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BBVA Banco Continental and Subsidiaries

Consolidated Financial Statements

December 31, 2018 and 2017

(Including Independent Auditors' Report)
(TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN SPANISH)

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(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors
BBVA Banco Continental

We have audited the accompanying consolidated financial statements of BBVA Banco Continental (a subsidiary of BBVA Perú Holding S.A.C., an entity established in Peru, hereinbefore Newco Perú S.A.C.) and Subsidiaries, which comprises the consolidated statement of financial position as of December 31, 2018 and 2017, the consolidated statements of income, income and other comprehensive income, changes in equity, and cash flows for the years 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 entities 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 audits. We conducted our audits 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 Group'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 Group'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, 2018 and 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 entities in Peru.

Lima, Peru

Caipo y Asociados

February 25, 2019

Countersigned by:

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

BBVA Banco Continental and Subsidiaries

Consolidated Financial Statements

December 31, 2018 and 2017

Contents	**Page**
Consolidated Financial Statements	

(Translation of Consolidated Financial Statements originally issued in Spanish)

BBVA Banco Continental and Subsidiaries

Consolidated Statement of Financial Position

As of December 31, 2018 and 2017

In thousands of soles	***Note***	**2018**	**2017**
Assets			
Cash and due from banks	*5*	12,934,941	15,326,501
Investments at fair value through profit or loss and available-for-sale	*6*	6,540,074	7,709,116
Loan portfolio, net	*7*	52,015,135	49,996,441
Trading derivatives	*8*	457,876	499,288
Hedging derivatives	*8*	1,439	1,191
Realizable assets and assets seized and recovered through legal actions		248,430	207,976
Interest in associates	*9*	13,758	12,226
Property, furniture, and equipment, net	*10*	940,176	923,324
Goodwill		5,289	5,289
Deferred income tax	*24*	365,444	370,701
Other assets, net	*11*	1,460,156	1,558,746
Total assets		**74,982,718**	**76,610,799**
Risks and contingent commitments	*16*	26,237,810	24,648,941

In thousands of soles	***Note***	**2018**	**2017**
Liabilities and equity			
Obligations to the public and deposits from financial system entities	*12*	51,007,523	49,326,064
Interbank funds		817,265	911,486
Borrowings and financial obligations	*13*	10,370,961	11,108,707
Trading derivatives	*8*	348,759	383,174
Hedging derivatives	*8*	197,492	142,782
Provisions and other liabilities	*14*	3,888,505	7,079,315
Total liabilities		**66,630,505**	**68,951,528**
Equity	*15*		
Share capital		5,368,602	4,883,119
Reserves		1,522,035	1,383,079
Adjustments to equity		(7,996)	6,387
Retained earnings		1,469,572	1,386,686
Total equity		**8,352,213**	**7,659,271**
Total liabilities and equity		**74,982,718**	**76,610,799**
Risks and contingent commitments	*16*	26,237,810	24,648,941

The accompanying notes on pages 6 to 81 are part of these consolidated financial statements.

BBVA Banco Continental and Subsidiaries
Consolidated Statement of Income
For the years ended December 31, 2018 and 2017

In thousands of soles	***Note***	**2018**	**2017**
Interest income	*17*	4,483,439	4,414,802
Interest expenses	*18*	(1,319,288)	(1,510,015)
Gross financial income		**3,164,151**	**2,904,787**
Provisions for direct loans, net of recoveries	*7*	(744,119)	(550,922)
Net financial income		**2,420,032**	**2,353,865**
Income from finance services, net	*19*	813,435	794,185
Financial income net of revenue and expenses for financial services		**3,233,467**	**3,148,050**
Profit or loss from financial operations	*20*	581,371	563,791
Operating margin		**3,814,838**	**3,711,841**
Administrative expenses	*21*	(1,553,155)	(1,498,943)
Depreciation and amortization		(150,019)	(125,057)
Net operating margin		**2,111,664**	**2,087,841**
Valuation of assets and provisions		(64,420)	(151,422)
Operating profit		**2,047,244**	**1,936,419**
Other expenses, net	*22*	(10,540)	(41,885)
Profit before income tax		**2,036,704**	**1,894,534**
Income tax	*23*	(567,778)	(505,534)
Net profit		**1,468,926**	**1,389,000**
Basic and diluted earnings per share in soles	***25***	**0.2736**	**0.2587**
Weighted average number of outstanding shares (in thousands of shares)	***25***	**5,368,602**	**5,368,602**

The accompanying notes on pages 6 to 81 are part of these consolidated financial statements.

