	128,888
Other deposits	11,837	60,071
Total	14,633,083	11,824,204

As of December 31, 2014, cash and due from banks includes approximately US$ 3,060 million and S/.2,107 million (US$ 2,714 million and S/.1,526 million as of December 31, 2013) which represent the legal reserve that Peruvian entities must maintain as a guarantee of third party deposits. These funds are deposited in the entities´ vaults and in BCRP´s vaults.

As of December 31, 2014, the cash and due from banks balances subject to reserve in local and foreign currency are affected by an implicit rate in local currency of 9.50% and in foreign currencies of 45% over total obligations subject to reserve (TOSE) in local and foreign currency as required by BCRP (as of December 31, 2013, the applicable implicit rates in local and in foreign currencies were 15% and 45%, respectively).

The reserve funds, representing the legal minimum, which is 9%, do not bear interest. The reserve funds corresponding to the additional reserve required in foreign currency and local currency, bear interest at an annual nominal rate set by the BCRP. As of December 31, 2014, interest income earned from these deposits was S/.7 million (S/.31 million in 2013), and it is included in the category “Interest from deposits in financial institutions” of the consolidated statement of income. Pursuant to legal provisions in force, these reserves cannot be seized.

Guarantee funds at December 31, 2014 include balances used to secure foreign exchange repurchase agreements entered with BCRP (Note 11(e)).

As of December 31, 2014 and 2013, cash and due from banks included restricted funds for S/.3 million, required in connection with legal proceedings against the Bank to guarantee any potential liabilities generated by these lawsuits.

5. TRADING INVESTMENTS AND HELD-TO-MATURITY INVESTMENTS

Investments securities are classified by Grupo Continental as follows:

In thousands of S/.	2014	2013
Available-for-sale investments assets		
Certificates of deposit of BCRP (a)	1,789,149	2,874,246
Republic of Peru Sovereign Bonds (b)	491,926	156,266
Local companies shares (c)	45,897	52,772
Foreign companies shares	637	637
Total	2,327,609	3,083,921
Investments assets at fair value through profit or loss		
Republic of Peru Sovereign Bonds (b)	435,736	322,024
Certificates of deposit of BCRP (a)	186,283	179,628
Investments in mutual funds (d)	60,919	54,619
U.S. Treasury bonds	60,307	-
Shares in local companies (c)	-	475
Total	743,245	556,746
Held-to-maturity financial assets		
Republic of Peru Sovereign Bonds (b)	451,232	443,993

(a) BCRP certificates of deposits are freely tradable securities in local currency, with maturities up to May 2016, which were acquired in public auctions or secondary markets. As of December 31, 2014, the annual interest rate of these certificates in local currency ranged between 3.3% and 3.91% (3.6% - 4.2% as of December 31, 2013) and in foreign currency, rates ranged between 0.07% and 4.31% (0.10% - 0.15% as of December 31, 2013).

(b) As of December 31, 2014 those bonds accrued annual interest at rates between 1.70% and 6.92% (1% and 7.28% at December 31, 2013) in local currency and 10.75% in foreign currency (6.57% as of December 31, 2013) with maturities up to in August 2046.

(c) As of December 31, 2014 and 2013 this balance mainly included shares listed in the Lima Stock Exchange for a total of S/.35 million and S/.38 million; respectively.

(d) As of December 31, 2014 and 2013, the investment in mutual funds corresponds to investment units maintained by Grupo Continental in different mutual funds managed by BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos.

6. LOAN PORTFOLIO, NET

The loan portfolio comprises the following:

In thousands of S/.	2014	%	2013	%
Direct loans				
Loans	15,546,054	37	14,851,955	39
Mortgages	9,562,167	23	8,433,344	22
Foreign trade	4,723,868	11	3,899,483	10
Leasing	4,345,229	10	4,202,111	11
Consumer	3,445,263	8	3,285,220	9
Discounted notes	1,291,732	3	1,293,059	3
Other	3,126,852	8	2,545,083	6
	42,041,165	100	38,510,255	100
Refinanced and restructured loans	762,547	2	593,079	2
Past-due loans and loans in legal collection	976,191	2	690,928	2
	43,779,903	104	39,794,262	104
Plus: Accrued interest	287,913	1	270,988	1
	44,067,816	105	40,065,250	105
Deferred income from loan transactions	(38,394)	-	(31,316)	-
Direct loan losses allowance	(1,973,023)	(5)	(1,788,607)	(5)
TOTAL	42,056,399	100	38,245,327	100
Indirect loans (Note 14)	15,635,583		12,298,340	

Loans secured by collateral granted by customers, mainly comprise mortgages, deposits, letters of guarantee, warrants and financial lease operations, amounted to S/.34,180 million and S/.31,864 million, at December 31, 2014 and 2013, respectively.

As of December 31, 2014 a part of the mortgage loan portfolio is guaranteed by of Fondo Mi Vivienda - Mi Hogar for up to approximately S/.561 million (S/.520 million as of December 31, 2013) (Note 11(c)).

As of December 31, 2014 and 2013, the average annual interest rates of main products were as follows:

	2014		2013	
	S/.	**US$**	**S/.**	**US$**
	%	**%**	**%**	**%**
Loans and discounts	8.06	6.65	8.26	6.99
Mortgages	9.19	8.40	9.35	8.59
Consumer	21.54	17.25	22.10	15.93

(a) The table below shows the direct loan portfolio balances as of December 31, 2014 and 2013, under the segmentation established by SBS Resolution No. 11356- 2008, as follows:

In thousands of S/.	2014	%	2013	%
Medium-sized business	10,121,029	23	10,044,532	25
Large business	11,029,640	25	8,042,304	20
Mortgages	9,730,550	23	8,551,796	21
Corporate	5,741,912	13	6,626,562	17
Consumer	3,610,184	9	3,457,612	9
Small business	1,395,904	3	1,579,785	4
Public sector entities	968,713	2	661,358	2
Financial system companies	570,412	1	305,217	1
Stock brokers	476,741	1	378,301	1
Micro businesses	68,812	-	86,295	-
Multilateral development banks	66,006	-	60,500	-
Total	43,779,903	100	39,794,262	100

In thousands of S/.	2014	%	2013	%
Medium-sized business	10,121,029	23	10,044,532	25
Large business	11,029,640	25	8,042,304	20
Mortgages	9,730,550	23	8,551,796	21
Corporate	5,741,912	13	6,626,562	17
Consumer	3,610,184	9	3,457,612	9
Small business	1,395,904	3	1,579,785	4
Public sector entities	968,713	2	661,358	2
Financial system companies	570,412	1	305,217	1
Stock brokers	476,741	1	378,301	1
Micro businesses	68,812	-	86,295	-
Multilateral development banks	66,006	-	60,500	-
Total	43,779,903	100	39,794,262	100

(b) The credit risk based rating of the Bank's loan portfolio under the SBS standards is summarized as follows:

In thousands of S/.	2014						2013					
	Direct loans		**Indirect loans**		**Total**		**Direct loans**		**Indirect loans**		**Total**	
		%		**%**		**%**		**%**		**%**		**%**
Normal	40,827,557	93	15,371,531	98	56,199,088	95	37,416,947	95	12,143,619	99	49,560,566	95
With potential problems	973,828	2	167,776	1	1,141,604	2	850,238	2	102,544	1	952,782	2
Substandard	612,739	2	64,976	1	677,715	1	519,002	1	34,422	-	553,424	1
Doubtful	726,817	2	22,236	-	749,053	1	480,760	1	12,751	-	493,511	1
Loss	600,568	1	9,064	-	609,632	1	495,999	1	5,004	-	501,004	1
	43,741,509	100	15,635,583	100	59,377,092	100	39,762,946	100	12,298,340	100	52,061,287	100
Deferred income from loan transactions	38,394		-		38,394		31,316		-		31,316	
Total	43,779,903		15,635,583		59,415,486		39,794,262		12,298,340		52,092,603	

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

During 2014 the Grupo Continental wrote off non-accrual interest of S/.29 million (S/.28 million in 2013) relating to loans, principal, interest and commissions.

(c) The allowance for loan losses activity as of December 31, 2014 and 2013 was as follows:

In thousands of S/.	**2014**	**2013**
Balance as of January 1	1,788,607	1,465,086
Provisions	1,242,049	1,099,461
Recoveries and reversals	(724,501)	(577,576)
Portfolio sales	(381,855)	(239,561)
Foreing exchange difference and other adjustments	48,723	41,197
Balance as of December 31	1,973,023	1,788,607

Management considers that level of the provision for loan losses is adequate to cover potential losses in the portfolio as of the date of the consolidated statement of financial position and all applicable laws and regulations have been complied with. As of December 31, 2014, the loan portfolio general provision of S/.1,066 million (S/. 1,040 million at December 31, 2013) includes pro-cyclical provisions of S/.183 million (S/.169 million at December 31, 2013). Grupo Continental also maintains voluntary provisions of S/.558 million and S/.570 million as of December 31, 2014 and 2013, respectively.

During 2014, Grupo Continental entered into contracts for concession of rights and shares which it was entitled to over the loan portfolio for approximately S/.253 million (S/.221 million as of December 31, 2013). The sale price was S/.32 million (S/.15 million in 2013) and was recorded in item "Profit/loss from financial operations" caption in the consolidated statement of income. As of December 31, 2014 and 2013, Grupo Continental granted rights on a written-off portfolio for S/.8 million and S/.7 million, respectively.

7. PROPERTY, FURNITURE AND EQUIPMENT, NET

The activity in property, furniture and equipment, net is as follows:

In thousands of S/.	Land	Buildings and facilities	Furniture and equipment	Vehicles	Facilities and leasehold improvements	Works in progress	In - transit and replacement units	Total
Cost:								
Balance as of January 1, 2013	103,694	599,448	335,491	5,016	141,868	26,734	6,630	1,218,881
Additions	22,558	8,030	64,453	1,487	4,263	120,555	5,058	226,404
Disposals	-	-	(13)	-	-	-	-	(13)
Transfers and others	(2,270)	41,006	(2,362)	-	41,272	(86,837)	(9,760)	(18,951)
Balance as of December 31, 2013	123,982	648,484	397,569	6,503	187,403	60,452	1,928	1,426,321
Additions	-	10,319	51,982	532	9,582	64,828	4,571	141,814
Disposals	-	-	(15)	-	-	-	-	(15)
Transfers and others	-	58,208	3,209	(74)	6,742	(71,574)	(4,501)	(7,990)
Balance as of December 31, 2014	123,982	717,011	452,745	6,961	203,727	53,706	1,998	1,560,130
Accumulated depreciation:								
Balance as of January 1, 2013	-	328,348	164,537	3,897	37,055	-	-	533,837
Additions	-	30,247	33,278	737	16,065	-	-	80,327
Disposals	-	-	(9)	-	-	-	-	(9)
Transfers and others	-	(1,237)	(4,508)	-	(99)	-	-	(5,844)
Balance as of December 31, 2013	-	357,358	193,298	4,634	53,021	-	-	608,311
Additions	-	32,499	38,541	601	19,010	-	-	90,651
Disposals	-	-	(14)	-	-	-	-	(14)
Transfers and others	-	(264)	(2,966)	-	256	-	-	(2,974)
Balance as of December 31, 2014	-	389,593	228,858	5,235	72,287	-	-	695,974
Net cost:								
Balance as of December 31, 2014	123,982	327,418	223,886	1,726	131,440	53,706	1,998	864,156
Balance as of December 31, 2013	123,982	291,126	204,271	1,869	134,382	60,452	1,928	818,010

8. OTHER ASSETS, OTHER LIABILITIES, PAYABLES AND PROVISIONS

These captions consisted of the following balances:

(a) Other assets as of December 31, 2014 mainly include S/.62 million for deferred charges (S/.74 million as of December 31, 2013) and S/.151 million for transactions in process (S/.13 million as of December 31, 2013).

