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BBVA BANCO CONTINENTAL AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2017 and 2016

(including Independent Auditors' Report)

(TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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(Translation of a Report originally issued in Spanish)

INDEPENDENT AUDITORS' REPORT

The Shareholders and Directors
BBVA Banco Continental

We have audited the accompanying consolidated financial statements of BBVA Banco Continental (a subsidiary of Banco Bilbao Viscaya Argentaria S.A., an entity established in Spain) and Subsidiaries, which comprises the consolidated statement of financial position as of December 31, 2017, the consolidated statements of income, income and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards established by Superintendencia de Banca Seguros y Administradoras Privadas de Fondos de Pensiones – SBS (the Banking, Insurance and Pension Plan Agency) for financial institutions in Peru, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 Dean's Council of the Peruvian Professional Associations of Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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.

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

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Opinion

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, 2017, their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with accounting standards established by SBS for financial institutions in Peru.

Other Matters

The consolidated financial statements of BBVA Banco Continental and Subsidiaries as of and for the year ended December 31, 2016 were audited by other independent auditors, whose report dated February 17, 2017 expressed an unqualified opinion on those financial statements.

Lima, Peru

February 22, 2018

Caipo y Asociados

Countersigned by:

Eduardo Alejos (Partner)
Peruvian Certified Public Accountant
Registration Number 01-29180

BBVA BANCO CONTINENTAL AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2017 and 2016

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(Translation of Financial Statements originally issued in Spanish)

BBVA BANCO CONTINENTAL AND SUBSIDIARIES
Consolidated Statement of Financial Position
As of December 31, 2017 and 2016

In thousands of soles	***Note***	**2017**	**2016**
Assets			
Cash and due from banks	*5*	15,326,501	20,888,598
Interbank funds		-	728,080
Investments at fair value through profit or loss available-for-sale and held-to-maturity investments	*6*	7,709,116	3,586,586
Loan portfolio, net	*7*	49,996,441	49,955,024
Trading derivatives	*8*	499,288	838,715
Hedging derivatives	*8*	1,191	3,589
Seized, received as payment and awarded assets		207,976	217,944
Investments in associates	*9*	12,226	3,873
Property, furniture and equipment, net	*10*	923,324	893,661
Goodwill	*1.(b)*	5,289	5,289
Deferred tax	*24*	370,701	423,439
Other assets, net	*11*	1,558,746	1,030,471
Total assets		**76,610,799**	**78,575,269**
Risks and contingent commitments	*16*	24,648,941	25,513,948

In thousands of soles	***Note***	**2017**	**2016**
Liabilities and equity			
Obligations and deposits in financial system entities	*12*	49,326,064	49,354,465
Interbank funds		911,486	-
Borrowings and financial obligations	*13*	11,108,707	12,023,795
Trading derivatives	*8*	383,174	710,588
Hedging derivatives	*8*	142,782	161,691
Provisions and other liabilities	*14*	7,079,315	9,338,154
Total liabilities		**68,951,528**	**71,588,693**
Equity	*15*		
Share capital		4,883,119	4,401,368
Reserves		1,383,079	1,249,175
Adjustments to equity		6,387	380
Retained earnings		1,386,686	1,335,653
Total equity		**7,659,271**	**6,986,576**
Total liabilities and equity		**76,610,799**	**78,575,269**
Contingent risks and commitments	*16*	24,648,941	25,513,948

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

(Translation of Financial Statements originally issued in Spanish)

BBVA BANCO CONTINENTAL AND SUBSIDIARIES
Consolidated Statement of Income
For the years ended December 31, 2017 and 2016

In thousands of soles	***Note***	**2017**	**2016**
Interest income	*17*	4,414,802	4,523,769
Interest expenses	*18*	(1,510,015)	(1,622,229)
Gross finance income		**2,904,787**	**2,901,540**
Provisions for direct loans, net of recoveries	*7*	(550,922)	(623,718)
Net finance income		**2,353,865**	**2,277,822**
Income from finance services, net	*19*	794,185	767,341
Finance income net of revenue and expenses for finance services		**3,148,050**	**3,045,163**
Profit or loss from financial operations	*20*	563,791	509,642
Operating margin		**3,711,841**	**3,554,805**
Administrative expenses	*21*	(1,498,943)	(1,530,357)
Depreciation and amortization		(125,057)	(110,061)
Net operating margin		**2,087,841**	**1,914,387**
Valuation of assets and provisions		(151,422)	(104,465)
Operating profit		**1,936,419**	**1,809,922**
Other expenses, net	*22*	(41,885)	(29,874)
Profit before tax		**1,894,534**	**1,780,048**
Income tax	*23*	(505,534)	(441,812)
Net profit		**1,389,000**	**1,338,236**
Basic and diluted earnings per share in *soles*	*25*	**0.2845**	**0.2741**
Weighted average number of shares outstanding (in thousands of shares)	*25*	**4,883,119**	**4,883,119**

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

(Translation of Financial Statements originally issued in Spanish)

BBVA BANCO CONTINENTAL AND SUBSIDIARIES
Consolidated Statement of Income and Other Comprehensive Income
For the years ended December 31, 2017 and 2016

In thousands of soles	**2017**	**2016**
Net profit	1,389,000	1,338,236
Other comprehensive income:		
Gain on available-for-sale investments	8,751	10,631
Unrealized (loss) on cash flow hedges	(723)	1,173
Investments in other comprehensive income of subsidiaries and associates	(13)	56
Other adjustments	(4,042)	-
Income tax related to the components of other comprehensive income	2,034	69
Other comprehensive income for the year, net of income t	**6,007**	**11,929**
Total comprehensive income for the year	**1,395,007**	**1,350,165**

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

(Translation of Financial Statements originally issued in Spanish)

BBVA BANCO CONTINENTAL AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the years ended December 31, 2017 and 2016

In thousands of soles	**Number of shares in thousands (note 15.B)**	**Share capital (note 15.B)**	**Reserve** Legal (note 15.C)	**Reserve** Voluntary	**Adjustments to equity (note 15.D)**	**Retained earnings (note 15.E)**	**Total equity**
Balance as of January 1, 2016	3,784,146	3,784,146	1,111,786	-	(11,549)	1,371,790	6,256,173
Net profit	-	-	-	-	-	1,338,236	1,338,236
Other comprehensive income:							
Net unrealized gain on available-for-sale investments	-	-	-	-	11,013	-	11,013
Net unrealized gain on cash flow hedging derivatives	-	-	-	-	800	-	800
Investments in other comprehensive income of associates	-	-	-	-	116	-	116
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**11,929**	**1,338,236**	**1,350,165**
Changes in equity (not included in comprehensive income):							
Dividends	-	-	-	-	-	(617,222)	(617,222)
Capitalization of retained earnings	617,222	617,222	-	-	-	(617,222)	-
Transfers to reserves and other movements	-	-	137,306	83	-	(139,929)	(2,540)
Balance as of December 31, 2016	**4,401,368**	**4,401,368**	**1,249,092**	**83**	**380**	**1,335,653**	**6,986,576**
Balance as of January 1, 2017	4,401,368	4,401,368	1,249,092	83	380	1,335,653	6,986,576
Net profit	-	-	-	-	-	1,389,000	1,389,000
Other comprehensive income:							
Net unrealized gain on available-for-sale investments	-	-	-	-	9,246	-	9,246
Net unrealized loss on cash flow hedging derivatives	-	-	-	-	(509)	-	(509)
Investments in other comprehensive income of associates	-	-	-	-	120	-	120
Other adjustments	-	-	-	-	(2,850)	-	(2,850)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**6,007**	**1,389,000**	**1,395,007**
Changes in equity (not included in comprehensive income):							
Dividends	-	-	-	-	-	(722,502)	(722,502)
Capitalization of retained earnings and reserves	481,751	481,751	-	(83)	-	(481,668)	-
Transfers to reserves and other movements	-	-	133,987	-	-	(133,797)	190
Balance as of December 31, 2017	**4,883,119**	**4,883,119**	**1,383,079**	**-**	**6,387**	**1,386,686**	**7,659,271**

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

(Translation of Financial Statements originally issued in Spanish)

BBVA BANCO CONTINENTAL AND SUBSIDIARIES
Consolidated Statement of Cash Flows
For the years ended December 31, 2017 and 2016

In thousands of soles	**2017**	**2016**
Reconciliation of net profit with cash and cash equivalent from operating activities		
Net profit	1,389,000	1,338,236
Adjustments		
Depreciation and amortization	125,058	110,061
Provisions	702,343	711,454
Other adjustments	547,653	414,822
Net changes in assets and liabilities:		
Loans	(1,115,605)	(2,885,906)
Investments at fair value through profit or loss	(3,965,843)	(138,266)
Available-for-sale investments	973,597	1,851,064
Other accounts receivable and others	4,128,185	2,397,229
Non-subordinated financial liabilities	856,448	(382,320)
Accounts payable and others	(2,696,602)	(2,341,849)
Profit or loss for the year after net changes in assets, liabilities and adjustments	**944,234**	**1,074,525**
Current tax	(738,492)	(519,398)
Net cash flows from operating activities	**205,742**	**555,127**
Cash flows from investing activities		
Purchase of intangible assets and property, furniture and equipment	(247,518)	(187,841)
Other inflows related to investing activities	-	(98,061)
Other outflows related to investing activities	45,572	27,033
Net cash flows used in investing activities	**(201,946)**	**(258,869)**
Cash flows from financing activities		
Redemption of subordinated financial liabilities	(64,820)	-
Other inflows related to investing activities	508,600	-
Other outflows related to investing activities	(200,000)	-
Dividends paid	(722,004)	(616,067)
Net cash flows used in financing activities	**(478,824)**	**(616,067)**
Net decrease of cash and cash equivalent before the effect of exchange rate fluctuations	**(475,028)**	**(319,809)**
Effect of exchange rate fluctuations on cash and cash equivalents	(589,815)	(315,866)
Net decrease in cash and cash equivalents	**(1,064,843)**	**(635,675)**
Cash and cash equivalents at beginning of year	14,652,430	15,270,159
Cash and cash equivalents at end of year	**13,587,587**	**14,652,430**
Security funds	4,280,161	7,905,772
Interbank funds	-	(728,080)
Investments with a maturity of less than 90 days	(2,541,247)	(941,524)
Cash and due from banks as per the statement of consolidated financial position (note 5)	**15,326,501**	**20,888,598**

The accompanying notes on pages 6 to 76 are part of these consolidated financial statements.

1. Reporting Entity

A. Background

BBVA Banco Continental S.A. (hereinafter 'the Bank') is a subsidiary of Newco Perú S.A.C. (entity incorporated in Peru), which holds 46.12% of its share capital as of December 31, 2017 and 2016. Banco Bilbao Vizcaya Argentaria S.A. (hereinafter BBVA S.A.) holds 100% of the shares of Newco Perú S.A.C.

B. Economic activity

The Bank is a public corporation established in 1951, and it was authorized to operate as a banking entity by Superintendencia de Banca Seguros y Administradoras Privadas de Fondos de Pensiones (Banking, Insurance and Pension Plan Agency, hereinafter "SBS").

The Bank's operations mainly comprise financial intermediation, which consists of full-functional banking activities that are regulated by SBS through the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la SBS, Law 26702 and its amendments (hereinafter 'the Banking Law'). This law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions that legal entities operating in the financial and insurance system are subject to.

The Bank's legal domicile and headquarters' address is Av. República de Panamá Nº 3055, San Isidro.

As of December 31, 2017 and 2016, the Bank develops activities through a national network of 332 and 334 offices, respectively. As of December 31, 2017 and 2016, the total number of employees of the Bank is 5,666 and 5,570, respectively.

The Bank has shareholding with 100% voting rights over its 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. (the last three since April 2016). Although the Bank does not have any equity interest in capital nor the voting rights over Continental DPR Finance Company (DPR), given the characteristics of its corporate purpose and its relationship with the Bank, the accounting standards that regulate the Bank require that the financial statements of DPR be included on the consolidated basis with those of the Bank (all these companies shall be hereinafter referred to as 'Continental Group').

Change of parent company

On July 1, 2016, 50% of the equity block of Holding Continental S.A. was split off in favor of Newco Perú S.A.C. As a result, BBVA S.A. holds 46.12% of the Bank's shares through Newco Perú S.A.C., while Inversiones Breca S.A. holds 46.12% of the Bank's shares through Holding Continental S.A. This transition was authorized by SBS through SBS Resolution 3304-2016 dated June 15, 2016.

Acquisition of subsidiaries

On April 6, 2016, the Bank acquired 51.68% of the shares of BBVA Consumer Finance EDPYME, Forum Comercializadora del Perú S.A. and Forum Distribuidora del Perú S.A. On April 29, 2016, it acquired the remaining 48.32%.

The acquisition value of the aforementioned entities s is as follows:

In thousands of soles	**Acquisition value**	**Investments**
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%
	105,461	

The assets, liabilities and equity of entities acquired as of March 31, 2016 are the following:

In thousands of soles	**Assets**	**Liabilities**	**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 highest value paid on the carrying amounts of entities acquired, and corresponds to the expected value of the acquired business.

In August and December 2016, the Bank reviewed the deferred tax asset for tax loss carry forwards and temporary items for "dealer" fees in Forum Comercializadora del Perú S.A. and BBVA Consumer Finance EDPYME. The Bank determined a lower deferred tax asset of S/ 2 million and S/ 3 million, respectively. Consequently, an increase in goodwill for S/ 5 million was generated. As of December 31, 2016, the balance was of S/ 10 million.

Furthermore, the Bank, as the main shareholder of Forum Comercializadora del Perú S.A., agreed to reduce its share capital by S/ 7 million at the General Shareholders' Meeting dated April 29, 2016.

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

C. Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2017 were approved by the Bank's management, and will be submitted for approval to the Board of Directors' and the General Shareholders' Meeting within the term established by law. In management's opinion, these consolidated financial statements will be approved without amendments by the Board of Directors and General Shareholders' Meeting. On March 30, 2017, the consolidated financial statements as of December 31, 2016 were approved by the General Shareholders' Meeting.

2. Basis of Preparation of the Consolidated Financial Statements

A. Statement of compliance

The consolidated financial statements have been prepared and presented according to the current legal regulation and Peruvian GAAP applicable to Financial System entities, which comprise the accounting standards and practices authorized by SBS. These standards are included in the Accounting Manual for Financial System Entities (hereinafter 'Accounting Manual') approved by SBS Resolution 895-98 dated September 1, 1998 effective January 1, 2001, and supplementary standards and amendments.

SBS has established that, for situations not addressed in such standards, the regulations set forth in the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and officialized by the Peruvian Accounting Board (CNC, for its Spanish acronym) will be applied: Peruvian GAAP.

Peruvian GAAP comprise: the Standards and Interpretations issued or adopted by the International Accounting Standards Board (IASB), which include the 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 Interpretations Committee (SIC) adopted by the IASB and made official by the CNC for their application in Peru.

(i) New accounting pronouncements not yet adopted

The following standards and amendments have been published for application to periods beginning after the presentation date of these consolidated financial statements:

Standards, Interpretations and Amendments	Mandatory application
IFRS 9: Financial instruments	For annual periods beginning on or after January 1, 2018.
IFRS 15: Revenue from contracts with customers.	For annual periods beginning on or after January 1, 2018.
IFRS 16: Leases.	For annual periods beginning on or after January 1, 2019.
IFRIC 22: Foreign currency transactions and advance consideration.	For annual periods beginning on or after January 1, 2018.
IFRIC 23: Uncertainty over income tax treatments.	For annual periods beginning on or after January 1, 2019.
Amendments to IFRS 2: Classification and measurement of share-based payment transactions	For annual periods beginning on or after January 1, 2018.
Amendments to IAS 40: Classify the requirements of transfers from and to investment properties.	For annual periods beginning on or after January 1, 2018.
Sale or contribution of assets between an investor and its associate or joint venture (Amendment to IFRS 10: Consolidated financial statements and IAS 28: Investment in associates and joint ventures).	The effective date of this amendment has been deferred indefinitely.

Management considers that the impact of these standards would not be significant for the consolidated financial statements of the Bank and Subsidiaries, in the event that such standards were adopted by SBS.

(ii) Resolutions and Standards issued by CNC with respect to the approval and adoption of IFRS in Peru

As of the date of the consolidated financial statements, the CNC issued:

- Resolution 005-2017-EF/30 on January 15, 2018 making official the postponement of the application of IFRS 15 Revenue from Contracts with Customers to January 1, 2019.

- Resolution 002-2017–EF/30 on April 28, 2017 making official the Annual Improvements to IFRSs 2014–2016 Cycle and the Interpretation of IFRIC 22 Foreign Currency Transactions and Advance Consideration.

- Resolution 003-2017-EF/30 on August 23, 2017 making official the 2017 version of the IFRSs (including IAS, IFRS, IFRIC and SIC).

As indicated in note 2.A, the standards and interpretations referred to above in i) and ii) will only be applicable to the Bank in absence of applicable SBS regulations for situations not addressed in the Accounting Manual. The Bank's management has not determined the effect of these standards on the preparation of its consolidated financial statements because they have not been adopted by SBS.

B. Basis of consolidation

The consolidated financial statements include the financial statements of companies, stated in note 1, that comprise Continental Group, after eliminating the balances and significant transactions carried out among them, and the profits and losses resulting from such transactions. All subsidiaries have been consolidated as from their incorporation or acquisition date.

Subsidiaries are all companies over which the Bank has control and is able to manage their operating and financial policies. The consolidation of subsidiaries ceases as from the date on which the Bank ceases to have control over them.