BBVA Banco Continental and Subsidiaries
Consolidated Statement of Income and Other Comprehensive Income
For the years ended December 31, 2018 and 2017

In thousands of soles	**2018**	**2017**
Net profit	1,468,926	1,389,000
Other comprehensive income		
(Loss) Net gain on available-for-sale investments	(10,862)	8,751
Net loss on cash flow hedges	(8,449)	(723)
Interest in other comprehensive income of associates	53	(13)
Other adjustments	-	(4,042)
Income tax related to the components of other comprehensive income	4,875	2,034
Other comprehensive income for the year, net of income tax	**(14,383)**	**6,007**
Total comprehensive income for the year	**1,454,543**	**1,395,007**

The accompanying notes on pages 6 to 81 are part of these consolidated financial statements.

(Translation of Consolidated Financial Statements originally issued in Spanish)

BBVA Banco Continental and Subsidiaries
Consolidated Statement of Changes in Equity
For the years ended December 31, 2018 and 2017

	Number of shares in thousands	**Share capital**	**Reserve**		**Adjustment s to equity**	**Retained earnings**	**Total**
In thousands of soles	**(note 15.B)**	**(note 15.B)**	**Legal (note 15.C)**	**Voluntary**	**(note 15.D)**	**(note 15.E)**	**equity**
Balances 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)
Net change in available-for-sale investments andinterest 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 the 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
Balances as of December 31, 2017	**4,883,119**	**4,883,119**	**1,383,079**	**-**	**6,387**	**1,386,686**	**7,659,271**
Balances as of January 1, 2018	4,883,119	4,883,119	1,383,079	-	6,387	1,386,686	7,659,271
Net profit	-	-	-	-	-	1,468,926	1,468,926
Other comprehensive income							
Net unrealized loss on available-for-sale investments	-	-	-	-	(6,986)	-	(6,986)
Net unrealized loss on cash flow hedging derivatives	-	-	-	-	(5,957)	-	(5,957)
Net change in available-for-sale investments and interest in other comprehensive income of associates	-	-	-	-	(1,440)	-	(1,440)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(14,383)**	**1,468,926**	**1,454,543**
Changes in equity (not included in the comprehensive income)							
Dividends	-	-	-	-	-	(762,901)	(762,901)
Capitalization of retained earnings	485,483	485,483	-	-	-	(485,483)	-
Adjustment for correction of mistakes	-	-	-	-	-	1,053	1,053
Transfers to reserves and other movements	-	-	138,956	-	-	(138,709)	247
Balances as of December 31, 2018	**5,368,602**	**5,368,602**	**1,522,035**	**-**	**(7,996)**	**1,469,572**	**8,352,213**

The accompanying notes on pages 6 to 81 are part of these consolidated financial statements.

BBVA Banco Continental and Subsidiaries
Consolidated Statement of Cash Flows
For the years ended December 31, 2018 and 2017