(b) Payables as of December 31, 2014 mainly include outstanding payments to suppliers for S/.142 million (S/.130 million as of December 31, 2013), sundry payables for S/.35 million (S/.44 million as of December 31, 2013), premiums to Fondo de Seguro de Depósitos (Deposit insurance fund), contributions and obligations with tax collection institutions for S/.110 million (S/.132 million as of December 31, 2013) and dividends, employees' sharing profit and remunerations payable for S/.96 million (S/.85 million as of December 31, 2013).

(c) Other liabilities as of December 31, 2014 mainly include S/.145 million of transactions in process (S/.41 million at December 2013).

(d) Provisions include provisions for indirect loans, litigation, claims, and provisions for staff, among others, which as of December 31, 2014 and 2013 amounted to S/.400 million and S/.435 million, respectively.

The activity in the provision for indirect loans is as follows:

In thousands of S/.	**2014**	**2013**
Balance as of January 1	82,731	70,328
Provision	77,518	53,975
Recoveries and reversals	(56,299)	(44,513)
Foreign exchange difference and other adjustments	1,724	2,941
Balance as of December 31	105,674	82,731

As of December 31, 2014, the generic provision for indirect loan portfolio for S/.94 million (S/.76 million as of December 31, 2013) includes pro-cyclical provisions for S/.32 million (S/.25 million as of December 31, 2013).

Grupo Continental has several lawsuits and litigation currently in progress and other court actions related to its core activities. Management and legal counsel consider that the outcome, of these legal actions will not result in additional provisions. Therefore, as of December 31, 2014 and 2013, Management has considered necessary not to make additional provision higher than what is recorded for these contingencies and court actions, which amounted to S/.166 million and S/.194 million, respectively.

The activity of other provisions is as follows:

In thousands of S/.	2014	2013
Balances as of January 1	352,695	393,008
Provisions for administrative expenses	488,409	460,614
Recoveries	(2,389)	(3,870)
Disbursements	(492,953)	(459,015)
Others	(51,812)	(38,042)
Balances as of December 31	293,950	352,695

9. OBLIGATIONS TO THE PUBLIC

In thousands of S/.	2014	2013
Time deposits	15,270,688	14,825,854
Demand deposits	12,280,162	12,219,603
Savings deposits	10,953,621	9,323,333
Other obligations	50,701	46,100
Total	38,555,172	36,414,890

As of December 31, 2014 Obligations to the public include restricted deposits received as collateral from The Bank´s loan customers for S/.700 million (S/.825 as of December 31, 2013).

Interest rates for borrowing transactions are determined by Grupo Continental considering current market interest rates. A detail of current interest rates for main products are as follows:

	2014		**2013**	
	Accounts in		**Accounts in**	
	S/. %	**US$ %**	**S/. %**	**US$ %**
Checking accounts	0.00-0.50	0.00-0.125	0.00-0.75	0.00-0.30
Savings deposits	0.125-0.50	0.125-0.125	0.15-2.00	0.125-1.00
Time deposits and Certificates of deposits	0.80-1.35	0.10-0.80	0.80-1.35	0.10-1.15
Super-deposits	1.00-1.35	0.20-0.80	1.00-1.35	0.40-1.15
Deposits of severance indemnities	1.50-3.75	0.60-2.50	1.50-3.75	0.60-2.50

10. INTER-BANK FUNDS

As of December 31, 2014, inter-bank funds assets had current maturities, accrued interest at an average annual interest rate of 3.65% in local currency and 0.15% in foreign currency (0.15% foreign currency as of December 31, 2013) and were unsecured.

As of December 31, 2014, inter-bank funds liabilities had current maturities, accrued interest at an average annual interest rate of 3.50% in local currency, (4% in local currency as of December 31, 2013) and were unsecured.

11. DUE TO BANKS AND OTHER FINANCIAL OBLIGATIONS

In thousands of S/.	2014	2013
Due to banks and financial obligations		
Foreign Financial Institutions (a)	3,869,655	4,063,862
Banco Central de Reserva del Perú (Note 4) (e)	2,540,900	-
Fondo Mi Vivienda - Mi Hogar (c)	561,097	519,985
International Financial Organizations (b)	479,140	856,464
Private debt agreement (d)	268,740	363,350
Corporación Financiera de Desarrollo – COFIDE	61,796	28,730
Accrued interests payable	69,117	66,203
	7,850,445	5,898,594
Securities and bonds (f)		
Corporate bonds	4,679,292	4,439,062
Subordinated bonds	1,524,583	603,400
Notes (Debt Instruments)	788,803	936,325
Financial lease bonds	274,650	139,875
Marketable certificates of deposit	60,618	64,879
Accrued interests payable	81,768	65,391
	7,409,714	6,248,932
	15,260,159	12,147,526

Some of the loan agreements with foreign financial institutions and international financial organizations include standard compliance covenants regarding attainment of financial ratios and other specific conditions which at December 31, 2014 and 2013 have been fully complied with according to Grupo Continental Management´s opinion.

(a) Foreign financial institutions

As of December 31, 2014 these balances accrued interest at market rates, ranging between 1.2% and 7.4% (1.4% and 7.4% as of December 31, 2013):

In thousands of S/. and US$	2014		2013		Due date
	US$	**S/.**	**US$**	**S/.**	
Goldman Sachs Bank (i)	503,548	1,503,593	505,308	1,412,336	January 2017
Deutsche Bank (ii)	347,749	1,038,378	347,366	970,888	November 2020
Credit Suisse (iii)	200,000	597,200	200,000	559,000	October 2040
DEG Deutsche Investitions (iv)	45,000	134,370	50,000	139,750	October 2017 and Jun 2018
Standard Chartered (v)	40,000	119,440	62,000	173,290	May 2016
Bank of America (v)	40,000	119,440	50,000	139,750	May 2016
Wells Fargo Bank (v)	40,000	119,440	40,000	111,800	May 2016
Citibank NA (v)	40,000	119,440	40,000	111,800	May 2016
China Development Bank	29,000	86,594	43,000	120,185	December 2016
Mercantil Commercebank NA	-	-	25,000	69,875	May 2014
Toronto Dominion Bank	-	-	9,000	25,155	April 2014
Bank of Montreal	-	-	25,000	69,875	March 2014
Others	10,636	31,760	57,301	160,158	January 2015
	1,295,933	3,869,655	1,453,975	4,063,862	

(i) In January 2012, the Group entered into a loan for a nominal amount of US$ 500 million, at a fixed rate of 5.75% with the principal due date in January 2017 ("bullet") that is carried at a fair value hedge through an interest rate swap, with the same due date of the debt. The Group recorded a loss in 2014 amounting to S/.10 million for changes in the fair value of the loan (Note 15), relating to changes in the fair value of the hedged risk (interest rate) (S/.15 million of cumulative losses at December 31, 2013).

(ii) Loan for a nominal amount of US$350 million, at a fixed rate of 5.50% and due in November 2020, which is recorded at fair value. This loan is hedged with an Interest Rate Swap (IRS), which was terminated in April 25, 2013. As of April 2013, Grupo Continental had recorded gains for S/.18 million resulting from changes in the fair value of the loan, which is included within "Gains from hedging transactions, net" in the consolidated statement of income.

(iii) Corresponding to a subordinated loan in foreign currency at an interest rate of 7.38%, approved by the SBS, which meets the conditions to be considered as Tier 1 Regulatory Capital up to the limit allowed under the General Law.

(iv) It mainly includes a subordinated loan for US$ 30 million at an interest rate of 2.99% approved by the SBS which is considered as part of Tier 2 Regulatory Capital in accordance with current standards.

(v) This includes four loans for US$ 40 million each, due in May 2016, with cash flow hedge using an interest rate swap (Note 15).

(b) International Financial Organizations

Debts to international financial organizations accrued interest at international market rates between 1.3% and 6.4% as of December 31, 2014 (1.7% and 6.4% as of December 31, 2013), and are unsecured.

In thousands of S/.	2014		2013		Due date
	US$	S/.	US$	S/.	
International Finance Corporation – IFC	100,462	299,980	117,857	329,410	December 2018 and June 2022
Banco Interamericano de Desarrollo - BID (i)	60,000	179,160	160,000	447,200	February 2017 / 2019 and August 2015
Corporación Interamericana de Inversiones –CII	-	-	28,570	79,854	August 2014
	160,462	479,140	306,427	856,464	
Accrued expenses payable	769	2,298	3,270	9,138	
	161,231	481,438	309,697	865,602	

(i) This includes two subordinated loans amounting to US$50 million, approved by the SBS and 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, 2014 these debts mainly included the resources obtained for the social housing program “Mi Vivienda” of S /.540 million and of US$ 7 million (S/.478 and US$9 million as of December 31, 2013, respectively). These loans have different maturities until December 2033 and bear interest at an annual effective rate of 7.75% on the foreign currency portion and 6.25% on the principal plus the Constant Adjustment Index (hereinafter VAC, for its Spanish acronym) on the local currency portion.

At December 31, 2014 the obligation with Fondo Mi Vivienda – Mi Hogar of S/.561 million (S/.520 million as of December 31, 2013) was secured by a portion of the mortgage loan portfolio up to that amount (Note 6). Loans include specific conditions about how these funds should be used, financial covenants that the borrower must meet, as well as administrative terms.

(d) Private debt agreement

This item includes a borrowing obtained for US$ US$90 million at an interest rate of 2.2% due in March 2017, guaranteed by present and future cash flows generated by electronic payment orders of clients (Diversified Payments Rights - DPRs). These orders are sent to the Bank through the SWIFT (Society for Worldwide Interbank Financial Telecomm Network).

These financing agreements contain covenants to be complied by the Bank, involving certain financial ratios and other specific conditions related to the transferred cash flows. Grupo Continental Management believes it has fully complied with those covenants at December 31, 2014.