The following are the main balances of Continental Group as of December 31:

	Assets		Liabilities		Equity	
In thousands of Soles	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Entity						
BBVA Banco Continental	76,591	78,620	68,931	71,631	7,660	6,989
Continental Bolsa Sociedad Agente de Bolsa S.A.(i)	43	38	22	17	21	21
BBVA Asset Management Continental S.A. SAF (ii)	58	54	2	2	56	52
Continental Sociedad Titulizadora S.A. (iii)	3	3	-	-	3	3
Inmuebles y Recuperaciones Continental S.A. (iv)	157	48	4	4	153	44
Continental DPR Finance Company (v)	245	481	245	481	-	-
BBVA Consumer Finance Edpyme (vi)	483	342	419	287	64	55
Forum Comercializadora S.A. (vii)	2	3	-	1	2	2
Forum Distribuidora S.A. (viii)	99	85	81	58	18	27

(i) Continental Bolsa Sociedad Agente de Bolsa S.A. (hereinafter 'Sociedad Agente de Bolsa') is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Sociedad Agente de Bolsa is dedicated to the intermediation of securities, which mainly consists of the purchase and sale of registered securities at the request of customers (brokerage customers), as well as the provision of consulting and information services to investors. In addition, Sociedad Agente de Bolsa carries out operations and renders services that are compatible with intermediation activities in the securities market, which are authorized by the Peruvian Securities Market Regulator (SMV).

(ii) BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos (hereinafter 'Sociedad Administradora') is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Sociedad Administradora is dedicated to the administration of mutual funds and investment funds, which have been authorized to operate by SMV, as well as the purchase and sale of securities. As of December 31, 2017, Sociedad Administradora manages 21 mutual funds of investment securities, 2 private fund investments, and 1 public investment fund.

(iii) Continental Sociedad Titulizadora S.A. (hereinafter “Sociedad Titulizadora”) is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Sociedad Titulizadora undertakes a trustee role in securitization processes, and acquires assets with the purpose of establishing trust equity to back the issuance of credit securities. As of December 31, 2017, Sociedad Titulizadora manages assets in 13 trust equities.

(iv) Inmuebles y Recuperaciones Continental S.A. (hereinafter “IRCSA”) is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. IRCSA is engaged in the trade of movable and immovable assets for its own use or for third parties’ use through the purchase, sale, lease, import and export of such assets. It is also engaged in any other activity related to the above, without limitation. In addition, IRCSA administers the Bank's medical care program.

(v) Continental DPR Finance Company is a special purpose corporation. Its objective is indicated in note 13 (securitization of foreign remittances).

(vi) BBVA Consumer Finance Edpyme (hereinafter "Edpyme"), is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Edpyme is dedicated to financing natural and legal persons that perform qualified activities such as small and micro-business.

(vii) Forum Comercializadora del Perú S.A., is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Forum Comercializadora del Perú S.A. provides wholesale or retail financing for motor vehicle finance leases.

(viii) Forum Distribuidora del Perú S.A. is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Forum Distribuidora del Perú S.A. provides direct or indirect financing to concessionaires of motor vehicles. It is also dedicated to motor vehicle commercialization, purchase and sale (whether with cash or credit, wholesale or retail), leasing, assignment of use or any other modality allowed under Peruvian laws.

C. Responsibility for information and realized estimates

Management is responsible for the information contained in these consolidated financial statements. For their preparation, certain estimates have been made to quantify some assets, liabilities, equity, revenues, expenses and commitments based on experience and other relevant factors. Final results could differ from those estimates.
These estimates are reviewed on an ongoing basis. Amendments to accounting estimates are recognized prospectively. The related effects are recorded in the accounts of the consolidated statement of income and other comprehensive income, as applicable, as from the year in which the review is done.

The most significant estimates for the elaboration of the consolidated financial statements are as follows:

- Fair value of investments at fair value through profit or loss, available-for-sale investments, held-to-maturity investments and investments subsidiaries and associates.
- Provision for doubtful loans.
- Provision for accounts receivable.
- Provision for seized, received as payment and awarded assets.
- Provision for employee benefits.
- Useful life of property, furniture and equipment, and intangible assets.
- Provision for contingent assets and liabilities.
- Provision for current and deferred income tax.
- Fair value of derivative financial instruments.
- Impairment of non-monetary assets.
- Goodwill.

D. Functional and presentation currency

The consolidated financial statements are presented in *soles* (S/), which is the currency of the main economic environment in which it operates, and the currency that has influence on its transactions and services, among other factors.

E. Transactions in foreign currency

Transactions in foreign currency are recorded upon initial recognition by using the functional currency. To that effect, the amounts in foreign currency are translated to a functional currency by applying the exchange rate ruling at the transaction date, which is when all conditions are met for its recognition.

At the closing of each reporting date, the following guidelines are followed:

- Monetary assets and liabilities are translated at the exchange rate as from the closing of the reporting date.

- Non-monetary assets and liabilities not valued at fair value are translated at the exchange rate of the transaction date.

- Non-monetary assets and liabilities valued at fair value are translated at the exchange rate as from the date in which the fair value was calculated.

The recognition of the exchange difference is subject to the following guidelines:

- The exchange difference arising when non-monetary assets and liabilities are settled, or when converting such items at exchange rates other than those used in their initial recognition, which have been produced during the year or in previous periods, are recognized in the consolidated profit or loss of the year in which they occur.

- When a non-monetary item is booked in the consolidated other comprehensive income, any exchange difference generated by that non-monetary item should be recognized in the consolidated other comprehensive income.

- For non-monetary items, whose loss or gain is recognized in the consolidated profit or loss for the year, any exchange difference, included in this profit or loss, is also recognized in the consolidated profit or loss for the year.

3. Accounting Principles and Practices

The main accounting principles and practices applied to prepare Continental Group's consolidated financial statements, which have been consistently applied in previous periods unless otherwise indicated, are the following:

A. *Financial instruments*

Financial instruments are classified as assets, liabilities, or equity according to the substance of the contract that gave rise to the financial instrument. Interest, dividends, gains and losses generated by a financial instruments, classified either as an asset or a liability, are recorded as income or expense in the consolidated income statement.

Financial instruments are offset when, and only when, Continental Group currently has a legally enforceable right to set off the amounts, and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Classification of financial instruments

Continental Group records its financial instruments on the trade date according to SBS' regulations, and they are classified 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.

(i) Financial assets

Loans and receivables
This category includes financial assets whose cash flows have a fixed or determinable amount, and through which all the expenditure made will be recovered, excluding the reasons deriving from the debtor's insolvency. This category will include investment from typical credit activity and cash amounts available and to be amortized by clients for borrowings or deposits made in other institutions, regardless of their legal implementation, as well as the debts incurred by purchasers of real estate or service users considered as part of Continental Group's business.

Loans and accounts receivable are initially recorded on the basis of historical cost, based on the impairment of the debtor's creditworthiness. Accrued interest of financial assets and impairment losses are recorded in the consolidated income statement.

Financial assets at fair value through profit or loss
These financial assets are held for the purpose of selling in the near term, have a pattern of short-term profit-taking or have been designated in this category upon initial recognition. These assets are initially measured at fair value less transaction costs related to these investments, which are recorded as expenses.

They are subsequently measured at fair value, and any gain or loss arising from the valuation or sales of these financial assets is recorded in profit or loss of the year.

Held-to-maturity financial assets
This category includes all the investment instruments that fulfill the following requirements: (i) they have been acquired or reclassified with the intention to hold them to maturity for which they shall have the financial ability to hold the investment instrument to maturity; and (ii) they should be rated by at least two local or foreign risk rating agencies, and the ratings should be within the parameters established by SBS. These requirements do not apply to instruments of Central Banks from countries whose sovereign debt obtains as minimum the rating corresponding to the Peruvian sovereign debt.

As per SBS Resolution 7033-2012 *Regulations for the Classification and Valuation of Investments of Financial System Entities*, these financial assets are initially recorded at fair value including transaction costs directly attributable to their acquisition.

These financial assets are subsequently measured at amortized cost using the effective interest rate method. Any impairment loss is recorded in the consolidated profit or loss of the year.

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

As per SBS Resolution 7033-2012 *Regulations for the Classification and Valuation of Investments of Financial System Entities*, these financial assets are initially recorded at fair value including transaction costs directly attributable to their acquisition. The subsequent measurement of these financial assets is done at fair value. Any gain or loss arising from changes in fair value of the investment instrument classified in this category is directly recognized in equity (consolidated income statement and other comprehensive income) until the instrument is sold or realized, at which time any gain or loss that could have been previously recognized will be transferred and recorded in the consolidated profit or loss for the year, except for impairment losses which are recorded in profit or loss when they occur.

(ii) Financial liabilities

Liabilities at amortized cost and at fair value
This category comprises obligations, deposits with financial system entities, borrowings, securities and bonds (corporate, subordinate and finance lease bonds, and certificates of deposit). Borrowings, securities and bonds are recorded at amortized cost using the effective interest rate method. The amortized cost is calculated considering any discount or issuance premium. Costs that are an integral part of the effective interest rate are amortized during the validity period of the related liabilities. Accrued interest is recognized in the consolidated income statement.

Financial liabilities are classified as financial liabilities at fair value through profit or loss when they are held with the purpose of selling, or when they have been designated upon initial recognition to be measured at fair value through profit or loss.

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

- Acquired or incurred principally for the purpose of repurchasing it in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- A derivative that is not a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than those held for trading may be classified as financial liability at fair value through profit or loss:

- If by doing so, the Bank eliminates or significantly reduces a measurement or recognition inconsistency; or
- When the financial liability forms part of a group of financial assets and/or financial liabilities managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy of Continental Group, and information about the assets and/or liabilities is provided internally on that basis; or
- When the financial liability forms part of a contract containing one or more embedded derivatives, and IAS 39 allows the entity to designate the entire hybrid contract (combined) as a financial asset or financial liability at fair value through profit or loss unless.

Financial instruments at fair value through profit or loss are measured at fair value. Gains or losses from changes in the fair value of these liabilities are recognized in 'Profit or loss from financial operations' of the consolidated income statement.

By means of SBS Resolution 975-2016 dated February 24, 2016, SBS approved the Regulation for subordinated debt applicable to financial system entities. The most relevant changes are as follows:

The subordinate debt accounted for as Tier 1 capital must be perpetual (original date of maturity of more than 60 years) and should not have a step-up. This change is applicable to the subordinate debt issued as from January 1, 2017. For the subordinate debt issued before the entry into effect of this regulation, the debt will continue to be calculated as Tier 1 capital, and will be subject to an annual discount of 10% as from January 2017. The Tier 1 amount that cannot be accounted for in Tier 1 capital will be included as a Tier 2 hybrid instrument as long as it fulfills the requirements set out in this regulation.

Likewise, this regulation establishes the minimum threshold over which the mechanism of loss absorption is activated (inherent to all subordinate debts); to this effect, the concept of adjusted effective equity is introduced. This mechanism of loss absorption considers the capitalization of the subordinate debt or the forgiveness of the debt (temporary or permanent).

Other liabilities
This category comprises accounts payable to suppliers, various accounts payable, dividend payables, shares, remunerations, obligations with the deposit insurance fund and obligations with tax collection entities, among others. These items are initially recognized at fair value and they valued at its amortized cost.

(iii) Derecognition of financial assets and liabilities
Derecognition of financial assets originates when the risks and benefits are transferred to a third party. In addition, derecognition of financial assets occurs when contractual obligations are discharged or cancelled, or expire. The gain or loss resulting from the derecognition of financial assets or liabilities is recorded in the consolidated income statement.

Continental Group derecognizes a financial asset when, and only when the contractual rights of receiving the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred to another entity. The Bank derecognizes a financial asset when, and only when, it expires, it is cancelled or fulfills Continental Group's obligations.

Gains arising from the transfer of the loan portfolio are recognized as income; however, for financed transfers or transfers through swaps, these gains are recognized as deferred income, which is accrued based on the monetary income obtained from the realization of the assets received through swaps, or in proportion to the perception of the payment made by the acquirer of the loan portfolio transferred. Losses arising from the transfer are recognized at the moment of the transfer.

(iv) Impairment of financial assets
Impairment of financial assets and the respective provisions are evaluated and recorded by the Bank according to SBS' regulations. Impairment loss is recognized in the statement of profit or loss.

B. Investments in associates
This account comprises shares representing capital acquired to maintain an important influence. As per the Accounting Manual, these investments are initially accounted for at cost of acquisition, and they are subsequently valued by applying the equity method.

C. Provisions for doubtful loans

The provision for doubtful loans is determined in accordance with the criteria and percentages set forth in SBS Resolution 11356-2008, Regulation for the Assessment and Classification of Debtor and Requirements of Provisions.

SBS has established quantitative and qualitative criteria (level of sale and indebtedness in the financial system) to classify, by type and by category, the direct and indirect loan portfolio in accordance with the following:

- Corporate
  This category includes:

  (a) Multilateral development banks
  (b) Sovereigns
  (c) Public sector entities
  (d) Stock brokers
  (e) Financial System Entities

- Large business loans
- Medium business loans
- Small business loans
- Micro-business loans
- Revolving consumer loan
- Non-revolving consumer loan
- Mortgages for housing

Provisions for indirect doubtful loans are calculated after adjusting the balances in order to apply the following factors of loan conversion:

	Type of indirect loan	**Loan conversion factor (%)**
(a)	Confirmations of irrevocable letters of credit of up to one year, when the issuing bank is a first-level entity from a foreign financial system.	20
(b)	Issuance of letters of guarantee that support the obligations to do or not to do.	50
(c)	Issuance of guarantees, import letters of credit, and letters of guarantee not included in subparagraph (b) above, and confirmation of letters of credit not included in subparagraph (a), as well as bank acceptances.	100
(d)	Granted loans not disbursed and unused credit lines.	-
(e)	Other indirect loans not covered in the previous paragraphs.	100

Debtors are classified, and provisions are recorded according to the following categories: standard, with potential problems, substandard, doubtful and loss.

The provision for doubtful loans includes a specific and a general portion. The specific provision for doubtful loans is calculated on the basis of percentages established by SBS, which vary depending on the debtor's classification and the type of guarantee received.

The general provisions include those established preventatively based on debtors classified in the standard category in accordance with SBS' requirements, as well as general voluntary provisions.

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

Voluntary general provisions have been determined by the Bank and the Edpyme based on the economic situation of debtors within the refinanced and restructured loan portfolio, on previous experience and other factors that, in management's opinion, making it worth to recognize possible losses in the loan portfolio. The amount of the voluntary general provision is reported to SBS.

Management reviews and analyzes the non-retail loan portfolio (loan granted to corporate, large business and medium business debtors) classifying debtors and making a provisions for them according to their cash flows, global indebtedness with third parties and level of compliance with the payment of such debts. Retail loan portfolio (loans granted to small business, micro-business, revolving consumer non-revolving consumer and housing mortgage loans) is classified a provisioned in accordance with the delay in loan payments and takes into account the classification of debtors by other financial entities. Additionally, pursuant to SBS Resolution 041-2005 and its amendment, the Bank and the Edpyme assess the exposure to currency-induced credit risk from loans in foreign currency.

The minimum required percentages for the establishment of loan provisions are as follows:

Standard category

Type of credit	Fixed component (%)	Procyclical component (%)
Corporate	0.70	0.40
Corporate loans with readily realizable guarantee	0.70	0.30
Large business loans	0.70	0.45
Large businesses with readily realizable guarantee	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 loan	1.00	1.50
Non-revolving consumer loan	1.00	1.00
Consumer loans under eligible agreements	1.00	0.25
Mortgage loans for housing	0.70	0.40
Mortgage loans for housing with readily realizable guarantee	0.70	0.30

As of December 31, 2017 and 2016, the pro-cyclical rule of the provision for the loan portfolio is deactivated as per Official Letter SBS B-2224-2014.

Other categories and per type of guarantee

Risk category	Without guarantee (%)	Preferred guarantee (%)	Preferred easily realizable 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

D. Financial lease loan portfolio
Financial lease operations are recorded as loans in accordance with SBS rules and IAS 17 *Leases*. The initial recording of transactions is made based on the expenditure value of the operation (net investment net in lease).

E. Financial derivative instruments
In accordance with SBS Resolution 1737-2006 Regulation for Trading and Accounting of Derivative Products in Financial System Entities and its amendments, derivative financial instruments are recorded on the trade date.

Trading
Financial derivatives are initially recognized at cost in the consolidated statement of financial position, and subsequently maintained at their fair value.

In the case of foreign currency forwards, interest rate swaps, currency swaps and currency options are recorded at their estimated market value, recognizing an asset or a liability in the consolidated statement of financial position, as applicable. Any gain or loss from the valuation or settlement of the financial derivatives is recorded in the consolidated profit or loss for the year. The face value of financial instruments is recorded in their corresponding engaged or agreed currency in the contingent and/or memorandum accounts (note 8 d).

Hedging
A derivative instrument that seeks to provide financial hedging of a risk is designated in books as a derivative for hedging purposes if, at the moment of trading, it is expected that changes in its fair value or cash flows will be highly effective in achieving offsetting changes in its fair value or cash flows of the item hedged directly attributable to the risk hedged from the beginning. This should be documented from the inception of negotiation of the derivative instrument and during the period of the hedging relationship. According to SBS Resolution 1737-2006 and its amendments, a hedging is considered to be highly effective if it is expected that changes in fair value or in cash flows of the respective hedged instrument and the instrument used for hedging are within a range of 80-125%.

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

(i) Fair value hedges

Changes in the fair value of the hedged derivative financial instrument and hedge item, as from the moment that the hedge is designated and considered effective, are recorded in the consolidated income statement.

Changes in the fair value of the hedge item (gain or loss from valuation) are recorded as accounts receivable or accounts payable, as applicable, in the consolidated statement of financial position.

