BBVA Banco Continental and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

(Free translation of a report originally issued in Spanish)

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 Newco Perú S.A.C.) **and Subsidiaries** (hereinafter Grupo Continental), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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 Accounting Principles Generally Accepted 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 audit. We conducted our audit in accordance with International Standards on Auditing, approved for their 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 Perú). Those standards require that we comply with ethical requirements and plan and perform the audit in order to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to Grupo Continental in the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Grupo Continental's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

6. In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of **BBVA Banco Continental and Subsidiaries** as of December 31, 2016 and 2015, their consolidated financial performance and cash flows for the years then ended, in accordance with Accounting Principles Generally Accepted in Peru applicable to financial entities.

Other matters

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

Gris y Asociados S. Civil de R.L.

Countersigned by:

_____________________ (Partner)
Eduardo Gris Percovich
CPC Registration N° 12159

February 17, 2017

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015
In thousands of S/

ASSETS	Notes	2016	2015
Cash and due from banks	4	20,888,598	23,432,484
Interbank funds	10	728,080	363,589
Investments at fair value through profit or loss	5	233,153	94,887
Available-for-sale investments	5	2,882,747	4,720,019
Held-to-maturity investments	5	470,686	462,732
Loan portfolio	6	49,955,024	47,848,768
Trading derivatives	15	838,715	1,327,552
Hedging derivatives	15	3,589	7,467
Accounts receivable		41,518	25,432
Assets seized and recovered through legal actions, net		217,944	155,399
Investments in associates		3,873	3,881
Property, furniture and equipment, net	7	893,661	878,263
Current taxes		261,015	242,935
Deferred income tax	19	423,439	376,798
Other assets	8 (a)	727,938	1,132,330
Goodwill	1 (a)	5,289	-
TOTAL ASSETS		78,575,269	81,072,536
CONTINGENT RISKS AND COMMITMENTS	14	25,513,948	26,042,872

LIABILITIES AND EQUITY	Notes	2016	2015
Obligations to the public	9	47,946,804	46,439,852
Interbank funds	10	-	128,015
Deposits of financial entities and international financial organizations		1,407,661	1,376,558
Due to banks and financial obligations	11	12,023,795	14,370,386
Trading derivatives	15	710,588	1,265,340
Hedging derivatives	15	161,691	118,915
Accounts payable	8 (b)	8,367,216	9,702,873
Current taxes		2,095	608
Provisions	8 (c)	545,154	488,426
Other liabilities	8 (d)	423,689	925,390
TOTAL LIABILITIES		71,588,693	74,816,363
EQUITY			
Capital stock	12 (a)	4,401,368	3,784,146
Reserves	12 (b)	1,249,175	1,111,786
Adjustments to equity	12 (d)	380	(11,549)
Retained earnings	12 (c)	1,335,653	1,371,790
TOTAL EQUITY		6,986,576	6,256,173
TOTAL LIABILITIES AND EQUITY		78,575,269	81,072,536
CONTINGENT RISKS AND COMMITMENTS	14	25,513,948	26,042,872

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, 2016 AND 2015
In thousands of S/

	Notes	2016	2015
INTEREST INCOME			
Cash and due from banks		24,901	10,283
Interbank funds		4,545	1,670
Investments at fair value through profit or loss		18,889	15,635
Available-for-sale investments		167,855	100,665
Held-to-maturity investments		29,472	35,205
Direct loan portfolio		4,228,301	3,844,400
Profit/loss from hedging operations		45,717	40,814
Other financial income		4,089	5,580
		4,523,769	4,054,252
INTEREST EXPENSES			
Obligations to the public		(537,800)	(399,282)
Interbank funds		(11,466)	(10,939)
Deposits of financial entities and international financial organizations		(49,832)	(29,377)
Due to banks and financial obligations		(646,421)	(642,126)
Interests on accounts payable		(374,565)	(261,258)
Other financial expenses		(2,145)	(2,581)
		(1,622,229)	(1,345,563)
GROSS FINANCIAL MARGIN		2,901,540	2,708,689
Provisions for direct loans and others		(623,718)	(638,181)
NET FINANCIAL MARGIN		2,277,822	2,070,508
Income from financial services	16	1,065,389	1,003,597
Expenses for financial services	16	(298,048)	(243,396)
NET FINANCIAL MARGIN OF INCOME AND EXPENSES FOR FINANCIAL SERVICES		3,045,163	2,830,709
GAIN / LOSS FROM FINANCIAL OPERATIONS (ROF)			
Investments at fair value through profit or loss		19,262	9,933
Available-for-sale investments		24,753	8,389
Trading derivatives		70,217	(674,939)
Profit from interests in associates		1,487	1,602
Profit/loss from exchange differences	3	369,882	1,258,776
Others		24,041	63,224
		509,642	666,985
OPERATING MARGIN		3,554,805	3,497,694

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
In thousands of S/

	Notes	2016	2015
Administrative expenses	17	(1,530,357)	(1,461,214)
NET OPERATING MARGIN		2,024,448	2,036,480
Valuation of assets and provisions		(214,526)	(167,101)
OPERATING PROFIT/LOSS		1,809,922	1,869,379
Other income and expenses		(29,874)	25,593
PROFIT/LOSS FOR THE YEAR BEFORE INCOME TAX		1,780,048	1,894,972
Income tax	18(c)	(441,812)	(523,337)
NET PROFIT FOR THE YEAR		1,338,236	1,371,635
Weighted average number of outstanding shares (in thousands of shares)		4,401,368	4,401,368
Basic and diluted earnings per share in Soles	20	0.304	0.312

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, 2016 AND 2015
In thousands of S/

	2016	2015
NET PROFIT FOR THE YEAR	1,338,236	1,371,635
Other comprehensive income:		
Available-for-sale investments	10,631	(22,475)
Cash flow hedges	1,173	(2,235)
Interest in other comprehensive income of associates under the equity method	56	-
Income tax related to items of other comprehensive income	69	2,953
Other comprehensive income for the year, net of taxes	11,929	(21,757)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,350,165	1,349,878

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, 2016 AND 2015
In thousands of S/

		Reserves			Adjustments to equity			
	Capital stock Note 12 (a)	Mandatory reserves Note 12 (b)	Voluntary reserves Note 12 (b)	Retained earnings Note 12 (c)	Cash flow hedges Note 12 (d)	Available-for-sale investments and comprehensive income for interest in associate Note 12 (d)	Total adjustments to equity	Total equity
Balances as of January 1, 2015	3,246,531	977,350	-	1,343,935	2,228	7,980	10,208	5,578,024
Changes in equity:								
Comprehensive income:								
Net profit for the year	-	-	-	1,371,635	-	-	-	1,371,635
Other comprehensive income for the year, net of taxes	-	-	-	-	(1,655)	(20,102)	(21,757)	(21,757)
Total comprehensive income for the year	-	-	-	1,371,635	(1,655)	(20,102)	(21,757)	1,349,878
Changes in net equity (not included in comprehensive income)								
Declared dividends in cash	-	-	-	(671,890)	-	-	-	(671,890)
Issuance of equity shares (different than business combination)	537,615	-	(103)	(537,512)	-	-	-	-
Transfers to reserves and other movements	-	134,436	103	(134,378)	-	-	-	161
Total changes in equity	537,615	134,436	-	27,855	(1,655)	(20,102)	(21,757)	678,149
Balances as of December 31, 2015	3,784,146	1,111,786	-	1,371,790	573	(12,122)	(11,549)	6,256,173
Balances as of January 1, 2016	3,784,146	1,111,786	-	1,371,790	573	(12,122)	(11,549)	6,256,173
Changes in equity:								
Comprehensive income:								
Net profit for the year	-	-	-	1,338,236	-	-	-	1,338,236
Other comprehensive income for the year, net of taxes	-	-	-	-	800	11,129	11,929	11,929
Total comprehensive income for the year	-	-	-	1,338,236	800	11,129	11,929	1,350,165
Changes in equity (not included in comprehensive income)								
Declared dividends in cash	-	-	-	(617,222)	-	-	-	(617,222)
Issuance of equity shares (different than business combination)	617,222	-	-	(617,222)	-	-	-	-
Transfers to reserves and other movements	-	137,306	83	(139,929)	-	-	-	(2,540)
Total changes in equity	617,222	137,306	83	(36,137)	800	11,129	11,929	730,403
Balances as of December 31, 2016	4,401,368	1,249,092	83	1,335,653	1,373	(993)	380	6,986,576

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, 2016 AND 2015
In thousands of S/

	2016	2015
RECONCILIATION OF NET PROFIT OF GRUPO CONTINENTAL WITH CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES:		
Net profit for the year	1,338,236	1,371,635
Adjustments	1,236,337	1,203,400
Depreciation and amortization	110,061	100,042
Provisions	711,454	712,732
Other adjustments	414,822	390,626
Net variation in assets and liabilities	(1,500,048)	(422,002)
Net decrease (net increase) in assets	1,224,121	(13,170,222)
Loan portfolio	(2,885,906)	(4,097,487)
Investments at fair value through profit or loss	(138,266)	648,358
Available-for-sale investments	1,851,064	(1,393,889)
Accounts receivable and others	2,397,229	(8,327,204)
(Net decrease) net increase in liabilities	(2,724,169)	12,748,220
Financial liabilities, unsubordinated	(382,320)	4,693,843
Accounts payable and others	(2,341,849)	8,054,377
Profit/loss for the period after net changes in assets and liabilities and adjustments	1,074,525	2,153,033
Paid income tax	(519,398)	(525,391)
NET CASH FLOWS OF OPERATING ACTIVITIES	555,127	1,627,642
INVESTMENT ACTIVITIES:		
Outflows for purchases of intangibles and property, furniture and equipment	(187,841)	(150,204)
Outflows for purchases of subsidiaries, net	(98,061)	-
Other inflows related to investment activities	27,033	86,871
NET CASH FLOWS FOR INVESTMENT ACTIVITIES	(258,869)	(63,333)
FINANCING ACTIVITIES:		
Outflow for recovery of subordinated financial liabilities	-	(96,030)
Dividends paid	(616,067)	(668,650)
NET CASH FLOWS FOR FINANCING ACTIVITIES	(616,067)	(764,680)
NET DECREASE (NET INCREASE) IN CASH AND CASH EQUIVALENTS BEFORE EFFECT OF EXCHANGE RATE VARIATION	(319,809)	799,629
Effect of exchange rate variation on cash and cash equivalents	(315,866)	2,288,350
NET DECREASE (NET INCREASE) IN CASH AND CASH EQUIVALENTS	(635,675)	3,087,979
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	15,270,159	12,182,180
CASH AND CASH EQUIVALENTS PROVIDED BY THE ACQUISITION OF SUBSIDIARIES	17,946	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14,652,430	15,270,159

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
In thousands of S/

	2016	2015
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR WITH ACCOUNT BALANCES OF THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION		
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14,652,430	15,270,159
Guarantee funds	7,905,772	9,446,861
Interbank funds	(728,080)	(363,589)
Investments with maturities of less than 90 days	(941,524)	(920,947)
CASH AS PER THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Note 4)	20,888,598	23,432,484

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

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

(a) Incorporation and economic activity

BBVA Banco Continental (hereinafter the Bank) is a subsidiary of Newco Perú S.A.C. which owns 46.12% of the capital stock of the Bank. Banco Bilbao Vizcaya Argentaria S.A. owns 100% of shares of Newco Perú S.A.C. The Bank is a public company incorporated in 1951, authorized to operate by the Superintendence of Banking, Insurance and Private Pension Fund Administrators (hereinafter the SBS, for its Spanish acronym), domiciled in Lima, Peru. The legal address of its main office 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 legal entities operating in the financial and insurance system are subject to.

As of December 31, 2016 and 2015, the Bank carries out its activities through a network of 334 and 345 offices, respectively. The total number of employees of the Bank and its Subsidiaries as of December 31, 2016 and 2015 was 5,690 and 5,424, respectively.

The Bank has an equity interest and voting rights on 100% of the following subsidiaries: Continental Bolsa Sociedad Agente de Bolsa S.A., BBVA Asset Management Continental S.A., Sociedad Administradora de Fondos, Continental Sociedad Titulizadora S.A., Inmuebles y Recuperaciones Continental S.A., BBVA Consumer Finance EDPYME, Forum Comercializadora del Perú S.A. and Forum Distribuidora del Perú S.A. (these three last companies since April 2016). Even though the Bank does not have interest or voting rights in Continental DPR Finance Company (DPR), due to the characteristics of its business purpose and its relationship with the Bank, accounting standards require that DPR's financial statements should be included on a consolidated basis with those of the Bank (all these companies will be referred to as Grupo Continental).

Change of controlling company

On July 1, 2016, 50% of equity of Holding Continental S.A. was split off to Newco Perú S.A.C., and as a result, 46.12% of shares of the Bank was assigned to Newco Perú S.A.C. This split-off was authorized by the SBS by virtue of Resolution SBS No. 3304-2016 dated June 15, 2016. Through this split-off, the ownership of shares of Banco Bilbao Vizcaya Argentaria S.A. was transferred to Newco Perú S.A.C., and Inversiones Breca S.A. maintained its ownership of the shares of the Bank through Holding Continental S.A.

Acquisition of subsidiaries

On April 6, 2016, the Bank acquired 51.68% of shares of the capital stock of BBVA Consumer Finance EDPYME, Forum Comercializadora del Perú S.A. and Forum Distribuidora del Perú S.A. Also, on April 29, 2016, the Bank acquired the remaining 48.32% of shares of the capital stock of the companies mentioned above.

The acquisition value of those companies is presented below:

In thousands of S/

Acquiree	Acquisition value	Interest %
BBVA Consumer Finance EDPYME	67,021	100
Forum Comercializadora del Perú S.A.	16,941	100
Forum Distribuidora del Perú S.A.	21,499	100
Total	105,461	

The assets, liabilities and equity of acquirees as of March 31, 2016 are summarized as follows:

In thousands of S/

Acquiree	Asset	Liability	Equity
BBVA Consumer Finance EDPYME	231,369	170,222	61,147
Forum Comercializadora del Perú S.A	13,944	1,090	12,854
Forum Distribuidora del Perú S.A.	55,246	29,075	26,171
Total	300,559	200,387	100,172
Goodwill			5,289
Total acquisition value			105,461

The goodwill of S/ 5 million is the additional value paid for the carrying amount of acquirees and corresponds to the expected value of the acquired business.

Additionally, as shareholder at 100% of Forum Comercializadora del Perú S.A., the Bank agreed at the Shareholders' Meeting held on April 29, 2016 to reduce its capital stock by S/ 7.4 million.

On May 1, 2016, the Bank sold a share to Inmuebles y Recuperaciones Continental S.A. of Forum Comercializadora del Perú S.A. and Forum Distribuidora del Perú S.A.

(b) Approval of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2016 have been approved for issuance by Grupo Continental's Management on February 9, 2017. These consolidated financial statements will be submitted for approval to the Board of Directors and Annual Mandatory Shareholder's Meeting to be held within the terms established by Law. The consolidated financial statements for the year ended December 31, 2015 were approved at the Annual Mandatory Shareholder's Meeting held on March 31, 2016.

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

The accompanying consolidated financial statements have been translated into English for convenience of English-speaking readers and have been derived from the consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

2. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies used by Grupo Continental in the preparation and presentation of the consolidated financial statements are set out below. Unless otherwise stated, these policies were consistently applied during all years presented.

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

The consolidated financial statements are prepared and presented in accordance with legal regulations and accounting policies generally accepted in Peru (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 included in the Accounting Manual for Financial Entities (hereinafter the Accounting Manual), approved by Resolution SBS No. 895-98 dated September 1, 1998, effective as of January 1, 2001, and complementary standards and amendments.

The SBS has established that for situations that are not addressed by such standards, the regulations set forth in the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and rendered official by the Consejo Normativo de Contabilidad (Accounting Standards Board – CNC) shall be applicable (GAAP Peru).

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

The following standards and interpretation as well as amendments to the existing standards were published for mandatory application in Peru for accounting periods beginning on or after January 1, 2016, but they were not relevant for the operations of Grupo Continental:

Standards, Interpretations and Amendments	Mandatory application:
Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization	Effective for annual periods beginning on or after January 1, 2016.
Amendments to IAS 1 Presentation of financial statements	Applicable to annual periods beginning on or after January 1, 2016.

The following standards and interpretations have been published and are applicable to periods beginning after the presentation date of these consolidated financial statements:

Standards, Interpretations and Amendments	Mandatory application:
IFRS 9 Financial instruments	Effective for annual periods beginning on or after January 1, 2018.
IFRS 15 Revenue from contracts with customers	Effective for annual periods beginning on or after January 1, 2018.
IFRS 16 Leases	Effective for annual periods beginning on or after January 1, 2019.
IFRIC 22 Foreign currency transactions and advance consideration	Effective for annual periods beginning on or after January 1, 2018.
Amendments to IFRS 2 Classification and measurement of share-based payment transactions	Effective for annual periods beginning on or after January 1, 2018.
Amendments to IAS 7 Disclosure initiative	Effective for annual periods beginning on or after January 1, 2017.
Amendments to IAS 12 Recognition of deferred tax assets for unrealized losses	Effective for annual periods beginning on or after January 1, 2017.

Management of Grupo Continental considers that the impact of the standards above would not be material for the consolidated financial statements of the Bank in case those standards were adapted by the SBS.

(b) Consolidation basis

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

Subsidiaries and SPE (Special Purpose Entity)

Subsidiaries are all entities over which the Bank has the power to control over the financial and operating policies by generally owning more than half of its voting shares. The consolidated financial statements include accounts such as assets, liabilities, equity, 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 delivered, equity instruments issued and liabilities incurred or assumed at the exchange date, plus costs directly attributable to the acquisition.