(e) At December 31, 2014 these balances comprise foreign exchange repurchase agreements signed with the BCRP bearing annual interest rates ranging between 3.80% and 4.52% and with maturities from February 2015 and June 2016 (Note 4).

(f) Securities and bonds

In thousands of US$ and S/.

Program	Authorized amount	Issuance	Series	Currency	Nominal issuance value	Balance as of 31.12.14	Balance as of 31.12.13	Maturity date
Corporate bonds								
Third	USD 100 million or S/. 315 million	Fourth	A	USD	-	-	23,850	September 2014
		Seventh	Single	PEN	60,000	60,000	60,000	May 2018
Fourth	USD 100 million	First	Single	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	USD 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	Single	PEN	200,000	181,343	186,851	April 2019
		Sixth	A	USD	54,000	161,244	150,930	July 2016
	USD 500 million	First	Single	USD	500,000	1,493,000	1,397,500	August 2022
	USD 300 million	Second	Single	USD	300,000	894,909	837,157	July 2016
	USD 500 million	Third	Single	USD	500,000	1,468,796	1,362,774	April 2018
						4,679,292	4,439,062	
Subordinated Bonds								
First		First	A	PEN	40,000	39,768	39,744	May 2022
	USD 50 million or S/. 158.30 million	Second	A	USD	20,000	59,720	55,900	May 2027
		Third	A	PEN	55,000	70,276	68,124	June 2032
Second	USD 100 million	First	A	USD	20,000	59,392	55,577	September 2017
		Second	A	PEN	50,000	62,569	60,652	November 2032
		Third	A	USD	20,000	59,720	55,900	February 2028
		Fourth	Single	PEN	45,000	54,343	52,679	July 2023
		Fifth	Single	PEN	50,000	59,601	57,776	September 2023
		Sixth	A	PEN	30,000	35,144	34,068	December 2033
Third	USD 55 million	First	Single	USD	45,000	134,370	122,980	October 2028
First	USD 300 million	First	Single	USD	300,000	889,680	-	September 2029
						1,524,583	603,400	
Leasing bonds								
First	USD 200 million	First	A	USD	25,000	74,650	69,875	April 2016
		Second	A	PEN	-	-	30,000	September 2014
		Third	A	PEN	-	-	40,000	November 2014
Second	USD 250 million	First	A	PEN	200,000	200,000	-	May 2017
						274,650	139,875	
Marketable Certificates of Deposit								
Notes						60,618	64,879	
	USD 250 million	First	2008-A	USD	250,000	149,300	279,500	December 2015
	USD 235 million	Second	2012-A, 2012-B, 2012-C and 2012-D	USD	235,000	639,503	656,825	June 2017 and June 2022
						788,803	936,325	
Accrued interests payable on securities						81,768	65,391	
						7,409,714	6,248,932	

Corporate bonds are unsecured and bear annual interest at rates between 5.8% and 7.5% as of December 31, 2014 on local currency (between 5.8% and 7.5% on local currency as of December 31, 2013), and between 2.3% and 5% on foreign currency as of December 31, 2014 (between 2.3% and 6.4% as of December 31, 2013).

Corporate bonds for S/.200 million are hedged with a cross currency swap – CCS. At December 31, 2014 the Bank has accounted for gains on the cumulative adjustments of S/.19 million (Note 15) corresponding to the changes in the fair value of hedged risk (currency) (S/.13 million at December 31, 2013 of cumulative gains).

The issuance of notes in June 2012 for US$ 214 million includes US$ 70 million recorded at fair value due to the interest rate swap entered into (Note 15), which was ended on June 5, 2013. As of December 31, 2013, Grupo Continental has recorded gains for S/.5 million corresponding to the variation of the issuance's fair value, included in "Gain from hedging operations" in the consolidated statement of income. Also, this note issuance contain a financing of US$40 million, with maturity in June 2022, having a cash flow hedge with an IRS contract (Note 15).

In August 2012, the Bank carried out an international issuance for a nominal amount of US$500 million, at a fixed interest rate of 5%, maturing in August 2022. Principal will be fully paid off upon maturity. Likewise, such issuance was hedged through an interest rate swap that was terminated on May 30, 2013. Al December 31, 2013 Grupo Continental has recorded gains for S/.73 million corresponding to the variation in the issuance's fair value, included in "Gain from hedging operations" in the consolidated statement of income.

In April 2013, the Bank carried out an international issuance for a nominal amount of US$500 million, at a fixed interest rate of 3.25%, maturing in April 2018. Principal will be fully paid off upon maturity. Likewise, such issuance is recorded in books at fair value, and the variation in fair value is hedged with an IRS, which the Bank has accounted for at their carrying amount at December 31, 2014 cumulative adjustments for S/.18 million of gains (Note 15), resulting from, changes in the fair value of the hedged risk (interest rate) (S/.28 million at December 31, 2013 of accumulated gains).

Subordinated bonds were issued according to the 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% in foreign currency.

Leasing bonds bear interest at a nominal annual rate of 5.4% in local currency and 7.2% in foreign currency and they are backed by credit transactions in the form of lease contracts and have been financed by the aforementioned bonds.

12. NET EQUITY

(a) Capital Stock

At December 31, 2014, the Bank's authorized, issued and fully paid-in capital in accordance with its by-laws consisted of 3,246,531 thousands of outstanding ordinary shares with a face value of S/.1 each (2,724,770 thousand ordinary shares at miles at December 31, 2013).

The Annual Mandatory Shareholders Meetings held on March 31, 2014 and March 27, 2013, authorized to increase the capital stock for S/.522 and S/.498 million, respectively, by the capitalization of retained earnings and voluntary reserve.

The Bank’s ordinary stocks are listed in the Lima Stock Exchange. At December 31, 2014 and 2013 the stock market quotation value of the Bank’s stock was S/.4.65 and S/.5.30 per share, respectively, with a trading frequency of 95.24% at December 31, 2014 and at December 31, 2013.

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

Individual capital shareholding	**Number of shareholders**	**Total Shareholding (%)**
Up to 1	8,387	4.20
From 1.01 to 5	3	3.56
From 80.01 to 100	1	92.24
Total	8,391	100.00

(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.

Legal reserve to be allocated from the Bank’s 2014 net profits, which will amount to S/.134 million, will be recognized upon the approval of the individual financial statements at the next General Shareholders’ Meeting to be held in 2015.

In the Annual Mandatory Shareholders Meetings held on March 31, 2014 and March 27, 2013, it was approved to establish a legal reserve for the equivalent of 10% of profit for 2013 (S/. 130 million) and for 2012 (S/.125 million), respectively.

(c) Retained earnings

Dividends for 2014 distributed to shareholders other than domiciled legal entities, are subject to a 4.1% income tax rate. Dividends for 2015 and onward are subject to an income tax withholding from 6.8% to 9.3% (Note 18b).

In the Annual Mandatory Shareholders’ Meetings held on March 31, 2014 and March 27, 2013, capitalization of retained earnings for S/.522 and S/.498 million, respectively, was approved. Also, in the Shareholders’ Meetings held on March 31, 2014 and March 27, 2013, dividend distribution for S/.652 million and S/.623 million, respectively, was approved.

(d) Adjustments to equity

Adjustments to equity include unrealized gains for S/.5.4 million corresponding to the available-for-sale financial investment portfolio (S/.9 million December 31, 2013), S/.2.5 million corresponding to unrealized gains for held-to-maturity financial assets (S/.3 million at December 31, 2013) and S/.2 million for the valuation of cash flow hedge derivatives (S/.3 million at December 31, 2013).

(e) Profit for the period

Date April 23, 2014 and June 26, 2014 the Board of Directors, in the exercise of the delegation conferred upon it by the Annual General Shareholders’ Meeting held on March 31, 2014 and pursuant to the provisions of article 184°, Item A), Point 2 of the General Law, unanimously decided to commit to capitalizing profits for fiscal 2014 for S/.250 million y S/.200 million, respectively. This undertaking will be submitted for consideration to the next Annual Mandatory Shareholders Meeting to be held in March 2015.

13. 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 which included contingent loans. As of December 31, 2014 the Bank uses the standard method for the calculation of the Regulatory Capital by credit, market and operational risk.

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, credit concentration risk (individual and per sector), 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, 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.

On an individual basis, at December 31, 2014 the Bank's Regulatory Capital, determined in accordance with current legal standards, amounts to S/.7,370 million (S/.5,866 million at December 31, 2013). 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, market and operational risk weighted average assets and contingent loans, in accordance with current legal standards, amount to S/.53,495 million at December 31, 2014 (S/.47,207 million at December 31, 2013).

At December 31, 2014, the Bank's capital adequacy ratio by credit, market and operational risk was 13.78% (12.42% at December 31, 2013).

14. CONTINGENT RISKS AND COMMITMENTS

In thousands of S/.	2014	2013
Contingent transactions:		
Indirect credits:		
Guarantees and letters of guarantee	14,547,453	11,341,379
Letters of credit and bank acceptances	1,088,130	956,961
	15,635,583	12,298,340
Unused lines of credit and not disbursed approved loans	7,080,667	6,926,654
Total	22,716,250	19,224,994

Indirect loans (contingent transactions)

During the normal course of its business, Grupo Continental enters into transactions which are recorded in contingent accounts. These transactions expose Grupo Continental to credit risk in addition to the amounts recognized in the consolidated statement of financial position.

The credit risk in contingent transactions is related to the possibility that one of the counterparties will not comply with the agreed-upon terms. The corresponding contracts reflect amounts that would be assumed by Grupo Continental for loan losses on 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 on contingent transactions in force as of December 31, 2014.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Grupo Continental has commitments to enter into forward agreements for the purchase and sale of foreign currency (Forwards), interest rate 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 transactions are agreements by which the exchange of periodic cash flows are calculated on the basis of the application of either a variable or fixed interest rate under 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 Framework Agreement for local customers. Cross currency swaps are agreements by which the exchange of amounts in one currency for amounts in another currency is agreed, setting the exchange rate to be applied to those transactions.

In this specific case, the cross currency swap switches a fixed rate in U.S, dollars for a variable rate in Peruvian nuevos soles (OIS exchange rate).