(ii) Cash flow hedges

A hedged derivative financial instrument is valued and recognized at fair value, and might have an impact on equity and profit or loss accounts. The effective part of the adjustment at fair value is recognized in equity accounts (consolidated income statement and other comprehensive income), while the ineffective part is recognized in the consolidated income statement.

For both types of hedge, if the derivative expires, is terminated or exercised, or no longer meets the criteria for hedging accounting, the hedging relation must be discontinued prospectively and the balances recorded in the consolidated statement of financial position and in the consolidated income statement and other comprehensive income, as applicable, are transferred to the consolidated income statement in the validity term of the hedged item.

F. Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units that are expected to benefit from the synergies of the business combination. A cash generating unit to which the acquired goodwill has been allocated should be tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the generating unit is lower than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit, and then the rest of the assets of the unit pro rata on the basis the carrying amounts of each one of the unit's assets. Any goodwill impairment loss is recognized against the gain or loss of the period in which it is produced. An impairment loss recognized in the acquired goodwill is not reversed in subsequent periods.

The Bank has evaluated whether the recoverable value of its cash-generating units is higher than its carrying amounts, including goodwill. Therefore, as of December 31, 2017, the Bank has not recognized any impairment losses of goodwill.

G. Business combinations

Business combinations are accounted for using the acquisition method. The transferred consideration in a business combination is measured at fair value (calculated by adding the fair values at the acquisition date of the assets transferred to the acquirer, the liabilities assumed by the acquirer from former owners of the acquired consideration, and the investments in equity issued by the acquirer during the exchange of the acquiree's control. Costs relating to acquisitions are generally recognized in the consolidated profit or loss when incurred.

On the acquisition date, identifiable acquired assets and liabilities assumed are recorded at fair value, except for the asset or liability deferred taxes, and the assets or liabilities related to employee benefits agreements, which are recognized and measured pursuant to IAS 12 and IAS 19, respectively.

Goodwill is measured as the excess of the transferred consideration on the net fair value, at the acquisition date, of identifiable assets of the acquired entity, and contingent assets and liabilities.

H. Property, furniture and equipment

The property, furniture, and equipment are recorded at the historical cost, which includes the expenditures attributable to its acquisition. They are presented net of depreciation and accumulated impairment losses, if any. Amortization is recognized as an expense, and is calculated on the cost using the straight-line method based on the estimated useful life of assets. It is represented by equivalent depreciation rates according to the following table:

	Years
Buildings and facilities	33 and 10
Premises and improvements in leased property	10
Furniture and equipment	10 and 4
Vehicles	5

Expenditures incurred after a fixed asset has been put into use are capitalized as an additional cost of that asset, only when they can be measured reliably, and it is probable that such expenditures result in future economic benefits exceeding the normal yield originally evaluated for that asset. Expenditures incurred for maintenance and repair are recognized as expenses during the period as incurred. The cost and accumulated depreciation of assets disposed of or sold are eliminated from their respective accounts, and any resulting gain or loss is included in the consolidated income statement.

Banks are not allowed to apply the assessment model as the only model accepted for subsequent recognition is the cost model. Also, they are not allowed to provide the goods of its fixed assets as guarantee, except for those acquired in financial lease operations.

I. Seized, received as payment and awarded assets

Seized, received as payment and awarded assets are recorded at the judicial award, extra-judicial or agreed value in the payment in kind contract. Recovered goods due to contract resolution, if any, are initially recorded at the lowest amount resulting from the comparison between the debt unpaid balance and the net realizable value. Should the unpaid balance of the debt be higher than the balance of the recovered good, the difference is recognized as a loss, provided that its recovery is unlikely.

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

- 20% of the value on the award or recovery date for all goods received.
- For real estate, a monthly impairment provision is recorded, over a 42-month term, on the net value during the 12th or the 18th month of its award or recovery, depending on whether an extension by SBS is granted, and until 100% of the asset's carrying amount is completed. Every year the net carrying amounts of real estate is compared with the realization value determined by a qualified independent appraiser, and in if this value is lower, an impairment provision is recorded.
- For assets other than real estate, a provision for the remaining balance is made, in a term not exceeding 18 or 12 months, depending on whether an extension by SBS is granted.

J. Intangible assets

Intangible assets with finite useful lives acquired separately are recognized at their acquisition cost less accumulated amortization and any accumulated impairment loss recognized. Amortization is recognized as an expense, and is determined following the straight-line method based on the estimated useful life of assets. Useful life has been estimated between 1 and 5 years.

Costs related to the development or maintenance of software are recognized as expense when incurred. Costs of development and costs related to a single and identifiable software, that will probably generate future economic benefits, are considered as intangible assets.

K. Non-current held-for-sale assets

Non-current held-for-sale assets are presented in the consolidated statement of financial position within the other assets, and they are measured at the lower of carrying amount and fair value less costs to sell. Non-current held-for-sale assets are classified as held-for-sale when: its disposal is highly probable; they are available for immediate sale; management is committed to a plan to sell, and it is expected that the sale meets the necessary requirements for its recognition within the year following the classification date.

L. Impairment of non-financial assets

When there are events or circumstantial economic changes indicating that the value of a long-lived asset might not be recoverable, management reviews the carrying amount of these assets at each date of the consolidated statement of financial position. If, upon analysis, the carrying amount exceeds the assets' recoverable value, an impairment loss is recognized in the consolidated income statement. The recoverable amounts are estimated for each asset.

M. Employee benefits

Short-term and long-term employee benefits are accrued according to the following:

Short-term employee benefits

Vacations and other benefits

Annual vacations of personnel, paid absences and other benefits to personnel are estimated on an accrual basis taking into account their probability of reimbursement. The provision for estimated liability resulting from services rendered by employees is recorded on the date of the consolidated statement of financial position.

Severance payment

The provision for severance payment of personnel is made of all the indemnities according to the law in force. Payments made, that are considered definitive, are mainly deposited in the Bank as the financial institution selected by the employee.

Long-term benefits
Long-term post-employment benefits for active and passive personnel of the Bank are primarily related to long-service awards and medical benefits and they are recorded through actuarial calculations made separately. These calculations take into account the future levels of remuneration according to market expectations on the date they will be addressed, the average historic cost of the medical expenses incurred and other considerations adjusted for inflation, as well as its probability of occurrence. All these future cash flows have been deducted considering the market interest rate corresponding to the issuance of high-credit rating bonds.

Profit sharing
The Bank recognizes a liability and a personnel expense upon the basis of 5% of taxable base determined according to the tax legislation in force.

In the case of subsidiaries, according to the legal regulations on this matter, the Bank shall not to determine the employees' profit sharing since the number of employees does not exceed 20, except for Edpyme.

N. Provisions, contingent assets and liabilities

(i) Provisions
A provision is recognized when the Company has a present obligation (legal or constructive) resulting from of a past event; when it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are periodically reviewed and adjusted to reflect the best estimates as of the consolidated statement of financial position. When the effect of the time value of money is material, the value of the provision is the present value of the expenditure required to settle the provision.

(ii) Contingent assets and liabilities
Contingent liabilities are not recognized in the consolidated financial statements, but they are disclosed in notes to the financial statements unless the possibility of an outflow of economic resources is remote. Contingent assets are not recognized in the consolidated financial statements, but are only disclosed in the notes to the consolidated financial statements when it is probable that an inflow of resources will 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 that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the consolidated financial statements in the period when it is determined that an inflow of resources is certain to occur.

O. Share-based payment arrangements

A group of employees is subject to Directive 2013/36/UE of the European Parliament, which establishes the limits to the variable remuneration in relation to the fixed remuneration. This settlement and payment system of the annual variable remuneration (hereinafter 'the System') corresponds to those employees that have a significant impact on the risk profile of the Bank or that perform control duties. These employees are subject to the following rules:

- At least 50% of the total variable remuneration is settled in cash and, subsequently, it will be assigned in shares of BBVA S.A. at the market price of the settlement day. One part is delivered in the year of the settlement, and the balance in up to 3 years.
- The balance of the variable remuneration is settled in cash. One part is delivered in the year of the settlement, and the balance in up to 3 years.
- Likewise, the Bank established assumptions that could limit or prevent, in certain cases, the delivery of the deferred variable remuneration.

The delivered shares will not be available at least for a year, except for the necessary portion to be used in the payment of the corresponding taxes.

The settlement of the system will be done in the first months of the following year. Management has made an estimate of the deferred part as of December 31, 2017 and 2016 in the amount of S/ 12 million and S/ 7 million, respectively.

P. Income and expense recognition

Income and expenses for interests and service fees are recognized in profit or loss for the period as accrued, based on the timing of the operations that generate them.

Interest generated by overdue, refinanced, restructured and under legal collection loans, as well as loans classified in the doubtful and loss category, are recognized in the consolidated income statement when they are collected.

When management considers that the financial position of the debtor has improved and that the doubt about the collectability of the principal has dissipated, the recording on accrual basis is restated.

Other income and expenses are recorded in the year in which they are accrued.

Q. Trust activities

Assets arising from fiduciary activities, where there is a commitment to return those assets to clients and in which the Bank acts as a holder, whether as a trustee or an agent, have been excluded from the consolidated financial statements. Such assets are controlled in the consolidated financial statements separately, and are presented in memorandum accounts.

Sociedad Titulizadora provides safe custody services and administration of trust equities of third parties that give rise to the holding of assets in the name of such third parties. These assets and the results from such assets, according to the current regulation, are shown separately from the financial statements of Sociedad Titulizadora.

R. Consolidated statement of income and other comprehensive income, and consolidated statement of changes in equity

The consolidated statement of income and other comprehensive income includes unrealized results of available-for-sale investments and the valuation of cash flows hedging derivatives. Deferred income tax related those these items is treated according to what is stated in the relevant note (note 24).

The consolidated statement of changes in equity shows the consolidated profit or loss of the year, the other comprehensive income for the year, the accumulated effect of the change in accounting policies or error correction, if any, changes in the transactions with shareholders, payment of dividends and capital contributions, as well as the reconciliation between the initial and final balance, while disclosing each movement or change.

S. Cash and cash equivalents

Cash and cash equivalents presented in the consolidated statement of cash equivalents include cash and due from banks (excluding security funds), interbank funds as well as cash equivalents that correspond to short-term and high-liquidity financial investments. The latter are easily converted to a specific amount of cash, and are subject to an insignificant risk of changes in value. They have maturity of less than 90 days as from the acquisition date.

According to SBS' stipulations, Continental Group prepares and presents this statement by using the indirect method.

In the consolidated statement of financial position, bank overdrafts are reclassified as liability.

T. Provision for current and deferred income tax

Current and deferred income taxes are recognized in profit or loss, and are included in the consolidated income statement, except when these amounts are related to items that are recognized directly in equity accounts. If this is the case, the current and deferred tax is also recognized in equity accounts.

According to the tax law in force, current tax is determined by applying the tax rate on the net taxable income of the period (29.5% and 28% for years 2017 and 2016, respectively). Current tax is recognized as an expense (note 23).

The deferred tax liability is recognized for all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying values, without considering the moment in which the temporary differences that gave rise to it may be reversed. The deferred tax asset is recognized for deductible temporary differences arising between the tax bases of assets and liabilities and their carrying values, to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The asset and liability are measured at the income tax rate expected to apply on the taxable income for the year in which the liability is settled or the asset is realized. The tax rate used, enacted or substantively enacted, is effective from the date of the consolidated statement of financial position (note 24).

As of December 31, 2016, as a result of the increase of the income tax rate from 2017 onwards (notes 23 and 24), Continental Group modified the rate applicable to temporary items of the deferred tax of 27% to 29.5%. The positive adjustment to the deferred tax was of S/ 35 million and was recorded in the consolidated income statement for the year.

U. Provision for country risk

The provision for country risk is calculated, as per SBS Resolution 7932-2015, based on the difference between the maximum provisions based on the nature of the active operation and those provisions determined by the above-mentioned resolution.

This resolution establishes that financial system entities shall classify the countries with which they hold exposure in 8 categories of country risk in ascending order, based on a more conservative external classification of sovereign bonuses. The external classification shall have been dictated by renowned international agencies.

The calculation of provisions for country risk will be made according to the country risk category with which the company holds exposure, as applicable, as per the percentages of the table below:

	Provision for country risk (exposure as % of the Continental Group's effective equity)		
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%

V. Distribution of dividends

Distribution of cash dividends is recognized as a liability in the consolidated financial statements in the year in which dividends are approved by Continental group’s stockholders.

W. Basic and diluted earnings per share

Basic earnings per common share are calculated by dividing the net profit for the period attributable to common shareholders by the weighted average number of common shares outstanding during the year. Because the Bank does not have any financial instruments with a dilutive effect, the basic and diluted earning per share is the same.

Since Sociedad Agente de Bolsa only acts as administrator of the clients' funds, cannot make use of these resources. There is therefore a commitment to return them to the clients. These resources do not belong to Sociedad Agente de Bolsa, and are registered in their control accounts.

X. Intermediation activities

Intermediation activities on behalf of third parties correspond to purchase-sale operations carried out in the stock market and over-the-counter market, and under specific instructions from clients to Sociedad Agente de Bolsa.

In this type of operations, clients transfer funds to Sociedad Agente de Bolsa so that it can settle the operations according to clients' instructions.

Y. Recent norms issued by the regulator

In 2017, SBS published, among others, important standards which are stated below:

- By means of Official Letter 10250-2017-SBS, dated March 16, 2017, SBS empowers financial entities to modify the contractual conditions of the different loan modalities of retail debtors that are located in state-of-emergency zones, provided that they meet the conditions established in said document.

- By means of SBS Resolution 930-2017 dated March 1, 2017, SBS extends the exceptional treatment regarding the postponed possession of awarded and recovered assets for entities that require such extension, without SBS' authorization.

- Through SBS Resolution 3274-2017 dated August 18, 2017, the account '5202.30 Credit Cards' was incorporated in the Accounting Manual.

- By means of Official Letter 45825–2016–SBS, dated November 30, 2016, SBS specified that the accounting record of other facilities associated with credit cards differ from other purchases and cash availability in the analytical sub-accounts 'Credit cards for other concepts', and have a term ending at the closing of financial information in March 2017.

4. Balances in Foreign Currency

The consolidated statement of financial position include balances of foreign currency transactions, mainly in U.S. dollars (US$), which are recorded in *soles* (S/) at the exchange rate established by SBS. As of December 31, 2017 and 2016, the exchange rate was US$1 = S/ 3.241 and S/ 3.356, respectively.

Foreign currency transaction within the country and international trade transactions referred to the concepts authorized by Banco Central de Reserva del Perú (Central Bank) are channeled through an interbank foreign exchange market. As of December 31, 2017, the buy and sell exchange rates used were US$ 1 = S/ 3.238 and US$ 1 = S/ 3.245, respectively (US$ 1 = S/ 3.352 buy and US$ 1 = S/ 3.360 sell, as of December 31, 2016).

As of December 31, balances in foreign currency balances stated in thousands of U.S. dollars are summarized as follows:

	2017			**2016**		
In thousands of dollars	**U.S. Dollar**	**Other currencies**	**Total**	**U.S. Dollar**	**Other currencies**	**Total**
Assets						
Cash and due from banks	3,955,621	82,244	4,037,865	5,153,159	101,681	5,254,840
Interbank funds	-	-	-	147,505	-	147,505
Investments at fair value through profit or loss, available-for-sale and held-to-maturity investments	69,447	-	69,447	103,668	-	103,668
Loan portfolio, net	5,285,534	62	5,285,596	4,843,890	8,196	4,852,086
Other assets, net	100,744	3,993	104,737	87,257	3,258	90,515
	9,411,346	**86,299**	**9,497,645**	**10,335,479**	**113,135**	**10,448,614**
Liabilities						
Obligations and deposits in financial system entities	6,027,378	51,995	6,079,373	6,951,741	75,062	7,026,803
Interbank funds	80,010	-	80,010	254,272	1,013	255,285
Borrowings and financial obligations	2,537,291	193	2,537,484	2,847,295	2,788	2,850,083
Provisions and other liabilities	245,235	3,095	248,330	244,165	2,933	247,548
	8,889,914	**55,283**	**8,945,197**	**10,297,923**	**81,796**	**10,379,719**
Net asset position	**521,432**	**31,016**	**552,448**	**37,556**	**31,339**	**68,895**
Derivative financial instruments assets	2,055,380	180,787	2,236,167	2,585,406	478,108	3,063,514
Derivative financial instruments liabilities	2,514,784	215,886	2,730,670	2,521,622	513,268	3,034,890
Net position	**62,028**	**(4,083)**	**57,945**	**101,340**	**(3,821)**	**97,519**

During years 2017 and 2016, were recorded in 'Profit or loss from financial operations' of the consolidated income statement, gains from foreign exchange difference of S/ 387 million and S/ 370 million, respectively, that correspond to the valuation of balances in foreign currency as well as purchase and sale operations of foreign currency (note 20).

The appreciation percentages calculated of *sol* in relation to the U.S. dollar were of 3.43% and 1.61% for years 2017 and 2016, respectively.

5. Cash and due from banks

As of December 31, this caption comprises the following:

In thousands of soles	**2017**	**2016**
Banco Central de Reserva del Perú (a)	6,357,252	8,714,892
Security funds (b)	4,088,612	7,905,772
Cash (a)	2,446,498	2,518,890
Banks and other foreign financial system entities (c)	2,008,656	1,535,291
Banks and other local financial system entities (c)	117,744	67,965
Clearing	102,624	131,184
Other cash and due from banks	205,115	14,604
	15,326,501	**20,888,598**

(a) As of December 31, 2017, funds held in cash and in BCRP include US$ 2,087 thousand and S/ 1,875 million (US$ 2,447 million and S/ 1,726 million as of December 31, 2016) destined to cover the legal cash reserves that the Bank must maintain for deposits and obligations from third parties according to the stipulations of the current legislation. These funds are in the Bank's vaults or deposited in BCRP.