Main balances of the Bank, its Subsidiaries and SPE as of December 31 are presented below:

In millions of S/	Assets		Liabilities		Equity	
	2016	2015	2016	2015	2016	2015
Entity						
BBVA Banco Continental	78,620	81,116	71,631	74,860	6,989	6,256
Continental Bolsa - Sociedad Agente de Bolsa S.A. (i)	38	36	17	8	21	28
BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos (ii)	54	75	2	13	52	62
Continental Sociedad Titulizadora S.A. (iii)	3	2	-	-	3	2
Inmuebles y Recuperaciones Continental S.A. (iv)	48	40	4	2	44	38
Continental DPR Finance Company (v)	481	824	481	824	-	-
BBVA Consumer Finance Edpyme (vi)	342	-	287	-	55	-
Forum Comercializadora S.A (vii)	3	-	1	-	2	-
Forum Distribuidora S.A. (viii)	85	-	58	-	27	-

(i) Continental Bolsa - Sociedad Agente de Bolsa S.A. (hereinafter “Sociedad Agente de Bolsa”) is a subsidiary of the Bank, which owns 100% of voting shares of the entity’s capital stock. Sociedad Agente de Bolsa is engaged in security intermediation services, mainly comprised by the purchase and sale of securities on behalf of customers (principals), as well as the provision of advisory and information services to investors. Also, Sociedad Agente de Bolsa may perform and provide intermediation-related operations and services in the stock market, as authorized by the Superintendence of the Stock Market (hereinafter the SMV).

(ii) BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos (hereinafter “Sociedad Administradora”) is a subsidiary of the Bank, which owns 100% of voting shares of the entity’s capital stock. Sociedad Administradora is exclusively engaged in the management of mutual funds and investment funds, as authorized to operate by the SMV, as well as the purchase and sale of securities. As of December 31, 2016, this entity manages 17 mutual funds for the investment in securities, 3 private investment funds and 1 public investment fund.

(iii) Continental Sociedad Titulizadora S.A. (hereinafter “Sociedad Titulizadora”) is a subsidiary of the Bank, which owns 100% of voting shares of the entity’s capital stock. Sociedad Titulizadora exclusively acts as trustee in securitization processes, and is also engaged in the acquisition of assets in order to establish trust funds which secure the issuance of credit-related securities. As of December 31, 2016, Sociedad Titulizadora manages assets in 10 trust funds.

(iv) Inmuebles y Recuperaciones Continental S.A. (hereinafter “IRCSA”) is a subsidiary of the Bank, which owns 100% of voting shares of the entity’s capital stock. IRCSA is engaged in any activity related to the commerce of properties and furniture for their own use or for third parties through the purchase, sale, lease, import and export of those assets, as well as any other related activity, without restrictions. Also, this entity provides management services for the health assistance program of the Bank.

(v) Continental DPR Finance Company is a special purpose entity which was incorporated for the purpose indicated in Note 11 (securitization of foreign remittances).

(vi) BBVA Consumer Finance Edpyme (hereinafter “Edpyme”) is engaged in granting funds preferably to individuals and legal entities that develop activities classified as small or micro businesses.

(vii) Forum Comercializadora del Perú S.A. is engaged in financing motor vehicles, as wholesale or retail, and can use them or grant them under a finance lease.

(viii) Forum Distribuidora del Perú S.A. is engaged in granting direct or indirect funds to concessionaires of motor vehicles; trading, buying and selling motor vehicles, on credit or cash, and can use them or grant them under a lease, assignment for use or any other modality as allowed by Peruvian regulations.

(c) Responsibility for information and estimates

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

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized, by recording the effects of changes in the corresponding accounts of the consolidated statement of income and other comprehensive income, as applicable, from the period when corresponding reviews are conducted.

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

- Investments at fair value through profit or loss, available-for-sale, held-to-maturity and investments in associates.
- Allowance for loan losses.
- Other assets and contingent credits.
- Provision for accounts receivable.
- Provision for assets seized and recovered through legal actions.
- Provision for employee benefits.
- Useful life assigned to property, furniture and equipment, and intangibles.
- Provisions, contingent liabilities and assets.
- Current and deferred income tax.
- Derivative financial instruments (underlying at fair value).
- Impairment of non-monetary assets.
- Goodwill.

(d) Functional and presentation currency

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

(e) Foreign currency transactions

Foreign currency transactions are recorded at initial recognition, using the functional currency. For this 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 when the transaction meets the recognition criteria.

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

(a) Monetary assets and liabilities are translated at the exchange rate effective at the closing date of the reporting period.

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

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

Recognition of exchange difference is subject to the following conditions:

(a) Exchange differences that have arisen when settling monetary assets and liabilities or when translating those items at other exchange rates than those used at their initial recognition, during the period or previous consolidated financial statements, will be recognized in consolidated profit or loss for the period when arisen.

(b) When profits or losses resulting from a non-monetary item are recognized in other consolidated comprehensive income, any exchange difference included in those profits or losses will also be recognized in other consolidated comprehensive income.

In case of non-monetary items, whose profits and losses are recognized in profit/loss for the period, any exchange difference included in those profits or losses are also recognized in consolidated profit/loss for the period.

(f) Financial instruments

Financial instruments are classified as either financial assets, financial liabilities or as equity in accordance with the substance of the contractual arrangements from which they originate. Interests, dividends, profits and losses from a financial instrument classified as asset or liability are recorded as expenses or income in the consolidated statement of income.

Financial instruments are offset when Grupo Continental has a legally enforceable right to set off and Management intends to settle them on a net basis, or realize the asset and pay the liability simultaneously.

(f.1) Classification of financial instruments

Grupo Continental records its financial instruments at the trading date in accordance with SBS standards, and classifies them as follows: i) loans and accounts receivable, ii) at fair value through profit or loss, iii) available-for-sale, iv) held-to-maturity, v) liabilities at amortized cost and at fair value, and vi) other liabilities.

Financial assets

(i) Loans and accounts receivable

This category includes financial assets with fixed or determinable cash flows where total disbursements made by the entity will be recovered, except for reasons attributable to the debtor's solvency. This category shall include both the investment from typical credit transactions, such as cash amounts used and to be amortized by customers as loans or deposits made in other entities, regardless of their legal form, and debts incurred by good buyers or service users, that are part of the Bank's business.

Loans and accounts receivable are initially recorded at historical cost and valued based on the impairment of the debtor's creditworthiness; interests earned for financial assets and impairment losses are recognized in the consolidated statement of income.

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

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

Subsequently, these assets are measured at fair value and the profit or loss resulting from the valuation or sale of these financial assets is recorded in the consolidated profit/loss for the period.

(iii) Held-to-maturity financial assets

This category includes all investment instruments that meet the following criteria: (i) they were acquired or reclassified with the intention of holding them until maturity, for which Grupo Continental has the financial capacity to keep the investment instrument until maturity, and (ii) should be rated by at least two local or foreign risk credit-rating agencies and those ratings must meet the criteria set by the SBS; the instruments of Central Banks of countries whose sovereign debt is granted as minimum the same rating given to Peru's sovereign debt are not included in this requirement.

Pursuant to the provisions set forth in Resolution SBS No. 7033-2012 "Regulations for the Classification and Valuation of Investments of Financial Entities", these financial assets are initially recorded at fair value, including transaction costs directly attributable to the acquisition of these financial instruments.

These financial assets are subsequently measured at amortized cost using the effective interest rate method. Any impairment loss is recognized in the consolidated profit/loss for the period.

(iv) Available-for-sale financial assets

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

Pursuant to the provisions set forth in Resolution SBS No. 7033-2012 "Regulations for the Classification and Valuation of Investments of Financial Entities", these financial assets are initially recorded at fair value, including transaction costs directly attributable to the acquisition of these financial instruments. Subsequent to initial recognition, these financial assets are measured at fair value, and profit or loss arising from the fluctuation of the fair value of the investment instrument classified in this category is directly recognized in equity (consolidated statement of income and other comprehensive income) until the instrument is sold or realized, and any profit or loss previously recognized in equity is transferred and recorded in the consolidated profit/loss for the period, except impairment losses which are recorded in profit/loss when presented.

Financial liabilities

(i) Liabilities at amortized cost and fair value

These liabilities include obligations to the public, deposits of financial entities, debts, securities and bonds (corporate, subordinated and finance lease bonds, and negotiable certificates of deposit). Debts, securities and bonds are recorded at amortized cost using the effective interest rate method. Amortized cost is calculated considering any discount or premium in issuance. Costs which are an integral part of the effective interest rate are amortized during the effective term of related liabilities. Interests accrued are recognized in the consolidated statement of income.

Financial liabilities are classified as financial liabilities at fair value though profit or loss when classified as held-for-trading or, at initial recognition, have been designated to be accounted for at fair value through profit or loss.

A financial liability is classified as held-for-trading if:

- It has been acquired mainly in order to repurchase it in the near term;

- It is part of a portfolio of identified financial instruments which are jointly managed and for which there is evidence of a recent pattern to obtain short-term benefits; or

- It is a derivative, not a financial guarantee contract, and it has not been designated as a hedging instrument and does not meet the conditions to be effective.

A financial liability different from those held-for-trading can be classified as financial liability at fair value through profit or loss if:

- It eliminates or significantly reduces a measurement or recognition inconsistency; or

- Financial liabilities are part of a group of financial assets, financial liabilities or both, that are managed and assessed according to the fair value criteria, following a documented investment or risk management strategy of the company and whose information is provided internally over such basis; or

- It is part of a contract containing one or more constructive 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 value through profit or loss are presented at fair value. Profit or loss arising from changes in fair value of these liabilities are recognized in “Gain/loss from financial operations (ROF)” in the consolidated statement of income.

Pursuant to Resolution SBS No. 975-2016 “Regulations for Subordinated Debt applicable to financial entities” dated February 24, 2016, the regulations for subordinated debt applicable to financial entities were approved. The most relevant changes are as follows:

The subordinated debt calculated as part of tier 1 regulatory capital must be permanent (original maturity date greater than 60 years) and must not have a step-up. This change is applicable to subordinated debt issued from January 1, 2017. The subordinated debt issued before the effective date of these regulations will still be calculated as part of tier 1 regulatory capital, and will be subject to a discount of 10% per year from January 2017. The tier 1 amount that cannot be calculated as part of tier 1 regulatory capital can be included as tier 2 hybrid instrument, provided it meets the requirements set forth in the regulations.

The minimum threshold was established, over which the loss absorption mechanism is activated (characteristic of all subordinated debts); the concept of adjusted regulatory capital is included for those effects. This loss absorption mechanism establishes the write-off (temporary or permanent) or capitalization of subordinated debt.

(ii) Other liabilities

Other liabilities comprise accounts payable to suppliers, sundry accounts payable, accounts payable for dividends, profit-sharing, salaries, obligations with the deposit insurance fund and obligations with tax collection entities, among others. These items are initially recognized at fair value and then are determined at amortized cost.

(f.2) Derecognition of financial assets and liabilities

Financial assets are derecognized when risks and benefits have been transferred to a third party. Also, financial liabilities are derecognized when a contractual obligation has been paid, cancelled or has expired. Profits 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 on the cash flows of the financial asset expire or when the risks and benefits inherent to the ownership of the financial asset are substantially transferred to another entity. Grupo Continental derecognizes a financial liability when, and only when, their obligations expire, are met or cancelled.

Profits arising from the transfer of the loan portfolio are recognized as income; however, if the transfer is performed through a barter or if they are financed, such profits are recognized as deferred income, which is accrued based on monetary income that may be obtained from the realization of assets received under barters; or proportionally to the payment received from the acquirer of the loan portfolio being transferred. Losses arising from this transfer are recognized when being transferred.

(f.3) Impairment of financial assets

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

(g) Investments in associates

This item comprises equity instruments acquired to maintain significant influence. In accordance with the provisions set forth in the Accounting Manual, these investments are initially recorded at acquisition cost and are subsequently determined by applying the equity method.

(h) Allowance for loan losses

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

The SBS has established quantitative criteria (sales and debt 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 entities
(d) Stock brokers
(e) Financial entities

(ii) Large businesses
(iii) Medium businesses
(iv) Small businesses
(v) Micro-businesses
(vi) Revolving consumer loans
(vii) Non-revolving consumer loans
(viii) Mortgage loans

The allowances for indirect loans losses are calculated after adjusting balances through the application of the following credit conversion factors:

	Indirect loans	**Conversion factor (%)**
(a)	Confirmations of 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 letters of guarantee not included in paragraph "b)", and confirmations of letters of credit not included in paragraph "a)" and bank acceptances.	100
(d)	Undisbursed loans granted and unused lines of credit.	0
(e)	Other indirect loans not covered in previous paragraphs.	100

Debtors are classified and provisioned according to the following categories: normal, with potential problems, substandard, doubtful and loss.

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

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

Mandatory generic provisions are determined based on percentage rates that include a fixed and variable component (procyclical) and vary depending on the type of loan. The standard to determine the procyclical component is activated or deactivated upon communication of the SBS, which relies upon a regular measurement of annual percentage variations (in moving averages) of the actual Gross Domestic Product of Peru (GDP), published by Banco Central de Reserva del Peru (BCRP).

General voluntary provisions have been determined by Grupo Continental based on the economic situation of customers within the refinanced and restructured loan portfolio, previous experience and other factors that, in Management's opinion, require the current recognition of possible losses in the loan portfolio. The amount of general voluntary provisions is reported to the SBS.

Management reviews and analyzes the non-retail loan portfolio (corporate, large businesses and medium businesses) and classifies and provisions debtors according to their cash flows, global debts with creditors and their level of compliance with the payment of such debts. The retail loan portfolio (small businesses, micro-businesses, revolving consumer, non-revolving consumer and mortgage loans) is classified and provisioned based on the number of days in arrears and the classification of debtors in other financial entities. Additionally, pursuant to Resolution SBS No. 041-2005 and its amendments, Grupo Continental assesses its exposure to credit exchange risk for loans denominated in foreign currency.

Minimum percentages required for the constitution of provisions for the loan portfolio are presented below:

Normal category

Types of loans	**Fixed Component**	**Procyclical Component**
	%	**%**
Corporate loans	0.70	0.40
Corporate loans with self-liquidating guarantees	0.70	0.30
Large business loans	0.70	0.45
Large business loans with self-liquidating guarantees	0.70	0.30
Medium business loans	1.00	0.30
Small business loans	1.00	0.50
Micro-business loans	1.00	0.50
Revolving consumer loans	1.00	1.50
Non-revolving consumer loans	1.00	1.00
Consumer loans under eligible agreements	1.00	0.25
Mortgage loans	0.70	0.40
Mortgage loans with self-liquidating guarantees	0.70	0.30

As of December 31, 2016 and 2015, the procyclical component for the provision of the loan portfolio was deactivated pursuant to Circular Letter SBS No. B-2224-2014.

Other categories and per type of guarantees

Risk category	**No guarantee**	**Preferred guarantee**	**Readily realizable preferred guarantee**
	%	**%**	**%**
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

(i) Finance lease loan portfolio

Finance lease operations are recorded as loans in accordance with effective standards of the SBS and IAS 17 “Leases”. These transactions are initially recorded based on the disbursement value of the transaction (net investment in lease).

(j) Financial derivative instruments

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

For trading

Derivative financial instruments are initially recognized at cost in the consolidated statement of financial position of the Bank, and are subsequently carried at fair value. Trading financial derivatives are measured at fair value on a monthly basis. Foreign currency forwards, interest-rate swaps, currency swaps and options transactions are recorded at their estimated market value, recognizing assets or liabilities in the consolidated statement of financial position of the Grupo Continental, as applicable; and the profit or loss of the valuation or settlement of derivative financial instruments is recorded in the consolidated profit/loss for the period. The nominal value of derivative financial instruments is recorded in their respective committed or agreed-upon currency in contingent and/or off-balance sheet accounts (Note 15).

For hedging

A derivative financial instrument that seeks to ensure financial hedging to a certain risk is treated as a hedging instrument for accounting purposes if, in its trading, it is expected that changes in its fair value or cash flows will be highly effective to offset changes in the fair value or cash flows of the hedged item, directly attributable to the hedged risk from the beginning, which should be documented in the trading operation of the derivative financial instrument, and during the hedge period. Pursuant to Resolution SBS No. 1737-2006 and its amendments, a hedge is considered highly effective if it is expected that changes in fair value or cash flows of the hedged instrument and the instrument used for hedging are within a range of 80% to 125%.

If the SBS considers that the documentation is unsatisfactory or identifies weaknesses in the methodologies used, it may require the dissolution of the hedge and the record of the derivative financial product as for trading.

(j.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 its hedged item are recognized in the consolidated statement of income from the date the hedge is designated effective.

Changes in fair value of the hedged risk of the hedged item (profit or loss at valuation) are recorded as accounts receivable and payable in the consolidated statement of financial position.

(j.2) Cash flow hedging

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

For both types of hedges, if the derivative instrument expires or is sold, terminated, or exercised, or when it no longer meets hedge accounting criteria, the hedging relationship is prospectively terminated and those balances recorded in the consolidated statement of financial position and the consolidated statement of income and other comprehensive income, as applicable, are transferred to the consolidated statement of income during the effective term of the hedged item.

(k) Goodwill

Goodwill arising from the acquisition of a subsidiary corresponds to the excess of considerations granted on the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary, recognized at the acquisition date. Goodwill is initially recognized as an asset at cost, and is subsequently presented at cost less any accumulated impairment loss.