Options are agreements whereby the holder has the option - rather than the obligation - to purchase or sell an underlying instrument at prices defined at the day of the transaction, for which the holder pays a premium to the seller of the options that is calculated under market conditions

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

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

The notional amount in Peruvian Nuevos Soles and the fair value of derivative financial instruments were as follows:

In thousands of S/.	2014			
	Underlying	**Nominal**	**Asset**	**Liability**
Trading derivatives				
Currency forward		17,449,564	142,145	182,076
Commodities and others options		2,118,757	11,878	11,877
Interest rate options		280,806	374	374
Currency swap		14,081,780	655,101	481,393
Interest rate swap		5,065,444	18,231	51,537
Provision for country risk		-	(5)	-
Total trading derivatives		38,996,351	827,724	727,257
Hedging derivatives				
At fair value (i)		3,211,273	16,457	59,127
Currency Swap	Bond issuance	225,273	-	42,898
Interest rate swap	Due to banks	1,493,000	16,457	-
Interest rate swap	Bond issuance	1,493,000	-	16,229
Cash flow (ii)		597,200	2,358	-
Interest rate swap	Due to banks	597,200	2,358	-
Total hedging derivatives		3,808,473	18,815	59,127
TOTAL		42,804,824	846,539	786,384

In thousands of S/. **2013**

	Underlying	Nominal	Asset	Liability
Trading derivatives				
Currency forward		11,889,467	138,392	204,097
Commodities and others options		1,566,665	17,452	17,452
Interest rate options		287,857	796	796
Currency Swap		6,503,755	385,882	254,652
Interest rate swap		3,528,356	37,446	84,004
Provision for country risk		-	(2,716)	-
Total trading derivatives		23,776,100	577,252	561,001
Hedging derivatives				
At fair value (i)		3,216,726	22,519	51,918
Currency swap	Bond issuance	210,863	-	26,050
Interest rate swap	Due to banks	1,397,500	19,891	-
Interest rate swap	Bond issuance	1,608,363	2,628	25,868
Cash flow (ii)		559,000	4,270	-
Interest rate swap	Due to banks	559,000	4,270	-
Total hedging derivatives		3,775,726	26,789	51,918
TOTAL		27,551,826	604,041	612,919

Hedging derivative at fair value

(i) At December 31, 2014 Grupo Continental has entered into a cross currency swap to hedge the fair value of bonds issued for a nominal value equivalent to S/.225 million, due in April 2019. Through this cross currency swap, Grupo Continental changes its issuance into a variable-rate US dollar issuance from a fixed-rate domestic currency issuance. As of December 31, 2014 the fair value of the cross currency swap amounts to S/.6 million (loss), included in "Gain from hedging operations" in the consolidated statement of income (at December 31, 2013 the fair value amounted to a loss of S/.33 million).

At December 31, 2014 Grupo Continental has entered into interest rate swap contracts for a nominal amount equivalent to S/. 2,986 million p to hedge interest rates for debts received due in January 2017 and bonds issued due in April 2018 and April 2019. Through these interest rate swaps Grupo Continental gets a fixed interest rate in US dollars and pays for a variable interest rate in the same currency. At December 31, 2014 the total variation in the fair value of interest rate swaps amounts to S/.5 million (gains), is included in “Gain from hedging operations” in the consolidated statement of income (at December 31, 2013 the variation in the fair value amounted to a loss of S/. 76 million and includes S/.74 million (loss) resulting from measurements of interest rate swaps that have been terminated in 2013).

The table below shows a detail of the hedged items and their hedging instruments at December 31, 2014 and 2013:

Hedged item	Hedging instrument	Nominal amount	Fair value of hedging instrument 2014	2013
		In thousands of US$	In thousands of S/.	In thousands of S/.
Due to Goldman Sachs for US$ 500 million (Note 11-a) (i)	**Interest Rate Swap (IRS)** Bank receives a fixed interest rate and pays a variable interest rate	250,000	8,229	9,946
	Interest Rate Swap (IRS) Bank receives a kind of fixed interest rate and pays a variable interest rate	250,000	8,229	9,945
Third Emisión Internacional foror US$ 500 million (Note 11-e)	**Interest Rate Swap (IRS)** Bank receives a kind of fixed interest rate and pays a variable interest rate	500,000	(16,228)	(25,868)
Fifth issuance - Fifth Corporate corporate bonds for S/. 200 million (Note 11-e)	**Cross Currency Swap (CCS)** Bank receives cash flows in Peruvian Nuevos Soles at a fixed rate and pays cash flows in U.S. dollars at a variable interest rate.	75,443	(42,898)	(26,050)

Cash flows hedging derivative

(ii) At December 31, 2014 Grupo Continental has entered into interest rate swap contracts for a nominal amount of S/.597 million to hedge interest rates of debts received, due in May 2016 and June 2022. By these interest rate swaps, Grupo Continental gets a variable interest rate in US dollars and pays for a fixed interest rate in the same currency. At December 31, 2014 the variation in the fair value of interest rate swaps amounts to S/.2 million and is recorded in equity accounts (gain of S/. 3 million at December 31, 2013).

The table below shows a detail of the hedged items and hedging instruments at December 31, 2014 and 2013:

Hedged item	Hedging instrument	Nominal amount	Fair value of hedging instrument 2014	2013
		In thousands of US$	In thousands of S/.	In thousands of S/.
Due to "Club Deal" for US$ 160 million (Note 11-a) (v)	**Interest Rate Swap (IRS)** Bank receives a variable interest rate and pays a fixed interest rate	160,000	1,603	1,667
Due to Standard Chartered for US$ 40 million (Note 11-e)	**Interest Rate Swap (IRS)** Bank receives a variable interest rate and pays a fixed interest rate	40,000	755	2,603

16. INCOME AND EXPENSES FROM FINANCIAL SERVICES

Income from financial services for fiscal 2014 and 2013 comprises commissions on indirect loans, on-demand deposits accounts, collections and transfers. Expenses from financial services comprises premium for deposit insurance fund and other commissions related to lending or intermediation activities.

17. ADMINISTRATIVE EXPENSES

Administration expenses for 2014 and 2013 mainly comprised expenses for employees' and board of directors', taxes, contributions, technology services fees, transport of money, lease advertising, general services expenses, security and surveillance, among others.

18. TAX SITUATION

(a) Income tax regime at December 31, 2014

(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 considers 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 results shown in the financial statements, any entries which the mentioned legislation acknowledges as either taxable or non-taxable, respectively.

(ii) Income Tax Rate

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 holders' participation, which are assumed by the legal entity.

(iii) Transfer pricing

For the purposes of income tax calculation and VAT (IGV 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 the implementation of these standards will not generate contingencies relevant to Grupo Continental as of December 31, 2014.

(b) Significant amendments to the income tax regulations in Peru

Below is a summary of the most relevant amendments by the Peruvian Tax Administration, during year ended December 31, 2014:

- Cost basis. A new restriction has been included regarding the issuer of the payment receipt, which makes the issuer not eligible to tax deduction, as a cost or expense, if SUNAT had considered to deactivate the issuer's taxpayer number (RUC) registration.

- Income tax rates applicable to corporate tax (called third category in Peru) is amended as follows:

Taxable income	**Rates (%)**
2015-2016	28
2017-2018	27
2019 onwards	26

- Income tax rates on dividends and any other forms of profit distribution is amended with a gradual increase:

Taxable year	**Rates (%)**
2015-2016	6.8
2017-2018	8.0
2019 onwards	9.3

- Another change in tax rates include taxes on an individual's dependent work and any foreign source income.

Labor Income + Foreign Source Income	**Rates (%)**
Up to 5 UIT	8
More than 5 UIT up to 20 UIT	14
More than 20 UIT up to 35 UIT	17
More than 35 UIT up to 45 UIT	20
More than 45 UIT	30

The effect of the above-mentioned changes in tax rates on the 2014 financial statements relating to the determination of deferred earnings is summarized as follows:

- Increase in the income tax expense recognized in the Exchange gains and losses for the fiscal year by S/.40,544 thousands.

- Decrease in the income tax expense recognized in other comprehensive income by S/.431 thousands.

- Decrease in deferred income tax asset by S/.40,113 thousand.

- Additionally, the withholding percentage and/or independent worker (fourth-category) income tax on-account payments is reduced to 8% on the gross monthly income.

(c) Income tax expense consists of:

In thousands of S/.	**2014**	**2013**
Current income tax	559,353	500,391
Deferred income tax (income)	28,441	(11,764)
Income tax (recovery provision)	(44,718)	(9,870)
	543,076	478,757

(d) Status of tax inspections

The income tax returns of the Bank and subsidiaries pending to be reviewed by the Peruvian tax administration are as follows:

Companies	**Years subject to tax inspections**
BBVA Banco Continental	2009 to 2014
Continental Bolsa Sociedad Agente de Bolsa S.A.	2012 to 2014
BBVA Asset Management Continental Sociedad Administradora de Fondos	2012 to 2014
Continental Sociedad Titulizadora S.A.	2010 to 2014
Inmuebles y Recuperaciones Continental	2011 to 2014

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 income tax return of 2008 of BBVA Banco Continental, and it will start inspection of the 2009 fiscal period; also, the inspection of Inmuebles y Recuperaciones Continental and Continental Bolsa Sociedad Agente de Bolsa S.A. for fiscal 2012 and 2013 is presently in progress. Management considers that no significant liabilities will arise from the results of these inspections.

Due to possible interpretations that tax authorities may have 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 results for the year in which they are determined. However, Management considers that no potential additional tax liabilities would have a significant impact on the consolidated financial statements as of December 31, 2014.

19. DEFERRED INCOME TAX

The activity in the net income tax asset in 2014 and 2013 and the description of related temporary differences between the tax and accounting bases were as follows:

In thousands of S/.

2014	Opening balance	Additions / Recoveries: Equity	Additions / Recoveries: Results for the year	Rate change (effect on profit for the year)	Final balance
Asset					
Generic allowance for loans losses	312,039	-	7,844	(31,988)	287,895
Generic allowance for indirect loans losses	22,707	-	5,455	(2,816)	25,346
Allowance for assets seized	7,722	-	5,275	(1,300)	11,697
Specific allowance for indirect loans	2,991	-	589	(358)	3,222
Allowance for sundry expenses and others	66,328	-	(22,626)	(4,368)	39,334
Provision for employees benefit	36,716	-	(6,209)	(3,045)	27,462
Base difference, depreciation rates	1,931	-	(1,673)	(26)	232
Non-accrual interest	7,143	-	6,315	(1,346)	12,112
Available-for-sale investment	-	565	-	-	565
Total assets	457,577	565	(5,030)	(45,247)	407,865
Liabilities					
Available-for-sale investments	244	(244)	-	-	-
Cash flow hedge	1,333	(550)	-	-	783
Intangibles / deferred charges	11,428	-	6,379	(1,781)	16,026
Valuation of fixed assets	41,314	-	(27,844)	(1,347)	12,123
Tax depreciation on property	3,109	-	539	(365)	3,283
Leveling of assets and liabilities	6,138	-	5,963	(1,210)	10,891
Total liabilities	63,566	(794)	(14,963)	(4,703)	43,106
Deferred income tax asset, net	394,011	1,359	9,933	(40,544)	364,759

	Beginning balance	Additions / Recoveries: Equity	Additions / Recoveries: Profit for the period	Final balance
Asset				
Allowance for sundry expenses and others	180	-	(36)	144
Provisions for employees benefit	44	-	(26)	18
Total asset	224	-	(62)	162
Liability				
Available-for-sale investment	3,877	(1,594)	-	2,283
Total liabilities	3,877	(1,594)	-	2,283
Deferred income tax liabilities, net	3,653	(1,594)	62	2,121

In thousands of S/.