As of December 2017 and 2016, the funds subject to legal cash reserves in local and foreign currency are subject to an implicit rate in local currency of 5% and in foreign currency of 44.33% on the total of obligations subject to legal cash reserves (TOSE, for its Spanish acronym) in local and foreign currency as per BCRP (these funds were subject to an implicit rate in local currency of 6.5% and in foreign currency of 44.33% as of December 31, 2016).

The legal minimum cash reserves amounting to 5% are not interest-bearing. Cash reserves correspond to the additional required reserves in foreign and local currency that accrue interests at a nominal rate established by the BRCP.

(b) This caption corresponds to security funds that supports commitments of currency repurchase with BCRP for US$ 1,262 million (US$ 2,356 million as of December 31, 2016) (note 14(a)).

(c) Deposits in local and foreign banks mainly comprise balances in *soles* and in U.S. dollars, and lower amounts in other currencies, with free withdrawal option and generate interest at market rates.

During 2017 and 2016, interest income from cash and due from banks amounted to S/ 44 million and S/ 25 million, respectively, and were included as interest income in the consolidated income statement (note 17).

6. Investments at Fair Value through Profit or Loss, Available-for-Sale and Held-to-Maturity Investments

As of December 31, this caption comprises the following:

In thousands of soles	**2017**	**2016**
Investments at fair value through profit or loss:		
BCRP certificates of deposit (a)	3,720,682	124,701
Sovereign Bonds of the Republic of Peru (b)	363,445	99,641
Mutual funds (c)	114,868	8,811
	4,198,995	**233,153**
Available-for-sale investments:		
BCRP certificates of deposit (a)	2,662,108	2,696,557
Sovereign Bonds of the Republic of Peru (b)	699,896	104,567
Corporate bonds	105,640	33,276
Shares in local companies (d)	41,656	47,710
Shares in foreign companies	821	637
	3,510,121	**2,882,747**
Held-to-maturity investments:		
Peruvian Sovereign Bonds (b)	-	470,686
	7,709,116	**3,586,586**

(a) BCRP certificates of deposit are securities freely negotiable in local currency with a maturity until April 2023; they are acquired through BCRP public bids and traded in the Peruvian secondary market. Of these certificates, as of December 31, 2017, S/ 405 million are allocated to repurchase transactions (S/ 86 million as of December 31, 2016).

As of December 31, 2017, the annual interest in local currency generated by these certificates fluctuates between 3.05% and 3.25% (between 4.25% and 4.60% as of December 31, 2016). The annual interest in foreign currency is 1.60% (between 0.61% and 0.62% as of December 31, 2016).

(b) They correspond to sovereign bonds issued in local currency by the Peruvian Ministry of Economy and Finance and represent internal public debt instruments of the Republic of Peru. Of these bonds, as of December 31, 2017, S/ 310 million are allocated to repurchase transactions.

As of December 31, 2017, these bonds accrue interest at annual rates ranging from 1.16% to 6.10% (2% to 7.20% annually as of December 31, 2016) in local currency and have maturities until February 2042 (February 2055 as of December 31, 2016).

As from November 2017, Sovereign Bonds of the Republic of Peru that the Banks had recorded in its held-to-maturity portfolio were reclassified as available-for-sale investments. Such bonds have a maturity date from October 2024 to January 2035. As of December 2017, their carrying amount is S/ 482 million.

(c) As of December 31, 2017 and 2016, it corresponds to the participation quotes held by the SAF in different mutual funds it manages.

(d) As of December 31, 2017 and 2016, it mainly includes shares of Bolsa de Valores de Lima (BVL) for S/ 41 million and S/ 44 million, respectively.

As of December 31, 2017 and 2016, the accrued interest of the investment portfolio managed amounts to S/ 253 million and S/ 216 million, respectively (note 17).

7. Loan Portfolio, Net

As of December 31, this caption comprises the following:

In thousands of soles	2017		2016	
Direct loans:				
Borrowings	18,140,414	38%	18,908,931	38%
Mortgage loans	11,637,944	24%	10,917,221	22%
Foreign trade	6,130,095	12%	5,904,719	12%
Consumer loans	4,679,738	9%	5,247,666	11%
Finance lease	5,065,356	9%	4,576,672	9%
Discounts	1,111,484	3%	1,379,693	3%
Others	2,776,049	5%	2,854,158	5%
	49,541,080	**100%**	**49,789,066**	**100%**
Refinanced and restructured loans	1,111,473	2%	942,301	2%
Overdue and under legal collection loans	1,400,138	2%	1,257,089	2%
	52,052,691	**104%**	**51,988,456**	**104%**
Plus (less):				
Accrued interest on current loans	362,993	1%	371,692	1%
Non-accrued interest	(57,774)	-	(48,912)	-
Provision for doubtful loans	(2,361,469)	(5%)	(2,356,212)	5%
	49,996,4411	**100%**	**49,955,024**	**100%**
Contingent loans (note 16)	**15,577,486**		**16,854,889**	

Loans secured by guarantees received from customers, mainly composed by mortgages, deposits, letters of guarantee, guarantees, warrants and financial lease operations, amount to S/ 38,736 million as of December 31, 2017 (S/ 38,366 million as of December 31, 2016).

As of December 31, 2017, part of the mortgage loan portfolio guarantees a debt with Fondo MIVIVIENDA – Programa MIHOGAR for up to S/ 500 million (S/ 536 million as of December 31, 2016) (nota 13(b)).

As of December 31, the annual average effective interest rate of the main products was as follows:

	2017		2016	
Active operations	**Currency local**	**Currency currency**	**Currency local**	**Currency currency**
Loans and discounts	7.77	5.67	8.10	6.27
Mortgage loans	8.29	7.31	8.66	7.79
Consumer loans	25.27	28.31	25.58	27.32

As of December 31, the outstanding balance of the direct credit portfolio segmented by type of client in accordance with Resolution SBS N° 11356-2008, is as follows:

In thousands of soles	**2017**		**2016**	
Mortgage loans	12,028,957	23%	11,231,044	21%
Medium business loans	11,551,131	22%	11,541,349	22%
Corporate	10,956,495	21%	11,683,100	23%
Large business loans	8,927,043	17%	9,311,519	18%
Consumer loans	5,280,969	10%	4,721,392	9%
Small business loans	1,257,689	3%	1,284,575	2%
Financial System Entities	925,380	2%	866,075	2%
Public Sector Entities	659,919	1%	785,956	2%
Stock brokers	262,297	1%	349,879	1%
Multilateral development banks	106,901	-	119,008	-
Micro-business loans	95,910	-	94,559	-
	52,052,691	**100%**	**51,988,456**	**100%**

As of December 31, according to current SBS regulations, Continental Group's loan portfolio is classified according to risk as follows:

	2017						2016					
In thousands of soles	**Direct**	**%**	**Contingent**	**%**	**Total**	**%**	**Direct**	**%**	**Contingent**	**%**	**Total**	**%**
Risk category												
Standard	48,042,161	92	14,660,552	94	62,702,713	93	48,234,978	93	16,522,311	98	64,757,289	94
With potential problems	1,102,387	2	36,728	-	1,139,115	2	1,366,141	3	177,824	1	1,543,965	3
Substandard	790,767	2	708,982	5	1,499,749	2	651,152	1	101,646	1	752,798	1
Doubtful	840,815	2	53,906	-	894,721	1	747,438	1	35,004	-	782,442	1
Loss	1,218,787	2	117,678	1	1,336,465	2	939,835	2	18,104	-	957,939	1
	51,994,917	**100**	**15,577,846**	**100**	**65,572,763**	**100**	**51,939,544**	**100**	**16,854,889**	**100**	**68,794,433**	**100**
Non-accrued interest	57,774		-		57,774		48,912		-		48,912	
	52,052,691		**15,577,846**		**67,630,537**		**51,988,456**		**16,854,889**		**68,843,345**	

In 2017, it has been carried out waivers for loan operations of S/ 33 million (S/ 56 million as of December 31, 2016), which correspond to capital, interest and fees.

The movement in the provision for doubtful direct loans is detailed below:

In thousands of soles	**2017**	**2016**
Balance as of January 1	2,356,212	2,192,644
Additions debited to profit or loss	1,507,629	1,492,962
Recovery of provisions	(956,694)	(865,887)
Portfolio sale	(520,981)	(450,480)
Foreign exchange difference and other adjustments	(24,697)	(29,206)
Balances transferred by acquisition	-	16,179
Balance as of December 31	**2,361,469**	**2,356,212**

Provision for doubtful loans, net, as shown in the consolidated income statement is as follows:

In thousands of soles	**2017**	**2016**
Provision for doubtful loans	1,507,629	1,490,715
Recovery of provisions	(956,694)	(866,970)
Income from portfolio recovery	(13)	(27)
Provisions for doubtful direct loans, net of recoveries	**550,922**	**623,718**

Management considers that the level of provision for doubtful loans covers eventual losses in the portfolio of direct loans as of the date of the consolidated statement of financial position. This provision has been made in compliance with all the requirements of the current regulation.

As of December 31, 2017, the general provision for doubtful loans includes general voluntary and procyclical provisions of S/ 585 million (S/ 773 million as of December 31, 2016).

Continental Group, in application of and in compliance with the current regulation, has identified those clients that are exposed to currency-induced credit risk, and considers that it is not necessary to make an additional provision for this concept.

During 2017, the Bank sold a portfolio of S/ 298 million (S/ 303 million during 2016). The selling value amounted to S/ 28 million (S/ 39 million as of December 31, 2016) and is presented in 'Profit or loss from financial operations' of the consolidated income statement.

8. Trading and Hedging Derivatives

As of December 31, 2017 and 2016, Continental Group holds agreements of foreign currency forwards, cross currency swaps (CCS), interest rate swaps (IRS) and options. The following table shows the fair value of these derivative financial instruments as accounts receivable (assets) or accounts payable (liabilities). The face values presented correspond to the underlying assets of derivative instruments, on which changes at fair value are measured.

In thousands of soles	Underlying	Face	Assets	Liabilities
2017				
Trading derivatives				
Currency forwards		9,473,514	76,329	65,963
Share, currency and other options		1,265,617	22,537	22,537
Cross-currency swaps		5,262,992	361,133	267,410
Interest rate swaps		5,781,595	44,062	27,264
Provision for country risk		-	(4,773)	-
		21,783,718	**499,288**	**383,174**
Hedging derivatives (note 13)				
At fair value (i)				
Currency swaps	Bond issuance	244,511	-	45,544
Interest rate swaps	Borrowings	1,280,195	-	25,868
Interest rate swaps	Bond issuance	4,213,300	-	71,370
Cash flows (ii)				
Interest rate swaps	Borrowings	83,340	1,191	-
		5,821,346	**1,191**	**142,782**
		27,605,064	**500,479**	**525,956**
2016				
Trading derivatives				
Currency forwards		9,567,860	195,042	108,524
Share, currency and other options		1,158,665	18,881	18,881
Interest rate options		137,123	24	240
Currency swaps		6,919,265	606,733	541,325
Interest rate swaps		5,842,547	23,349	41,618
Provision for country risk		-	(5,314)	-
		23,625,460	**838,715**	**710,588**
Hedging derivatives (note 13)				
At fair value (i)				
Currency swaps	Bond issuance	253,187	-	65,253
Interest rate swaps	Borrowings	3,037,180	1,910	21,168
Interest rate swaps	Bond issuance	4,362,800	-	75,055
Cash flows (ii)				
Interest rate swaps	Borrowings	105,474	783	-
Currency swaps	Borrowings	161,088	896	215
		7,919,729	**3,589**	**161,691**
		31,545,189	**842,304**	**872,279**

Hedging derivatives at fair value

(i) As of December 31, 2017, the Bank has contracted a currency swap for the fair value hedging of bonds issued for a face value equivalent to S/ 245 million (as of December 31, 2016 S/ 253 million). Through a cross currency swap (CCS), the Bank converts its issuance in fixed-rate local currency into floating-rate U.S. dollars. In 2017, the variability in the fair value of the CCS resulted in a profit of S/ 11 million, which is included in 'profit or loss from financial operations' of the consolidated income statement (as of December 31, 2016 profit of S/ 12 million).

As of December 31, 2017, the Bank has contracted interest rate swaps (IRS) for a face value equivalent to S/ 5,493 million in order to hedge debts and issuance. Through the IRSs, the Bank receives a fixed rate in U.S. dollars and pays a floating rate in the same currency. In 2017, the total variability in the fair value of IRSs resulted in a profit of S/ 1 million, included in 'profit or loss from financial operations' of the consolidated income statement (loss of S/ 54 million in 2016).

The hedged items and hedging instruments as of December 31, 2017 and 2016 are detailed below:

Hedged item	Hedging instrument	Face value in thousands of US$	Fair value – hedging instrument in thousands of S/	
			2017	2016
Third international corporate bond issuance for US$ 500 million (note 13 (d))	***Interest Rate Swap (IRS)*** The Bank receives a fixed interest rate and pays a floating interest rate.	500,000	(4,329)	(15,674)
Fifth issuance - Corporate bond Fifth program for S/ 200 million (note 13 (d))	***Cross Currency Swap (CCS)*** The Bank receives fixed cash flow in soles and pays floating cash flow in U.S. dollars	75,443	(45,544)	(65,076)
First international corporate bond issuance for US$ 500 million (note 13 (d))	***Interest Rate Swap (IRS)*** The Bank receives a fixed interest rate and pays a floating interest rate.	500,000	(32,428)	(24,479)
Borrowing from Deutsche Bank for US$ 350 million (note 13 (a))	***Interest Rate Swap (IRS)*** The Bank receives a fixed interest rate and pays a floating interest rate.	350,000	(22,863)	(18,391)
Borrowing from Wells Fargo for US$ 45 million (note 13 (a))	***Interest Rate Swap (IRS)*** The Bank receives a fixed interest rate and pays a floating interest rate.	45,000	(3,006)	(2,777)
First international subordinated bond issuance for US$ 300 million (note 13 (d))	***Interest Rate Swap (IRS)*** The Bank receives a fixed interest rate and pays a floating interest rate.	300,000	(34,612)	(34,900)
Borrowing from Goldman Sachs for US$ 500 million (note 13 (a))	***Interest Rate Swap (IRS)*** The Bank receives a fixed interest rate and pays a floating interest rate.	-	-	1,910

Cash flow hedging derivatives

(ii) As of December 31, 2017, the Bank has contracted IRSs for a face value equivalent to S/ 83 million in order to hedge borrowings (S/ 105 million as of December 31, 2016). The Bank receives a floating rate in U.S. dollars and pays a fixed rate in the same currency. As of December 31, 2017, the variability in the fair value of IRSs resulted in a profit of S/ 0.9 million, which is recorded in equity accounts (profit of S/ 1 million as of December 31, 2016).

The hedged items and hedging instruments as of December 31, are detailed below:

Hedged item	Hedging instrument	Face value in thousands of US$	Fair value – hedging instrument in thousands of S/ 2017	2016
Borrowing from Standard Chartered for US$ 26 million (note 13 (a))	***Interest Rate Swap (IRS)*** The Bank receives a floating interest rate and pays a fixed interest rate.	25,714	1,191	783
Borrowing from The Bank of New York for US$ 48 million (note 13 (a))	***Cross Currency Swap* (CCS)** The Bank receives a floating rate and pays a fixed rate	-	-	681

9. Investments in Associates

As of December 31, this caption comprises the following:

In thousands of soles	2017	2016
Compañía Peruana de Medios de Pago S.A.C. (a)	8,281	-
TFP S.A.C. (b)	3,945	3,873
	12,226	**3,873**

(a) Due to this increase in the equity share of the Bank in Compañía Peruana de Medios de Pago S.A.C. (Visanet Peru) to 20.28% (19.63% as of December 31, 2016), since September 2017, such investment has been recognized as an Associate under the equity method, not anymore as an available-for-sale investment at cost, thus generating an impact in the profit or loss of the period of S/ 4 million. It is worth indicating that this equity participation is due to the fact that the Bank operates its different types of cards (credit, debit and others) under the VISA brand in order for its clients to carry out transactions in VISA-accepting merchants.

(b) As of December 31, 2017 and 2016, Continental Group, through the Bank, holds a 24.30% stake in the share capital of TFP S.A.C.

10. Property, Furniture, and Equipment, Net

The movement in property, furniture and equipment and accumulated depreciation in years 2017 and 2016 is as follows:

In thousands of soles	Land	Buildings and facilities	Furniture and equipment	Vehicles	Premises and improvements in leased property	Work-in-progress	Units in transit and replacing units	Total
Cost								
Balance as of January 1, 2016	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
Adjustments and other	(179)	16,742	9,703	-	16,987	(47,552)	(847)	(5,146)
As of December 31, 2016	**120,643**	**810,967**	**577,074**	**8,499**	**241,727**	**20,879**	**300**	**1,780,089**
Additions	-	9,126	40,542	1,127	5,206	85,375	1,256	142,632
Adjustments and other	(158)	21,833	7,113	(1,045)	5,358	(37,768)	(1,301)	(5,968)
As of December 31, 2017	**120,485**	**841,926**	**624,729**	**8,581**	**252,291**	**68,486**	**255**	**1,916,753**
Depreciation								
Balance as of January 1, 2016	**-**	**420,200**	**264,865**	**5,729**	**92,426**	**-**	**-**	**783,220**
Additions	-	35,265	49,160	762	21,599	-	-	106,786
Adjustments and other	-	(1,460)	(2,131)	-	13	-	-	(3,578)
As of December 31, 2016	**-**	**454,005**	**311,894**	**6,491**	**114,038**	**-**	**-**	**886,428**
Additions	-	35,907	55,944	809	23,261	-	-	115,921
Adjustments and other	-	5,037	(7,433)	(1,045)	(5,479)	-	-	(8,920)
As of December 31, 2017	**-**	**494,949**	**360,405**	**6,255**	**131,820**	**-**	**-**	**993,429**
Net cost								
Balance as of December 31, 2017	**120,485**	**346,977**	**264,324**	**2,326**	**120,471**	**68,486**	**255**	**923,324**
Balance as of December 31, 2016	**120,643**	**356,962**	**265,180**	**2,008**	**127,689**	**20,879**	**300**	**893,661**

According to current legislation, banks in Peru cannot give as collateral the goods that are part of their property, furniture, and equipment, except for those acquired through the issuance of leasing bonds to carry out finance lease operations.