For impairment testing purposes, goodwill is allocated to each cash-generating unit of the Bank that is expected to benefit from the synergies of the business combination. A cash-generating unit, to which purchased goodwill has been distributed, is subject to annual testing for impairment or more frequently if there are indications that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is distributed first to reduce the carrying amount of any purchased goodwill distributed to the cash-generating unit, and then, to other assets of the cash-generating unit in proportion to the carrying amount of each asset of the unit. Any impairment loss of goodwill is recognized against profit or loss for the period when produced. An impairment loss recognized in purchased goodwill is not reversed in subsequent periods.

The Bank has identified that the recoverable value of the cash-generating unit is higher than the carrying amount of the investment, including goodwill; so as of December 31, 2016, the Bank has not recognized any impairment loss in goodwill.

(l) Interest in subsidiaries

The excess of the acquisition cost on the interest of the Bank in the net fair value of identifiable assets, liabilities and contingent liabilities of subsidiaries, recognized at the acquisition date, is recognized as goodwill. This goodwill is included in the carrying amount of the investment in the subsidiary and is assessed for impairment as part of such investment. The excess of interest of the Bank in the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary, recognized at the acquisition date, on the acquisition cost, is immediately recognized after its assessment against profit or loss for the period.

The Bank has determined that the fair value of the acquisition is equivalent to the carrying amount of acquired subsidiaries, since for the record of the fair value of loan assets and acquired liabilities, the express authorization of the SBS is required.

(m) Business combinations

Business combinations are accounted for under the acquisition method. The consideration transferred in a business combination is measured at its fair value, which is calculated as the addition of the fair values at the acquisition date of the assets transferred by the acquirer, the liabilities assumed by the acquirer of old owners of the acquiree and interests in equity issued by the acquirer in exchange for control of the acquiree. Costs related to acquisitions are generally recognized in profit or loss when incurred.

(n) Property, furniture and equipment

Property, furniture and equipment are recorded at historical cost, which includes acquisition-related disbursements and are presented net of depreciation and accumulated impairment loss, if any. Annual depreciation is recognized as expense and is determined on a cost basis using the straight-line method based on the estimated useful life of assets, represented by equivalent depreciation rates, as follows:

	Years
Buildings	33
Facilities	33 - 10
Leasehold improvements	10
Furniture and equipment	10 - 4
Vehicles	5

Disbursements incurred after a fixed asset has been placed for use are capitalized as an additional cost of such asset only when they can be reliably measured and it is probable that those disbursements will result in future economic benefits higher than the normal return originally assessed for such asset. Disbursements for maintenance and repairs are recognized as expense during the period when incurred. When a fixed asset is sold or disposed of use, the corresponding cost and accumulated depreciation are eliminated and the resulting profit or loss of the sale is recognized in the consolidated statement of income.

Banks are not allowed to apply the revaluation model. The only subsequent recognition model accepted is the cost model. Also, banks are prohibited from granting its fixed assets as collateral, except for assets acquired under finance lease transactions.

(o) Assets seized and recovered through legal actions

Assets seized and recovered through legal actions are recorded at judicial or extrajudicial award value or at the value agreed in the payment in kind agreement. Assets recovered due to contract termination are initially recorded at the lowest of the unpaid debt value or the net realizable value. If the unpaid debt value is greater than the recovered asset, the difference is recognized as a loss, provided there are no recovery probabilities.

In addition, the following provisions should be established on these assets:

- 20% of value at the award or recovery date for all goods received.

- For properties, in a maximum period of 42 months, a standardized monthly provision should be established on net value obtained in the twelfth (12°) or eighteenth (18°) month from its award or recovery, depending on the extension authorized by the SBS and until completing

100% of the carrying amount of the asset. On an annual basis, the carrying amount of properties is compared to the realizable value determined by an independent appraiser and, in the event that this value is lower, an impairment provision is established.

- For assets other than property, the remaining balance is provisioned in a period not higher than 18 or 12 months if an extension is authorized by the SBS.

(p) Intangible assets

Intangible assets with finite useful lives are recorded at acquisition cost and are presented net of accumulated amortization and accumulated impairment losses. Amortization is recognized as expense and is determined under the straight-line method based on the estimated useful life of assets. The useful life of these assets has been estimated to be between 1 and 5 years.

Costs related to the maintenance of computer software are recognized as expenses when incurred. Costs for the development of unique and identifiable software products which are probable to generate economic benefits higher than their cost for more than a year are recognized as intangible assets.

(q) Non-current assets held for sale

Non-current assets held for sale are measured at the lowest of its carrying amount or fair value less costs of sales. Non-current assets are classified as held for sale when the asset is available for immediate sale and its sale is highly probable, Management should be committed to the sale, and the sale should be expected to meet pertinent requirements for its recognition as such within one year from the date of classification.

(r) Impairment of non-financial assets

When there are events or economic changes indicating that the value of a long-lived asset may 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 consolidated statement of income. Recoverable amounts are estimated for each asset.

(s) Employee benefits

Short-term and long-term employee benefits are accrued as follows:

Short-term benefits

(s.1) Vacations and other benefits

Annual vacations of employees, paid absences and other employee benefits are recognized on an accrual basis, considering the probability of disbursements. The provision for estimated obligations resulting from services provided by employees is recognized at the date of the consolidated statement of financial position.

(s.2) Severance indemnities

The provision for severance or seniority indemnities of employees comprises all the liabilities related to the employees' vested rights according to current laws. These payments are mainly deposited in the Bank, since it is the financial entity selected by employees.

(s.3) Profit-sharing of employees

Grupo Continental recognizes a liability and an expense of personnel based on 5% on the taxable amount determined in accordance with current tax regulations.

Pursuant to current legal regulations on this matter, subsidiaries should not determine profit-sharing of employees since the number of employees does not exceed twenty, except in Edpyme.

Long-term benefits

Long-term post-employment benefits for active and non-active staff of the Bank 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 at the date they are met and the historical average cost of healthcare expenses and other benefits adjusted to inflation as well as the probability of occurrence. All these future cash flows have been discounted using the interest rates effective in the market corresponding to the issuance of high credit-rating bonds.

(t) Provisions, contingent liabilities and contingent assets

Provisions are recognized only when Grupo Continental has a current obligation (legal or implicit) as a result of a past event, it is probable that resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are reviewed each period and are adjusted to reflect the best estimate at the date of the consolidated statement of financial position. When the effect of the time value of money is material, the amount of the provision is the present value of expenses expected to be incurred to pay the provision.

Contingent liabilities are not recognized in the consolidated financial statements, but are only disclosed in a note to the consolidated financial statements, except when the probability of an outflow of resources to cover a contingent liability is remote. Contingent assets are not recognized in the consolidated financial statements, but are only disclosed in a note to the consolidated financial statements when an inflow of resources is probable to occur. Items previously treated as contingent liabilities will be recognized in the consolidated financial statements in the period when a change in probabilities occurs; that is, when it is determined to be probable that an outflow of resources will occur. Items treated as contingent assets are recognized in the consolidated financial statements for the period when it is determined as virtually certain that an inflow of resources will occur.

(u) Share-based payment transactions

A group of employees is subject to Directive 2013/36/UE of the European Parliament, which establishes restrictions to variable compensations with regard to fixed compensations. This system for the settlement and payment of annual variable compensation (hereinafter the system) corresponds to those employees who have a significant impact on the risk profile of the Bank or perform control obligations and are subject to the following standards:

(a) At least 50% of total variable compensation will be settled in cash and will be later granted as shares from the Parent Company at the market price effective on the settlement date, one part will be granted in the settlement year and the balance will be delivered in up to 3 years.

(b) The variable compensation balance will be settled in cash; one part will be granted in the settlement year and the balance will be delivered in up to 3 years.

(c) Also, assumptions are established which can restrict or prevent the delivery of deferred variable compensation.

(d) Shares delivered will not be available for at least one year, except the portion required for the payment of pertinent taxes.

This system will be settled during the first months of the following year. Management has made an estimate for this matter, so as of December 31, 2016 and 2015, Grupo Continental has recorded a provision for the deferred portion for S/ 4 and S/ 3 million, respectively.

(v) Revenue and expense recognition

Revenue and expenses for interests and commissions for services are recognized in the consolidated profit/loss for the period as accrued, based on the effective term of operations which generate them.

Interests on past-due loans, refinanced, restructured loans and under legal collection loans, as well as loans classified as doubtful and loss, are recognized in the consolidated statement of income to the extent they have been actually collected.

When it is determined that the financial condition of the debtor has improved to the extent that the uncertainty about principal recoverability is no longer present, interests are accounted for on an accrual basis again.

Other revenue and expenses are recorded in the period when accrued.

(w) Fiduciary activity

Assets derived from fiduciary activities where there is a commitment to return those assets to customers and where the Bank acts as trustee or agent, have been excluded from the consolidated financial statements. Those assets are controlled in other financial statements separately and are presented in off-balance sheet accounts.

Sociedad Titulizadora provides custody and management services of trust funds from third parties which give rise to the ownership of assets on their behalf. These assets and the output of those services, as per current regulations, are presented separately in the financial statements of Sociedad Titulizadora.

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

The consolidated statement of income and other comprehensive income includes unrealized profit/loss arising from the valuation of available-for-sale investments as well as the valuation of cash flow hedge derivatives. Deferred income tax related to these items is treated as indicated in the corresponding note (Note 19).

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

(y) Cash and cash equivalents

Cash and cash equivalents presented in the consolidated statement of cash flows include cash (not including guarantee funds), interbank funds, as well as cash equivalents corresponding to short-term highly liquid financial investments, readily convertible into an specific cash amount and subject to an insignificant risk of changes in value, whose maturity does not exceed 90 days from the acquisition date.

As established by the SBS, Grupo Continental prepares and presents this statement by applying the indirect method.

Bank overdrafts are reclassified to liabilities in the consolidated statement of financial position.

(z) Current and deferred income tax

Current and deferred income tax are recognized as expense or revenue and are included in the consolidated statement of income, except when those amounts relate to items recognized in equity accounts, in which case, current and deferred income tax is also recognized in equity accounts.

Under tax laws currently in force, current income tax is calculated using tax rates on net taxable income for the period (28% for 2016 and 2015) and is recognized as expense.

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

As of December 31, 2016, as a result of the increase of the income tax rate for 2017 and subsequent years (Notes 18 (b) and 19), the Bank changed the rate applicable to temporary items of deferred income tax from 27% to 29.5%. The upward adjustment to deferred income tax was S/ 36 million and was recorded in the consolidated statement of income for such period.

(aa) Provision for country risk

Pursuant to Resolution SBS No. 7932-2015, the provision for country risk is calculated for the difference between maximum provisions according to the nature of the asset transaction and those determined by the aforementioned resolution.

Such resolution indicates that financial entities should classify the countries with which they maintain exposure in 8 categories of country risk, in ascending order, based on the most conservative external risk rating of sovereign bonds. External rating should be granted by international renowned agencies.

For the calculation of provisions for country risk, the provisions will be assigned according to the risk category of the country with which the company maintains exposure, as applicable, based on the percentages shown above:

	Provision for country risk (exposure as % of regulatory capital of the Bank)		
Risk category	**Less than 10%**	**Between 10% and 30%**	**More than 30%**
I	0%	0%	0.7%
II	0.5%	1%	2.5%
III	1.5%	3%	7.5%
IV	3%	6%	15%
V	7.5%	15%	37.5%
VI	50%	100%	100%
VII	100%	100%	100%
VIII	50%	100%	100%

(bb) Dividend distribution

Cash dividend distribution is recognized as liability in the consolidated financial statements of the year when dividends are approved by the shareholders of Group Continental.

(cc) Basic and diluted earnings per share

Basic earnings per common share have been calculated by dividing net profit for the year attributable to common shareholders by the weighted average of outstanding common shares during such period. Since Grupo Continental does not have financial instruments with dilutive effects, basic and diluted earnings per share are the same.

(dd) Intermediation transactions

Intermediation transactions on behalf of third parties correspond to purchase/sale operations performed in the stock and over-the-counter markets, under specific instructions given by the customers of Sociedad Agente de Bolsa. In this type of operations, customers transfer funds to Sociedad Agente de Bolsa so that this entity can perform certain transactions according to their instructions.

Since Sociedad Agente de Bolsa only acts as administrator of the funds of customers, this entity cannot use these resources, so there is a commitment to return them to customers. These resources do not belong to Sociedad Agente de Bolsa and are recorded in off-balance sheet accounts.

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

During 2016, the SBS has published the following significant standards, among others:

Resolution / Circular Letter / Multiple Official Letter SBS No.	Description of the Standard	Publication Date	Effective Date
Resolution SBS No. 603-2016	Replaces the description of account 3203 "Capital in process" of the Accounting Manual for Financial Entities, approved by Resolution SBS No. 895-98	02/06/2016	July 2016
Multiple Official Letter No. 6571-2016	Establishes the accounting process for initial recognition, subsequent recognition and settlement of Repurchase agreement operations performed with BCRP, which considers accounts and workflows of the Accounting Manual in order to recorder this transactions.	02/19/2016	February 2016
Resolution SBS No. 975-2016	Regulations about subordinated debt applicable to financial entities	02/24/2016	January 2017
Multiple Official Letter No. 45825-2016	Guidelines about the accounting record associated with consumer credit card and micro-businesses	11/30/2016	March 2017

(ff) Accounting reclassifications

(i) Pursuant to Resolution SBS No. 6231-2015 dated October 14, 2015, the Regulations for Regulatory Capital Requirement for Credit Risk, Regulations for Liquidity Risk Management and the Accounting Manual were modified in order to adjust them to the provisions set forth in the Regulations for Repurchase agreement Operations applicable to Financial Entities, approved by Resolution SBS No. 5790-2014. These changes became effective from the information from January 2016.

The application of changes to the Accounting Manual has generated reclassifications in the amounts compared to 2015. The most representative changes are shown below:

In thousands of S/	Closing balances as of December 2015	Reclassifications	Restructured balances as of December 2015
Consolidated statement of financial position			
LIABILITY			
Due to banks and financial obligations	23,709,577	(9,339,191)	14,370,386
Accounts payable	363,682	9,339,191	9,702,873
Consolidated statement of income			
INTEREST EXPENSES			
Due to banks and financial obligations	(903,384)	261,258	(642,126)
Interests on accounts payable	-	(261,258)	(261,258)
Consolidated statement of cash flows			
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES			
Financial liabilities, unsubordinated	11,483,726	(6,789,883)	4,693,843
Accounts payable and others	1,264,494	6,789,883	8,054,377

(ii) For comparison purposes, in the consolidated statement of income for the period 2015, some expenses recognized as “Expenses for services provided by third parties” has been reclassified to “Expenses for financial services” for S/ 55 million related to expenses associated with loyalty programs in order to properly reflect the commissions earned from credit cards issued by the Bank

3. FOREIGN CURRENCY TRANSACTIONS AND EXPOSURE TO EXCHANGE RISK

Balances of financial assets and liabilities denominated in foreign currency are expressed in Soles (S/) in the consolidated financial statements, at the weighted average exchange rate for buying and selling, published by the SBS at the closing of 2016 and 2015, for each currency. These balances are presented below:

In thousands of US$	2016			2015		
	U.S. dollar	**Other currencies**	**Total**	**U.S. dollar**	**Other currencies**	**Total**
Monetary assets						
Cash and due from banks	5,153,159	101,681	5,254,840	6,211,923	22,939	6,234,862
Interbank funds	147,505	-	147,505	89,001	-	89,001
Available-for-sale investments and held-to-maturity investments	103,668	-	103,668	689,267	-	689,267
Loan portfolio	4,843,890	8,196	4,852,086	4,624,638	15,817	4,640,455
Other assets	87,257	3,258	90,515	262,823	13,001	275,824
Total monetary assets	10,335,479	113,135	10,448,614	11,877,652	51,757	11,929,409
Monetary liabilities						
Obligations to the public	6,951,741	75,062	7,026,803	7,317,584	64,035	7,381,619
Deposits of financial entities and international financial organizations	254,272	1,013	255,285	151,421	22,440	173,861
Due to banks and financial obligations	2,847,295	2,788	2,850,083	3,677,643	99	3,677,742
Accounts payable	76,629	35	76,664	41,853	88	41,941
Provisions	103,465	194	103,659	74,843	210	75,053
Other liabilities	64,521	2,704	67,225	43,356	3,894	47,250
Total monetary liabilities	10,297,923	81,796	10,379,719	11,306,700	90,766	11,397,466
Balance position, net	37,556	31,339	68,895	570,952	(39,009)	531,943
Asset derivative instruments	2,585,406	478,108	3,063,514	3,765,248	158,042	3,923,290
Liability derivative instruments	2,521,622	513,268	3,034,890	3,721,160	105,222	3,826,382
Net position	101,340	(3,821)	97,519	615,040	13,811	628,851

Most of the assets and liabilities in foreign currency are denominated in U.S. dollars. As of December 31, 2016, the exchange rate established by the SBS, used to translate these amounts into Soles (S/), was S/ 3.356 per US$ 1.00 (S/ 3.411 as of December 31, 2015).

During 2016, the Bank recorded net exchange difference profit for S/ 370 million (S/ 1,259 million in 2015), which are included in “Profit/loss from exchange difference” in the consolidated statement of income. This item corresponds to the record of the valuation of the exchange position such as purchase and sale transactions in foreign currency.

Calculated depreciation and appreciation percentages of the Peruvian Sol as compared to the U.S. dollar were -1.61% and 14.23% for 2016 and 2015, respectively.