2013	Opening balance	Additions / Recoveries Equity	Additions / Recoveries Results for the year	Final balance
Asset				
Generic allowance for loans losses	278,019	-	34,020	312,039
Generic allowance for indirect losses	19,913	-	2,794	22,707
Allowance for assets seized	4,828	-	2,894	7,722
Specific allowance for contingent loans	2,345	-	646	2,991
Allowance for sundry expenses and others	56,430	-	9,898	66,328
Provision for employee benefit	37,487	-	(771)	36,716
Base difference, depreciation rates and others	656	-	1,275	1,931
Non-accrual interest	5,809	-	1,334	7,143
Total assets	405,487	-	52,089	457,576
Liabilities				
Available-for-sale investments	3,681	(3,437)	-	244
Cash flow hedge	-	1,333	-	1,333
Intangibles / deferred charges	4,481	-	6,947	11,428
Valorization of financial assets	8,383	-	32,931	41,314
Tax depreciation property	3,423	-	(314)	3,109
Leveling of assets and liabilities	5,457	-	681	6,138
Total liabilities	25,425	(2,104)	40,244	63,565
Deferred income tax, net asset	380,062	2,104	11,845	394,011

	Beginning balance	Additions / Recoveries Equity	Profit for the period	Ending balance
Asset				
Allowance for sundry expenses and others	268	-	(88)	180
Provision for benefit employees	37	-	7	44
Total asset	305		(81)	224
Liabilities				
Available-for-sale financial assets	5,769	(1,892)	-	3,877
Total liabilities	5,769	(1,892)	-	3,877
Deferred income tax, liabilities net	5,464	(1,892)	81	3,653

The change in deferred tax is as follows:

In thousands of S/.

	2014	2013
Deferred tax recognized:		
Deferred tax at the beginning of the year	394,011	380,062
Credit to equity	1,359	2,104
Credit (charge) to profit for the year	(30,611)	11,845
Deferred tax asset at the end of the year	364,759	394,011

	2014	2013
Deferred income tax recognized:		
Deferred income tax at the beginning of the year	3,653	5,464
Charge to equity	(1,594)	(1,892)
Credit to profit for the year	62	81
Deferred income tax liabilities at the end of the year	2,121	3,653

20. BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share were as follows:

	Quantity of shares (in thousands)	
	2014	**2013**
Outstanding at the beginning of the year	2,724,770	2,226,473
Capitalization of profits	521,761	1,020,058
Outstanding at the end of the year	3,246,531	3,246,531
Net profit for the year (in thousands of Peruvian nuevos soles)	1,343,719	1,304,302
Basic and diluted earnings per share (in Peruvian nuevos soles)	0.414	0.402

21. TRANSACTIONS WITH RELATED PARTIES

At December 31, 2014 and 2013, Grupo Continental has granted loans, provided and requested banking correspondent services, transactions involving financial derivatives booked at their face values, among others, with related companies ending balances are:

In thousands of S/.	2014	2013
Assets:		
Cash and due from banks	12,410	22,406
Loans portfolio	150,294	43,271
Other assets	160,972	102,708
Liabilities:		
Deposits and obligations	197,893	251,699
Other liabilities	537,163	414,276
Contingent	11,223,839	7,790,585

Transactions of Grupo Continental with related companies have been carried out in the normal course of business and subject to the same conditions that would have been applied to third parties.

Transactions with related companies, included in the consolidated statement of income for the periods ended December 31, 2014 and December 31, 2013 consisted of the following:

In thousands of S/.	2014	2013
Financial income	-	10
Financial expenses	(6,478)	(6,444)
Other income (expenses), net	(72,838)	(73,120)

Personnel Loans

At December 31, 2014 and 2013 directors, executives and employees of Grupo Continental maintain transactions with the Bank within the provisions of the Peruvian General Law, which regulates and establishes certain limits on transactions with directors, executives and employees of banks in Peru. At December 31, 2014 and 2013 direct loans to employees, directors, executives and key personnel amounted to S/.396 million and S/.379 million; respectively.

Likewise, at December 31, 2014 the remuneration of key staff and directors amounted to S/.10 million (S/. 10 million at December 31, 2013).

22. CLASSIFICATION OF FINANCIAL INSTRUMENTS

In thousands of S/.	As of December 31, 2014						
	At fair value through profit or loss			Available-for-sale			
ASSETS	For trading	Initially designated as at FVTPL	Credits and receivables	At amortized cost (*)	At fair value	Held-to-maturity	Hedging derivatives
Cash and due from banks	-	-	14,633,083	-	-	-	-
Inter-bank funds	-	-	20,002	-	-	-	-
Investments	743,245	-	-	3,453	2,324,156	451,232	-
Equity instruments	60,919	-	-	3,453	43,081	-	-
Debt instruments	682,326	-	-	-	2,281,075	451,232	-
Loans portfolio	-	-	42,056,399	-	-	-	-
Trading derivatives	827,724	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	18,815
Receivables	-	-	20,086	-	-	-	-
Other assets	-	-	214,706	-	-	-	-
Total	1,570,969	-	56,944,276	3,453	2,324,156	451,232	18,815

(*) It including those investments measured at cost.

In thousands of S/.

ASSETS	As of December 31, 2013						
	At fair value through profit or loss			Available-for-sale			
	For trading	Initially designated as at FVTPL	Credits and receivables	At amortized cost (*)	At fair value	Held-to-maturity	Hedging derivatives
Cash and due from banks	-	-	11,824,204	-	-	-	-
Interbank funds	-	-	25,156	-	-	-	-
Investments	556,746	-	-	3,355	3,080,566	443,993	-
Capital instruments	50,268	-	-	3,355	50,054	-	-
Debt instruments	506,478	-	-	-	3,030,512	443,993	-
Loan portfolio	-	-	38,245,327	-	-	-	-
Trading derivatives	577,252	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	26,789
Receivables	-	-	18,433	-	-	-	-
Other assets	-	-	88,725	-	-	-	-
Total	1,133,998	-	50,201,845	3,355	3,080,566	443,993	26,789

(*) Including those investments measured at cost.

In thousands of S/.

LIABILITIES	As of December 31, 2014				
	At fair value through profit or loss				
	For trading	Initially designated as at FVTPL	At amortized cost	Other liabilities	Hedging derivatives
Obligations to the public	-	-	38,555,172	-	-
Interbank funds	-	-	120,011	-	-
Deposits with financial system companies and international financial organizations	-	-	1,622,746	-	-
Due to banks and other financial obligations (*)	-	-	15,260,159	-	-
Trading derivatives	727,257	-	-	-	-
Hedging derivatives	-	-	-	-	59,127
Payables	-	-	-	389,657	-
Total	727,257	-	55,558,088	389,657	59,127

(*) At December 31, 2014 this balance includes due to banks and other financial obligations for S/.3,160 million recognized at fair value, which have been hedged with fair value hedging derivaties.

In thousands of S/.

LIABILITIES	As of December 31, 2013				
	At fair value through profit or loss				
	For trading	Initially designated as at FVTPL	At amortized cost	Other liabilities	Hedging derivatives
Obligations to the public	-	-	36,414,890	-	-
Interbank funds	-	-	617,134	-	-
Deposits with financial system companies and international financial obligations	-	-	939,620	-	-
Due to banks and other financial obligations (*)	-		12,147,526	-	-
Trading derivatives	561,001	-	-	-	-
Hedging derivatives	-	-	-	-	51,918
Payables	-	-	-	414,820	-
Total	561,001	-	50,119,170	414,820	51,918

(*) At December 31, 2013 this balance includes due to banks and other financial obligations for S/.2,969 million recognized at fair value, which have been hedged with fair value hedging derivaties.

23. FINANCIAL RISK MANAGEMENT

Grupo Continental's risk management seeks to secure the solvency and sustainability of the Group using a corporate risk management model supporting the definition of a target-risk based on the strategies and policies set for the entire BBVA Group.

The risk management department designs the framework of analysis to determine the quality of the portfolio seeking to reduce any concentration by type of product, customer-obtaining channel, geographical area, industry or historical highest risk groups (profiles) as well as defining the minimum information to be required for an adequate preliminary assessment, follow-up and control, asset allocation, risk-concentration reports, reports on exceeded limits, among others.

Risk Management is organized into four major fronts: management by type of risk; strategy and planning, infrastructure and control. It is within one of those fronts where our areas of wholesale and retail banking risk, structural risk, liquidity and market and operational risk and internal control reside.

Credit risk

The risk management system applied by Grupo Continental is based on a corporate governance scheme where Grupo BBVA determines the policies for management and control of retail and wholesale credit risks, which are adapted to local regulations and reality.

The risks area's organizational structure for credit risk management is as follows:

- Strategy and Risk Planning unit manages credit risks through the definition of strategies, preparation of metrics and calculation of parameters for the establishment of policies throughout the business cycle. Among its major functions, defining and optimal management of the risk appetite, analysis of scenarios, over-borrowing and vulnerability to the exchange rate in portfolios, determination of the risk parameters and capital management based on Basel III recommendations, management of expense in provisions and regulatory requirements; it also provides all the risk-related information at Bank-wide level so that the same information can be shared by all business areas (internal and BBVA areas).

- Technology and Methodology unit's function is to design, develop and implement the models and tools that adequately support the lending processes that may enable the risk management function. In order to promote new tools to be used by the office network, this unit keeps ongoing coordination with all of the Bank's areas and departments to integrate risk within the business on an efficient basis.

- Retail risk Unit manages the entire lending cycle involving individuals and business banking (small and medium-sized entities). For individuals, lending is carried out using tools to check and assess the prospective customer profile, its payment capacity and credit behavior in respect of the Bank and within the entire financial system. For businesses, lending analysis is focused on the financial and economic information obtained in field visits that provide the evaluators a more comprehensive perspective of the business and the payment capacity; this process is conducted based on methodologies specific to economic sectors.

  On origination, an exhaustive assessment is performed of individuals and businesses through campaigns that are consistent with the Bank's growth strategy as well as with portfolio management. For follow-up of the portfolio, statistical information is used to detect red flags and high-risk groups: then, plans of individual checks are proposed as well as other proactive actions to strengthen the customers' payment behavior and prevent future defaults from occurring. Finally, for collections, differentiated models are defined, among individuals and businesses with the purpose of decentralization and with the help of new negotiation strategies and supporting tools.

- Wholesale Risks Unit, management integrates the functions of origination, admissions, follow-up and recovery thus reinforcing the risk model with higher synergies on the basis of communication and feedback of teams in the management of the risk relating to types of transactions, products, and sectors, among others.