11. Other Assets, Net

As of December 31, this caption comprises the following:

In thousands of soles	2017	2016
Transactions in progress (a)	850,177	463,869
Tax credit, net of income tax	289,054	204,347
Intangible assets, net of amortizations for S/ 20 million (S/ 12 million as of December 31, 2016)	233,388	138,562
Prepaid expenses (b)	97,206	108,429
Other accounts receivable	52,753	41,392
Tax credit (VAT) and other	18,056	56,668
Accounts receivable from the sale of goods, services and trust	325	126
Other	17,787	17,078
	1,558,746	**1,030,471**

(a) Transactions in progress are transactions carried out during the last days of the month and are reclassified in the following month to their definitive accounts in the consolidated statement of financial position. These transactions do not affect the profit or loss of Continental Group. As of December 31, 2017 and 2016, they include S/ 803 million and S/ 434 million related to Treasury transactions, respectively.

(b) As of December 31, 2017 and 2016, prepaid expenses include mainly prepaid insurance and deferred loan origination fees, related to fees paid to external sales force.

12. Deposits and Obligations in Financial System Entities

As of December 31, this caption comprises the following:

In thousands of soles	2017	2016
Deposits and obligations:		
Time deposits	16,574,653	19,069,861
Demand liabilities	16,122,804	15,415,797
Savings deposits	14,625,612	13,408,216
Other obligations	78,707	52,930
	47,401,776	**47,946,804**
Deposits of financial system entities:		
Time deposits	1,489,919	922,998
Demand liabilities	370,175	416,793
Savings deposits	64,194	67,870
	1,924,288	**1,407,661**
	49,326,064	**49,354,465**

As of December 31, 2017 and 2016, deposits and obligations include deposits received as collateral for direct and contingent loans for S/ 667 million and S/ 872 million, respectively.

The Bank determines deposit interest rates based on the interest rates prevailing in the market. For the main products, the annual interest rates prevailing as of December 31 fluctuated as follows:

	2017		**2016**	
	Local currency	**Foreign currency**	**Local currency**	**Foreign currency**
Checking accounts	0.00 – 0.25	0.00 – 0.125	0.00 - 0.25	0.00 - 0.125
Savings deposits	0.125 – 0.75	0.125 – 0.125	0.125 - 0.75	0.125 - 0.125
Time deposits and bank certificates	0.8 – 1.35	0.10 – 0.80	0.80 - 1.35	0.10 - 0.80
'Super depósito' bank account	0.8 – 1.35	0.10 – 0.25	0.80 - 1.35	0.10 - 0.25
Severance payment deposits	1.50 – 2.50	0.60 – 1.10	1.50 - 250	0.60 - 1.10

13. Borrowings and Financial Obligations

As of December 31, this caption comprises the following:

In thousands of soles	**2017**	**2016**
Borrowings and financial obligations:		
Foreign financial entities (a)	3,366,121	4,238,854
Programa MIVIVIENDA – Crédito MIHOGAR (b)	542,843	550,487
International financial institutions (c)	125,010	158,211
Private debt contract	-	33,560
Corporación Financiera de Desarrollo – COFIDE	12,112	33,188
Accrued interest payable	23,920	65,927
	4,070,006	**5,080,227**
Securities and bonds: (d)		
Corporate bonds	4,582,939	4,327,732
Subordinated bonds	1,514,978	1,658,965
Finance lease bonds	563,100	405,100
Notes (debt instruments)	226,202	359,971
Negotiable certificates of deposits	63,788	112,440
Accrued interest payable	87,694	79,360
	7,038,701	**6,943,568**
	11,087,707	**12,023,795**

Certain loan agreements include standard clauses of compliance with financial ratios, use of funds criteria and other administrative matters. In management's opinion, as of December 31, 2017 and 2016, these clauses are being adequately complied with and do not represent any restriction on the Continental Group’s operations.

(a) As of December 31, 2017, the Continental Group's borrowings with foreign financial entities accrued interest at an annual average rate ranging from 3.6 to 7.4% (2016: from 1.2 to 7.4%):

	2017		2016		
In thousands	**US$**	**S/**	**US$**	**S/**	**Maturity**
Deutsche Bank (i)	341,962	1,108,301	343,006	1,151,128	November 2020
Credit Suisse (ii)	200,000	648,200	200,000	671,200	October 2040
Citibank NY	150,000	486,150	-	-	November 2018
Standard Chartered	140,000	453,740	55,000	184,579	Jan. and March 2018
Wells Fargo Bank	55,000	178,255	39,172	131,462	January 2018
Banco del Estado de Chile	40,000	129,640	-	-	January 2018
Toronto Dominion	40,000	129,640	-	-	January 2018
Bank of Nova Scotia	40,000	129,640	-	-	January 2018
Goldman Sachs Bank	-	-	500,101	1,678,339	January 2017
The Bank of New York	-	-	48,000	161,088	June and August 2017
Corporación Andina de Fomento	-	-	40,000	134,240	January 2017
Citibank NA	-	-	30,000	100,680	January 2017
DEG Deutsche Investitions	-	-	5,000	16,780	October 2017
Other	31,643	102,555	2,788	9,357	January 2017 and 2018
	1,038,605	**3,366,121**	**1,263,067**	**4,238,854**	
Accrued interest	7,021	22,755	19,004	63,776	
	1,045,626	**3,388,876**	**1,282,071**	**4,302,630**	

(i) Loan with a nominal amount of US$ 350 million which accrues interest at an annual fixed rate of 5.50% and has maturity in November 2020. Fair value of this loan is hedged by IRSs which, as of December 31, 2017 and 2016, have resulted in accumulated gains of S/ 22 million and S/ 18 million, respectively (note 8(i)).

(ii) It corresponds to a subordinated loan in foreign currency arranged at 7.38% annual interest rate. Pursuant to SBS Resolution 975-2016, this loan will continue to be considered as Tier 1 Regulatory Capital, considering the adequacy period established by the rules of subordinated debt, effective since February 2016.

The Bank entered into specific agreements on these loans, which contain clauses for compliance with financial ratios and other specific conditions related to flows assigned by the Bank, which in management's opinion have been fully complied with.

As of December 31, 2017 and 2016, the Continental Group holds in accounts payable a balance of S/ 9 million corresponding to deferred issuance expenses, for both periods.

(b) As of December 31, 2017 and 2016, these debts mainly include resources obtained for the social housing program MI VIVIENDA (MI HOGAR credit) for S/ 492 million in local currency and US$ 3 million in foreign currency (As of December 31, 2016 S/ 523 million in local currency and US$ 4 million in foreign currency). This loan has different maturities until December 2037 and accrues interest at an annual effective rate of 7.75% in U.S. dollars and 6.25% in soles on the principal plus the Constant Adjustment index (hereinafter VAC, for its Spanish acronym).

As of December 31, 2017 and 2016, borrowings with Fondo MIVIVIENDA are secured with mortgage loan portfolio up to S/ 500 million and S/ 536 million, respectively (note 7). These borrowings consider specific arrangements about how these funds should be used, financial conditions that the borrower must meet, as well as other administrative matters.

(c) Borrowings from international financial institutions accrue interest at international market rates ranging from LIBOR +1.35% to 6.38% as of December 31, 2017 and 2016 and are unsecured. As of December 31, this caption comprises the following:

	2017		**2016**		
In thousands	**US$**	**S/**	**US$**	**S/**	**Maturity**
Corporacion Andina de Fomento	30,000	97,230	-	-	March 2018
International Finance Corporation - IFC	8,751	27,780	17,143	57,531	December 2018
Inter-American Development Bank - IDB	-	-	30,000	100,680	February 2017
	38,751	**125,010**	**47,143**	**158,211**	
Accrued interest payable	44	142	440	1,475	
	38,795	**125,152**	**47,583**	**159,686**	

(d) As of December 31, the detail of securities and bonds is as follows:

In thousands of soles	**Authorized amount**	**Origin currency**	**Original placed amount**	**2017**	**2016**	**Maturity**
Corporate bonds:						
7th issuance - single series	US$ 100 million or S/ 315 million	PEN	60,000	60,000	60,000	May 2018
1st issuance, single series - Fourth program	US$ 100 million	PEN	40,000	40,000	40,000	August 2020
2nd issuance, series A - Fourth program		PEN	80,000	80,000	80,000	August 2020
3rd issuance, series A - Fourth program		PEN	100,000	100,000	100,000	August 2018
2nd issuance, series A - Fifth program	US$ 250 million	PEN	150,000	150,000	150,000	December 2026
5th issuance, single series - Fifth program (i)		PEN	200,000	198,655	187,551	April 2019
1st issuance, series A - Sixth program	US$ 250 million	PEN	150,000	150,000	150,000	April 2019
1st issuance, series B - Sixth program		PEN	100,000	100,000	100,000	April 2019
2nd issuance, series A - Sixth program		PEN	150,000	150,000	150,000	June 2021
3rd issuance, series A - Sixth program		PEN	350,000	350,000	-	August 2022
1st program, international issuance (ii)	US$ 500 million	US$	500,000	1,586,647	1,650,674	August 2022
3rd program, international issuance (iii)	US$ 500 million	US$	500,000	1,617,637	1,659,507	April 2018
				4,582,939	**4,327,732**	
Subordinated bonds (iv):						
1st issuance, series A - First program	US$ 50 million or S/ 158.30 million	PEN	40,000	-	39,821	May 2022
2nd issuance, series A - First program		US$	20,000	64,527	67,120	May 2027
3rd issuance, series A - First program		PEN	55,000	76,879	75,653	June 2032
1st issuance, series A - Second program	US$ 100 million	US$	20,000	-	66,793	September 2017
2nd issuance, series A - Second program		PEN	50,000	68,448	67,356	November 2032
3rd issuance, series A - Second program		US$	20,000	64,820	67,120	February 2028
4th issuance, single series - second program		PEN	45,000	59,449	58,501	July 2023
5th issuance, single series - second program		PEN	50,000	65,202	64,162	September 2023
6th issuance, single series - second program		PEN	30,000	38,447	37,834	December 2033
1st issuance, single series - third program	US$ 55 million	US$	45,000	145,845	151,020	October 2028
First program, international issuance – single series (v)	US$ 300 million	US$	300,000	931,361	963,585	September 2029
				1,514,978	**1,658,965**	
Finance lease bonds (vi):						
1st issuance, series A - Second program	US$ 250 million	PEN	158,000	158,000	-	December 2020
1st issuance, series B - Second program		PEN	205,100	205,100	205,100	October 2019
1st issuance, series C - Second program		PEN	200,000	200,000	-	January 2020
1st issuance, series A - Second program		PEN	200,000	-	200,000	May 2017
				563,100	**405,100**	
Notes (vii):						
2nd issuance, series 2012-C y 2012-D	US$ 235 millones	US$	235,000	226,202	359,971	June 2022
				226,202	**359,971**	
Negotiable certificates of deposits				**63,788**	**112,440**	
Interest payable on securities, bonds, and obligations outstanding				**87,694**	**79,360**	
				7,038,701	**6,943,568**	

As of December 31, 2017, corporate bonds are unsecured and accrue interest at annual rates in local currency ranging from 4.8 to 7.5% (As of December 31, 2016 from 5.8 to 7.5%), and accrue interest at annual rates in foreign currency ranging from 3.3 to 5% (from 3.3 to 5.0% as of December 31, 2016).

(i) The issuance of corporate bonds for S/ 200 million is hedged with a CCS which has resulted in retained earnings of S/ 1 million as of December 31, 2017 (As of December 31, 2016 retained earnings of S/ 12 million) (note 8(i)).

(ii) In August 2012, the Bank carried out an international issuance of corporate bonds with a nominal amount of US$ 500 million, at an annual fixed rate of 5%, maturing in August 2022. The principal will be fully paid off upon maturity. Likewise, such issuance has a fair value hedged through an IRS, which has resulted in retained earnings of S/ 34 million as of December 31, 2017 (As of December 31, 2016 retained earnings of S/ 27 million) (note 8(i)).

(iii) In April 2013, the Bank carried out an international issuance of corporate bonds with a nominal amount of US$ 500 million, at an annual fixed rate of 3.25%, maturing in April 2018. The principal will be fully paid off upon maturity. Likewise, such issuance has a fair value hedged through an IRS, which has resulted in retained earnings of S/ 2 million as of December 31, 2017 (As of December 31, 2016 retained earnings of S/ 16 million) (note 8(i)).

(iv) Subordinated bonds were issued according to the conditions set forth in the General Law, which accrued interest at annual rates ranging between Constant Adjustment Index (VAC) plus a spread and 5.4% for local currency and between 5.3 and 6.5% for foreign currency.

(v) In September 2014, the Bank carried out an international issuance of subordinated bonds with a nominal amount of US$ 300 million, at an annual fixed rate of 5.25%, maturing in September 2029. The principal will be fully paid off upon maturity. Likewise, such issuance has a fair value hedged through an IRS, which has resulted in retained earnings of S/ 35 million as of December 31, 2017 (As of December 31, 2016 retained earnings of S/ 37 million) (note 8(i)).

(vi) Financial lease bonds accrue interest at annual rates ranging from 4.6 to 6.0% in local currency, are secured by loan transactions in the form of financial leases and have been financed by those bonds.

(vii) The notes issued in June 2012, as of December 31, 2017 amounts of US$ 71 million, and comprise a financing of nominal amount of US$ 26 million, maturing in June 2022, with a cash flow hedge through an interest rate swaps - IRSs (note 8(ii)); and nominal amount of US$ 45 million, at an annual fixed rate of 5%, maturing in June 2022, which has a fair value hedge through IRSs, for which accumulated adjustments have been included at financial instrument carrying amount of S/ 3 million of retained earnings as of December 31, 2017 (As of December 31, 2016 S/ 3 million).

    The payment of the notes is guaranteed by the present and future flows generated by client's electronic payment orders (Diversified Payments Rights -DPRs). Likewise, they contain clauses for compliance with Bank's financial ratios and other specific conditions related to flows assigned, which in management's opinion have been fully complied with as of December 31, 2017 and 2016.

As of December 31, 2017 and 2016, the Bank holds in accounts payable balances of S/ 12 million and S/ 16 million corresponding to deferred issuance costs.

14. Provisions and Other Liabilities

As of December 31, this caption comprises the following:

In thousands of soles	2017	2016
Accounts payable		
BCRP repurchase agreements (a)	4,827,739	7,749,630
Accounts payable to suppliers	276,678	173,717
Interest payable	274,434	193,465
Premiums to deposit insurance fund, contributions and obligations with tax collection entities	143,832	125,533
Dividends, profit sharing and remunerations payable	105,592	96,031
Other accounts payable	31,262	30,936
	5,659,538	**8,369,312**
Other liabilities		
Deferred income and other	25,851	23,966
Transactions in progress (b)	720,123	399,723
	745,974	**423,689**
Provisions		
Provision for contingent loans (c)	232,563	142,362
Provision for lawsuits, litigations and other proceedings related to the activities (d)	214,459	208,689
Other provisions	226,781	194,102
	673,803	**545,153**
	7,079,315	**9,338,154**

(a) It corresponds to balance of currency repurchase agreement operations BCRP certificate of deposit, and sovereign bonds from the Republic of Peru entered into with BCRP (notes 5 and 6).

(b) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their definitive accounts of the consolidated statement of financial position. These transactions do not affect the consolidated income statement of the Bank. As of December 31, 2017, liability transactions in progress include mainly S/ 569 thousand related to Treasury operations (as of December 31, 2016 S/ 337 thousand).

(c) The movement in the provision for indirect loan included in this item is detailed below:

In thousands of soles	2017	2016
Balance as of January 1	142,362	134,850
Provisions	148,595	65,720
Recoveries and reversals	(55,738)	(54,348)
Foreign exchange differences and other adjustments	(2,656)	(3,860)
	232,563	**142,362**

As of December 31, 2017, general provision for indirect loan portfolio for S/ 101 million (as of December 31, 2016 S/ 109 million) includes procyclical provisions for S/ 34 million (as of December 31, 2016 S/ 35 million).

(d) Continental Group has pending several lawsuits, litigations and other proceedings related to the activities it develops, which in the opinion of management and its legal advisors will not result in additional liabilities. Therefore, as of December 31, 2017 and 2016, management has not considered it necessary to record a provision higher than the one already recorded for these contingencies and proceedings.

15. Equity

A. Regulatory capital and legal limits

The Banking Law established that the regulatory capital shall not be lower than 10% of the total risk weighted assets and contingent loans for credit, market and operational risks. As of December 31, 2017, the Bank and the Edpyme apply the standard method for calculating the amount of regulatory capital requirements for credit, market and operational risk.