4. CASH AND DUE FROM BANKS

In thousands of S/	2016	2015
Banco Central de Reserva del Perú (BCRP)	8,714,892	10,550,371
Guarantee funds	7,905,772	9,446,861
Cash	2,518,890	2,418,211
Foreign banks and other financial institutions	1,535,291	751,587
Exchange operations	131,184	56,871
Local banks and other financial entities	67,965	192,311
Other available cash	14,604	16,272
Total	20,888,598	23,432,484

As of December 31, 2016, cash includes approximately US$ 2,447 million and S/ 1,726 million (US$ 2,864 million and S/ 1,800 million as of December 31, 2015), which correspond to the required reserve that Peruvian entities must maintain for deposits and obligations to third parties. These funds are deposited in the entities' vaults and in BCRP.

As of December 31, 2016 and 2015, cash subject to required reserve in local and foreign currency are affected by an implicit rate in local currency of 6.5% and in foreign currency of 44.33% on total obligations subject to required reserve (TOSE) in local and foreign currency as required by BCRP.

Reserve funds, representing the legal minimum which is 6.5%, do not bear interests. Reserve funds corresponding to the additional required reserve in foreign and local currency bear interests at an annual nominal rate set by the BCRP. As of December 31, 2016, interest income amounts to S/ 8 million (S/ 4 million as of December 31, 2015), and is included in "Interest income from cash" in the consolidated statement of income. Pursuant to legal provisions in force, these reserves cannot be seized.

Guarantee funds as of December 31, 2016 and 2015 include balances used to secure currency repo transactions with BCRP (Note 8(b)).

As of December 31, 2016 and 2015, cash includes restricted funds for S/ 2 million, required in connection with legal proceedings against the Bank and to secure any liabilities generated by these lawsuits.

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

Investments in securities have been classified by Grupo Continental as follows:

In thousands of S/	2016	2015
Investments at fair value through profit or loss		
Certificates of deposit of BCRP (a)	124,701	12,514
Sovereign bonds of the Republic of Peru (b)	99,641	58,550
Investments in mutual funds (d)	8,811	23,823
	233,153	94,887
Available-for-sale investments		
Certificates of deposit of BCRP (a)	2,696,557	4,287,703
Sovereign bonds of the Republic of Peru (b)	104,567	383,961
Shares in local companies (c)	47,710	47,718
Corporate bonds	33,276	-
Shares in foreign companies	637	637
	2,882,747	4,720,019
Held-to-maturity investments		
Sovereign bonds of the Republic of Peru (b)	470,686	462,732

(a) Certificates of deposits of BCRP are freely tradable securities, with maturities up to April 2023, which were acquired in public auctions or secondary markets, according to rates granted by financial entities. As of December 31, 2016, annual yields in local currency range between 4.25% and 4.60% (3.75% and 4.79% as of December 31, 2015) and in foreign currency, yields range between 0.61% and 0.62% (0.33% and 0.56% as of December 31, 2015).

(b) Sovereign bonds are issued by the Peruvian government. As of December 31, 2016, those bonds accrued interests at annual rates ranging between 2% and 7.20% (1.05% and 7.82% as of December 31, 2015) in local currency with terms up to February 2055 (August 2046 as of December 31, 2015).

(c) As of December 31, 2016 and 2015, this balance mainly includes shares of Lima Stock Exchange (BVL for its Spanish acronym) for a total value of S/ 44 million.

(d) As December 31, 2016 and 2015, the investment in mutual funds corresponds to ownership interest held by Grupo Continental in several mutual funds managed by Sociedad Administradora.

6. LOAN PORTFOLIO

(a) The loan portfolio comprises the following:

In thousands of S/	2016		2015	
		%		%
Direct loans				
Loans	18,908,937	38	18,781,546	39
Mortgage loans	10,917,221	22	10,391,383	22
Foreign trade loans	5,904,719	12	5,989,028	13
Finance lease	5,247,666	11	5,058,271	11
Consumer	4,576,672	9	3,966,611	8
Discounted notes	1,379,693	3	1,235,909	2
Others	2,854,158	5	2,365,682	5
	49,789,066	100	47,788,430	100
Refinanced and restructured credits	942,301	2	858,275	2
Past-due loans and loans under legal collection	1,257,089	2	1,077,109	2
	51,988,456	104	49,723,814	104
Plus: Accrued interests	371,692	1	361,338	1
	52,360,148	105	50,085,152	105
Deferred income from loan transactions	(48,912)	-	(43,740)	-
Allowance for loan losses	(2,356,212)	(5)	(2,192,644)	(5)
TOTAL	49,955,024	100	47,848,768	100
Indirect loans (Note 14)	16,854,889		17,295,093	

Loans secured by guarantees received from customers, mainly comprised by mortgages, deposits, letters of guarantee, warrants and finance lease operations, amount to S/ 38,366 million and S/ 37,931 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, part of the mortgage loan portfolio includes a debt with Fondo Mi Vivienda - Mi Hogar which is guaranteed for up to about S/ 536 million (S/ 557 million as of December 31, 2015) (Note 11 (b)).

As of December 31, 2016 and 2015, annual average interest rates for main products were as follows:

	2016		2015	
	Loan portfolio in		Loan portfolio in	
	S/	US$	S/	US$
	%	%	%	%
Loans and discounted notes	8.10	6.27	7.97	7.07
Mortgage	8.66	7.79	8.89	8.22
Consumer	25.58	27.32	23.57	22.33

(b) The table below presents the balances of the direct loan portfolio as of December 31, 2016 and 2015, under the distribution established by Resolution SBS No. 11356-2008, as follows:

In thousands of S/	2016		2015	
		%		%
Corporate	11,683,100	22	10,530,514	21
Medium businesses	11,541,349	22	11,047,529	23
Mortgage	11,231,044	22	10,648,922	21
Large businesses	9,311,519	18	9,677,097	19
Consumer	4,721,392	9	4,072,869	8
Small businesses	1,284,575	2	1,367,083	3
Public sector entities	866,075	2	991,556	2
Financial entities	785,956	2	777,099	2
Stock brokers	349,879	1	430,255	1
Multilateral development banks	119,008	-	74,003	-
Micro-businesses	94,559	-	106,887	-
	51,988,456	100	49,723,814	100

(c) The direct loan portfolio, classified by Grupo Continental Management per risk category pursuant to effective standards issued by the SBS, is presented below:

In thousands of S/	2016						2015					
	Direct loans		**Indirect loans**		**Total**		**Direct loans**		**Indirect loans**		**Total**	
		%		**%**		**%**		**%**		**%**		**%**
Normal	48,234,978	93	16,522,311	98	64,757,289	94	46,471,394	94	16,994,693	98	63,466,087	95
With potential problems	1,366,141	3	177,824	1	1,543,965	3	1,087,917	2	167,460	1	1,255,377	2
Substandard	651,152	1	101,646	1	752,798	1	642,335	1	93,502	1	735,837	1
Doubtful	747,438	1	35,004	-	782,442	1	756,115	2	23,794	-	779,909	1
Loss	939,835	2	18,104	-	957,939	1	722,313	1	15,644	-	737,957	1
	51,939,544	100	16,854,889	100	68,794,433	100	49,680,074	100	17,295,093	100	66,975,167	100
Deferred income from loan transactions	48,912		-		48,912		43,740		-		43,740	
TOTAL	51,988,456		16,854,889		68,843,345		49,723,814		17,295,093		67,018,907	

In accordance with current regulations, Grupo Continental has identified customers exposed to exchange rate risks; however, they do not consider necessary to establish an additional provision for this concept.

During 2016, Grupo Continental has written off loan transactions for S/ 56 million (S/ 30 million during 2015), which correspond to loans, principal, interests and commissions.

(d) The movement of allowance for loan losses as of December 31, 2016 and 2015 was as follows:

In thousands of S/	**2016**	**2015**
Balances as of January 1	2,192,644	1,973,023
Provision	1,492,962	1,330,866
Recoveries and reversals	(865,887)	(692,650)
Portfolio sale	(450,480)	(565,084)
Exchange difference and other adjustments	(29,206)	146,489
Balances transferred due to acquisition	16,179	-
Balances as of December 31	2,356,212	2,192,644

Management considers that the level of the allowance of loans losses is appropriate to cover potential losses in the direct credit portfolio at the date of the consolidated statement of financial position and all applicable laws and regulations have been complied with.

As of December 31, 2016, the generic allowance for the loan losses portfolio amounts to S/ 1,158 million (S/ 1,205 million as of December 31, 2015) and includes general voluntary and procyclical provisions for S/ 773 million (S/ 836 million as of December 31, 2015).

During 2016, Grupo Continental entered into agreements for the assignment of rights and shares corresponding to the loan portfolio for approximately S/ 303 million (S/ 512 million in 2015), which referred to the nominal amount prior to the recognized provision at the transfer date. The sale price was S/ 39 million (S/ 63 million in 2015) and was recorded in "Other profit/loss for financial operations" in the consolidated statement of income.

7. PROPERTY, FURNITURE AND EQUIPMENT, NET

The movement of property, furniture and equipment 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, 2015	123,982	717,011	452,745	6,961	203,727	53,706	1,998	1,560,130
Additions	-	12,004	54,771	503	7,761	47,425	2,807	125,271
Disposals	-	-	(9)	-	-	-	-	(9)
Transfers and others	(3,160)	54,249	58	(53)	6,635	(77,543)	(4,095)	(23,909)
Balance as of December 31, 2015	120,822	783,264	507,565	7,411	218,123	23,588	710	1,661,483
Additions	-	10,961	59,806	1,088	6,617	44,843	437	123,752
Disposals	-	-	(13)	-	-	-	-	(13)
Transfers and others	(179)	16,742	9,716	-	16,987	(47,552)	(847)	(5,133)
Balance as of December 31, 2016	120,643	810,967	577,074	8,499	241,727	20,879	300	1,780,089
Accumulated depreciation:								
Balance as of January 1, 2015	-	389,593	228,859	5,235	72,287	-	-	695,974
Additions	-	34,979	44,172	547	20,293	-	-	99,991
Disposals	-	-	(10)	-	-	-	-	(10)
Transfers and others	-	(4,372)	(8,156)	(53)	(154)	-	-	(12,735)
Balance as of December 31, 2015	-	420,200	264,865	5,729	92,426	-	-	783,220
Additions	-	35,265	49,160	762	21,599	-	-	106,786
Disposals	-	-	(15)	-	-	-	-	(15)
Transfers and others	-	(1,460)	(2,116)	-	13	-	-	(3,563)
Balance as of December 31, 2016	-	454,005	311,894	6,491	114,038	-	-	886,428
Net cost:								
Balance as of December 31, 2016	120,643	356,962	265,180	2,008	127,689	20,879	300	893,661
Balance as of December 31, 2015	120,822	363,064	242,700	1,682	125,697	23,588	710	878,263

8. OTHER ASSETS, OTHER LIABILITIES, ACCOUNTS PAYABLE AND PROVISIONS

These items comprise the following balances:

(a) Other assets as of December 31, 2016 mainly include S/ 464 million for transactions in process (S/ 954 million as of December 31, 2015) and S/ 123 million for deferred charges (S/ 94 million as of December 31, 2015).

(b) Accounts payable as of December 31, 2016 mainly include outstanding payments to suppliers for S/ 174 million (S/ 137 million as of December 31, 2015), sundry accounts payable for S/ 17 million (S/ 23 million as of December 31, 2015), premiums to the Deposit Insurance Fund, contributions and obligations with tax collection entities for S/ 138 million (S/ 100 million as of December 31, 2015), dividends, profit-sharing and salaries payable for S/ 96 million (S/ 97 million as of December 31, 2015) and currency repo transactions of currency (Note 4) and currency repo transactions and deposit certificates with BCRP (Note 5) for S/ 7,750 million (S/ 9,339 as of December 31, 2015, corresponding to currency repo transactions and deposit certificates with BCRP).

(c) Provisions include allowance for indirect loans losses, litigation, claims and provisions for employees, among others, which as of December 31, 2016 and 2015, amount to S/ 545 million and S/ 488 million, respectively.

The movement of the allowance for indirect loans losses, included in this item, is as follows:

In thousands of S/	**2016**	**2015**
Balances as of January 1	134,850	105,674
Provision	65,720	67,437
Recoveries and reversals	(54,348)	(44,259)
Exchange difference and other adjustments	(3,860)	5,998
Balances as of December 31	142,362	134,850

As of December 31, 2016, the generic allowance for indirect loan losses portfolio for S/ 109 million (S/ 111 million as of December 31, 2015) includes procyclical provisions for S/ 35 million (S/ 35 million as of December 31, 2015).

The movement of other provisions is presented below:

In thousands of S/	**2016**	**2015**
Balances as of January 1	353,576	293,950
Provisions for administrative expenses	571,730	524,920
Recoveries	(1,269)	(472)
Disbursements	(522,656)	(484,214)
Others	1,411	19,392
Balances as of December 31	402,792	353,576

Disbursements derived from other provisions mainly correspond to the payment of personnel expenses.

Several lawsuits, claims and other proceedings related to the activities performed by Grupo Continental are pending. Management and its legal advisors consider that those proceedings will not result in additional liabilities. Therefore, as of December 31, 2016 and 2015, Management has not considered necessary to establish an additional provision other than the provision recorded for these contingencies and proceedings, which amounts to S/ 209 million and S/ 177 million, respectively.

(d) Other liabilities as of December 31, 2016 mainly include S/ 402 million for transactions in process (S/ 903 million as of December 2015).

9. OBLIGATIONS TO THE PUBLIC

In thousands of S/	2016	2015
Time deposits	19,069,861	18,292,642
Demand deposits	15,415,797	15,410,179
Savings deposits	13,408,216	12,683,995
Other obligations	52,930	53,036
Total	47,946,804	46,439,852

As of December 31, 2016, obligations to the public include deposits received as guarantee from debtors of the portfolio of loans and contingents of the Bank for S/ 872 million (S/ 817 million as of December 31, 2015).

Interest rates for borrowing transactions are determined by the Bank, considering current market interest rates. Current annual interest rates for main products were as follows:

	2016		2015	
	Accounts in		Accounts in	
	S/	US$	S/	US$
	%	%	%	%
Checking accounts	0.00-0.25	0.00-0.125	0.00-0.50	0.00-0.125
Savings deposits	0.125-0.75	0.125-0.125	0.125-0.50	0.125-0.125
Time deposits and bank certificates in foreign currency	0.80-1.35	0.10-0.80	0.80-1.35	0.10-0.80
Super-deposits	0.80-1.35	0.10-0.25	0.80-1.35	0.10-0.25
Deposits of severance indemnities	1.50-2.50	0.60-1.10	1.50-2.50	0.60-1.10

10. INTERBANK FUNDS

As of December 31, 2016, interbank fund assets have current maturities, accrue interests at an annual rate of 4.25% in local currency (4.20% in local currency as of December 31, 2015) and 0.60% in foreign currency (0.40% in foreign currency as of December 31, 2015) and do not have specific guarantees.

As of December 31, 2015, interbank fund liabilities have current maturities, accrue interests at an annual rate of 4% in local currency and do not have specific guarantees.

11. DUE TO BANKS AND FINANCIAL OBLIGATIONS

In thousands of S/	**2016**	**2015**
Foreign financial entities (a)	4,238,854	5,407,644
"Mi Vivienda – Mi Hogar" Program and local financial entities (b)	550,487	556,965
International financial organizations (c)	158,211	190,041
Private debt agreement (d)	33,560	170,550
Corporación Financiera de Desarrollo – COFIDE	33,188	38,956
Accrued interests payable	65,927	68,652
Total debts and financial obligations	5,080,227	6,432,808
Corporate bonds	4,327,732	5,235,626
Subordinated bonds	1,658,965	1,707,919
Finance lease bonds	405,100	285,275
Notes (debt instruments)	359,971	561,597
Negotiable certificates of deposit	112,440	56,017
Accrued interests payable	79,360	91,144
Total securities and bonds (e)	6,943,568	7,937,578
Total	12,023,795	14,370,386

Some loan agreements include standard clauses regarding the compliance with financial ratios, the use of funds and other administrative matters. Management believes that, as of December 31, 2016 and 2015, these clauses are being fully complied with and do not represent any restriction for the operations of Grupo Continental.

(a) Foreign financial entities

As of December 31, 2016, these balances accrue interests at annual effective market rates ranging between 1.2% and 7.4% (1.2% and 7.4% as of December 31, 2015), as shown below:

In thousands of S/ and US$

Creditor	2016		2015		Payment maturity
	US$	S/	US$	S/	
Goldman Sachs Bank (i) (v)	500,101	1,678,339	500,427	1,706,956	January 2017
Deutsche Bank (ii)	343,006	1,151,128	344,540	1,175,227	November 2020
Credit Suisse (iii) (v)	200,000	671,200	200,000	682,200	October 2040
Standard Chartered	55,000	184,579	130,000	443,430	January 2017
The Bank of New York (iv)	48,000	161,088	-	-	June and August 2017
Corporación Andina de Fomento	40,000	134,240	-	-	January 2017
Wells Fargo Bank	39,172	131,462	179,673	612,866	February 2017
Citibank NA	30,000	100,680	40,000	136,440	January 2017
DEG Deutsche Investitions (v)	5,000	16,780	10,000	34,110	October 2017
Other minor entities	2,788	9,358	11,714	39,956	January 2017
Bank of America	-	-	80,000	272,880	May 2016
Sumitomo Bank	-	-	74,000	252,414	January, February and March 2016
China Development Bank	-	-	15,000	51,165	December 2016
	1,263,067	4,238,854	1,585,354	5,407,644	
Accrued interests payable	19,004	63,776	19,600	66,854	
	1,282,071	4,302,630	1,604,954	5,474,498	

(i) Loan for a nominal amount of US$ 500 million, arranged at an annual fixed rate of 5.75% with principal maturity in January 2017 ("bullet"). This loan was carried at a fair value hedge through an interest-rate swap (IRS), for which the Bank recorded accumulated adjustments of S/ 0.3 million for losses to the carrying amount as of December 31, 2016, corresponding to the variation of fair value of the hedged interest rate risk (S/ 1 million for accumulated losses as of December 31, 2015) (Note 15).