In thousands of soles	**2018**	**2017**
Reconciliation of Group's net profit with cash and cash equivalents from operating activities		
Net profit	1,468,926	1,389,000
Adjustments		
Depreciation and amortization	150,019	125,058
Impairment of property, furniture, and equipment and intangible assets	15,001	-
Provisions	794,591	702,343
Other adjustments	531,255	547,653
Net changes in assets and liabilities		
Loans	(2,030,899)	(1,115,605)
Available-for-sale investments	(846,227)	(115,478)
Accounts receivable and others	3,119,424	4,129,298
Non-subordinated financial liabilities	(285,765)	856,448
Accounts payable and others	(3,437,344)	(2,696,602)
Profit or loss for the year after net changes in assets, liabilities, and adjustments	**(521,019)**	**3,822,115**
Income tax paid	(297,975)	(738,492)
Net cash and cash flows (used in) from operating activities	**(818,994)**	**3,083,623**
Cash flows from investing activities		
Sale of intangible assets and property, furniture, and equipment	5,460	-
Purchase of intangible assets and property, furniture, and equipment	(249,203)	(247,518)
Purchase of interest	(1,973)	-
Other inflows related to investing activities	55,100	45,572
Net cash and cash flows used in investing activities	**(190,616)**	**(201,946)**
Cash flows from financing activities		
Redemption of subordinated financial liabilities	-	(64,820)
Other inflows related to financing activities	202,425	508,000
Other outflows related to financing activities	(160,000)	(200,000)
Dividends paid	(761,550)	(722,004)
Net cash and cash flows used in financing activities	**(719,125)**	**(478,824)**
Net (decrease) increase in cash and cash equivalents before the effect of exchange rate fluctuations	**(1,728,735)**	**2,402,853**
Effect of exchange rate fluctuations on cash and cash equivalents	399,699	(589,814)
Net (decrease) increase in cash and cash equivalents	**(1,329,036)**	**1,813,039**
Cash and cash equivalents at the beginning of the year	16,654,502	14,841,463
Cash and cash equivalents at the end of the year	**15,325,466**	**16,654,502**
Security funds	1,208,377	4,293,412
Investments with a maturity of less than 90 days	(3,598,902)	(5,621,413)
Cash and due from banks as per the statement of financial position (note 5)	**12,934,941**	**15,326,501**

The accompanying notes on pages 6 to 81 are part of these consolidated financial statements.

1. Identification and Business Activity

A. Identification

BBVA Banco Continental (hereinafter "the Bank") is a subsidiary of BBVA Perú Holding S.A.C. (entity incorporated in Peru, formerly Newco Perú S.A.C.), which holds 46.12% of its share capital as of December 31, 2018 and 2017. Banco Bilbao Vizcaya Argentaria S.A. (hereinafter BBVA S.A.) holds 100% of the shares of BBVA Perú Holding S.A.C.

B. Business activity

The Bank is a public corporation incorporated 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 the SBS through the Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la SBS (General Law of the Financial and Insurance Systems and Organic Law of the SBS), Law 26702 and its amendments (hereinafter "the Banking Law"). This law establishes the requirements, rights, obligations, guarantees, restrictions, and other operating conditions that private law legal entities operating in the Financial and Insurance System are subject to.

The Bank's legal domicile and main office address is Av. República de Panamá N.° 3055, San Isidro, Lima, Perú.

As of December 31, 2018 and 2017, the Bank develops activities through a national network of 332 offices. As of December 31, 2018 and 2017, the total number of employees of the Bank and its Subsidiaries is 6,130 and 5,784, 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., Forum Distribuidora del Perú S.A. 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 governing 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").

C. Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2018 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 28, 2018, the consolidated financial statements as of December 31, 2017 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 the SBS, in exercising the powers delegated to it in accordance with the provisions of the Banking Law. 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.

The 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 made official by the Peruvian Accounting Board (CNC for its Spanish acronym) shall be applied.

Peruvian GAAP comprise the Standards and Interpretations issued or adopted by the IASB, which include the 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.

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 millions of soles	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Entity						
BBVA Banco Continental	74,979	76,591	66,621	68,931	8,359	7,660
Continental Bolsa Sociedad Agente de Bolsa S.A. (i)	398	43	376	22	22	21
BBVA Asset Management Continental S.A. SAF (ii)	65	58	6	2	59	56
Continental Sociedad Titulizadora S.A. (iii)	4	3	-	-	4	3
Inmuebles y Recuperaciones Continental S.A. (iv)	159	157	3	4	156	153
Continental DPR Finance Company (v)	202	245	202	245	-	-
BBVA Consumer Finance Edpyme (vi)	517	483	443	419	74	64
Forum Comercializadora S.A. (vii)	2	2	-	-	2	2
Forum Distribuidora S.A. (viii)	174	99	155	81	19	18

(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 in the purchase and sale of registered securities at the request of clients (brokerage clients), 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, 2018, Sociedad Administradora manages 25 mutual funds of investment in securities, 2 private investment funds, 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, 2018, Sociedad Titulizadora manages assets in 15 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, it administers the Bank's medical care program.