As of December 31, 2017, on an individual basis, the regulatory capital of the Bank and the Edpyme, calculated according to current regulatory requirements is S/ 8,947 million and S/ 69 million, respectively (as of December 31,2016 S/ 9,001 million and S/ 60 million, respectively). The regulatory capital is used to calculate certain limits and restrictions applicable to all Banks and financial institutions in Peru, which Management considers to have fulfilled in its entirety.

As of December 31, 2017, assets and contingent loans weighted by credit, market and operational risks of the Bank and the Edpyme, in accordance with current legal standards, amount to S/ 63,012 million and S/ 523 million, respectively (as of December 31,2016 S/ 63,146 million y S/ 369 million, respectively).

As of December 31, 2017, the capital adequacy ratio by credit, market and operational risk of the Bank and EDPYME is 14.20% and 13.28%, respectively (as of December 31, 2016 14.25% and 16.28%, respectively).

B. Share capital

As of December 31, 2017, the Bank's authorized, issued and fully paid-in capital in accordance with its by-laws is represented by 4,883,119 thousand of outstanding ordinary shares with a par value of S/ 1 each (As of December 31, 2016: 4,401,368 thousand shares).

At Obligatory General Shareholders' Meeting, held on March 30, 2017 and March 31, 2016, an agreement was reached to increase the share capital by S/ 482 million and S/ 617 million, respectively, through the capitalization of retained earnings and discretionary reserve.

Shareholding structure of the Bank's share capital as of December 31, is as follows:

	2017		2016	
Interest	**Number of shareholders**	**Interest %**	**Number of shareholders**	**Interest %**
Up to 1	7,719	3.31	7,904	3.40
From 1.01 to 5	3	4.45	3	4.36
From 45.01 to 100	2	92.24	2	92.24
	7,724	**100**	**7,909**	**100**

C. Reserves
In accordance with the Banking Law, it is required to have a reserve of at least 35% of the share capital. This reserve is created by an annual transfer of no less than 10% of after-tax profits, and supersedes the reserve referred to in the Companies Act. On the other hand, as stipulated in the Banking Law, the amount of legal reserve may also be increased with contributions made by the shareholders for this purpose.

At Obligatory General Shareholders' Meeting, held on March 30, 2017 and March 31, 2016, an agreement was reached to make a legal reserve in an amount equivalent to 10% of profits of year 2016 (S/ 134 million) and 2015 (S/137 million), respectively.

D. Adjustments to equity
As of December 31, 2017, adjustments to equity include S/ 8.4 million for unrealized gains on available-for-sale investment (S/ 3.2 million of unrealized losses as of December 31, 2016), S/ .0.9 million for unrealized gains on valuation of cash flow hedging derivatives (S/ 1.3 million for unrealized gains as of December 31, 2016) and S/ 2.8 million for unrealized losses on the actuarial calculation of liabilities from long-term benefits. As of December 31, 2016, had S/ 2.2 million corresponding to unrealized gains on held-to-maturity investments.

E. Retained earnings
At Obligatory General Shareholders' Meeting, held on March 30, 2017 and March 31, 2016, an agreement was reached to approve the capitalization of retained earnings in an amount of S/ 482 million and S/617 million, respectively. Also, at both shareholders' meetings, it was approved to distribute dividends in the amount of S/ 723 million and S/ 617 million, respectively.

16. Risks and Contingent Commitments
As of December 31, this caption comprises the following:

In thousands of soles	**2017**	**2016**
Contingent loans:		
Indirect loans		
Guarantees and letters of guarantee	14,474,922	16,125,944
Letters of credit and bank acceptances	1,102,924	728,945
	15,577,846	**16,854,889**
Unused credit lines and granted loans not disbursed	9,071,095	8,659,059
	24,648,941	**25,513,948**

In the normal course of business, Continental Group participates in transactions whose risk is recorded in contingent accounts. These transactions expose the Bank to credit risk, beyond the amounts presented in the consolidated statement of financial position.

Credit risk for contingent transactions is related to the probability that one of the participants of the contract does not comply with the agreed terms.

Continental Group applies similar credit policies to evaluate and grant direct loans and indirect loans. In Management's opinion, contingent transactions do not represent an exceptional credit risk. Many of these indirect loans are expected to expire without any withdraw required. The total amounts of contingent loans do not necessarily represent future cash outflows for the Bank.

Management estimates that no significant additional losses will arise from current contingent transactions as of December 31, 2017 and 2016.

17. Interest Income

This caption comprises the following:

In thousands of soles	**2017**	**2016**
Direct loan portfolio (nota 7)	4,104,010	4,228,301
Available-for-sale investments (note 6)	159,669	167,855
Investments at fair value through profit or loss (note 6)	70,129	18,889
Cash and due from banks (note 5)	43,728	24,901
Held-to-maturity investments (note 6)	23,438	29,472
Interbank funds	6,877	4,545
Other finance income	4,133	4,089
Profit or loss from hedging transactions	2,818	45,717
	4,414,802	**4,523,769**

18. Interest Expenses

This caption comprises the following:

In thousands of soles	**2017**	**2016**
Deposits and obligations	638,547	537,800
Borrowings and financial obligations (note 13)	521,123	646,421
Accounts payable	283,039	374,565
Deposits of financial entities	61,411	49,832
Interbank funds	4,657	11,466
Other finance costs	1,238	2,145
	1,510,015	**1,622,229**

19. Income from Finance Services, Net

This caption comprises the following:

In thousands of soles	**2017**	**2016**
Income		
Income from credit card commissions	249,228	230,120
Income from indirect lending	205,086	218,172
Commissions on transfers	140,121	139,230
Income from commissions from collection services	123,399	120,173
Income from services and maintenance of checking accounts	45,562	42,092
Income from online banking services for corporations	35,213	28,771
Income from advisory service	15,743	14,156
Income from trust and trust fees	1,116	1,241
Other income from services	289,864	271,434
	1,105,332	**1,065,389**
Expenses		
Deposit insurance fund premiums	(62,532)	(58,368)
Spot exchange rate	(11,452)	(8,973)
Transfers	(7,179)	(6,637)
Checking account maintenance expenses	(4,545)	(4,373)
Other expenses for services	(225,439)	(219,697)
	(311,147)	**(298,048)**
	794,185	**767,341**

20. Profit or Loss from Financial Transactions

This caption comprises the following:

In thousands of soles	**2017**	**2016**
Gain on exchange difference (note 4)	387,079	369,882
Trading derivatives	92,094	70,217
Gain on associates	6,790	1,487
Investments at fair value through profit or loss	29,290	19,262
Available-for-sale investments	17,065	24,735
Others, net	31,473	24,041
	563,791	**509,642**

21. Administrative Expenses

This caption comprises the following:

In thousands of soles	**2017**	**2016**
Personnel and board of directors expenses	728,036	737,823
Expenses for services received from third parties	724,565	745,163
Taxes and contributions	46,342	47,372
	1,498,943	**1,530,358**

22. Other Expenses, Net

As of December 31, 2017 and 2016, 'other expenses, net', mainly include loss from the sale of awarded assets, loss not covered by insurance, donations, lease income, among other income and expenses.

23. Tax Matters

Income tax legislation

A. Continental Group is subject to Peruvian tax regime.

By means of Legislative Decree 1261, published on December 10, 2016 and effective January 1, 2017, the rate applicable to corporate income was modified to 29.5%.

The rates applicable to income tax of legal entities domiciled in Peru for the last taxable years are as follows:

Until year 2014	30.0%
For years 2015 - 2016	28.0%
For year 2017 onwards	29.5%

Likewise, as of December 31, 2017 and 2016, the income tax rate for dividend distribution and any other form of profit distribution applicable to legal persons not domiciled in Peru and natural persons is 5.0 and 6.8%, respectively.

However, the Decree also established the modification of the income tax rate applicable to dividend distribution and any other form of profit distribution to 5%, in the case of profits generated and distributed since January 1, 2017.

The rates applicable to income tax on dividends for the last taxable years are as follows:

Until year 2014	4.1%
For years 2015 - 2016	6.8%
For year 2017 onwards	5.0%

Income tax determination

The Bank and Subsidiaries computed their taxable base for the years ended December 31, 2017 and 2016, and determined consolidated current income tax of S/ 506 million and S/ 482 million, respectively.

Income tax expense by entity is the following:

In thousands of soles	**2017**	**2016**
Entities		
BBVA Banco Continental	495,806	431,016
Bolsa Sociedad Agente de Bolsa S.A.	862	1,893
BBVA Asset Management Continental S.A. SAF	5,554	4,463
Continental Sociedad Titulizadora S.A.	240	163
Inmuebles y Recuperaciones Continental S.A.	1,067	2,510
BBVA Consumer Finance EDPYME	1,550	(1,173)
Forum Comercializadora del Perú S.A.	96	2,174
Forum Distribuidora del Perú S.A.	359	766
	505,534	**441,812**

Income tax expense comprises:

In thousands of soles	**2017**	**2016**
Current tax	458,979	482,184
Deferred tax:		
Profit or loss for the year	52,855	(9,116)
Effect of changes in rates	-	(35,518)
Income tax (adjustment/recovery of provision)	(6,300)	4,262
	505,534	**441,812**

Income tax exemptions and exceptions

B. From year 2010, capital gains from the disposal or redemption of securities made in centralized trading mechanisms are subject to income tax. For this purpose, the value of securities has been established as computable cost at the closing of the taxable period 2009 (quotation value), acquisition cost, or increase in the equity value, as per procedure established in Supreme Decree 011-2010-EF.

Accordingly, it is important to mention that only for 2016, the capital gain obtained from the disposal of shares and other securities representing shares are income tax exempt, provided that such disposal is negotiated through a centralized trading system supervised by the SMV, and in compliance with certain requirements established in Law 30341.

Temporary tax on net assets

C. The Bank and Subsidiaries are subject to temporary tax on net assets whose taxable base is composed of the prior period adjusted net asset value less depreciations, amortizations, legal cash reserve, and specific provisions for credit risk. The tax rate is 0.4% for years 2017 and 2016 and is applied to the amount of net assets exceeding S/ 1 million. It may be paid in cash or in nine consecutive monthly installments.

Tax on financial transactions

D. Tax on Financial Transactions (ITF) for fiscal periods 2017 and 2016 was fixed at the rate of 0.005%. This tax is applied on charges and credits in bank accounts or movements of funds made through the financial system, unless the account is tax-exempt.

Transfer pricing

E. For income tax determination purposes, transfer pricing for transactions carried out with economically-related parties, and with companies domiciled in territories with low or null taxation, shall be supported with documentation and information about the valuation methods used, and the criteria considered, for the pricing. Until fiscal year 2016, the formal obligations of Transfer Pricing were the presentation of a Transfer Pricing Sworn Statement and Technical Study.

Tax assessment

F. The affidavits of income tax that are pending of review by the Tax Administration are the following

Entities	**Tax returns subject to assessment**
Bolsa Sociedad Agente de Bolsa S.A.	2013-2017
BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos	2013-2017
Continental Sociedad Titulizadora S.A.	2013-2017
Inmuebles y Recuperaciones Continental S.A.	2013-2017
BBVA Consumer Finance EDPYME	2013-2017
Forum Comercializadora del Perú S.A.	2013-2017
Forum Distribuidora del Perú S.A.	2013-2017

The tax authorities are entitled to audit and, if applicable, to correct the income tax calculated by the Bank and Subsidiaries within the four years following the year of the tax return filing.

Due to the possibility of various interpretations of the current legal regulations by the tax authorities, it is not possible to determine, to date, whether a future tax audit will result or not in liabilities for the Bank and Subsidiaries; therefore, any major tax, surcharges, and sanctions that might arise from eventual tax audits would be applied to profit or loss of the period in which they are recognized. However, it is the opinion of management and its legal advisors that, any possible additional settlement of taxes would not be significant for the consolidated financial statements of the Bank and Subsidiaries as of December 31, 2017 and 2016.

24. Deferred Taxes

Deferred tax has been calculated applying the liability method, and is attributed to the following items:

En miles de soles	Balance as of 01.01.2016	Balances transferred by acquisition of subsidiary	Equity additions / recoveries	Profit or loss additions / recoveries for the year	Change in rate (effect on profit or loss for the year)	Balance as of 12.31.2016	Equity additions / recoveries	Profit or loss additions / recoveries for the year	Other	Balance as of 12.31.2017
Assets										
General provision for loans	323,784	929	-	(11,640)	28,892	341,965	-	(59,418)	187	282,734
General provision for contingent loans	30,081	-	-	4,197	3,173	37,451	-	(1,342)	-	36,109
Provision for awarded assets	16,206	-	-	10,949	2,292	29,447	-	12,755	(2,393)	39,809
General provision for contingent loans	8,114	-	-	(1,872)	3,416	9,658	-	29,037	-	38,695
Provisions for various expenses and other	42,528	1,873	-	4,111	1,669	50,181	-	3,234	289	53,704
Labor provisions	35,442	-	-	9,119	4,097	48,658	1,193	8,030	-	57,881
Tax loss	-	2,874	(1,301)	2,381	193	4,147	-	(164)	-	3,983
In-suspense interest	12,836	-	-	(9,216)	335	3,955	-	(3,677)	-	278
Available-for-sale investments	654	-	442		-	1,096	628	-	-	1,724
	469,645	**5,676**	**(859)**	**8,029**	**44,067**	**526,558**	**1,821**	**(11,545)**	**(1,917)**	**514,917**
Liabilities										
Assessment of borrowings	15,339	-	-	15,308	2,838	33,485	-	(4,542)	-	28,943
Cash flow hedges	202	-	373			575	(213)	-	-	362
Intangible assets / deferred charges	29,062	969	1,468	15,346	4,183	51,028	-	37,836	-	88,864
Valuation of derivative financial instruments	30,217	-	-	(30,217)	-	-	-	-	-	-
Property tax depreciation	2,298	-	-	3,035	494	5,827	-	1,381	-	7,208
Balancing of assets and liabilities due to exchange difference	15,729	-	-	(4,559)	1,034	12,204	-	6,635	-	18,839
	92,847	**969**	**1,841**	**(1,087)**	**8,549**	**103,119**	**(213)**	**41,310**	**-**	**144,216**
Net deferred tax assets	**376,798**	**4,707**	**(2,700)**	**9,116**	**35,518**	**423,439**	**2,034**	**(52,855)**	**(1,917)**	**370,701**

The movement in deferred tax is as follows:

In thousands of soles	**2017**	**2016**
Balance at beginning of year	423,439	376,798
Credit to equity	2,034	(2,700)
(Charge) credit to profit or loss for the year	(52,855)	9,116
Effect on profit or loss for the year by change in rate	-	35,518
Other	(1,917)	-
Balances transferred by acquisition of subsidiary	-	4,707
	370,701	**423,439**

25. Earnings per Share

The table below shows the computation of the weighted average of shares and earnings per shares as of December 31, 2017 and 2016.

In thousands of soles	**Shares outstanding**	**Weighted average number of basic shares**	**Effective days to year-end**	**Weighted average number of common shares**
2017				
Balance as of January 1, 2017	4,883,119	4,883,119	365	4,883,119
Capitalization of year 2016 profit or loss	481,751	481,751	365	481,751
Balance as of December 31, 2017	**4,883,119**	**4,883,119**		**4,883,119**
2016				
Balance as of January 1, 2016	3,784,146	3,784,146	365	3,784,146
Capitalization of year 2015 profit or loss	617,222	617,222	365	617,222
Capitalization of year 2016 profit or loss	-	481,751	365	481,751
Balance as of December 31, 2016	**4,401,368**	**4,883,119**		**4,883,119**

As of December 31, 2017 and 2016, earnings per share calculated based on the average number of shares amounted to S/ 0.2845 and S/ 0.2741, respectively.

26. Related Party Transactions

As of December 31, 2017 and 2016, the consolidated financial statements include transactions with the controlling party, which, as established by IAS 24, comprise the parent company, subsidiaries, related parties, associates, other related parties, and the Bank's directors and key management. All related party transactions are conducted in accordance with market conditions applicable to non-related third parties.

(a) The balances of the consolidated statement of financial position arising from related parties as of December 31, are as follows:

In thousands of soles	**2017**	**2016**
Assets		
Cash and due from banks	220,332	13,460
Loan portfolio	634,184	447,758
Other assets	454,153	271,849
Liabilities		
Deposits	583,832	1,162,259
Borrowings and financial obligations	57,727	62,221
Other liabilities	292,225	508,988
Contingent	**7,754,764**	**9,018,767**

(b) The effects of transactions with related parties in the consolidated income statement of Continental Group for the year ended December 31, is as follows:

In thousands of soles	**2017**	**2016**
Interest income	1,843	1,493
Interest expenses	(8,617)	(602)
Other expenses, net	(80,135)	(68,212)

(c) Loans to personnel and key management personnel compensation

As of December 31, 2017 and 2016, Directors, officers and employees of the Bank have performed credit operations allowed by the General Law, which regulates and establishes certain limits to transactions with Directors, officers and employees of banks in Peru. As of December 31, 2017 and 2016, direct loans to employees, directors, officers and key personnel amounted to S/ 422 million and S/ 406 million, respectively.

Likewise, as of December 31, 2017 and 2016, key management personnel and board of directors' compensation totaled S/ 11 million and S/ 12 million, respectively.

27. Trust Fund Activities

The Bank offers structuring and administration services of trust operations and trust fees, and is in charge of the preparation of agreements related to these operations. Assets kept in trust are not included in the Consolidated financial statements. The Bank is responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2017, the allocated value of assets in trusts and trust fees amounts to S/ 12,786 million (as of December 31, 2016 S/ 11,762 million).