(ii) Loan for a nominal amount of US$ 350 million, arranged at an annual fixed rate of 5.50%, maturing in November 2020. This loan was carried at a fair value hedge through an interest-rate swap (IRS), for which the Bank recorded accumulated adjustments of S/ 18 million for profit to the carrying amount as of December 31, 2016, corresponding to the variation of fair value of the hedged interest rate risk (S/ 12 million for accumulated profit as of December 31, 2015) (Note 15).

(iii) This item refers to a subordinated loan in foreign currency at an annual interest rate of 7.38%, approved by the SBS. By virtue of Resolution SBS No. 975-2016, such loan will still be considered as Tier 1 Regulatory Capital in compliance with the adjustment term established by the Regulations for Subordinated Debt effective from February 2016.

(iv) This item includes two loans for US$ 48 million in total, maturing in June and August 2017, with cash flow hedges through the application of a cross currency swap (CCS) (Note 15).

(v) As of December 31, 2016 and 2015, the Bank holds accounts payable for S/ 9 and S/ 11 million, respectively (Note 8) in the consolidated statement of financial position, which corresponds to deferred issuance expenses.

(b) “Mi Vivienda – Mi Hogar” Program and local financial entities

As of December 31, 2016, these debts mainly include resources obtained for the social housing program “Mi Vivienda” for S/ 523 million in local currency and US$ 4 million in foreign currency (S/ 538 million in local currency and US$ 6 million in foreign currency as of December 31, 2015). This loan has different maturities until December 2036 and accrues interests at an annual effective rate of 7.75% in U.S. dollars and 6.25% in local currency on principal plus the Constant Update Value (hereinafter VAC, for its Spanish acronym).

As of December 31, 2016, debts with “Mi Vivienda – Mi Hogar” Fund which amount to S/ 536 million (S/ 557 million as of December 31, 2015) are secured by a portion of the mortgage loan portfolio up to such amount (Note 6). Loans include specific arrangements about how these funds should be used, financial covenants that the borrower must meet, as well as other administrative matters.

(c) International financial organizations

Debts with international financial organizations accrue interests at effective international market rates ranging between LIBOR + 1.35% and 6.38% as of December 31, 2016 and 2015, and do not have specific guarantees.

In thousands of S/ and US$

Creditor	**2016**		**2015**		**Payment maturity**
	US$	**S/**	**US$**	**S/**	
Inter-american Development Bank (i)	30,000	100,680	30,000	102,330	February 2017
International Finance Corporation – IFC	17,143	57,531	25,714	87,711	December 2018
	47,143	158,211	55,714	190,041	
Accrued interests payable	440	1,475	386	1,316	
	47,583	159,686	56,100	191,357	

(d) Private debt agreement

These loans received for US$ 10 million at an annual rate of 2%, maturing in March 2017, are secured by present and future flows generated by electronic payment orders submitted by customers (Diversified Payments Rights – DPRs). These orders are sent to the Bank through the swift system (Society for Worldwide Interbank Financial Telecommunications Network).

These loans include standard clauses regarding the compliance with financial ratios of the Bank and other specific conditions related to flows granted, over which, Grupo Continental Management believes that, as of December 31, 2016 and 2015, these clauses are being fully complied with.

(e) Securities and bonds

In thousands of S/ and US$

Program	Authorized amount	Issuance	Series	Currency	Nominal issuance value	2016	2015	Maturity date
Corporate bonds								
Third program	US$ 100 million or S/ 315 million	Seventh	Single	PEN	60,000	60,000	60,000	May 2018
Fourth program	US$ 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 program	US$ 250 million	First	A	PEN	50,000	-	50,000	December 2016
		Second	A	PEN	150,000	150,000	150,000	December 2026
		Fifth	Single	PEN	200,000	187,551	175,531	April 2019
		Sixth	A	US$	54,000	-	184,194	July 2016
Sixth program	US$ 250 million	First	A	PEN	150,000	150,000	-	April 2019
		First	B	PEN	100,000	100,000	-	April 2019
		Second	A	PEN	150,000	150,000	-	June 2021
First international issuance program	US$ 500 million	First	Single	US$	500,000	1,650,674	1,705,500	August 2022
Second international issuance program	US$ 300 million	Second	Single	US$	300,000	-	1,022,918	July 2016
Third international issuance program	US$ 500 million	Third	Single	US$	500,000	1,659,507	1,667,483	April 2018
						4,327,732	5,235,626	
Subordinated Bonds								
First program	US$ 50 million or S/ 158.30 million	First	A	PEN	40,000	39,821	39,793	May 2022
		Second	A	US$	20,000	67,120	68,220	May 2027
		Third	A	PEN	55,000	75,653	73,208	June 2032
Second program	US$ 100 million	First	A	US$	20,000	66,793	67,866	September 2017
		Second	A	PEN	50,000	67,356	65,180	November 2032
		Third	A	US$	20,000	67,120	68,220	February 2028
		Fourth	Single	PEN	45,000	58,501	56,610	July 2023
		Fifth	Single	PEN	50,000	64,162	62,088	September 2023
		Sixth	A	PEN	30,000	37,834	36,611	December 2033
Third program	US$ 55 million	First	Single	US$	45,000	151,020	153,495	October 2028
First international issuance program	US$ 300 million	First	Single	US$	300,000	963,585	1,016,628	September 2029
						1,658,965	1,707,919	
Notes	US$ 235 million	Second	2012-A, 2012-B, 2012-C and 2012-D	US$	235,000	359,971	561,597	June 2017 and June 2022
						359,971	561,597	
Finance lease bonds								
First program	US$ 200 million	First	A	US$	25,000	-	85,275	April 2016
Second program	US$ 250 million	First	A	PEN	200,000	200,000	200,000	May 2017
		Second	B	PEN	205,100	205,100	-	October 2019
						405,100	285,275	
Negotiable certificates of deposit						112,440	56,017	
Interests payable for securities, bonds and outstanding obligations						79,360	91,144	
						6,943,568	7,937,578	

Corporate bonds do not have specific guarantees and accrue interests at annual rates in local currency ranging between 5.8% and 7.5% as of December 31, 2016 and 2015, and between 3.3% and 5% in foreign currency as of December 31, 2016 (between 2.3% and 5% as of December 31, 2015).

The issuance of corporate bonds for S/ 200 million is hedged with a cross currency swap (CCS). As of December 31, 2016, the Bank has included accumulated adjustments of S/ 12 million for profit to the carrying amount (Note 15), which corresponds to the variation of fair value of hedged currency risk (S/ 24 million for accumulated profit as of December 31, 2015).

The issuance of notes in June 2012, whose balance as of December 31, 2016 is US$ 107 million (US$ 165 million as of December 31, 2015) are secured by present and future flows generated by electronic payment orders submitted by customers (Diversified Payments Rights – DPRs) and accrue interests at a Libor rate plus spread. These orders are sent to the Bank through the swift system (Society for Worldwide Interbank Financial Telecommunications Network). The issuance of notes includes a debt for US$ 31 million, which matures in June 2022 and has a cash flow hedge through an IRS (Note 15). It also includes a debt for a nominal amount of US$ 55 million, arranged at an annual fixed rate of 5% and maturing in June 2022, carried at a fair value hedge through an IRS, for which the Bank recorded accumulated adjustments of S/ 3 million for profit to the carrying amount as of December 31, 2016, corresponding to the variation of fair value of hedged interest rate risk (S/ 3 million for accumulated profit as of December 31, 2015).

In August 2012, the Bank carried out an international issuance for a nominal amount of US$ 500 million, at an annual fixed rate of 5%, maturing in August 2022. Principal will be fully paid off upon maturity. Also, such issuance was carried at fair value hedge through an IRS, for which the Bank recorded accumulated adjustments of S/ 27 million for profit to the carrying amount as of December 31, 2016 (Note 15), corresponding to the variation of fair value of hedged interest rate risk (S/ 24 million for accumulated profit as of December 31, 2015).

In April 2013, the Bank carried out an international issuance for a nominal amount of US$ 500 million, at an annual fixed rate of 3.25%, maturing in April 2018. Principal will be fully paid off upon maturity. Also, such issuance was carried at a fair value hedge through an IRS, for which the Bank recorded accumulated adjustments of S/ 16 million for profit to the carrying amount as of December 31, 2016 (Note 15), corresponding to the variation of fair value of hedged interest rate risk (S/ 10 million for accumulated profit as of December 31, 2015).

In September 2014, the Bank carried out an international issuance of subordinated bonds for a nominal amount of US$ 300 million, at an annual fixed rate of 5.25%, maturing in September 2029. Principal will be fully paid off upon maturity. Also, such issuance was carried at a fair value hedge through an IRS, for which the Bank recorded accumulated adjustments of S/ 37 million for profit to the carrying amount as of December 31, 2016 (Note 15), corresponding to the variation of fair value of hedged interest rate risk.

Subordinated bonds were issued according to the conditions set forth in the General Law, which accrued interests at annual rates ranging between VAC plus spread and 5.9% in local currency and between Libor plus spread and 6.5% in foreign currency.

Finance lease bonds accrue interests at an annual rate of 5.4% in local currency, are secured by loan transactions in the form of finance leases and have been financed by those bonds.

As of December 31, 2016 and 2015, the Bank holds accounts payable for S/ 16 and S/ 23 million, respectively (Note 8 (c)) in the consolidated statement of financial position, which corresponds to deferred issuance expenses.

12. EQUITY

(a) Capital stock

As of December 31, 2016, in accordance with the Articles of Incorporation of the Bank and its amendments, the Bank's authorized, issued and fully paid capital is represented by 4,401,368 thousand common outstanding shares with a face value of S/ 1 per share (3,784,146 thousand shares as of December 31, 2015).

At Annual Mandatory Shareholders' Meetings held on March 31, 2016 and March 26, 2015, it was agreed to increase the capital stock by S/ 617 million and S/ 538 million, respectively, through the capitalization of retained earnings and voluntary reserve.

The Bank's common shares are listed in the Lima Stock Exchange (BVL). As of December 31, 2016 and 2015, the stock market value of the Bank's shares was S/ 4.0 and S/ 2.78 per share, respectively, with a trading frequency of 100% and 90.48%, respectively.

The number of shareholders and the equity interest structure of the Bank during 2016 are as follows:

Individual equity interest	Number of shareholders	Total interest (%)
Up to 1	7,904	3.40
From 1.01 to 5	3	4.36
From 45.01 to 100	2	92.24
	7,909	100.00

(b) Reserves

Pursuant to applicable legal regulations in force, the Bank must reach a legal reserve of no less than 35% of its paid capital. This reserve is established by transferring not less than 10% of its net profit on an annual basis.

The legal reserve for net profit from 2016 of the Bank will amount to S/ 134 million and will be recognized for accounting purposes upon the approval of the 2016 separate financial statements at the next Shareholders' Meeting to be held in 2017. During 2016 and 2015, transfers were made to the legal reserve account in compliance with article 232° of the Ley General de Sociedades (General Business Law), Law No. 26887; transferred amounts were S/ 0.2 million in both periods.

At Annual Mandatory Shareholders' Meetings held on March 31, 2016 and March 26, 2015, it was approved to establish a legal reserve for the equivalent of 10% of net profit from 2015 (S/ 137 million) and 2014 (S/ 134 million), respectively.

(c) Retained earnings

Dividends from 2016 and 2015 to be distributed to shareholders, other than domiciled legal entities, are subject to a 6.8% income tax rate, which should be withheld by the Bank. Dividends from profit from 2017 and subsequent periods are subject to income tax withholding at 5% (Note 18).

At Annual Mandatory Shareholders' Meetings held on March 31, 2016 and March 26, 2015, it was approved to capitalize retained earnings for S/ 617 million and S/ 538 million, respectively. Also, at those Shareholders' Meetings held on March 31, 2016 and March 26, 2015, it was approved to distribute dividends for S/ 617 million and S/ 672 million, respectively.

(d) Adjustments to equity

Adjustments to equity include unrealized losses for S/ 3.2 million corresponding to the available-for-sale investment portfolio (S/ 14 million for unrealized losses as of December 31, 2015), S/ 2.2 million corresponding to unrealized profit of held-to-maturity investments (S/ 2 million as of December 31, 2015) and S/ 1.3 million for unrealized profit for the valuation of cash flow hedge derivatives (S/ 0.5 million for unrealized profit as of December 31, 2015).

(e) Profit for the period

On July 12, 2016, by exercising the authority conferred to it by the Annual Mandatory Shareholders' Meeting held on March 31, 2016, and pursuant to the provisions set forth in article 184°, letter A), subsection 2 of the General Law, the Board of Directors agreed unanimously to adopt the commitment to capitalize net profit from 2016 for S/ 477 million. This commitment will be effective at the next Annual Mandatory Shareholders' Meeting.

On July 14, 2015, the Board of Directors agreed unanimously to adopt the commitment to capitalize net profit from 2015 for S/ 449 million. This capitalization commitment was formalized at the Annual Mandatory Shareholders' Meeting held on March 31, 2016.

13. REGULATORY CAPITAL AND LEGAL LIMITS

According to the General Law, the regulatory capital amount cannot be less than 10% of assets and indirect loans weighted by credit, market and operational risk. As of December 31, 2016 and 2015, the Bank uses the standard method for the calculation of the regulatory capital requirement for credit, market and operational risk.

On July 20, 2011, Resolution SBS No. 8425-2011 "Regulations for Additional Regulatory Capital Requirement" was published, under which companies must comply with requirements per economic cycle, credit concentration risk (individual and per sector), market concentration risk, interest rate risk in banking books and other risks.

This additional regulatory capital requirement must be reached within five years and its first part should be 40% of total requirement as from July 2012. This additional requirement will increase annually at a 15% rate, and will achieve 100% on July 31, 2016. The additional regulatory capital requirement per economic cycle is activated and deactivated on the same dates the standard of procyclical provisions for loans is activated and deactivated (Note 2 (h)).

Pursuant to Resolution SBS No. 975-2016 dated February 24, 2016, certain changes were made to the regulatory capital requirement for credit risk, mainly changes in weighting factors of the following assets, which will be implemented gradually until January 2026:

Exposure	Weighting factor	Schedule
• Deferred income tax assets triggered by loss carryforward	1,000%	From January 2017 to January 2026 (100% per year)
• Intangible assets and assets recognized due to the difference between fair value and nominal value of the acquired loan portfolio, net of accumulated amortization	1,000%	From January 2017 to January 2026 (100% per year)
• Deferred income tax assets, net of deferred income tax liabilities, triggered by temporary differences that do not exceed the threshold of 10% of adjusted regulatory capital	250%	From January 2017 to January 2026 (25% per year)
• Deferred income tax assets, net of deferred income tax liabilities, triggered by temporary differences that exceed the threshold of 10% of adjusted regulatory capital	1,000%	From January 2017 to January 2026 (100% per year)

On an individual basis, as of December 31, 2016, the regulatory capital of the Bank and EDPYME, determined in accordance with current legal standards, amounts to S/ 9,001 million (S/ 8,209 million as of December 31, 2015) and S/ 60 million, respectively. This amount is used to calculate certain limits and restrictions applicable to all financial entities in Peru. Grupo Continental's Management considers that they have fully complied with such limits and restrictions.

Assets and contingent loans weighted by credit, market and operational risks of the Bank and Edpyme, in accordance with current legal standards, amount to S/ 63,146 million (S/ 61,682 million as of December 31, 2015) and S/ 369 million, respectively, as of December 31, 2016.

As of December 31, 2016, the capital adequacy ratio for credit, market and operational risk of the Bank and Edpyme is 14.25% (13.31% as of December 31, 2015) and 16.28%, respectively.

14. CONTINGENT RISKS AND COMMITMENTS

In thousands of S/	2016	2015
Contingent transactions:		
Indirect loans (a):		
Guarantees and letters of guarantee	16,125,944	16,071,372
Letters of credit and bank acceptances	728,945	1,223,721
	16,854,889	17,295,093
Unused lines of credit and undisbursed approved loans	8,659,059	8,747,779
Total	25,513,948	26,042,872

Indirect loans (contingent transactions)

During the normal course of business, the Bank performs transactions whose risk is recorded in contingent accounts. These transactions expose the Bank to credit risk in addition to the amounts presented in the statement of financial position.

The credit risk in contingent transactions is related to the possibility that one of the counterparties may not comply with the agreed-upon terms and conditions of the agreement. These agreements reflect the amounts that would be assumed by the Bank for loan losses on contingent transactions.

The Bank uses similar policies for the assessment and granting of direct and indirect loans. Management believes that contingent transactions do not represent an exceptional credit risk since it is expected that a portion of these contingent loans expire without being used, and total amounts of contingent loans do not necessarily represent future cash disbursements for the Bank.

The Bank's Management does not expect significant losses arising from current contingent transactions as of December 31, 2016 and 2015.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank has mainly entered into currency forwards, interest-rate swaps (IRS), cross currency swaps (CCS) and foreign currency swaps with BCRP, and purchase and sale of options on several underlying instruments (exchange rate, equities and indexes).