In supporting lending activities, there is a key tool in place called Rating, which is used in decision-making and that ranks customers along a number of quantitative variables (economic-financial), qualitative (activities, experience, market, products, among others) as well as behavioral variables. For the segment of large companies, our corporate tool Risk Analyst focuses on multi-sector models and global criteria. Both ratings, together with the staff score, lead to a comprehensive learning process of customers.

It is the Origination and Policies team that manages portfolios with the mandate of proposing and defining policies, designing growth strategies and implementing campaigns. The Inmobiliario business team, besides admission and follow-up on the real estate segment, is charged with identifying and mitigating risks in the credit and guarantee management. The Follow-up function is intended to identify customers with potential deterioration in an early stage and with an effect on the control and oversight of the credit risk. Finally, Recovery seeks to negotiate payment arrangements with customers, from debt re-financing to guarantee execution; for the latter process, the Bank has the support of first-class law firms.

Maximum exposure to credit risk

The maximum exposure to credit risks as of December 31, 2014 and 2013 is as follows:

In thousands of S/.	2014	2013
ASSETS		
Cash and due from banks	14,633,083	11,824,204
Inter-bank funds	20,002	25,156
Investments at fair value through profit or loss	743,245	556,746
Available-for-sale investments	2,327,609	3,083,921
Held-to-maturity investments	451,232	443,993
Loan portfolio	42,056,399	38,245,327
Trading derivatives	827,724	577,252
Hedging derivatives	18,815	26,789
Receivables	20,086	18,433
Other assets	214,706	88,725
Total	61,312,901	54,890,546

Collateral received

Collateral requested may be a necessary instrument; however, collateral are not sufficient for risk concession purposes and their acceptance is supplemental to the credit process that demands and considers above all prior verification of the debtor's payment capacity or ability to generate sufficient resources that will allow for the amortization of risks contracted in compliance with agreed conditions.

Collateral management and valuation procedures are contained in Internal Manuals on Credit Risk Management Policies and Procedures (retail and non-retail portfolios), which provide for basic principles for credit risk management purposes and also include the management of guarantees received in transactions with clients that are aimed at assuring the adequate documentation and registration of guarantees, as appropriate, as well as the existence of the respective insurance policies.

The valuation of collaterals is governed by prudent valuation criteria involving the use of appraisals in real estate collateral, market prices in stock markets, quotation value of investments in investment funds, etc. Under these valuation criteria, the guidelines for updating the market value of guarantees are set forth, which could be even more restrictive than the local standard applied; following these guidelines, collaterals are updated in strict adherence to the regulator's requirements as well as the credentials of the entities that are relied on to conduct these valuations

At December 31, 2014 y 2013 loans by type of collateral are broken down as follows:

In thousands of S/.	**2014**		**2013**	
		%		**%**
Mortgages	17,163,433	39	13,662,536	34
Other guarantees	11,324,992	26	12,765,998	32
Financial lease	4,543,545	10	4,335,166	11
Stand by letter of credit received	579,781	1	418,654	1
Self-liquidating preferred assets	297,063	1	337,883	1
Vehicle, industrial, agricultural and other pledges	260,664	1	315,638	1
Warrants of products and goods	10,252	-	28,404	-
Secured loans	34,179,730	78	31,864,279	80
Unsecured loans	9,600,173	22	7,929,983	20
Total loans	43,779,903	100	39,794,262	100

Loan portfolio's creditworthiness

The loan portfolio is segmented into "Non past-due or impaired", "Past-due but not impaired" and "Impaired" as detailed in the table below:

In thousands of S/.	As of December 31, 2014						As of December 31, 2013					
	Non-retail loans	Small and micro business loans	Consumer loans	Mortgage loans	Total	%	Non-retail loans	Small and micro business loans	Consumer credits	Mortgage loans	Total	%
Non past-due nor impaired	27,632,785	1,238,427	3,333,292	9,374,647	41,579,151	99	25,157,910	1,477,705	3,162,772	8,306,933	38,105,320	100
Normal	27,141,702	1,182,876	3,251,285	9,216,075	40,791,938	98	24,752,684	1,419,734	3,066,404	8,156,571	37,395,393	98
CPP	491,083	55,551	82,007	158,572	787,213	1	405,226	57,971	96,368	150,362	709,927	2
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Past-due but not impaired	46,311	12	6	392	46,721	-	20,094	20	2	497	20,613	-
Normal	17,712	12	4	-	17,728	-	8,834	20	1	-	8,855	-
CPP	28,599	-	2	392	28,993	-	11,260	-	1	497	11,758	-
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Impaired	1,295,356	226,278	276,887	355,510	2,154,031	6	940,773	188,354	294,836	244,366	1,668,329	5
Normal	18,495	389	1	-	18,885	-	13,985	188	-	272	14,445	-
CPP	160,917	92	9	-	161,018	-	131,801	-	-	-	131,801	-
Substandard	368,280	40,036	57,388	156,315	622,019	2	305,672	43,936	67,018	110,299	526,925	2
Doubtful	445,902	70,111	106,466	116,176	738,655	3	236,233	58,861	114,591	78,772	488,457	2
Loss	301,762	115,650	113,023	83,019	613,454	1	253,082	85,369	113,227	55,023	506,701	1
Gross portfolio	28,974,452	1,464,717	3,610,185	9,730,549	43,779,903	105	26,118,777	1,666,079	3,457,610	8,551,796	39,794,262	105
Less: Provisions	(1,190,144)	(147,830)	(378,870)	(256,179)	(1,973,023)	(5)	(1,089,779)	(126,450)	(400,940)	(171,438)	(1,788,607)	(5)
Total net	27,784,308	1,316,887	3,231,315	9,474,370	41,806,880	100	25,028,998	1,539,629	3,056,670	8,380,358	38,005,655	100

The criteria to determine whether a loan is impaired are as follows:

Type of debtor	Impairment criteria
Retail	Debtor with payments over 90 days in arrears days. Past due loans.
	Debtor classified as: substandard, doubtful or loss.
Non-retail	Debtor classified as: substandard, doubtful or loss
	Situation of refinanced or restructured loans.

Specific provisions related to transactions that as of December 31, 2014 have been typified as past-due but not impaired loans , and impaired loans amount to S/.697 million (S/.582 million at December 31, 2013).

During 2014 and 2013, transactions of clients classified as past-due but not impaired loans, and as impaired loans, have generated finance income amounting to S/.118 million and S/.100 million, respectively.

At December 31, 2014 and 2013, guarantees of past-due and not impaired loans, and impaired loans, amounted to S/.1,384 million and S/.924 million, respectively; of which, S/.1,176 million and S/.764 million consisted of mortgages.

Past-due loans not impaired as of December 31, 2014 and 2013 amounted to S/.47 million and S/.21 million, respectively. Below is a detail of loans referred-to above classified by number of days in arrears:

In thousands of S/.	December 31, 2014				December 31, 2013			
Days in arrears	**16- 30**	**31- 60**	**61 - 90**	**Total**	**16- 30**	**31- 60**	**61 - 90**	**Total**
Type of loans								
Large - sized companies	262	736	300	1,298	33	667	25	725
Medium - sized companies	17,990	17,191	9,832	45,013	11,534	7,077	758	19,369
Subtotal	18,252	17,927	10,132	46,311	11,567	7,744	783	20,094
Small companies	-	12	-	12	-	20	-	20
Consumer	-	5	1	6	-	2	-	2
Mortgage	-	392	-	392	-	497	-	497
Subtotal	-	409	1	410	-	519	-	519
Total	18,252	18,336	10,133	46,721	11,567	8,263	783	20,613

Loans written-off

La activities of the written-off loan portfolio is as follows:

In thousands of S/.	2014	2013
Opening balance	15,217	22,478
Cash recoveries	(129)	(372)
Waived credits	(20)	(512)
Sale of portfolio	(7,975)	(6,834)
Other	219	457
Ending balance	7,312	15,217

Risk concentrations

The loan portfolio by economic sector is as follows:

In thousands of S/.	2014	%	2013	%
Mortgage and consumer loans	13,340,733	30	12,009,407	30
Manufacturing	8,090,331	18	7,219,306	18
Trade	7,870,668	18	7,327,627	18
Real estate, business and leasing	2,880,515	7	2,812,902	7
Transportation, warehouse and communication	2,613,550	6	2,436,053	6
Mining	1,373,614	3	1,224,867	3
Electricity, gas and water	1,306,528	3	1,204,586	3
Agriculture and livestock	1,185,947	3	1,084,405	3
Financial intermediation	924,103	2	580,000	1
Construction	892,372	2	904,683	2
Others	3,301,542	8	2,990,426	8
Total	43,779,903	100	39,794,262	100

Financial assets by geographical are as follows:

In thousands of S/.	As of December 31, 2014						
	At fair value through profit or loss (FVTPL)						
Financial instruments	**For trading**	**Initially designated as at FVTPL**	**Credits and receivables**	**Available-for-sale**	**Held-to-maturity**	**Hedging derivatives**	**Total**
Peru	1,336,103	-	43,384,928	2,326,972	451,232	-	47,499,235
Rest of South America	-	-	169,773	607	-	-	170,380
Rest of the world	3,956	-	229,473	-	-	-	233,429
Mexico	6,025	-	5,479	-	-	-	11,504
United States	62,280	-	28,637	-	-	18,060	108,977
Europe	162,610	-	60,642	30	-	755	224,037
Total	1,570,974	-	43,878,932	2,327,609	451,232	18,815	48,247,562
Allowance	(5)	-	(2,051,967)	-	-	-	(2,051,972)
Accrued interests	-	-	287,913	-	-	-	287,913
Deferred income from loan	-	-	(38,393)	-	-	-	(38,393)
Total	1,570,969	-	42,076,485	2,327,609	451,232	18,815	46,445,110

In thousands of S/.

Financial instruments	At fair value through profit or loss (FVTPL) — For trading	Initially designated as at FVTPL	Credits and receivables	Available-for-sale	Held-to-maturity	Hedging derivatives	Total
	As of December 31, 2013						
Peru	998,541	-	39,497,382	3,083,284	443,993	-	44,023,200
Rest of South America	-	-	144,807	607	-	-	145,414
Europe	11,059	-	37,082	30	-	2,603	50,774
Rest of the world	98,562	-	179,981	-	-	-	278,543
Mexico	7,166	-	3,368	-	-	-	10,534
United States	21,386	-	20,915	-	-	24,186	66,487
Total	1,136,714	-	39,883,535	3,083,921	443,993	26,789	44,574,952
Allowance	(2,716)	-	(1,859,447)	-	-	-	(1,862,163)
Accrued interests	-	-	270,988	-	-	-	270,988
Deferred income from loans	-	-	(31,316)	-	-	-	(31,316)
Total	1,133,998	-	38,263,760	3,083,921	443,993	26,789	42,952,461

Market risk

(a) Market risk

Market risk arises as a result of market activities using financial instruments. Market value of such instruments may be affected by changes in market conditions and other financial risk factors. The risk may be mitigated and even eliminated by arranging hedges with other products (financial assets/liabilities or derivatives), or by undoing the open transaction/position.