(v) Continental DPR Finance Company is a special purpose corporation. Its objective is indicated in note 13(d)(iv) (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 businesses.

(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. Basis of measurement

The consolidated financial statements have been prepared in conformity with the historical cost principle, except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

D. Functional and presentation currency

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

E. Use of judgments and estimates

In preparing these consolidated financial statements, Management has made judgments and estimates that affect the application of the accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and significant assumptions are reviewed on an ongoing basis. Review to the accounting estimates are recognized prospectively. The related effects are recorded in the accounts of the consolidated statement of income, as applicable, as from the year in which the review is conducted.

The most significant judgments and estimates for the preparation of the consolidated financial statements are as follows:

- Determination of fair value of investments.
- Investments accounted for using the equity method.
- Provision for doubtful loans portfolio.
- Provision for realizable assets and assets seized and recovered through legal actions .
- Provision for employee benefits.
- Useful life of property, furniture, and equipment, and intangible assets.
- Provision for income tax.
- Determination of fair value of derivative financial instruments.
- Impairment of non-monetary assets.
- Goodwill.

F. Reclassifications

As of December 31, 2017, certain items of the consolidated financial statements have been reclassified to make them comparable to those in this period. Management considers that the reclassifications made do not imply changes in the decisions taken based on them. The reclassified amounts and affected accounts are summarized as follows:

Consolidated Statement of Cash Flows for the year ended December 31, 2017

In thousands of	**Balances without reclassification**	**Reclassification**	**Reclassified balances**
Net changes in assets and liabilities			
Investments at fair value through profit or loss	(3,965,843)	3,965,843	-
Available-for-sale investments	973,597	(1,089,075)	(115,478)
Accounts receivable and others	4,128,185	1,113	4,129,298
Profit or loss for the year after net changes in assets, liabilities and adjustments	**944,234**	**2,877,881**	**3,822,115**
Net cash and cash equivalents from operating activities	**205,742**	**2,877,881**	**3,083,623**
Net decrease in cash and cash equivalents before the effect of exchange rate fluctuations	**(475,028)**	**2,877,881**	**2,402,853**
Effect of exchange rate fluctuations on cash and cash equivalents	(589,815)	(1)	(589,814)
Net decrease in cash and cash equivalents	**(1,064,843)**	**2,877,882**	**1,813,039**
Cash and cash equivalents at the beginning of the year	14,652,430	189,033	14,841,463
Cash and cash equivalents at the end of the year	**13,587,587**	**3,066,915**	**16,654,502**
Security funds	4,280,161	13,251	4,293,412
Investments with a maturities of less than 90 days	(2,541,247)	(3,080,166)	(5,621,413)

G. New accounting pronouncements

i. New accounting pronouncements not early adopted

The following standards, amendments, and interpretations have been published by the IASB and are applicable to periods beginning on or after January 1, 2019.

Standards, amendments, and interpretations	**Effective date**
IFRS 16: Leases	For annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 on or before the date of initial application of IFRS 16.
IFRIC 23: Uncertainty over Income Tax Treatments	For annual periods beginning on or after January 1, 2019. Early adoption is permitted.
Prepayment Features with Negative Compensation (Amendments to IFRS 9): Financial Instruments	For annual periods beginning on or after January 1, 2019.
Long-term Interests in Associates and Joint Ventures (amendments to IAS 28): Investment in Associates and Joint Ventures)	For annual periods beginning on or after January 1, 2019.
Annual improvements to IFRS Standards, 2015-2017 Cycle - Various standards	For annual periods beginning on or after January 1, 2019.
Amendments to References to Conceptual Framework in IFRS Standards	For annual periods beginning on or after January 1, 2020.