Purchase and sale contracts of foreign currency on a future date are arrangements to deliver a currency at a future date at an established price.

IRS transactions are agreements by which the exchange of regular cash flows is determined. These cash flows are calculated based on the application of either a variable or fixed interest rate, under the terms and conditions established by the definitions and regulations developed by 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 determined, and the exchange rate is established until the transaction is completed. In case of foreign currency swaps, a fixed rate in U.S. dollars is exchanged for a variable rate in Soles (OIS rate).

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

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

Derivative financial instruments are valued based on financial theories currently effective in the market. Inputs such as exchange rates, interest rate curves, implied volatility and swap points are obtained from public sources of information if data is quotable, or built, in case there are no quotations available.

As of December 31, 2016 and 2015, the reference amount in soles and the fair value of derivative financial instruments are as follows:

In thousands of S/	2016			
	Underlying	Nominal	Asset	Liability
Trading derivatives				
Currency forward		9,567,860	195,042	108,524
Fx options, equity options and others		1,158,665	18,881	18,881
Interest rate options		137,123	24	240
Currency swap		6,919,265	606,733	541,325
Interest-rate swap		5,842,547	23,349	41,618
Provision for country risk		-	(5,314)	-
Total trading derivatives		23,625,460	838,715	710,588
Hedging derivatives (Note 11)				
At fair value (i)				
Currency swap	Bond issuance	253,187	-	65,253
Interest-rate swap	Due to banks	3,037,180	1,910	21,168
Interest-rate swap	Bond issuance	4,362,800	-	75,055
Cash flow (ii)				
Interest-rate swap	Due to banks	105,474	783	-
Currency swap	Due to banks	161,088	896	215
Total hedging derivatives		7,919,729	3,589	161,691
Total		31,545,189	842,304	872,279

In thousands of S/	2015			
	Underlying	Nominal	Asset	Liability
Trading derivatives				
Currency forward		12,755,766	222,348	193,992
Fx options, equity options and others		3,312,282	35,608	66,532
Interest-rate options		204,110	141	141
Currency swap		12,209,946	1,029,192	925,968
Interest-rate swap		6,461,804	45,087	78,707
Provision for country risk		-	(4,824)	-
Total trading derivatives		34,943,908	1,327,552	1,265,340
Hedging derivatives (Note 11)				
At fair value (i)				
Currency swap	Bond issuance	257,336	-	81,043
Interest-rate swap	Due to banks	3,121,065	7,202	19,017
Interest-rate swap	Bond issuance	3,411,000	-	18,480
Cash flow (ii)				
Interest-rate swap	Due to banks	672,454	265	375
Total hedging derivatives		7,461,855	7,467	118,915
Total		42,405,763	1,335,019	1,384,255

Hedging derivatives at fair value

(i) As of December 31, 2016, the Bank has entered into a cross currency swap (CCS) to hedge the fair value of bonds issued for a nominal value equivalent to S/ 253 million. Through this CCS, the Bank changes its issuance in local currency at a fixed rate into U.S. dollars at a variable rate. As of December 31, 2016, the fair value of CCS amounts to a profit of S/ 12 million, which is included in "Profit/loss from financial operations" in the consolidated statement of income (as of December 31, 2015, the fair value amounted to a loss of S/ 6 million).

As of December 31, 2016, the Bank has entered into interest-rate swaps (IRS) for a nominal amount equivalent to S/ 7,400 million to hedge interest rates for debts received and issuance of bonds. Through this IRS, the Bank receives a fixed interest rate in U.S. dollars and pays at a variable interest rate in the same currency. As of December 31, 2016, total variation in the fair value of IRS amounts to a loss of S/ 54 million, which is included in “Profit/loss from financial operations” in the consolidated statement of income (as of December 31, 2015, the variation in fair value amounted to a loss of S/ 39 million).

The table below presents the detail on hedged items and their hedging instruments as of December 31, 2016 and 2015:

In thousands

Hedged item	Hedging instrument	Nominal amount in US$	Fair value of the hedging instrument in S/ 2016	2015
Debt to Goldman Sachs for US$ 500 million (Note 11(a) (i))	**Interest-rate Swap (IRS)** The Bank receives a fixed interest rate and pays at a variable interest rate.	500,000	1,910	3,601
Third international issuance for US$ 500 million (Note 11(e))	**Interest-rate Swap (IRS)** The Bank receives a fixed interest rate and pays at a variable interest rate.	500,000	(15,674)	(7,552)
Fifth issuance – Fifth Program of Corporate Bonds for S/ 200 million (Note 11(e))	**Cross Currency Swap (CCS)** The Bank receives cash flows in Soles at a fixed rate and pays cash flows in U.S. dollars at a variable interest rate.	75,443	(65,076)	(81,044)
First international issuance of Corporate Bonds for US$ 500 million (Note 11(e))	**Interest-rate Swap (IRS)** The Bank receives a fixed interest rate and pays at a variable interest rate.	500,000	(24,479)	(10,928)
Debt to Deutsche Bank for US$ 350 million (Note 11(a) (ii))	**Interest-rate Swap (IRS)** The Bank receives a fixed interest rate and pays at a variable interest rate.	350,000	(18,391)	(16,553)
Debt to Wells Fargo for US$ 55 million (Note 11)	**Interest-rate Swap (IRS)** The Bank receives a fixed interest rate and pays at a variable interest rate.	55,000	(2,777)	(2,464)
First international issuance of Subordinated Bonds for US$ 300 million (Note 11(e))	**Interest-rate Swap (IRS)** The Bank receives a fixed interest rate and pays at a variable interest rate.	300,000	(34,900)	-

Cash flow hedging derivatives

(ii) As of December 31, 2016, the Bank has entered into interest-rate swaps (IRS) for a nominal amount equivalent to S/ 105 million to hedge interest rates of debts received. Under this IRS, the Bank obtains a variable interest rate in U.S. dollars and pays at a fixed interest rate in the same currency. As of December 31, 2016, the variation in the fair value of IRS amounts to a profit of S/ 0.6 million and is recorded in equity accounts (profit of S/ 0.5 million as of December 31, 2015).

As of December 31, 2016, the Bank has entered into a CCS to hedge the fair value of debts received for a nominal value equivalent to S/ 161 million. Through this CCS, the Bank translates its debts in U.S. dollars at a variable rate into local currency at a fixed rate. As of December 31, 2016, the fair value of CCS amounts to a profit of S/ 0.8 million and is recorded in equity accounts.

The table below presents the detail on hedged items and their hedging instruments as of December 31, 2016 and 2015:

In thousands

Hedged item	Hedging instrument	Nominal amount in US$	Fair value of the hedging instrument in S/	
			2016	2015
Debt to Standard Chartered for US$ 31 million (Note 11)	**Interest-rate Swap (IRS)** The Bank receives a variable interest rate and pays at a fixed interest rate.	31,000	783	265
Debt to The Bank of New York for US$ 48 million (Note 11(a) (vi))	**Cross Currency Swap (CCS)** The Bank receives a variable interest rate and pays at a fixed interest rate.	48,000	681	-

16. INCOME AND EXPENSES FOR FINANCIAL SERVICES

Income from financial services for the periods 2016 and 2015 comprises commissions for contingent transactions, checking accounts, collections and transfers. Expenses for financial services include premiums to the deposit insurance fund and other commissions related to credit or intermediation activities.

17. ADMINISTRATIVE EXPENSES

Administrative expenses for periods 2016 and 2015 mainly comprise the following: expenses of personnel and Board of Directors, taxes and contributions, expenses for IT services, transportation, leases, advertising, overhead service expenses, security and surveillance, among others.

18. TAX SITUATION

(a) Income tax regime

(i) Tax rate

The income tax rate for legal entities domiciled in Peru is 28% as of December 31, 2016 and 2015.

Legal entities domiciled in Peru are subject to an additional rate of 6.8% on any amount that may be considered as indirect disposal of profit, including amounts charged to expenses and unreported income; that is, expenses which may have benefited shareholders, parties, among others; other expenses not related to the business; expenses of shareholders, parties, among others, which are assumed by the legal entity.

(ii) Transfer pricing

In order to determine income tax and value-added tax (VAT) in Peru, legal entities engaged in transactions with related entities or with companies resident in territories with low or no taxation shall: (a) submit an annual tax return of their transactions with such companies if the amount of these transactions is greater than S/ 200,000, and (b) have a Transfer Pricing Technical Study, as well as supporting documentation for this study, if the amount of earned income exceeds S/ 6,000,000 and if transactions engaged with related entities exceed S/ 1,000,000. Both obligations are mandatory in the event that at least one transaction to, from or through countries with low or no taxation has been made.

Based on the analysis conducted on the operations of the Bank and its Subsidiaries, Management and internal legal advisors believe that the application of these standards will not result in significant contingencies for Grupo Continental as of December 31, 2016 and 2015.

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

On December 10, 2016, the Congress of the Republic of Peru approved, within the scope of the Law that promotes Economy Reactivation, the amendment of the Single Revised Text of the Income Tax Law.

Among other matters, the Law modifies the tax on third category income recipients domiciled in the country on their net income, at a rate of 29.5% from January 1, 2017. It also modifies tax on legal entities that are not domiciled in the country for dividends and other distribution forms of profit received from legal entities established in article 14, at a rate of 5% from January 1, 2017.

The effects of the amendments referred to above on the consolidated financial statements 2016, as a result of the determination of deferred income tax, are indicated as follows:

- Decrease of income tax expense recognized in net profit for the year for S/ 36 million.
- Increase of income tax expense recognized in other comprehensive income for S/ 15 thousand.
- Increase of deferred income tax asset for S/ 36 million.

(c) Income tax expense comprises the following:

In thousands of S/	2016	2015
Current income tax	482,184	525,266
Deferred income tax		
- Profit/loss for the period	(9,116)	(11,207)
- Effect for tax variation	(35,518)	
Income tax (adjustment/recovery of provision)	4,262	9,278
	441,812	523,337

(d) Tax situation

The following income tax returns of the Bank and Subsidiaries have not been reviewed by the Tax Administration Authority (SUNAT) yet:

Companies	**Years subject to tax inspections**
BBVA Banco Continental	From 2012 to 2016
Continental Bolsa Sociedad Agente de Bolsa S.A.	From 2013 to 2016
BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos	From 2013 to 2016
Continental Sociedad Titulizadora S.A.	From 2012 to 2016
Inmuebles y Recuperaciones Continental S.A.	From 2013 to 2016
BBVA Consumer Finance EDPYME	From 2013 to 2016
Forum Comercializadora del Perú S.A.	From 2012 to 2016
Forum Distribuidora del Perú S.A.	From 2012 to 2016

SUNAT is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns. At present, SUNAT is reviewing the Bank's tax return 2010, the 2012 tax return of Inmuebles y Recuperaciones Continental S.A. and will start to review the 2013 and 2014 tax returns of BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos. Management considers that no significant liabilities will arise from pending reviews.

Due to possible interpretations that tax authorities may have on current applicable regulations each year, it is not possible to determine to date whether liabilities for the companies of Grupo Continental will arise or not from the reviews to be conducted. Therefore, any high tax or charge which may result from such tax reviews would be applied to profit/loss for the year when determined. However, Management believes that any additional tax payment would not be significant for the consolidated financial statements as of December 31, 2016 and 2015.

19. DEFERRED INCOME TAX

The movement of net deferred income tax asset in 2016 and 2015 and the temporary differences that affect tax and accounting bases originating them are shown below:

In thousands of S/			Additions / Recoveries			
As of December 31, 2016:	**Opening balance**	**Transferred balances for acquisition of subsidiary (Note 1(a))**	**Equity**	**Profit/loss for the year**	**Rate variation (effect on profit/loss for the year)**	**Closing balance**
Asset						
Generic allowance for loans	323,784	929	-	(11,640)	28,892	341,965
Generic allowance for indirect loans	30,081	-	-	4,197	3,173	37,451
Provision for assets seized	16,206	-	-	10,949	2,292	29,447
Specific provision for indirect loans	8,114	-	-	(1,872)	578	6,820
Provision for sundry expenses and others	27,189	1,873	-	(11,197)	1,669	19,534
Labor provisions	35,442	-	-	9,119	4,097	48,658
Tax loss	-	2,874	(1,301)	2,381	193	4,147
Non-accrual interests	12,836	-	-	(9,216)	335	3,955
Available-for-sale investments	654	-	442	-	-	1,096
Total assets	454,306	5,676	(859)	(7,279)	41,229	493,073
Liability						
Cash flow hedges	202	-	373	-	-	575
Intangibles / deferred charges	29,062	969	1,468	15,346	4,183	51,028
Valuation of derivative financial instruments	30,217	-	-	(30,217)	-	-
Tax depreciation of property	2,298	-	-	3,035	494	5,827
Leveling of assets and liabilities	15,729	-	-	(4,559)	1,034	12,204
Total liabilities	77,508	969	1,841	(16,395)	5,711	69,634
Deferred income tax, net asset	376,798	4,707	(2,700)	9,116	35,518	423,439

In thousands of S/		Additions / Recoveries		
As of December 31, 2015:	**Opening balance**	**Equity**	**Profit/loss for the year**	**Closing balance**
Asset				
Generic allowance for loans	287,895	-	35,889	323,784
Generic allowance for indirect loans	25,346	-	4,735	30,081
Provision for assets seized	11,697	-	4,509	16,206
Specific provision for indirect loans	3,222	-	4,892	8,114
Provision for sundry expenses and others	39,478	-	(12,289)	27,189
Labor provisions	27,480	-	7,962	35,442
Difference in depreciation basis and rates	232	-	(232)	-
Non-accrual interests	12,112	-	724	12,836
Available-for-sale investments	565	89	-	654
Total assets	408,027	89	46,190	454,306
Liability				
Cash flow hedges	783	(581)	-	202
Intangibles / deferred charges	16,026	-	13,036	29,062
Valuation of derivative financial instruments	12,123	-	18,094	30,217
Available-for-sale investments	2,283	(2,283)	-	-
Tax depreciation of property	3,283	-	(985)	2,298
Leveling of assets and liabilities	10,891	-	4,838	15,729
Total liabilities	45,389	(2,864)	34,983	77,508
Deferred income tax, net asset	362,638	2,953	11,207	376,798

The movement of deferred tax is detailed was as follows:

In thousands of S/	**2016**	**2015**
Deferred tax asset at the beginning of the year	376,798	362,638
(Charge) / Credit to equity	(2,700)	2,953
Credit to profit/loss for the year:		
Profit/loss for the year	9,116	11,207
Rate variation (effect on profit/loss for the year)	35,518	-
Transferred balances for acquisition of subsidiary	4,707	-
Deferred income tax asset at the end of the year	423,439	376,798

20. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per common share are presented as follows:

	Quantity of shares (in thousands)	
	2016	**2015**
Outstanding at the beginning of the year	3,784,146	3,246,531
Capitalization of profits	617,222	1,154,837
Outstanding at the end of the year	4,401,368	4,401,368
Net profit for the year (in thousands of S/)	1,338,236	1,371,635
Basic and diluted earnings per share	0.304	0.312

21. TRANSACTIONS WITH RELATED PARTIES

As of December 31, 2016 and 2015, Grupo Continental has granted loans and has provided and requested banking services, related to correspondence, transactions involving derivative financial instruments recorded at nominal values and other operations with related entities, whose balances are detailed below:

In thousands of S/	**2016**	**2015**
Asset		
Cash and due from banks	13,460	57,614
Loan portfolio	447,758	736,891
Other assets	271,849	191,441
Liability		
Deposits and obligations	1,162,259	1,213,068
Due to banks and financial obligations	62,221	54,419
Other liabilities	508,988	1,012,010
Contingents	9,018,767	14,960,617

These transactions have been performed by Grupo Continental with its related entities during the normal course of business and under the same terms and conditions as if performed with third parties.

Balances presented above have had the following effect in the consolidated statements of income of Grupo Continental:

In thousands of S/	**2016**	**2015**
Interest income	1,493	6,829
Interest expenses	(602)	(1,537)
Other income (expenses), net	(68,212)	(96,828)

Loans granted to employees

As of December 31, 2016 and 2015, directors, executives and employees of Grupo Continental maintain credit transactions with Grupo Continental within the provisions set forth in the General Law, which regulates and establishes certain limits on transactions performed with directors, executives and employees of banks in Peru. As of December 31, 2016 and 2015, direct loans granted to employees, directors, executives and key personnel amount to S/ 406 and S/ 411 million, respectively.

Also, in 2016 and 2015, salaries of key personnel and allowances to the Board of Directors amounted to S/ 12 million and S/ 11 million, respectively.

22. CLASSIFICATION OF FINANCIAL INSTRUMENTS

In thousands of S/

ASSET	As of December 31, 2016						
	At fair value through profit or loss			Available-for-sale			
	For trading	Initially designated as at FVTPL	Loans and accounts receivable	At amortized cost (*)	At fair value	Held-to-maturity	Hedging derivatives
Cash and due from banks	-	-	20,888,598	-	-	-	-
Interbank funds	-	-	728,080	-	-	-	-
Investments	233,153	-	-	4,436	2,878,311	470,686	-
Equity instruments	8,811	-	-	4,436	43,911	-	-
Debt instruments	224,342	-	-	-	2,834,400	470,686	-
Loan portfolio	-	-	49,955,024	-	-	-	-
Trading derivatives	838,715	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	3,589
Accounts receivable	-	-	41,518	-	-	-	-
Other assets	-	-	588,777	-	-	-	-
TOTAL	1,071,868	-	72,201,997	4,436	2,878,311	470,686	3,589

(*) This item includes those investments measured at cost.