There are three major risk factors that affect market prices: interest rates, exchange rates and variable interest.

- Interest rate risk: This risk arises as a result of variations in the time structure of market interest rates for different foreign currencies.

- Exchange risk: This risk arises as a result of variations in the exchange rate between different currencies.

- Price risk: This risk arises as a result of changes in market prices either due to factors specific to the instrument itself or to factors affecting all of instruments traded in the market.

Additionally, and for specific positions, it is necessary to consider other risks as well: credit spread risk, base risk, and volatility or correlation risk.

VaR (Value at Risk) is the basic variable to measure and control the Bank’s market risk. This risk measurement estimates the maximum loss with a specific reliance level that may be caused on the market positions of a portfolio for any given period of time. The Bank calculates the VaR under the parametric method with a reliance level of 99% and a one-day timeline; the data period taken is one year.

The market risk limit structure determines a scheme of limits for VaR (Value at Risk) and Economic Capital per market risk, as well as specific ad-hoc sub-limits per type of risks, among others.

Likewise, validity tests are conducted for risk measurement models used that estimate the maximum loss that may arise in positions with a particular likelihood level (back testing), as well as impact measurements of extreme market movements in risk positions maintained (stress testing). Currently, stress tests are conducted over historical crisis scenarios.

The Bank’s market risk for 2014 has increased versus 2013. This increase is due to the higher position in sovereign bonds.

The VaR by risk factors is as follows:

In thousands of S/.	2014	2013
VaR per risk factors		
VaR not-smoothed	11,777	9,755
VaR Interest rate	11,500	9,480
VaR Foreing Exchange	4,524	2,739
Average VaR	10,778	8,537
Maximum VaR	12,688	10,640
Minimum VaR	9,145	6,552

Stress tests are conducted on the basis of historical crisis scenarios that take as reference:

- Lehman Brothers bankrupcy in 2008.

- The Peruvian electoral crisis of June 2001.

Per type of market risk assumed by the trading portfolio, at the end of 2014, the main risk was the interest rate risk, and the exchange rate risk to a lesser extent.

The parametric VaR market risk model is periodically validated through back testing. In 2014, the Bank's portfolio losses exceeded the daily VaR on one time. This number of exceptions is within the bands set in Basel model use tests. Therefore, no significant changes have been made either in measurement methodologies or in the parameterization of current measurement model..

(b) Structural interest rate risk

The banking book's interest rate risk management is aimed at maintaining the Bank´s exposure before variations in market interest rates at levels consistent with its risk profile and strategy. To that end, the Assets and Liabilities Committee (hereinafter referred-to as "ALCO") performs an active management of the banking book through operations aimed at optimizing the risk level assumed, in relation to expected results, that allow meeting maximum tolerable risk levels.

ALCO's activities are based on interest rate risk measurements made by the Risks area that, acting as an independent unit, periodically quantifies the impact of the variation in interest rates on the Bank's margin of interests and the economic value.

In addition to the sensitivity measurements made for 100- basis point variations in market interest rates, the Bank prepares probabilistic calculations that determine the "economic capital" (maximum loss in the economic value) and the "margin at risk" (maximum loss in the interest margin) per structural interest rate risk of the bank's banking activity excluding treasury activities, on the basis of interest-rate curve simulation models. Stress tests are periodically conducted to complete the evaluation of the Bank's interest rate risk profile.

All these risk measurements are subject to analysis and subsequent follow-up, transferring the risks assumed and levels of compliance with authorized limits to the Bank's different management and administration bodies.

Below is a detail of the Bank's structural interest rate risk levels during 2014 (information available until November 2014):

Consumption of limits

	2014	nov-14	oct-14	sep-14	ago-14	jul-14	jun-14	may-14	apr-14	march-14	feb-14	jan-14
Financial margin sensitivity	5%	64%	65%	61%	54%	54%	51%	49%	48%	46%	50%	45%

Consumption of alerts

	2014	nov-14	oct-14	sep-14	ago-14	jul-14	jun-14	may-14	apr-14	march-14	feb-14	jan-14
Economic value sensitivity	10%	18%	23%	22%	37%	37%	37%	35%	35%	37%	15%	7%
Economic Capital (CE)	25%	40%	40%	39%	34%	34%	33%	33%	33%	36%	38%	35%
Margin at risk (MeR)	10%	11%	11%	10%	9%	9%	10%	10%	8%	9%	9%	8%

As part of the measurement process, the Bank has set hypotheses on the evolution and the behavior of certain items, such as those relating to products without explicit or contractual maturity. These hypotheses are supported by studies that determine the approximate relation between interest rates of these products and market interest rates and allow for the disaggregation of specific balances into trend balances, with long-term maturity, and seasonal or volatile balances, with short-term residual maturity.

(c) Liquidity risk

Liquidity risk control, follow-up and management activities are aimed at, in the short-term, assuring the compliance with the entity's payment commitments on a timely basis and as agreed, without having to resort to borrowing funds under burdensome terms or impair the entity's image and reputation. In the medium-term, the purpose of these activities is to guarantee the adequacy of the financial structure and its evolution within the context of economic situation, markets and regulatory changes.

The Bank's liquidity risk management and structural financing are based on the principle of financial autonomy with regard to Grupo BBVA. This management approach contributes to the prevention and limitation of liquidity risks by reducing the Bank's vulnerability in high risk periods.

The management and monitoring of liquidity risk is carried out comprehensively using a double (short- and long-term) approach. The short-term liquidity approach, with timelines of up to 365 days, is focused on the management of payments and collections of market activities, and includes the own operations of the treasury area and the potential liquidity needs of the entity as a whole. The second approach (medium-term or financing) is focused on the financial management of assets and liabilities, with a timeline of one year or more.

The integral management of liquidity risks is the responsibility of the Assets and Liabilities Committee (ALCO), and the Finance Management unit, within the Finance area, analyses the implications of the entity's different projects, in terms of financing and liquidity, and their compatibility with the target financing structure and the situation of financial markets. Accordingly, Finance Management, in accordance with budgets approved, carries out the proposals agreed by ALCO and manages the liquidity risk based on a wide scheme of limits, sub-limits and alerts, duly approved, as to which the Risks Area carries out independent measurement and control-related tasks thus providing the manager with supporting tools and metrics for decision-making purposes.

Periodical measurements of risks incurred and the follow-up of consumption of limits are carried out from the structural, liquidity and market risk unit, which reports the liquidity risk levels to ALCO on a monthly basis, and, more often, to management units itself. The periodicity of communication and the amount of information are decided by the Liquidity Committee at the proposal of the Technical Liquidity Group (TLG) which, in the event of any signal of alert or possible crisis, conducts the first analysis of the entity's short-term or long-term liquidity situation. The TLG is made up of technical staff from the Short-Term Cash Desk of the Treasury, Financial Management and Structural and Liquidity Risk areas. If the alert signals established make clear that a situation of tension has arisen, the TLG informs the Liquidity Committee (made up of Assistant General Managers of the corresponding areas and the Director – General Manager).

Further, on regulatory matters, the Basel Bank Supervision Committee has proposed a new liquidity regulation scheme based on two ratios: Liquidity Coverage Ratio (LCR) that will be effective from 2015 and Net Stable Funding Ratio (NSFR) that will be implemented effective 2018. Both the Bank and Grupo BBVA as a whole participated in the corresponding quantitative impact study (QIS) and have gathered the new regulatory challenges in their general action framework on Liquidity and Financing matters. At the local level, the SBS has also implemented the follow-up of the LCR (Liquidity Coverage Ratio) by following the general guidelines of the Basel Committee adapted to Peruvian reality. The measurement of this LCR indicator began effective December 2013 and it is calculated on a daily basis.

The limit set for the RCR is 80% for the period from 2014 – 2015 (90% in 2016 and 100% for 2017 and onwards) which the Bank is fully adhering to.

As new liquidity reports already effective, the SBS established new guidelines in the distribution of assets and liabilities per residual terms, which included items with contractual maturity and those items that have been distributed based on assumptions made. . The distribution of assets and liabilities per maturity as of December 31, 2014 and 2013 is as follows, including for loan

In thousands of S/.

ASSETS	Up to 1 month	More than 1 month and less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year and less than 5 years	More than 5 years	Past-due and court-ordered payment of credits	No contractual maturity established	Total
Cash and due from banks	5,280,095	1,627,079	348,188	1,870,335	5,507,386	-	-	-	14,633,083
Interbank funds	20,002	-	-	-	-	-	-	-	20,002
Investments at fair value through profit or loss	682,326	-	-	-	-	-	-	60,919	743,245
Available-for-sale investments	2,236,810	-	609	-	37,381	52,809	-	-	2,327,609
Held-to-maturity investments	-	5,680	1,994	-	-	443,558	-	-	451,232
Loans portfolio	6,877,783	6,829,452	4,614,600	3,469,765	12,998,541	8,301,484	976,191	-	44,067,815
Trading derivatives	75,752	78,303	28,326	13,018	307,576	324,749	-	-	827,724
Hedging derivatives	-	-	-	-	18,060	755	-	-	18,815
Total	15,169,803	8,540,514	4,993,717	5,353,118	18,868,944	9,123,355	976,191	60,919	63,089,526

LIABILITIES	Up to 1 month	More than 1 month and less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year and less than 5 years	More than 5 years	Total
Obligations to the public	7,999,071	6,082,735	1,603,988	1,593,075	21,276,303	-	38,555,172
Demand	1,657,374	1,212,880	-	-	9,409,908	-	12,280,162
Savings	1,091,499	798,771	-	-	9,063,351	-	10,953,621
Time	5,199,497	4,071,084	1,603,988	1,593,075	2,803,044	-	15,270,688
Others	50,701	-	-	-	-	-	50,701
Inter bank funds	120,011	-	-	-	-	-	120,011
Deposits with financial system Companies and international financial organizations	1,277,100	233,159	13,455	9,416	89,616	-	1,622,746
Due to bank and other financial obligations	124,076	279,870	182,819	1,937,805	7,259,516	5,476,073	15,260,159
Trading derivatives	89,004	68,871	46,123	43,722	290,057	189,480	727,257
Hedging derivatives	-	-	-	-	59,127	-	59,127
Payables	389,657	-	-	-	-	-	389,657
Other liabilities	167,106	-	-	-	-	-	167,106
Total	10,166,025	6,664,635	1,846,385	3,584,018	28,974,619	5,665,553	56,901,235