Standards, amendments, and interpretations	Effective date
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures)	The effective date has been deferred indefinitely.

Management has not assessed the impact that these standards, amendments, and interpretations may have on the consolidated financial statements of Continental Group, in the event that such standards were approved by the SBS.

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

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

- Resolution 001-2019-EF/30, on January 11, 2019, making official the *Amendments to References to Conceptual Framework in IFRS Standards*; amendments to IFRS 3 *Business Combinations*, and amendments to IAS 1 *Presentation of Financial Statements*, and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

- Resolution 002-2018-EF/30, on August 29, 2018, making official the 2018 version of IFRS, the amendments to IAS 19 *Employee Benefits*, and the *Conceptual Framework for Financial Reporting*.

- Resolution 001-2018-EF/30, on April 27, 2018, making official amendments to IFRS 9 *Financial Instruments*, IAS 28 *Investments in Associates and Joint Ventures*; and *Annual Improvements to IFRS Standards, 2015-2017 Cycle*.

These resolutions are effective in accordance with each specific standard, with the exception of IFRS 15, whose entry into force was postponed by the CNC until January 1, 2019 through Resolution 005-2017 EF/30.

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 the SBS.

In addition, through Official Letter 467-2019-SBS, dated January 7, 2019, the SBS stated that IFRS 16 *Leases* shall not be applied to supervised entities until the corresponding provisions are established; therefore, the supervised entities will continue to apply IAS 17 *Leases*.

iii. Main pronouncements issued by the SBS

In 2018, the SBS published, among others, important standards which are stated below:

- Resolution SBS 2755-2018, dated July 16, 2018, approving the "SBS Sanction and Infringement Regulation", whose effective date was July 17, 2018.

- Resolution SBS 2610-2018, dated July 4, 2018, amending the "Regulation for the Classification and Valuation of Investments of Financial System Entities" mainly in relation to the standard methodology for the identification of impairment of value of the available-for-sale and held-to-maturity investments that became effective on October 1, 2018.

- Resolution SBS 0681-2018, dated February 21, 2018, amending the "Regulation for the Calculation of Reserves, Profits, and Capital Instruments in the Regulatory Capital of the Financial System Entities."

- Resolution SBS 0110-2018, dated January 10, 2018, extending the exceptional treatment regarding the postponed possession of awarded and recovered assets for entities that require such extension, without SBS' authorization.

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

Recognition of financial instruments

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.

Financial instruments are recognized on the date when they are originated (trading date) and are classified as assets, liabilities, or equity according to the substance of the original contract. Interest, dividends, gains, and losses generated by a financial instrument, classified either as an asset or a liability, are recorded as income or expense in the consolidated statement of income. The payments to the holders of financial instruments classified as equity are recorded directly in equity.

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.

Classification of financial instruments

The Bank classifies its financial instruments at initial recognition and on an instrument-by-instrument basis in accordance with Resolution SBS 7033-2012 "Regulations for the Classification and Valuation of Investments of Financial System Entities." They are classified as at fair value through profit or loss, loans and accounts receivable, available-for-sale, held-to-maturity, at amortized cost, and other liabilities.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired by the Management and their characteristics. All financial instruments are initially recognized at their fair value plus incremental costs related to the transaction that are directly attributable to the acquisition or issuance of the instrument, except in the case of financial assets or liabilities held at fair value through profit or loss.

Derecognition of financial assets and liabilities
The Bank derecognizes a financial asset when: (i) the contractual rights to the cash flows from the asset expire; (ii) the Bank has transferred its contractual rights to receive cash flows from the asset or has assumed an obligation to pay total cash flows received immediately to a third party under a pass through agreement; or (iii) the Bank has substantially transferred all risks and rewards of ownership of the financial asset to another entity.

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existent financial liability is replaced by other of the same borrower in different terms or terms are significantly modified, such replacement or modification is treated as a derecognition of the original liability and a recognition of a new liability, recognizing the difference between both of them in the consolidated statement of income.