28. Classification of Financial Instruments

Continental Group classifies its financial assets and liabilities in categories as described in note 3. As of December 31, financial assets and liabilities are classified as follows:

2017

In thousands of soles	Through profit or loss: Held-for-trading	Through profit or loss: Designated at inception	Loans and items receivable	Available-for-sale: At amortized cost (a)	Available-for-sale: At fair value	Held-to-maturity	Hedging derivatives
Assets							
Cash and due from banks	-	-	15,326,501	-	-	-	-
Investments	4,198,995	-	-	1,598	3,508,523	-	-
Capital instruments	114,868	-	-	1,598	40,879	-	-
Debt instruments	4,084,127	-	-	-	3,467,644	-	-
Loan portfolio	-	-	49,996,441	-	-	-	-
Trading derivatives	499,288	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	1,191
Accounts receivable	-	-	53,078	-	-	-	-
Other assets	-	-	965,170	-	-	-	-
	4,698,283	**-**	**66,341,190**	**1,598**	**3,508,523**	**-**	**1,191**

In thousands of soles	At fair value through profit or loss: Held-for-trading	At fair value through profit or loss: Designated at inception	At amortized cost	Other liabilities	Hedging derivatives
Liabilities					
Deposits and obligations	-	-	47,401,7776	-	-
Interbank funds	-	-	911,486	-	-
Deposits of financial entities and international financial institutions	-	-	1,924,288	-	-
Borrowings and financial obligations	-	-	11,108,707	-	-
Trading derivatives	383,174	-	-	-	-
Hedging derivatives	-	-	-	-	142,782
Accounts payable	-	-	5,102,173	556,025	-
	383,174	**-**	**66,448,430**	**556,025**	**142,782**

2016

In thousands of soles	Through profit or loss: Held-for-trading	Through profit or loss: Designated at inception	Loans and items receivable	Available-for-sale: At amortized cost (a)	Available-for-sale: At fair value	Held-to-maturity	Hedging derivatives
Assets							
Cash and due from banks	-	-	20,888,598	-	-	-	-
Interbank funds	-	-	728,080	-	-	-	-
Investments	233,153	-	-	4,436	2,878,311	470,686	-
Capital 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	-	-	-	-
	1,071,868	**-**	**72,201,997**	**4,436**	**2,878,311**	**470,696**	**3,589**

In thousands of soles	At fair value through profit or loss: Held-for-trading	At fair value through profit or loss: Designated at inception	At amortized cost	Other liabilities	Hedging derivatives
Liabilities					
Deposits and obligations	-	-	47,946,804	-	-
Deposits of financial entities and international financial institutions	-	-	1,407,661	-	-
Borrowings and financial obligations	-	-	12,023,795	-	-
Trading derivatives	710,588	-	-	-	-
Hedging derivatives	-	-	-	-	161,691
Accounts payable	-	-	7,943,095	424,121	-
	710,588	**-**	**69,321,355**	**424,121**	**161,691**

29. Financial risk Management

The risk management plays a fundamental role in the Bank's strategy since it ensures solvency and sustained development of the entity. The risk profile used has been established based on the Group's strategies and policies and its function is unique, independent and global.

- Unique: Focused on a single objective. The appetite risk is determined in fundamental metrics, as well as limits for portfolios and economic sectors, and indicators for management and monitoring of portfolios.

- Independent: Independent from and complementary to the business. The adaptation process of the BBVA Continental Risks Unit allows to closely monitor the business and thus detect opportunities.

- Global: BBVA has an adaptive risk model for all risks, in all countries and in all businesses.

For an effective management with a comprehensive vision, the Bank's Risk area is structured by type of risks: admission of retail and wholesale credit risks, monitoring, collections and recoveries, structural, market and fiduciary risks, control, validation and regulation. The cross-cutting functions supporting risk management were consolidated in the Monitoring, Analytics & Risk Engineering Unit.

Credit risks

Continental Group's risk management system is supported by a corporate governance scheme where BBVA Group determines the policies for the management and control of retail and wholesale credit risk, which adapt to local regulation and circumstances.

Risk area structure for the credit risk management is as follows:

- Monitoring, Analytics & Risk Engineering Unit: It manages the credit risk by defining strategies, developing metrics and calculating parameters for the establishment of policies throughout the business cycle from admission, monitoring and recovery, in order to control the credit quality of the portfolio and ensure a sustained profitability according to capital consumption. Additionally, it is responsible for the development and maintenance of the credit risk models that are used in Continental Group's risk management, as well as their implementation through technological tools/platforms that are necessary for their use, integrating these tools to risk management and the commercial network, as the case may be.

- The Retail Risk Unit manages the credit risk in the admission stage of the personal and business banking (small and medium enterprises). For personal banking, the admission is done through tools that assess the customer's profile, ability to pay and credit behavior in the Bank and EDPYME and in the financial system. For business banking, the admission focuses its analysis on economic and financial data obtained from field visits that provide an adequate size of the business and ability to pay, through the use of specific methodologies for economic activities and tools that evaluate the behavioral profile of the business.

At the origination date of both personal and business banking, the Bank conducts a comprehensive evaluation through campaigns and specific tactical actions in accordance with the Bank's growth strategy, as well as the management of the portfolios.

- The Wholesale Risk Unit integrates the functions of origination and policies, admission of companies, corporate and real estate, as well as monitoring and recovery, in order to enhance the risk model with greater synergies based on the communication and feedback of the teams in the management of the inherent risk to the types of operation, products and sectors, among others.

  The Origination and Policies team is in charge of managing the wholesale portfolio, as well as the definition of growth and disinvestment policies and strategies. The Admission unit defines the credit risk profile in the policies established by the Bank in the following segments: Retail Network, Corporate and Business Banking, Global and Real Estate Clients.

  In the current year, based on the strategy of the BBVA Group and on a challenging environment for the Peruvian financial system, the control of asset allocation limits was boosted and strengthened consistent with the risk appetite. Likewise, the diversification of the portfolio was promoted through the monitoring of concentration thresholds for each sector; and the integration of the new portfolio management model was consolidated through its deployment in the branch network as a criterion for identification of opportunities, preventive action and redirection.

  The Rating, Risk Analyst and Bureau tools remain an important support in the decision-making process; and the Automated Financial Program and Digital Financial Program in the Corporate Banking and Corporate Investment Banking (CIB) segments constitute digital platforms for the preparation and analysis of credit proposals.

- The Monitoring, Collection and Recovery Unit integrates the functions of renewal and surveillance to critical cases, collections through external agencies, management of written off receivables and strategies for divestment of portfolios both in the retail and wholesale areas.

  The monitoring management, which includes the portfolios of Personal and Business Banking Risk, uses statistical information to detect both warning indicators and high-risk groups.

  The collections and recoveries management is oriented to prevention through behavioral tools, Call Center actions and field visits. Once in the judicial field, actions for the course and monitoring of collection actions are coordinated with legal firms/providers.

  In the wholesale field, the monitoring function aims at identifying those customers with potential deterioration from the beginning, in order to manage credit risk, while Recoveries seeks to negotiate payment agreements with the customer through the refinancing, lieu of payment or execution of guarantees.

Maximum credit exposure
The maximum credit exposure as of December 31, 2017 and 2016 is presented below:

In thousands of soles	**2017**	**2016**
Cash and due from banks	15,326,501	20,888,598
Interbank funds	-	728,080
Investments at fair value through profit or loss	4,198,995	233,153
Available-for-sale investments	3,510,121	2,882,747
Held-to-maturity investments	-	470,686
Loan portfolio	49,996,441	49,955,024
Trading derivatives	499,288	838,715
Hedging derivatives	1,191	3,589
Accounts receivable	53,078	41,518
Other assets	965,170	588,777
	74,550,785	**76,630,887**

Received collaterals
The requirement of guarantees may be a necessary instrument, but not sufficient for facing risks and its acceptance is complementary to the credit process that requires the previous verification of the debtor's payment capacity or whether it is able to generate sufficient resources to allow the amortization of the risk contracted in the agreed conditions.

The procedures for the management and valuation of the collaterals are included in the Policies and Procedures for Retail and Wholesale Credit Risk. These Policies and Procedures lay down the basic principles of credit risk management, which include the management of the collaterals assigned in transactions with customers. All collaterals assigned are to be properly instrumented and recorded in the corresponding register, as well as having the corresponding insurance policies.

The valuation of collateral is governed by prudential principles. They imply the use of appraisals for real-estate guarantees, stock-market price for shares, trading price of shares in mutual funds, value of the quotation of the shares in an investment fund, etc. Under these prudential principles, milestones are established, in accordance with local regulations or are even stricter, under which guarantee valuations should be updated considering also the requirements and level of recognition by the local regulator that entities performing valuations shall comply with.

In thousands of soles	**2017**	**%**	**2016**	**%**
Mortgages	20,277,630	39	19,608,688	38
Rest of collaterals	12,468,059	24	12,231,088	24
Finance lease	4,827,736	9	5,441,361	10
Collaterals and financial guarantees received	723,624	1	568,286	1
Readily realizable guarantees	322,419	1	355,479	1
Pledges on vehicles, industrial and merchant pledges, among others	106,021	-	160,943	-
Product and merchandise warrants	10,486	-	-	-
Secured loans	**38,735,975**	**74**	**38,365,845**	**74**
Loans without collateral	13,316,716	26	13,622,611	26
Total	**52,052,691**	**100**	**51,988,456**	**100**

Loan portfolio credit rating

Segmentation of loan portfolio in 'neither past due nor impaired', 'past due but not impaired' and 'impaired', is as follows:

	2017						2016					
	Wholesale loans	Small and micro-business loans	Consumer loans	Mortgage loans	Total	%	Wholesale loans	Small and micro-business loans	Consumer loans	Mortgage loans	Total	%
Neither past due nor impaired loans	**31,289,982**	**1,195,986**	**4,961,742**	**11,434,982**	**48,882,692**	**99**	**32,892,432**	**1,222,027**	**4,427,363**	**10,717,118**	**49,258,940**	**99**
Standard	30,716,493	1,165,279	4,877,061	11,234,542	47,993,375	97	32,182,858	1,185,240	4,335,356	10,514,002	48,217,456	97
With potential problems	573,489	30,693	84,681	200,440	889,303	2	709,562	36,787	92,007	203,116	1,041,472	2
Substandard	-	14	-	-	14	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	12	-	-	-	12	-
Past due but not impaired loans	**33,528**	**164**	**177**	**502**	**34,371**	-	**55,674**	**-**	**14**	**462**	**56,150**	**-**
Standard	11,901	164	51	-	12,116	-	11,219	-	2	-	11,221	-
With potential problems	21,627	-	126	502	22,255	-	44,455	-	12	462	44,929	-
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Impaired loans	**2,065,656**	**157,409**	**319,106**	**593,457**	**3,135,628**	**6**	**1,708,777**	**157,109**	**294,017**	**513,463**	**2,673,366**	**6**
Standard	37,854	281	6	-	38,141	-	7,328	109	99	-	7,536	-
With potential problems	313,515	93	12	-	313,620	1	285,458	98	90	-	285,646	1
Substandard	492,595	21,936	74,366	208,327	797,224	1	380,026	23,342	71,092	181,506	656,966	1
Doubtful	502,853	46,144	132,522	180,421	861,940	2	421,968	40,815	125,335	174,696	762,814	2
Loss	718,839	88,955	112,200	204,709	1,124,703	2	613,997	91,745	97,401	157,261	960,404	2
Gross loan portfolio	**33,389,166**	**1,353,559**	**5,281,025**	**12,028,941**	**52,052,691**	**105**	**34,656,883**	**1,379,136**	**4,721,394**	**11,231,043**	**51,988,456**	**105**
Less: Provisions	(1,570,237)	(119,253)	(302,483)	(369,496)	(2,361,469)	(5)	(1,483,456)	(117,869)	(426,424)	(328,463)	(2,356,212)	(5)
Total net	**31,818,929**	**1,234,306**	**4,978,542**	**11,659,445**	**49,691,222**	**100**	**33,173,427**	**1,261,267**	**4,294,970**	**10,902,580**	**49,632,244**	**100**

Criteria used to determine whether a credit is impaired are the following:

Debtor type	Impairment criteria
Retail	Past due over 90 days Loans rated as: substandard, doubtful or loss.
Wholesale	Loans rated as: substandard, doubtful or loss. Refinanced or restructured transaction.

The specific provisions associated with the transactions that as of December 31, 2017 have been classified as 'past due but not impaired' and 'impaired' amount to S/ 1,355 million (2016: S/ 1,158 million).

During 2017 and 2016, the transactions with clients that during these periods were classified as 'past due but not impaired' and 'impaired' have generated finance income of S/ 149 million and S/ 138 million, respectively.

As of December 31, 2017 and 2016, the collaterals of 'past due but not impaired' loans and 'impaired' loans amount to S/ 1,928 million and S/ 1,760 million, respectively, of which S/ 1,755 million and S/ 1,617 million correspond to mortgages.

'Past due but not impaired' loans as of December 31, 2017 and 2016 amount to S/ 34 million and S/ 56 million, respectively. Below is a breakdown of those credits listed by their past-due date:

	2017				**2016**			
In thousands of soles	**16- 30**	**31- 60**	**61 - 90**	**Total**	**16- 30**	**31- 60**	**61 - 90**	**Total**
Past-due date								
Type of credit								
Corporate	-	3	1	4	-	-	-	-
Large-business loans	336	5,783	26	6,145	762	12,925	-	13,687
Medium-business loans	14,951	8,831	3,767	27,549	18,693	17,620	5,674	41,987
	15,287	**14,617**	**3,794**	**33,698**	**19,455**	**30,545**	**5,674**	**55,674**
Small-business loans	-	164	-	164	-	-	-	-
Micro-business loans	-	-	-	-	-	-	-	-
Consumer	-	7	-	7	-	14	-	14
Mortgage loans	-	502	-	502	-	462	-	462
Past-due date	**-**	**673**	**-**	**673**	-	476	-	476
Total	**15,287**	**15,290**	**3,794**	**34,371**	**19,455**	**31,021**	**5,674**	**56,150**

Risk concentration

Loan portfolio is distributed in the following economic sectors:

	2017		2016	
In thousands of soles		%		%
Mortgage and consumer loans	17,309,926	33	15,952,436	31
Commerce	9,086,584	18	9,673,102	19
Manufacturing	8,951,081	18	9,935,631	19
Real estate, business and leasing	3,017,877	6	3,045,934	6
Transport, storage and communications	2,574,841	5	2,691,618	5
Mining	1,740,273	3	1,491,642	3
Agriculture and livestock	1,570,296	2	1,465,249	3
Power, gas and water	1,290,543	3	1,818,495	3
Construction	1,107,513	2	1,132,217	2
Financial intermediation	1,041,749	2	1,066,797	2
Other	4,362,008	8	3,715,335	7
Total	**52,052,691**	**100**	**51,988,456**	**100**

A As of December 31, financial instruments are distributed among geographical areas as follows:

2017

	At fair value through profit or loss						
In thousands of soles	**Held-for-trading**	**At inception**	**Loans and items receivable**	**Available-for-sale**	**Held-to-maturity**	**Hedging derivatives**	**Total**
Financial instruments							
Peru	4,477,982	-	51,640,543	3,509,300	-	-	59,627,825
Rest of South America	-	-	223,915	791	-	-	224,706
Rest of the world	213,706	-	239,445	-	-	-	453,151
Mexico	4,939	-	10,406	-	-	-	15,345
United States	1,386	-	34,100	-	-	-	35,486
Europe	5,043	-	44,361	30	-	1,191	50,625
	4,703,056	**-**	**52,192,770**	**3,510,121**	**-**	**1,191**	**60,407,138**
Provisions	(4,773)	-	(2,448,471)	-	-	-	(2,453,244)
Accrued interest	-	-	362,993	-	-	-	362,993
Deferred	-	-	(57,774)	-	-	-	(57,774)
	4,698,283	**-**	**50,049,518**	**3,510,121**	**-**	**1,191**	**58,259,113**

2016

	At fair value through profit or loss						
In thousands of soles	**Held-for-trading**	**At inception**	**Loans and items receivable**	**Available-for-sale**	**Held -to-maturity**	**Hedging derivatives**	**Total**
Financial instruments							
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 interest	-	-	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**

Market risk
Market risk arises as a consequence of the activity maintained in the markets, through financial instruments whose value may be affected by variations in the market conditions, and reflected in changes in the different assets and financial risk factors. The risk can be mitigated or even eliminated through hedges using other products (assets, liabilities or derivatives), or by undoing the transaction/open position.

The main risks generated may be classified into the following three groups: interest rates, exchange rates and equity.

- Interest rate risk: It arises as a consequence of variations in the term structure of market interest rates, for the different currencies.

- Currency risk: It arises due to movements in the exchange rates among the different currencies.

- Equity risk: It arises as a result of movements in the market prices, either by specific factors of the instrument itself, or by factors that affect all the instruments traded in the market.

In addition, for certain positions, it is also necessary to consider other risks: credit spread risk, basis risk, volatility and correlation risk.

The standard metric used to measure the Bank's market risk is Value at Risk (“VaR”). This risk measure estimates the maximum loss, with a given level of confidence, that may occur in the market positions of a portfolio for a specific time horizon. In the Bank, the VaR is calculated using the parametric method with a given confidence level of 99% and a time horizon of one day, and the data period taken is one year.

The current management structure includes the monitoring of market-risk limits, consisting of a scheme of limits based on VaR and Economic Capital per market risk and specific alerts and sub-limits per type of risks, among others.

Validity tests are performed on the risk measurement models used to estimate the maximum loss that could be incurred in the positions assessed with a certain level of probability (backtesting), as well as measurements of the impact of extreme market events on risk positions (stress testing). The Bank is currently performing stress testing on historical and economic crisis scenarios.