In thousands of S/

ASSET	As of December 31, 2015						
	At fair value through profit or loss			Available-for-sale			
	For trading	Initially designated as at FVTPL	Loans and accounts receivable	At amortized cost (*)	At fair value	Held-to-maturity	Hedging derivatives
Cash and due from banks	-	-	23,432,484	-	-	-	-
Interbank funds	-	-	363,589	-	-	-	-
Investments	94,887	-	-	3,962	4,716,057	462,732	-
Equity instruments	23,823	-	-	3,962	44,392	-	-
Debt instruments	71,064	-	-	-	4,671,665	462,732	-
Loan portfolio	-	-	47,848,768	-	-	-	-
Trading derivatives	1,327,552	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	7,467
Accounts receivable	-	-	25,432	-	-	-	-
Other assets	-	-	1,050,191	-	-	-	-
TOTAL	1,422,439	-	72,720,464	3,962	4,716,057	462,732	7,467

(*) This item includes those investments measured at cost.

In thousands of S/	As of December 31, 2016				
	At fair value through profit or loss				
LIABILITY	**For trading**	**Initially designated as at FVTPL**	**At amortized cost**	**Other liabilities**	**Hedging derivatives**
Obligations to the public	-	-	47,946,804	-	-
Interbank funds	-	-	-	-	-
Deposits of financial entities and international financial organizations	-	-	1,407,661	-	-
Due to banks and financial obligations (*)	-	-	12,023,795	-	-
Trading derivatives	710,588	-	-	-	-
Hedging derivatives	-	-	-	-	161,691
Accounts payable	-	-	7,943,095	424,121	-
TOTAL	710,588	-	69,321,355	424,121	161,691

(*) This item includes debts and financial obligations for S/ 7,473 million recorded at fair value, which are hedged with hedging derivatives at fair value.

In thousands of S/	As of December 31, 2015				
	At fair value through profit or loss				
LIABILITY	**For trading**	**Initially designated as at FVTPL**	**At amortized cost**	**Other liabilities**	**Hedging derivatives**
Obligations to the public	-	-	46,439,852	-	-
Interbank funds	-	-	128,015	-	-
Deposits of financial entities and international financial organizations	-	-	1,376,558	-	-
Due to banks and financial obligations (*)	-	-	14,370,386	-	-
Trading derivatives	1,265,340	-	-	-	-
Hedging derivatives	-	-	-	-	118,915
Accounts payable	-	-	9,339,191	363,682	-
TOTAL	1,265,340	-	71,654,002	363,682	118,915

(*) This item includes debts and financial obligations for S/ 4,949 million recorded at fair value, which are hedged with hedging derivatives at fair value.

23. FINANCIAL RISK MANAGEMENT

Loan portfolio risk management is essential for the Bank's strategy to secure the solvency and sustainability of the Bank. A risk profile has been established according to the strategies and policies of the BBVA Group, which is governed by a unique, independent and global risk management model.

Unique: A unique model for the BBVA Group which is focused on one objective so that the definition of risk appetite is determined based on measurements, limits on portfolios and economic sectors and indicators for monitoring and managing portfolios.

Independent: Independent and complementary for the business, according to the strategic objectives of BBVA Group. The adaptation process of the risk division of the Bank is aligned to the business needs to be able to identify opportunities considering the risk appetite which has already been determined.

Global: There is a suitable risk model for the entire BBVA Group, for all risks, in all countries and for all businesses.

For an effective all-inclusive vision management, the Risk Division of the Bank is organized per type of risks: retail and wholesale loan risks, structural risk, liquidity and market risks, and operational risk and internal control. In order to look for synergies and achieve more integration in processes ranging from strategy, planning to implementation of management models and tools, all these risks are consolidated in the Monitoring, Analytics & Risk Engineering Unit, cross-sectional functions that support management.

Credit Risk

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

The Risks Division's organizational structure for credit risk management is shown below:

- The Monitoring, Analytics & Risk Engineering Unit manages credit risk through the definition of strategies, preparation of measurements and calculation of parameters to establish policies in the whole business cycle from admission, follow-up and recovery in order to control the credit quality of the portfolio and ensure a sustained profitability according to capital consumption. Additionally, this Unit is responsible for developing and maintaining credit risk models which are used when managing the risk in the Bank, as well as implementing them through technological tools/platforms required to be used, by consolidating those tools to risk and commercial network management, as applicable.

- The Retail Risk Unit manages the entire credit cycle involving individuals and business banking (small and medium companies). For individuals, admission is carried out using tools to assess the customer profile, their payment capacity and credit behavior in the Bank and within the financial system. For businesses, the admission analysis is focused on financial and economic information obtained in field visits that provide a comprehensive perspective of the business and payment capacity, through the use of specific methodologies per economic activities, as well as through tools that assess the behavioral profile of the business.

At origination, for individual and businesses, an exhaustive assessment is performed through strategic campaigns and measures that are consistent with the Bank's growth strategy as well as through portfolio management. For the follow-up of the portfolio, statistical information is used to detect red flags and high-risk groups, and plans for individual review and proactive actions are proposed to organize the customer's payment behavior and prevent future defaults. Finally, for collections, differentiated management models are defined among individuals and businesses oriented to decentralization with new negotiation strategies and supporting tools.

- The Wholesale Risk Unit incorporates the functions of origination and policies, admission for businesses, corporate entities and real estate companies, as well as the follow-up and recovery. This Unit was able to strengthen the risk model with higher synergies based on communication and feedback among teams for the management of the risk related to the types of transactions, products and sectors, among others.

  The Origination and Policies team is responsible for wholesale (non-retail) portfolio management and the definition of policies and growth and divestiture strategies. On the other hand, the Admission team defines the credit risk profile in policies established by the Bank in business segments of the retail sector, banking for companies and institutions, global and real estate customers.

  Also, the objective of the Follow-up team is to identify customers with potential impairment at an early stage in order to manage credit risk. The Recovery team intends to negotiate payment arrangements with customers from debt refinancing to payment in kind or execution of guarantees.

  During 2016, based on the strategy of BBVA Group and a more challenging environment for the Peruvian financial system, the control of limitations of asset allocation was boosted and strengthened in consistence with the risk appetite, and also through the follow-up of concentration thresholds per sectors, the diversification of the portfolio was encouraged, and the integration of the new portfolio management model was consolidated through strategies and its display in all the Bank's offices as opportunity identification, preventive action and reconduction criteria.

  Rating, Risk Analyst and Bureau tools are used for significant support in decision-making, and the Automated Financial Program and Digital Financial Program in the segments of Business Banking and Corporate Investment Banking (CIB) constitute digital platforms for the preparation and analysis of credit proposals.

Maximum exposure to credit risk

The maximum exposure to credit risk as of December 31, 2016 and 2015 is as follows:

In thousands of S/	2016	2015
ASSET		
Cash and due from banks	20,888,598	23,432,484
Interbank funds	728,080	363,589
Investments at fair value through profit or loss	233,153	94,887
Available-for-sale investments	2,882,747	4,720,019
Held-to-maturity investments	470,686	462,732
Loan portfolio	49,955,024	47,848,768
Trading derivatives	838,715	1,327,552
Hedging derivatives	3,589	7,467
Accounts receivable	41,518	25,432
Other assets	588,777	1,050,191
TOTAL	76,630,887	79,333,121

Guarantees received

Guarantee requirement may be a necessary instrument but not sufficient for risk concession purposes and its acceptance is supplemental to the credit process that demands and considers above all prior verification of the debtor’s payment capacity or their ability to generate sufficient resources that will allow the amortization of risks contracted in compliance with agreed-upon conditions.

Guarantee management and valuation procedures are included in Internal Manuals on Credit Risk Management Policies and Procedures (retail and wholesale), which provide basic principles for credit risk management and also include the management of guarantees received in transactions with customers, which ensure that those hedges are properly documented and recorded in the pertinent registry, and which ensure that the Bank has corresponding insurance policies.

The valuation of guarantees is governed by prudent principles involving the use of appraisals of real estate guarantees, market prices in stock markets, quotation value of interests in investment funds, among others. These prudent principles have established certain guidelines which could be even more restrictive than local standards; and under these guidelines, guarantees are updated in strict adherence to the regulator’s recognition level and requirements which entities that conduct these valuations should meet.

As of December 31, 2016 and 2015, loans are distributed as follows, per type of guarantee:

In thousands of S/	2016		2015	
		%		%
Mortgages	19,608,688	38	19,414,224	39
Other guarantees	12,231,088	24	11,988,015	24
Finance lease	5,441,361	10	5,246,045	11
Guarantees and letters of guarantee received	568,286	1	663,041	1
Self-liquidating guarantees	355,479	1	389,184	1
Vehicle, industrial, agricultural and other pledges	160,943	-	186,106	-
Warrants of products and goods	-	-	44,703	-
Secured loans	38,365,845	74	37,931,318	76
Unsecured loans	13,622,611	26	11,792,496	24
Total	51,988,456	100	49,723,814	100

Loan portfolio's creditworthiness

The loan portfolio is divided into "Non past-due nor impaired", "Past-due but not impaired" and "Impaired", as detailed in the table below:

	As of December 31, 2016						As of December 31, 2015					
	Non- retail loans	**Loans to small and micro-businesses**	**Consumer loans**	**Mortgage loans**	**Total**	**%**	**Non- retail loans**	**Loans to small and micro-businesses**	**Consumer loans**	**Mortgage loans**	**Total**	**%**
Non past-due nor impaired	**32,892,432**	**1,222,027**	**4,427,363**	**10,717,118**	**49,258,940**	**99**	**31,988,053**	**1,285,994**	**3,840,416**	**10,171,797**	**47,286,260**	**100**
Normal	32,182,858	1,185,240	4,335,356	10,514,002	48,217,456	97	31,552,014	1,249,846	3,742,819	9,891,480	46,436,159	98
With potential problems	709,562	36,787	92,007	203,116	1,041,472	2	436,039	36,148	97,597	280,317	850,101	2
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	12	-	-	-	12	-	-	-	-	-	-	-
Past-due but not impaired	**55,674**	**-**	**14**	**462**	**56,150**	**-**	**49,731**	**1**	**2**	**656**	**50,390**	**-**
Normal	11,219	-	2	-	11,221	-	24,998	1	2	2	25,003	-
With potential problems	44,455	-	12	462	44,929	-	24,733	-	-	654	25,387	-
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Impaired	**1,708,777**	**157,109**	**294,017**	**513,463**	**2,673,366**	**6**	**1,490,266**	**187,977**	**232,451**	**476,470**	**2,387,164**	**5**
Normal	7,328	109	99	-	7,536	-	11,199	323	11	109	11,642	-
With potential problems	285,458	98	90	-	285,646	1	216,219	130	62	-	216,411	-
Substandard	380,026	24,342	71,092	181,506	656,966	1	344,941	34,468	65,680	207,246	652,335	1
Doubtful	421,968	40,815	125,335	174,696	762,814	2	448,780	49,522	103,284	166,864	768,450	2
Loss	613,997	91,745	97,401	157,261	960,404	2	469,127	103,534	63,414	102,251	738,326	2
Gross portfolio	34,656,883	1,379,136	4,721,394	11,231,043	51,988,456	105	33,528,050	1,473,972	4,072,869	10,648,923	49,723,814	105
Less: Provisions	(1,483,456)	(117,869)	(426,424)	(328,463)	(2,356,212)	(5)	(1,413,032)	(129,026)	(355,008)	(295,578)	(2,192,644)	(5)
Total net	33,173,427	1,261,267	4,294,970	10,902,580	49,632,244	100	32,115,018	1,344,946	3,717,861	10,353,345	47,531,170	100

The criteria to determine whether a loan is impaired are the following:

Type of debtor	Impairment criteria
Retail	Debtor in arrears for more than 90 days. Debtor classified as: substandard, doubtful or loss.
Non-retail	Debtor classified as: substandard, doubtful or loss. Refinanced or restructured operation.

Specific provisions related to transactions that as of December 31, 2016 have been classified as past-due but not impaired loans and impaired loans amount to S/ 1,158 million (S/ 960 million as of December 31, 2015).

During 2016 and 2015, transactions of customers classified as past-due but not impaired loans, and as impaired loans throughout these years have generated financial income amounting to S/ 138 million and S/ 119 million, respectively.

As of December 31, 2016 and 2015, guarantees of past-due and not impaired loans, and impaired loans, amounted to S/ 1,760 million and S/ 1,613 million, respectively, of which S/ 1,617 and S/ 1,428 million correspond to mortgages.

Past-due and not impaired loans as of December 31, 2016 and 2015 amount to S/ 56 million and S/ 50 million, respectively. Loans referred to above, classified by number of days in arrears, is shown in the following table:

In thousands of S/

	As of December 31, 2016				As of December 31, 2015			
Days in arrears	**16- 30**	**31- 60**	**61 - 90**	**Total**	**16- 30**	**31- 60**	**61 - 90**	**Total**
Type of loan								
Corporate	-	-	-	-	41	23	-	64
Large businesses	762	12,925	-	13,687	979	1,631	24	2,634
Medium businesses	18,693	17,620	5,674	41,987	14,874	26,176	5,983	47,033
Subtotal	19,455	30,545	5,674	55,674	15,894	27,830	6,007	49,731
Small businesses	-	-	-	-	-	1	-	1
Micro-businesses	-	-	-	-	-	-	-	-
Consumer	-	14	-	14	-	2	-	2
Mortgage	-	462	-	462	-	656	-	656
Subtotal	-	476	-	476	-	659	-	659
TOTAL	19,455	31,021	5,674	56,150	15,894	28,489	6,007	50,390

Written-off loans

The movement of the written-off loan portfolio is as follows:

In thousands of S/	2016	2015
Opening balance	7,457	7,312
Decreases:		
Cash recoveries	(25)	(33)
Cancelled loans	(15)	(11)
Others	(24)	189
Closing balance	7,393	7,457

Risk concentrations

The loan portfolio has been distributed in the following economic sectors:

In thousands of S/	2016		2015	
		%		%
Mortgage and consumer loans	15,952,436	31	14,721,791	30
Manufacture	9,935,631	19	9,428,349	19
Commerce	9,673,102	19	9,169,786	18
Real estate, business and leasing	3,045,934	6	2,740,541	6
Transportation, storage and communications	2,691,618	5	2,765,868	6
Electricity, gas and water	1,818,495	3	1,563,036	3
Mining	1,491,642	3	2,094,120	4
Agriculture and livestock	1,465,249	3	1,472,168	3
Construction	1,132,217	2	920,767	2
Financial intermediation	1,066,797	2	1,214,975	2
Others	3,715,335	7	3,632,413	7
Total	51,988,456	100	49,723,814	100

Financial instruments (assets) present the following concentrations per geographical area:

In thousands of S/	As of December 31, 2016						
	At fair value through profit or loss (FVTPL)						
Financial instruments	**For trading**	**Initially designated as at FVTPL**	**Loans and accounts receivable**	**Available-for-sale**	**Held-to-maturity**	**Hedging derivatives**	**Total**
Peru	798,344	-	51,517,845	2,882,110	470,686	-	55,668,985
Rest of South America	-	-	228,746	607	-	-	229,353
Rest of the world	263,756	-	248,729	-	-	-	512,485
Mexico	7,990	-	9,010	-	-	-	17,000
United States	-	-	37,895	-	-	1,910	39,805
Europe	7,092	-	67,183	30	-	1,679	75,984
Total	1,077,182	-	52,109,408	2,882,747	470,686	3,589	56,543,612
Provisions	(5,314)	-	(2,436,187)	-	-	-	(2,441,501)
Accrued yields	-	-	372,235	-	-	-	372,235
Deferred	-	-	(48,914)	-	-	-	(48,914)
Total	1,071,868	-	49,996,542	2,882,747	470,686	3,589	54,425,432

In thousands of S/	As of December 31, 2015						
	At fair value through profit or loss (FVTPL)						
Financial instruments	**For trading**	**Initially designated as at FVTPL**	**Loans and accounts receivable**	**Available-for-sale**	**Held-to-maturity**	**Hedging derivatives**	**Total**
Peru	1,224,254	-	49,259,458	4,719,382	462,732	-	55,665,826
Rest of South America	-	-	200,810	607	-	-	201,417
Rest of the world	3,301	-	252,425	-	-	-	255,726
Mexico	24,405	-	8,939	-	-	-	33,344
United States	2,940	-	39,377	-	-	7,202	49,519
Europe	172,363	-	70,219	30	-	265	242,877
Total	1,427,263	-	49,831,228	4,720,019	462,732	7,467	56,448,709
Provisions	(4,824)	-	(2,274,626)	-	-	-	(2,279,450)
Accrued yields	-	-	361,338	-	-	-	361,338
Deferred	-	-	(43,740)	-	-	-	(43,740)
Total	1,422,439	-	47,874,200	4,720,019	462,732	7,467	54,486,857

Market Risks

(a) Market risk

Market risk arises as a result of market activities using financial instruments, whose value may be affected by changes in market conditions, reflected in changes of certain assets and financial risk factors. The risk may be mitigated and even eliminated through hedges with other products (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 yield.

- Interest rate risk: This risk arises as a result of variations in the temporary 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 instruments traded in the market.

Additionally, and for specific positions, it is necessary to consider other risks as well: credit spread risk, base risk, 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, at a specific confidence level, that may be caused on the market positions of a portfolio for any given period of time. The Bank calculates VaR under the parametric method, at a confidence level of 99% and a period of one day; data considered for VaR was obtained within one year.