Impairment of financial assets
Impairment of financial assets and the respective provisions are assessed and recorded by the Bank according to SBS' regulations. A financial asset or group of financial assets is impaired, if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event"), and if such loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be estimated reliably. Impairment loss is recognized in the consolidated statement of income.

Offsetting of financial instruments
Financial instruments are offset when the Bank has a legally enforceable right to set off the amounts, and the Management intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

Trading derivative financial instruments
Trading derivative financial instruments are initially recognized at cost in the consolidated statement of financial position; subsequently, they are measured at their fair value.

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 statement of financial position, as applicable, and any gain or loss from the valuation or settlement of the financial derivatives is recorded in the profit or loss for the year. The face value of derivative financial instruments is recorded in their corresponding committed or agreed currency in the contingent and memorandum accounts.

Hedging derivative financial instruments
A hedging derivative financial instrument is recorded as such if, on the trading date, it is expected that changes in its fair value or in the cash flows generated will be highly effective in offsetting the changes generated by the hedged item, which must be documented on the trading date of derivative financial instrument and during the term of hedging. 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 an effectiveness range of 80-125%.

If SBS considers that the documentation is unsatisfactory or finds weaknesses in the methodology used to measure the hedge effectiveness, 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 hedging derivative financial instruments and hedge item, as from the moment that the hedge is designated and considered effective, are recorded in the consolidated statement of income.

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

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 statement of income and other comprehensive income, as applicable, are transferred to the consolidated statement of income in the effective term of the hedged item.

C. Investments
The Bank applies the criteria for recording and valuating investment in securities as established in SBS Resolution 7033-2012 "Regulation for the Classification and Valuation of Investments of Financial System Entities" and its amendments, as detailed below:

Investments at fair value through profit or loss
Securities representing capital and/or debt are classified as at fair value through profit or loss if they have been acquired with the intention to trade them in the near future or are part of a group of securities that are managed as a portfolio, and that evidence that have a pattern of short-term profit-taking, or have been recorded in this category upon initial recognition.

The initial recording of these investments is made at fair value without considering the transaction costs, which are recorded as expenses in the profit or loss for the year. They are subsequently measured at fair value and any gain or loss arising from the valuation or sale of these financial assets is recorded in the profit or loss of the year.

Interest income for this investment category is recognized using the effective interest rate method. Dividends are recognized in the consolidated statement of income when the right to receive the payment has been established.

Investments at fair value through profit or loss that are given as guarantee or transferred through a repurchase agreement transaction shall be reclassified as available-for-sale investments.

At the conclusion of these operations, the investments shall be reclassified to their original category, transferring the unrealized profit or loss of the equity to the consolidated statement of income.

Held-to-maturity investments
This category includes all the investment instruments that meet the following requirements: (i) they have been acquired or reclassified with the intention to hold them to maturity for which the Bank shall have the financial capacity 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 the 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.

These financial assets are initially recorded at fair value, including the transaction costs that are directly attributable to the acquisition.

These investments are subsequently measured at amortized cost using the effective interest rate method. Any impairment loss is recognized in the consolidated statement of income.

Available-for-sale investments
This category includes all investment instruments not classified as investments at fair value through profit or loss or held-to-maturity investments. Furthermore, securities explicitly required by the SBS regulations will be classified under this category.

These investments are initially recorded at fair value, including the transaction costs that are directly attributable to the acquisition. The subsequent measurement of these investments is made at fair value; in the case of capital instruments that do not have quoted prices in active markets and whose fair value cannot be estimated reliably, they shall be measured at cost. In addition, in the case of debt instruments, prior to the measurement at fair value, their amortized cost must be updated on an accounting basis, and from this point, any gain or loss from changes in the fair value shall be recognized.

Any gain or loss arising from changes in fair value of available-for-sale investments is directly recognized in equity until the instrument is sold or realized, when any gain or loss that could have been previously recognized will be transferred and recorded in the consolidated statement of income, except for impairment losses which are recorded in profit or loss when they occur.