ASSETS	Up to 1 month	More than 1 month and less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year and less than 5 years	More than 5 years	Past-due and court-ordered payment of credits	No contractual maturity established	Total
Cash and due from banks	6,391,761	962,970	180,360	231,041	4,058,072	-	-	-	11,824,204
Inter-bank funds	25,156	-	-	-	-	-	-	-	25,156
Investments at fair value through profit or loss	502,127	-	-	-	-	-	-	54,619	556,746
Available-for-sale investments	2,991,657	-	549	-	40,117	51,598	-	-	3,083,921
Held-to-maturity investments	-	5,599	2,049	-	-	436,345	-	-	443,993
Loans portfolio	5,083,327	5,950,382	4,396,550	3,508,194	12,578,417	7,857,452	690,928	-	40,065,250
Trading derivatives	24,560	82,175	30,489	30,741	191,133	220,870	-	-	579,968
Hedging derivatives	-	-	-	-	21,558	5,231	-	-	26,789
Total	15,018,588	7,001,126	4,609,997	3,769,976	16,889,297	8,571,496	690,928	54,619	56,606,027

LIABILITIES	Up to 1 month	More than 1 month and less than 3 months	More than 3 months and less than 6 months	More than 6 months and less than 1 year	More than 1 year and less than 5 years	More than 5 years	Total
Obligations to the public	9,263,966	4,368,028	1,232,432	1,156,636	20,342,885	50,943	36,414,890
Demand	1,186,585	868,058	-	-	10,164,960	-	12,219,603
Savings	923,326	675,514	-	-	7,724,493	-	9,323,333
Time	7,107,955	2,824,456	1,232,432	1,156,636	2,453,432	50,943	14,825,854
Others	46,100	-	-	-	-	-	46,100
Inter-bank funds	617,134	-	-	-	-	-	617,134
Deposits with financial system and international financial organizations	464,881	187,751	19,845	2,986	264,157	-	939,620
Due to bank and financial obligations	182,774	375,274	348,259	536,440	6,048,619	4,656,160	12,147,526
Trading derivatives	31,423	135,626	64,068	25,894	180,306	123,684	561,001
Hedging derivatives	-	-	-	-	25,868	26,050	51,918
Payables	414,820	-	-	-	-	-	414,820
Other liabilities	58,322	-	-	-	-	102	58,424
Total	11,033,320	5,066,679	1,664,604	1,721,956	26,861,835	4,856,939	51,205,333

Operational risk

Grupo Continental has designed an operational risk management model for all business and supporting areas, by using methodologies and procedures for the identification, evaluation and follow-up of these types of risks according to the related risk appetite and tolerance, thus reducing their impact on the organization.

Such management is carried out through operational risk management committees in each area/unit, made up of staff responsible for the management of processes and with the ability to make decisions to change those processes. Each area/unit counts on an Operational Risk Manager/Expert (ORM) who coordinates all the tasks.

On the basis of information available in the different tools implemented in each unit, the Operational Risk Management Committee holds periodical meetings at the request of the ORM, and makes timely mitigation decisions taking into account the cost of such decisions. The Operational Risk Management unit is responsible for the coordination of committees referred-to above, the follow-up of mitigation plans and the implementation of corporate management tools.

Over 2014, Grupo Continental calculated the regulatory capital per operational risk by using the alternative standard method. As established under current legislation, effective July 2014 the regulatory capital gradualness requirement is 100%, which at December 31, 2014 amounted to S/. 336 million (an 80% gradualness requirement equivalent to S/. 233 million at December 31, 2013). In comparison to the basic method, savings of 42% are obtained by applying the alternative standard method for capital calculation.

As to tools is concerned, tools cover both qualitative and quantitative aspects. STORM (Support Tool for Operational Risk Management), a tool that allows identifying and valuing operational risk factors per macro-processes and processes, is annually updated.

As part of the ongoing model updating process, 22 risk scenarios were developed during the course of 2014, which have been input into the STORM tool.

Additionally, through SIRO, a database of operational risk events, the occurrence of events is identified in a detailed manner per business line and per type of risk, determining the corresponding causes, which allows establishing timely mitigation measures thus keeping a systematic record.

On the regulatory front, during the course of 2014, The Bank took part, as a pilot bank, in the Project of Operational Risk Loss Central lead by the banking regulator SBS, and met the expected requirements of delivery of information.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise simultaneously to a financial asset in an entity and a financial liability or equity instrument in another entity. For Grupo Continental, financial instruments mostly consist of primary instruments such as receivables, payables and equity shares in other companies and derivative financial instruments (forward and swap contracts).

The substance of a financial instrument, rather than its legal form, governs its classification on the Bank’s consolidated statement of financial position as assets, liabilities or equity. Interest, profit and loss from a financial instrument classified as a liability are recorded as expenses or income in the consolidated statement of income .Offsetting of a financial asset and a financial liability is required when there is a legal right to off-set and Management has the intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair value is the amount by which an asset could be exchanged and a liability settled between knowledgeable willing parties in an arm´s length transaction.

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

Considerations as to the methodology and assumptions used in estimating the fair value of financial instruments of Grupo Continental include:

(a) Assets and liabilities with fair values similar to their carrying amounts

This assumption is applicable to those current maturity assets and liabilities agreed at variable rate, and those with a fair value which the SBS determined to be equivalent to their carrying amount as per Communication (Oficio Multiple) No 1575-2014-SBS.

(b) Assets and liabilities at fixed discount rate

The discounted cash flow model uses the effective interest rate for discount of instruments with similar features.

(c) Assets and liabilities accounted for at fair value

Fair value measurements are categorized into three different levels:

Level 1: For instruments quoted in active markets, the fair value is determined considering the observable price in such markets, and for instruments the market quotes of which are not available but for their components, the fair value shall be determined based on relevant market prices of such components.

Level 2: For instruments quoted in non-active markets, the fair value is determined through valuation techniques or models using the higher measurement possible of inputs from the market and minimizing internally calculated inputs.

Level 3: For unquoted instruments, the fair value is determined by using valuation techniques or models.

The fair value of trading and available-for-sale investments has been determined based on their market quotes or the quotes of underlying items (sovereign risk rate) to the date of the consolidated financial statements.

For derivatives, fair value is determined with the use of valuation techniques.

Carrying amount and the fair value of financial assets and liabilities

Taking into account fair value considerations above and Communication (Oficio Multiple) No 43078-2014- SBS, whereby the SBS determined that the fair value of loans and deposits is equivalent to their carrying amount, as of December 31, 2014 and 2013, the carrying amount and fair values of financial assets and liabilities are as follows:

In thousands of S/.	2014		2013	
Fair value and carrying amount	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
ASSETS				
Cash and due from banks	14,633,083	14,633,083	11,824,204	11,824,204
Inter-bank funds	20,002	20,002	25,156	25,156
Investments at fair value through profit or loss	743,245	743,245	556,746	556,746
Equity instruments	60,919	60,919	55,094	55,094
Debt instruments	682,326	682,326	501,652	501,652
Investments in Commodities				
Available-for-sale investments	2,327,609	2,327,609	3,083,921	3,083,921
Representative capital instruments	46,533	46,533	53,409	53,409
Representative debt instruments	2,281,076	2,281,076	3,030,512	3,030,512
Held-to-maturity investments	451,232	465,756	443,993	489,654
Loan portfolio	42,056,399	42,056,399	38,245,327	38,245,327
Trading derivatives	827,724	827,724	577,252	577,252
Hedging derivatives	18,815	18,815	26,789	26,789
Receivables	20,086	20,086	18,433	18,433
Other assets	271,944	271,944	88,725	88,725
TOTAL	61,370,139	61,384,663	54,890,546	54,936,207
LIABILITIES				
Obligations to the public	38,555,172	38,555,172	36,414,890	36,414,890
Inter-bank funds	120,011	120,011	617,134	617,134
Deposits with financial system companies and international financial organizations	1,622,746	1,622,746	939,620	939,620
Due to bank and financial obligations	15,260,159	15,261,806	12,147,526	12,401,634
Trading derivatives	727,257	727,257	561,001	561,001
Hedging derivatives	59,127	59,127	51,918	51,918
Payables	389,657	389,657	414,820	414,820
TOTAL	56,734,129	56,735,776	51,146,909	51,401,017

Financial instruments at fair value, and information about the fair value hierarchy

Assets and liabilities recorded at fair value according to their fair value hierarchy level are as follows:

In thousands of S/.	2014				2013			
Financial instruments recorded at fair value as per valuation methods	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
ASSETS								
Investments at fair value through profit or loss	743,245	743,245	-	-	556,746	556,746	-	-
Capital instruments	60,919	60,919	-	-	55,094	55,094	-	-
Debt instruments	682,326	682,326	-	-	501,652	501,652	-	-
Investments in Commodities	-	-	-	-	-	-	-	-
Available-for-sale investments	2,324,156	535,007	1,789,149	-	3,080,566	3,080,566	-	-
Equity instruments	43,081	43,081	-	-	50,054	50,054	-	-
Debt instruments	2,281,075	491,926	1,789,149	-	3,030,512	3,030,512	-	-
Trading derivatives	827,724	-	827,724	-	577,252	-	577,252	-
Hedging derivatives	18,815	-	18,815	-	26,789	-	26,789	-
TOTAL	3,913,940	1,278,252	2,635,688	-	4,241,353	3,637,312	604,041	-
LIABILITIES								
Due to bank and financial obligations	3,159,557	-	3,159,557	-	2,968,951	-	2,968,951	-
Trading derivatives	727,257	-	727,257	-	561,001	-	561,001	-
Hedging derivatives	59,127	-	59,127	-	51,918	-	51,918	-
TOTAL	3,945,941	-	3,945,941	-	3,581,870	-	3,581,870	-

Description of valuation techniques for instruments carried at fair value

Level 2		Valuation techniques / Hypothesis	Main inputs used
Debts and bonds		Calculation of the hedging derivative’s present value considering the market interest rates, and translating it into Peruvian nuevos soles at current exchange rate (where necessary). Items considered include: Variable cash flows (if any) and cash flows projection.	• Year-end exchange rates. • Market interest rate curves
Derivatives	Forwards, IRS, CCS	Calculation of the present value of each derivative component (fixed / variable) considering the market interest rates and translating them into Peruvian nuevos soles at current exchange rate (where necessary). Items considered include: variable flows (if any), cash flows projection, discount curves per underlying item, and current market interest rates.	• Forwards Points • Fixed vs. variable quotes • Year-end exchange rates. • Market interest rate curves
	Options	For options on shares, foreign currencies or raw materials: Black-Scholes hypotheses take into account any possible adjustments to convexity.	Derivatives on shares, foreign exchange or commodities: • Forward structure of underlying item • Volatility of options • Observable correlations between underlying items
		For interest rate derivatives: Black-Scholes hypotheses assume a normal process of forward rates and take into account any possible adjustments to convexity.	Interest rate derivatives: • Interest rate curve term structure. • Volatility of underlying items.

25. SUBSEQUENT EVENTS

We are not aware of any subsequent events that may have occurred from the closing date of the financial statements to the reporting date that may have a significant impact on those financial statements.