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

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

The Bank's market risk for 2016 has decreased as compared to 2015. This decrease is due to a lower position in sovereign bonds and a smaller portfolio of derivatives.

VaR per risk factor is as follows:

In thousands of S/	2016	2015
VaR per risk factors		
VaR unsmooth	3,148	7,627
VaR interest	3,299	6,250
VaR exchange	534	3,109
Average VaR	7,701	9,474
Maximum VaR	15,656	13,223
Minimum VaR	2,559	5,702

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

- Lehman Brothers bankruptcy in 2008
- The Peruvian electoral crisis in June 2001

Per type of market risk assumed by the trading portfolio, at the end of 2016 as usual, the main risk was the interest rate risk, and to a lesser extent the exchange rate risk.

The parametric VaR market risk model is regularly validated through back testing.

(b) Structural interest rate risk

Interest rate risk management of the banking book is intended to maintain the Bank’s exposure to variations in market interest rates at levels consistent with its risk profile and strategy. To that end, the Asset-Liability Committee (hereinafter “ALCO”) actively manages the banking book through operations that intend to optimize the risk level assumed, in relation to expected results, and allow to meet maximum tolerable risk levels.

ALCO’s activities are based on interest rate risk measurements conducted by the Risk Area that, acting as an independent unit, regularly quantifies the impact of the variation in interest rates on the margin of interests and economic value of the Bank.

In addition to sensitivity measurements made to variations of 100 basis points 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 regularly conducted to complete the assessment of the Bank’s interest rate risk profile.

All these risk measurements are subsequently analyzed and monitored and the risks assumed and levels of compliance with authorized limits are provided to different management and administration areas of the Bank.

The consumption of structural interest rate risk levels of the Bank during 2016 and 2015 are presented below (information available until November 2016 and 2015):

During 2016

Consumption of limits

	2016	nov-16	oct-16	sep-16	aug-16	jul-16	jun-16	may-16	apr-16	mar-16	feb-16	jan-16
Financial margin sensitivity	6%	4.1%	4.3%	4.1%	4.1%	4%	3.5%	3.8%	3.7%	3.6%	3.6%	4%

Consumption of alerts

	2016	nov-16	oct-16	sep-16	aug-16	jul-16	jun-16	may-16	apr-16	mar-16	feb-16	jan-16
Economic value sensitivity	8%	4.3%	4.5%	4.5%	4.3%	4.6%	4.7%	4.5%	4.4%	4.3%	3.4%	3.4%
Economic Capital (EC)	13%	8.8%	9.4%	9.6%	9.0%	9.7%	10.3%	9.8%	9.7%	9.5%	8.7%	8.6%
Margin at Risk (MeR)	5%	1.9%	1.9%	2.0%	1.9%	2.1%	2.0%	1.9%	1.7%	1.7%	1.8%	1.8%

During 2015

Consumption of limits

	2015	nov-15	oct-15	sep-15	aug-15	jul-15	jun-15	may-15	apr-15	mar-15	feb-15	jan-15
Financial margin sensitivity	6%	3.5%	3.9%	4.3%	4.3%	4.3%	4.2%	4.1%	4.3%	4.2%	4.2%	3.8%

Consumption of alerts

	2015	nov-15	oct-15	sep-15	aug-15	jul-15	jun-15	may-15	apr-15	mar-15	feb-15	jan-15
Economic value sensitivity	8%	3.9%	4.0%	1.6%	1.2%	1.2%	1.4%	1.6%	1.6%	1.0%	1.6%	1.7%
Economic Capital (EC)	13%	9.5%	9.6%	8.7%	8.4%	9.0%	9.6%	9.1%	8.9%	8.3%	8.5%	9.8%
Margin at Risk (MeR)	6%	1.7%	1.8%	1.8%	1.9%	2.0%	1.9%	1.6%	1.7%	2.0%	1.9%	1.3%

As part of the measurement process, the Bank has set hypotheses on the evolution and 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 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 intended to, in the short term, ensure 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 appropriateness of the financial structure and its evolution within the context of Peru's 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 the BBVA Group. This management approach contributes to the prevention and restriction of liquidity risks by reducing the Bank's vulnerability during high risk periods.

Management and monitoring of liquidity risk is carried out comprehensively using a double approach: short and long term. The short-term liquidity approach, with a period of time of up to 365 days, is focused on the management of payments and collections for market activities, the resources of volatile customers and 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 and the financing structure, with a period of time of one year or more.

Liquidity is comprehensively managed by the Asset-Liability Committee (ALCO), and the Financial Management division, 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. In this regard, the Financial Management division, according to approved budgets, carries out the proposals agreed by ALCO and manages liquidity risk based on a wide scheme of limits, sub-limits and alerts, duly approved, on which the Risk Area carries out independent measurement and control-related tasks, and provides the manager with supporting tools and metrics for decision-making purposes.

Regular measurements of risks incurred and the follow-up of limit consumption are carried out by the Structural, Market and Trust Risk division, which reports liquidity risk levels to ALCO on a monthly basis, and, more often, to management units.

Regarding regulatory matters, the Basel Committee on Banking Supervision has proposed a new liquidity regulation scheme based on two ratios: Liquidity Coverage Ratio (LCR), effective from 2015, and Net Stable Funding Ratio (NSFR) that will be implemented since 2018. Both the Bank and the BBVA Group as a whole were involved in the corresponding quantitative impact study (QIS) and have gathered new regulatory challenges in their general action framework on Liquidity and Financing matters. At a local level, the SBS has also implemented the follow-up of LCR by following the general guidelines of the Basel Committee adapted to Peruvian context. The measurement of this LCR indicator began on December 2013 and it is calculated on a daily basis. The limit established for LCR is 80% for the period 2014 – 2017 (90% in 2018 and 100% for 2019 and onwards) which the Bank is fully adhering to.

As new liquidity reports became effective, the SBS established new guidelines for 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, 2016 and 2015 is as follows, including pertinent accrued yields for the portfolio of loans and deposits:

In thousands of S/

ASSET	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 loans and under court-ordered payment	No contractual maturity	Total
Cash and due from banks	7,048,749	1,461,739	3,774,467	293,839	8,309,804	-	-	-	20,888,598
Interbank funds	728,080	-	-	-	-	-	-	-	728,080
Investments at fair value through profit or loss	224,342	-	-	-	-	-	-	8,811	233,153
Available-for-sale investments	2,707,131	1,412	462	-	129,691	44,051	-	-	2,882,747
Held-to-maturity investments	-	5,960	2,044	-	-	462,682	-	-	470,686
Loan portfolio	6,667,717	9,776,491	4,744,796	4,309,226	16,866,501	8,738,328	1,257,089	-	52,360,148
Trading derivatives	76,067	99,554	19,072	30,443	315,831	297,748	-	-	838,715
Hedging derivatives	1,910	-	896	-	-	783	-	-	3,589
Total	17,453,996	11,345,156	8,541,737	4,633,508	25,621,827	9,543,592	1,257,089	8,811	78,405,716

LIABILITY	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	9,183,192	7,613,402	2,734,039	2,742,907	25,673,264	-	47,946,804
Demand	2,515,392	1,840,718	-	-	11,059,687	-	15,415,797
Savings	1,591,434	767,914	-	-	11,048,868	-	13,408,216
Time	5,023,496	5,004,770	2,733,979	2,742,907	3,564,709	-	19,069,861
Others	52,870	-	60	-	-	-	52,930
Deposits of financial entities	955,293	372,407	15,479	11,100	53,382	-	1,407,661
Due to banks and financial obligations	2,186,358	377,884	517,870	140,293	4,368,619	4,432,771	12,023,795
Trading derivatives	87,813	51,364	36,465	85,221	264,393	185,332	710,588
Hedging derivatives	-	-	215	-	99,320	62,156	161,691
Accounts payable	815,752	1,305	3,470,201	358	4,079,600	-	8,367,216
Other liabilities	423,689	-	-	-	-	-	423,689
Total	13,652,097	8,416,362	6,774,269	2,979,879	34,538,578	4,680,259	71,041,444

In thousands of S/

ASSET	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 loans and under court-ordered payment	No contractual maturity	Total
Cash and due from banks	6,702,518	2,526,639	482,382	278,758	13,442,187	-	-	-	23,432,484
Interbank funds	363,589	-	-	-	-	-	-	-	363,589
Investments at fair value through profit or loss	71,064	-	-	-	-	-	-	23,823	94,887
Available-for-sale investments	4,626,081	38	600	-	37,675	55,625	-	-	4,720,019
Held-to-maturity investments	-	5,767	1,967	-	-	454,998	-	-	462,732
Loan portfolio	6,918,886	7,615,169	5,378,065	4,604,159	15,397,447	9,094,317	1,077,109	-	50,085,152
Trading derivatives	91,075	91,576	106,489	71,682	481,756	484,974	-	-	1,327,552
Hedging derivatives	-	-	-	-	7,202	265	-	-	7,467
Total	18,773,213	10,239,189	5,969,503	4,954,599	29,366,267	10,090,179	1,077,109	23,823	80,493,882

LIABILITY	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	10,252,860	7,157,796	2,691,156	1,371,238	24,966,802	-	46,439,852
Demand	2,513,082	1,839,621	-	-	11,057,476	-	15,410,179
Savings	1,138,539	832,630	-	-	10,712,826	-	12,683,995
Time	6,548,203	4,485,545	2,691,156	1,371,238	3,196,500	-	18,292,642
Others	53,036	-	-	-	-	-	53,036
Interbank funds	128,015	-	-	-	-	-	128,015
Deposits of financial entities and international financial organizations	299,137	338,071	312,212	188,629	238,509	-	1,376,558
Due to banks and financial obligations	795,333	654,511	791,179	1,487,674	5,985,680	4,656,009	14,370,386
Trading derivatives	135,685	115,831	116,187	102,144	473,342	322,151	1,265,340
Hedging derivatives	-	-	375	-	105,149	13,391	118,915
Accounts payable	1,170,773	350,000	580,000	700,000	6,902,100	-	9,702,873
Other liabilities	925,390	-	-	-	-	-	925,390
Total	13,707,193	8,616,209	4,491,109	3,849,685	38,671,582	4,991,551	74,327,329

Operational risk

The Bank has implemented an operational risk management model for all the organization, which is supported by methodologies and procedures for the identification, evaluation and follow-up of this type of risk, and by tools that allow qualitative and quantitative operational risk management.

This model is supported by a decentralized operational risk management performed by a team of control specialists under the coordination of a methodological and reporting unit to pertinent operational risk committees, which allows an appropriate management integration.

Regarding qualitative management, STORM (Support Tool for Operational Risk Management) supports the identification and quantification of operational risks associated with a level of processes, as well as the regular assessment of controls related to critical risks. During 2016, these risks and controls have been updated which makes this model effective to date.

Sistema Integral de Riesgo Operacional - SIRO is an essential qualitative tool. SIRO is a database that stores all operational risk events that represent losses for the Bank.

With regard to the authorization for the calculation of regulatory capital requirement for operational risk, the Bank is authorized to use the alternative standard method for an indefinite period of time, which makes it possible to optimize the regulatory capital requirement.

As of December 31, 2016, the regulatory capital requirement for operational risk amounts to S/ 423 million for the Bank, based on the alternative standard method, and to S/ 2 million for EDPYME under the basic indicator approach.

It is important to mention the training courses have been given to all employees of the organization as part of relevant activities performed in 2016.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments are classified as liabilities or equity according to the substance of the contractual agreement originating them. Interests, dividends, profits and losses arising from a financial instrument classified as liability are recorded as expenses or income in the statement of income. Payments to holders of financial instruments classified as equity are directly recorded in equity. Financial instruments are offset when Grupo Continental has the legal right to set off and Management has the intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Fair value is the amount for which an asset may be exchanged between a buyer and a seller, duly informed, or an obligation may be settled between a debtor and creditor with sufficient information, under the terms of an arm’s length transaction.

In cases where quotation value is not available, fair value is determined based on the quotation value of a financial instrument with similar characteristics, the present value of expected cash flows or other valuation techniques, which are significantly affected by different assumptions used. Even though Management uses its best criteria to estimate the fair value of its financial instruments, there are weaknesses inherent to any valuation technique. As a result, fair value may not be an approximate estimate of the net realizable value or settlement value.

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

(a) Assets and liabilities whose fair value is similar to their carrying amount

This assumption is applicable to those assets and liabilities with current maturities, agreed at a variable rate, and those which the SBS determined that their fair value is equivalent to their carrying amount by virtue of Multiple Official Letter No. 43078-2014-SBS.

(b) Assets and liabilities at fixed rate

The projection method of future cash flows discounted at market rates is used for instruments with similar characteristics.

(c) Assets and liabilities measured at fair value

There are three levels for fair value measurement:

Level 1: For instruments quoted in active markets, fair value is determined considering the observable price in those markets and for instruments whose market quotation is not available but the quotation of their components is available, fair value will be determined based on relevant market prices of those components.

Level 2: For instruments quoted in non-active markets, fair value is determined through a valuation technique or model, which uses market observable data to the best extent possible and minimizes internally calculated inputs.

Level 3: For unquoted instruments, 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 quotations or the quotations of underlying items (sovereign risk rate) as of the date of the consolidated financial statements.

For derivative financial instruments, fair value is determined by using valuation techniques.

Carrying amount and fair value of financial assets and liabilities

Taking into account fair value considerations above and Multiple Official Letter No. 43078-2014-SBS, under which the SBS determined that the fair value of loans and deposits is equivalent to their carrying amount, as of December 31, 2016 and 2015, the carrying amount and fair values of financial assets and liabilities are as follows:

In thousands of S/	2016		2015	
Fair value and carrying amount	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
ASSET				
Cash and due from banks	20,888,598	20,888,598	23,432,484	23,432,484
Interbank funds	728,080	728,080	363,589	363,589
Investments at fair value through profit or loss	233,153	233,153	94,887	94,887
Equity instruments	8,811	8,811	23,823	23,823
Debt instruments	224,342	224,342	71,064	71,064
Available-for-sale investments	2,882,747	2,882,747	4,720,019	4,720,019
Representative equity instruments	48,347	48,347	48,355	48,355
Representative debt instruments	2,834,400	2,834,400	4,671,664	4,671,664
Held-to-maturity investments	470,686	483,844	462,732	474,365
Loan portfolio	49,955,024	49,955,024	47,848,768	47,848,768
Trading derivatives	838,715	838,715	1,327,552	1,327,552
Hedging derivatives	3,589	3,589	7,467	7,467
Accounts receivable	41,518	41,518	25,432	25,432
Other assets	588,777	588,777	1,132,330	1,132,330
TOTAL	76,630,887	76,644,045	79,415,260	79,426,893
LIABILITY				
Obligations to the public	47,946,804	47,946,804	46,439,852	46,439,852
Interbank funds	-	-	128,015	128,015
Deposits of financial entities and international financial organizations	1,407,661	1,407,661	1,376,558	1,376,558
Due to banks and financial obligations	12,023,795	11,884,410	14,370,386	14,280,022
Trading derivatives	710,588	710,588	1,265,340	1,265,340
Hedging derivatives	161,691	161,691	118,915	118,915
Accounts payable	8,367,216	8,367,216	9,702,873	9,702,873
TOTAL	70,617,755	70,478,370	73,401,939	73,311,575

Financial instruments recorded at fair value and fair value hierarchy

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

In thousands of S/	2016				2015			
	Fair value	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
ASSET								
Investments at fair value through profit or loss	233,153	233,153	-	-	94,887	94,887	-	-
Equity instruments	8,811	8,811	-	-	23,823	23,823	-	-
Debt instruments	224,342	224,342	-	-	71,064	71,064	-	-
Available-for-sale investments	2,878,311	181,752	2,696,559	-	4,716,057	461,215	4,254,842	-
Representative equity instruments	43,911	43,911	-	-	44,392	44,392	-	-
Representative debt instruments	2,834,400	137,841	2,696,559	-	4,671,665	416,823	4,254,842	-
Trading derivatives	838,715	-	838,715	-	1,327,552	-	1,327,552	-
Hedging derivatives	3,589	-	3,589	-	7,467	-	7,467	-
TOTAL	3,953,768	414,905	3,538,863	-	6,145,963	556,102	5,589,861	-
LIABILITY								
Due to banks and financial obligations	7,472,587	-	7,472,587	-	4,948,805	-	4,948,805	-
Trading derivatives	710,588	-	710,588	-	1,265,340	-	1,265,340	-
Hedging derivatives	161,691	-	161,691	-	118,915	-	118,915	-
TOTAL	8,344,866	-	8,344,866	-	6,333,060	-	6,333,060	-

Description of valuation techniques for instruments recorded at fair value

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

25. NON-MONETARY TRANSACTIONS AND STATEMENT OF CASH FLOWS

The most significant investment activity that did not result in cash disbursements, but affected assets and liabilities for the years ended December 31, 2016 and 2015, is summarized below:

In thousands of S/	2016	2015
Assets and liabilities provided by the acquisition of subsidiaries (Note 1(a))		
Loan portfolio	251,257	-
Accounts receivable and others	31,355	-
Financial liabilities, unsubordinated	183,156	-
Accounts payable and others	17,230	-

26. SUBSEQUENT EVENTS

We are not aware of any subsequent event that may have occurred between the closing date and issuance date of these consolidated financial statements, which may significantly affect them, except for the following:

In January 2017, the Bank issued the following bonds, whose principal will be fully amortized at maturity:

In thousands of S/

Type of issuance	Currency	Amount	Term / Maturity	Annual interest rate
Finance lease bonds	S/	200,000	3 years	6.03%