The Bank's market risk is higher in 2017 compared to 2016. The increase is explained by a higher position in sovereign bonds and derivatives portfolio.

The detail of VaR by risk factors was as follows:

In thousands of Soles	**2017**	**2016**
VaR per risk factor		
VaR without smoothing	4,456	3,148
VaR - Interest rates	4,001	3,299
VaR - Exchange rates	2,135	534
VaR average	4,375	7,701
Maximum VaR	6,893	15,656
Minimum VaR	2,480	2,559

The stress analysis is carried out on the basis of historical crisis scenarios. The benchmark historical scenario considers:

- Bankruptcy of Lehman Brothers in 2008.
- Peru's second round of elections in June 2001.

By type of market risk assumed by the trading portfolio, at the closing of 2017, the main risk factor continue to be that linked to interest rates, and to a lesser degree the one linked to currency risk.

The parametric VaR methodology is validated on a regular basis by backtesting.

Structural interest-rate risk
The aim of managing interest rate risk of the banking trading is to maintain the Bank's exposure to variations in interest rates at levels in line with its strategy and target risk profile. For this purpose, the Assets and Liabilities Committee (ALCO) actively manages the banking book through operations intended to optimize the levels of risk borne according to the expected earnings and enables the maximum levels of accepted risk to be complied.

ALCO uses the interest rate risk measurements performed by the Risk Area. Acting as an independent unit, the Risk Area periodically quantifies the impact of interest rate fluctuations on the Bank's net interest income and economic value.

In addition to measuring the sensitivity to 100-basis-point changes in market interest rates, the Bank performs probability calculations that determine the economic capital (maximum loss of economic value) and risk margin (maximum loss of interest margin) for structural interest rate risk in the banking activity, excluding the Treasury area, based on interest rate curve simulation models. The Bank regularly performs stress tests to complement the assessment of its interest rate risk profile.

All these risk measurements are subsequently analyzed and monitored, and levels of risk assumed and the degree of compliance with the authorized limits are transferred to the different managing bodies of the Bank.

Below are the consumption of the Bank's structural interest risk levels during the years 2017 and 2016 (information available until November 2017 and 2016):

2017

	2017	Nov-17	Oct-17	Sep-17	Aug-17	Jul-17	Jun-17	May-17	Apr-17	Mar-17	Feb-17	Jan-17
Limit consumption												
Financial margin sensitivity	6%	4%	4.1%	4.1%	4%	3.9%	4%	4.3%	4.3%	4.1%	4.4%	4.1%
Alert consumption												
Economic value sensitivity	610	338	325	317	313	319	314	292	293	301	281	299
Economic capital (EC)	1,000	760	755	737	711	689	675	681	659	657	651	624
Earnings at risk (EaR)	7%	2.1%	2.2%	2.2%	2.3%	2.4%	2.4%	2.5%	2.6%	2.8%	2.5%	1.9%

2016

	2016	Nov-16	Oct-16	Sep-16	Aug-16	Jul-16	Jun-16	May-16	Apr-16	Mar-16	Feb-16	Jan-16
Limit consumption												
Financial margin sensitivity	6%	4.1%	4.3%	4.1%	4.1%	4%	3.5%	3.8%	3.7%	3.6%	3.6%	4%
Alert consumption												
Economic value sensitivity	540	294	303	308	289	314	294	281	274	267	202	204
Economic capital (EC)	880	602	637	653	610	655	640	607	603	595	522	516
Earnings at risk (EaR)	5%	1.9%	1.9%	2.0%	1.9%	2.1%	2.0%	1.9%	1.7%	1.7%	1.8%	1.8%

As part of the measurement process, the Bank established the assumptions regarding the movement and behavior of certain items, such as those relating to products with no explicit or contractual maturity. These assumptions are based on studies that estimate the relationship between the interest rates on these products and market rates and enable specific balances to be classified into trend-based balances maturing at long term and seasonal or volatile balances with short-term residual maturity.

Liquidity risk

The aim of liquidity risk management, monitoring and control is to ensure, in the short-term, that the payment commitments can be duly met without having to resort to borrowing funds under burdensome terms, or damaging the image and reputation of the institution. In the medium term the aim is to ensure that the financing structure is ideal and that it moves in the right direction, in the context of the economic situation, the markets and regulatory changes.

Management of liquidity and structural funding within the Bank is based on the principle of financial autonomy in respect of the BBVA Group. This approach helps prevent and limit liquidity risk by reducing the Bank's vulnerability during periods of high risk.

The management and monitoring of liquidity risk is carried out comprehensively using a double approach: short- and long-term. The short-term liquidity approach has a time horizon of up to 365 days. It is focused on the management of payments and collections from the market activities, resources from volatile clients, and each bank's possible liquidity requirements. The second approach, medium-term or financing, is focused on financial management of the whole assets and liabilities, focusing on financing structure, with a time horizon of one year or more.

The Assets and Liabilities Committee (ALCO) is responsible for the comprehensive management of liquidity. The Financial Management unit, as part of the Financial Division, analyzes the implications of the Bank's various projects in terms of funding and liquidity and its compatibility with the target funding structure and the situation of the financial markets. In this sense, the Financial Management unit, in accordance with the approved budgets, executes the proposals agreed by the ALCO and manages the liquidity risk according to a broad scheme of limits, sub-limits and approved alerts, over which the Risk area performs, independently, its measurement and control functions, contributing to the manager support tools and metrics for decision-making.

Periodic measurements of the risk incurred and the monitoring of the consumption of limits are made from the Structural, Market and Fiduciary Risks unit, which reports monthly the liquidity risk levels to the ALCO; and more frequently to the own management units.

On the regulatory side, the Basel Committee on Banking Supervision has proposed a new liquidity regulation scheme based on two ratios: Liquidity Coverage Ratio (LCR) effective 2015 and Net Stable Funding Ratio (NSFR) to be implemented in 2018. Both the Bank and the BBVA Group as a whole, participated in the corresponding quantitative impact study (QIS) and has included the new regulatory challenges in its new general framework for action in the field of Liquidity and Finance. At the local level, the SBS has also implemented the monitoring of the RCL (Ratio of Coverage of Liquidity), following the general guidelines of the Basel Committee, although adapted to the Peruvian reality. This RCL has been used since December 2013 and its calculation has a daily periodicity. The limit established for the RCL is 80% for the period 2014 - 2017 (90% for 2018; 100% for 2019 onward), which has been comfortably met.

With the entry into force of the new liquidity reports, the SBS established new guidelines for the distribution by residual maturity of assets and liabilities, which include items with contractual maturity and those whose distribution has been made through the establishment of assumptions. Distribution by residual maturity of assets and liabilities as of December 31, 2017 and 2016, is presented below, including respective accrued income, in the case of loan and deposits portfolio:

In thousands of soles	1 month or less	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	More than 5 years	Past due and lawsuit loans	No contractual maturity	Total
2017									
Assets									
Cash and due from banks	5,804,753	632,912	2,257,049	1,741,714	4,890,073	-	-	-	15,326,501
Investments at fair value through profit or loss	4,190,996	-	-	-	-	-	-	7,999	4,198,995
Available-for-sale investments	2,785,780	84,151	2,539	-	78,293	559,358	-	-	3,510,121
Held-to-maturity investments	-	-	-	-	-	-	-	-	-
Loan portfolio	6,676,011	7,580,142	5,024,650	5,722,709	16,582,149	9,372,111	1,400,138	-	52,357,910
Trading derivatives	71,971	40,977	42,507	34,583	152,263	156,987	-	-	499,288
Hedging derivatives	-	-	-	-	1,191	-	-	-	1,191
	19,529,511	**8,338,182**	**7,326,745**	**7,499,006**	**21,703,969**	**10,088,456**	**1,400,138**	**7,999**	**75,894,006**
Liabilities									
Deposits and obligations	8,116,584	5,111,380	2,982,101	2,428,088	28,763,623	-	-	-	47,401,776
Demand deposits	2,183,640	1,598,974	-	-	12,340,190	-	-	-	16,122,804
Savings	1,062,842	778,011	-	-	12,784,759	-	-	-	14,625,612
Time	4,791,468	2,734,395	2,982,101	2,428,088	3,638,674	-	-	-	16,574,726
Other	78,634	-	-	-	-	-	-	-	78,634
Interbank funds	911,486	-	-	-	-	-	-	-	911,486
Deposits in financial entities	618,969	517,938	531,128	242,400	13,853	-	-	-	1,924,288
Borrowings and financial obligations	1,540,792	309,498	1,745,866	196,060	4,739,841	2,619,811	-	-	11,108,707
Trading derivatives	62,401	39,281	44,385	26,755	131,848	78,504	-	-	383,174
Hedging derivatives	-	-	4,329	-	103,840	34,613	-	-	142,782
Accounts payable	863,668	250,124	2,212,216	1,717,000	266,791	348,399	-	-	5,658,198
Other liabilities	745,974	-	-	-	-	-	-	-	745,974
	12,859,874	**6,228,221**	**7,520,025**	**4,571,142**	**34,015,796**	**3,081,327**	**-**	**-**	**68,276,385**

In thousands of soles	1 month or less	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	More than 5 years	Past due and lawsuit loans	No contractual maturity	Total
2016									
Assets									
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	8,738,329	1,257,088	-	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
	17,453,996	**11,345,156**	**8,541,737**	**4,633,508**	**25,621,827**	**9,543,593**	**1,257,088**	**8,811**	**78,405,716**
Liabilities									
Deposits and obligations	9,183,192	7,613,402	2,734,039	2,742,907	25,673,264	-	-	-	47,946,804
Demand deposits	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
Other	52,870	-	60	-	-	-	-	-	52,930
Interbank funds	-	-	-	-	-	-	-	-	-
Deposits in financial entities	955,293	372,407	15,479	11,100	53,382	-	-	-	1,407,661
Borrowings 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
	13,652,097	**8,416,362**	**6,774,269**	**2,979,879**	**34,538,578**	**4,680,259**	**-**	**-**	**71,041,444**

Operational risk
An integrated internal control and operational risk methodology was implemented throughout the Bank as a development of the identification, evaluation and monitoring procedures supported by tools that allow qualitative and quantitative management.

This model is based on a decentralized management of operational risk carried out by control specialists under the coordination of a methodological unit and reporting to the corresponding operational risk committees that allows for an adequate integration in management.

In relation to qualitative management, the STORM tool (Support Tool for Operational Risk Management) enables the identification and quantification of operational risks associated at the process level, as well as the periodic evaluation of controls associated with critical risks. Throughout 2017, the risks and controls have been updated, maintaining the model validity.

SIRO, on the other hand, is the fundamental quantitative tool. It is a database that collects all operational risk events that represent a loss for the Bank.

With regard to the authorization for calculating the regulatory capital requirement for operational risk, the Bank is authorized for the use of the alternative standard method, which allows the regulatory capital requirement to be optimized.

The regulatory capital requirement for operational risk based on the alternative standard method, as of December 31, 2017 amounts to S/ 444 million.

Among the relevant initiatives carried out during 2017, are the strengthening of our internal control scheme in the business through the provision of greater structure and work methodologies.

30. Fair Value

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability, or an equity instrument in another. In the case of the Bank, financial instruments correspond to primary instruments such as accounts receivable, accounts payable, shares representing capital in other companies and derivative financial instruments (forwards and swaps).

Financial instruments are classified as either liabilities or equity according to the contract that gave rise to the financial instrument. The interest, dividends, gains, and losses generated by a financial instrument, and classified as liability, are recorded as income or expense in the consolidated statement of comprehensive income. The payment to holders of financial instruments classified as equity is recorded directly in equity. The financial instruments are offset when the Bank has the legally enforceable right to set off, and management intends either to settle on a net basis, to realize the asset, and settle the liability simultaneously.

Fair value is the amount for which an asset could be exchanged between knowledgeable willing parties, or a liability settled between a debtor and a creditor in an arm's length transaction.

In the cases where the quoted price is not available, the fair value shall be estimated based on the quoted price of a financial instrument with similar characteristics, the present value of expected cash flows or other valuation techniques, which are significantly affected by the different used assumptions. Although Management uses its best judgment in estimating the fair value of its financial instruments, there are weaknesses inherent in any valuation technique. As a result, the fair value may not be an approximate estimate of the net realizable value or the liquidation value.

The following considerations apply to the methodology and assumptions used in the fair value estimates of the Bank's financial instruments.

Assets and liabilities whose fair value is similar to the carrying amount
This assumption applies to those assets and liabilities with current maturity, arranged at a floating rate and those that through Official Letter 43078-2014-SBS, the SBS determined that their fair value corresponds to the carrying amount.

Assets and liabilities at fixed rate
The Bank uses the methodology for projection of future cash flows discounted at market rates for instruments with similar characteristics.

Assets and liabilities measured at fair value
In the determination of fair value, three levels are distinguished:

Level 1: For instruments quoted in active markets, the fair value is determined by the price observed in those markets, and for instruments whose market price is not available but that of its components is, the fair value will be determined based on the relevant market prices of such components.

Level 2: When it concerns instruments quoted in non-active markets, the fair value is determined using a technique or valuation models using, mostly, potential data from the market and minimizing the use of data contributed internally.

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

The fair value of marketable and available-for-sale investments has been determined based on their market prices or the quotations of the underlying assets (sovereign risk rate) at the date of the consolidated financial statements.

In the case of derivative financial instruments, their fair value is determined through the use of valuation techniques.

Carrying amount and fair value of financial assets and liabilities
Taking into account fair value considerations and the Official Letter 43078-2014-SBS, in which the SBS determined that the fair value corresponds to the carrying amount in the case of loans and deposits, as of December 31, 2017 and 2016, the carrying amounts and fair values of the financial assets and liabilities are presented as follows:

	Carrying amount		Fair value	
In thousands of soles	**2017**	**2016**	**2017**	**2016**
Assets				
Cash and due from banks	15,326,501	20,888,598	15,326,501	20,888,598
Interbank funds	-	728,080	-	728,080
Investments at fair value through profit or loss, available-for-sale and held-to-maturity	7,709,116	3,586,586	7,709,116	3,599,744
Loan portfolio	49,996,441	49,955,024	49,996,441	49,955,024
Trading derivatives	499,288	838,715	499,288	838,715
Hedging derivatives	1,191	3,589	1,191	3,589
Accounts receivable	53,078	41,518	53,078	41,518
Other assets	965,170	588,777	965,170	588,777
Total	**74,550,785**	**76,630,887**	**74,550,785**	**76,644,045**
Liabilities				
Deposits and obligations	49,326,064	49,354,465	49,326,064	49,354,465
Interbank funds	911,486	-	911,486	-
Borrowings and financial obligations	11,108,707	12,023,795	10,644,379	11,884,410
Trading derivatives	383,174	710,588	383,174	710,588
Accounts payable	142,782	161,691	142,782	161,691
Other liabilities	5,658,198	8,367,216	5,658,198	8,367,216
	67,530,411	**70,617,755**	**67,066,083**	**70,478,370**

Financial instruments recorded at fair value and fair value hierarchy

	2017				2016			
In thousands of soles	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Assets								
Investments at fair value through profit or loss	4,198,995	299,151	3,899,844	-	233,153	108,452	124,701	-
Instruments representing capital	114,868	114,868	-	-	8,811	8,811	-	-
Instruments representing debt	4,084,127	184,283	3,899,844	-	224,342	99,641	124,701	-
Available-for-sale investments	3,508,522	388,770	3,119,752	-	2,878,311	137,843	2,740,468	-
Instruments representing capital	40,879	-	40,879	-	43,911	-	43,911	-
Instruments representing debt	3,467,643	388,770	3,078,873	-	2,834,400	137,843	2,696,557	-
Trading derivatives	499,288	-	499,288	-	838,715	-	838,715	-
Hedging derivatives	1,191	-	1,191	-	3,589	-	3,589	-
	8,207,996	**687,921**	**7,520,075**	**-**	**3,953,768**	**246,295**	**3,707,473**	**-**
Liabilities								
Borrowings and financial obligations	5,585,463	-	5,585,463	-	7,472,587	-	7,472,587	-
Trading derivatives	383,174	-	383,174	-	710,588	-	710,588	-
Hedging derivatives	142,782	-	142,782	-	161,691	-	161,691	-
	6,111,419	**-**	**6,111,419**	**-**	**8,344,866**	**-**	**8,344,866**	-

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

Description of valuation techniques for instruments recorded at fair value

Level 2		Valuation technique / hypotheses	Significant unobservable inputs
Borrowings and financial obligations		Calculation of the present value of the hedge derivative considering the market interest rates, translating into soles using the exchange rate of the day (if necessary). It takes into account: The variable flows (if any) and the cash flow projections.	• Closing exchange rates. • Market interest rate curves.
Derivatives	(a) Forwards, IRS and CCS	Calculation of the present value of each component of the derivative (fixed/variable) considering the market interest rates and translating into soles at the exchange rate of the day (if necessary). It takes into account: the variable flows (if any), the projection of flows, the discount curves for each underlying and the current market interest rates.	• Forward points. • Fixed and variable quotations. • Closing exchange rates. • Market interest rate curves.
	(b) Options	**For share, currency or raw material options:** Black Scholes hypothesis considers the possible adjustments to convexity.	**Share, currency or raw material option derivatives:** • Forward structure of underlying. • Volatility of options. • Observable correlation between different underlyings
		For interest-rate derivatives: The Black Scholes hypothesis assumes a lognormal process for forward types and considers the possible adjustments to convexity.	**Interest-rate derivatives:** • Term structure of interest-rate curve terms. • Volatility of underlying asset.

31. Subsequent Events

The Bank is not aware of any significant subsequent events occurring between the closing date of these consolidated financial statements and the authorization date of their issuance, that may affect them significantly.