If an available-for-sale investment is impaired, the cumulative loss (measured as the difference between the asset acquisition cost, net of any repayment and amortization, and its current fair value, less any impairment loss on that asset previously recognized in the consolidated statement of income) is removed from equity and recognized in the consolidated statement of income. In the case of unquoted equity shares, the impairment loss shall be the difference between the carrying amount and the current value of estimated net cash flows, discounted using current rate for similar securities.

Gains or losses from foreign exchange differences related to equity shares shall be recognized in the 'unrealized profit or loss' of the equity, while those related to debt instruments shall be recognized in the consolidated statement of income of the year.

Interest income on available-for-sale investments is recognized using the effective interest rate method, calculated over the instrument term. Premiums and/or discounts originated on the investment purchase date are considered in the calculation of its effective interest rate. Dividends are recognized in the consolidated statement of income when the right to receive the payment has been established.

D. Interest in associates

It comprises securities representing the capital acquired with the purpose of participating in equity and having a relationship with other companies.

At the beginning, these investments are recorded at their fair value, including the costs directly attributable to the acquisition, and are subsequently measured using the equity method.

The excess between the consideration paid and the fair value of the identifiable assets acquired and the liabilities assumed on the date of acquisition is recognized as goodwill. This goodwill is included in the carrying amount of the investment, and is evaluated for impairment as part of the investment. If the fair value of the investment exceeds the consideration paid, this amount is recognized as a gain in the consolidated statement of income of the year.
The Bank has determined that the fair value of these investments is equivalent to the carrying amount of the investees on the date of acquisition because their registration requires the express authorization of the SBS and the investees do not have significant non-monetary assets.

When it is identified that one or more of the investments in associates has suffered an impairment in their value, said impairment will correspond to the difference between the carrying amount of the investee and the recoverable amount of the investment, following the guidelines of IAS 36 *Impairment of Assets.* The carrying amount of the investment will be reduced until it reaches its recoverable amount; the impairment loss will be recognized immediately in the consolidated statement of income of the year.

E. Loans and provisions for doubtful loans

Direct loans are recorded when fund disbursements are made in favor of the clients. Indirect loans (contingent) are recorded when documents supporting the credit facilities are issued. Also, refinanced or restructured loans are those whose original conditions have been modified due to debtor's payment difficulties.

The finance lease operations are accounted for under the financial method, thus recording as a credit the capital of the outstanding lease installments. The corresponding finance income is recorded on an accrual basis in accordance with the terms of the finance lease agreement. Initial direct costs are immediately recorded as expenses.

The Monitoring, Collection and Recovery Unit of the Risk Management, on a permanent basis, is responsible for conducting the assessment and rating of the loan portfolio assigning to each debtor a risk rating according to the guidelines established by the SBS in SBS Resolution 11356-2008 and amendments.

Types of credit
In accordance with SBS Resolution 11356-2008, loans are classified as corporate loans, large business loans, medium-sized business loans, small business loans, micro business loans, revolving consumer loans, non-revolving consumer loans, and mortgage loans. This classification considers the nature of client, the purpose of loan, and business size measured per revenues, indebtedness, among others.

Credit risk rating categories
The credit risk rating categories established by the SBS are the following: Standard, With Potential Problems, Substandard, Doubtful, and Loss, which are assigned according to credit history of the debtor.

Risk classification of non-retail loans (corporate, large business and medium-sized business loans) mainly takes into account the debtor's payment capacity, cash flow, level of compliance with obligations, credit rating designated by other companies in the financial system, financial position, and management quality. In the case of retail loan portfolios (small business loans, micro business loans, revolving and non-revolving consumer loans, and mortgage loans), the credit rating is based on the debtor's level of compliance with loan payments, which is reflected in the arrears and in their credit rating in other financial system entities. Additionally, pursuant to SBS Resolution 041-2005 and its amendment, the Bank assesses the exposure to currency-induced credit risk of loans in foreign currency.

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

According to current regulations, the Bank considers two classes of provisions for doubtful loans, generic and specific provisions. The generic provision is recorded in a preventive manner for those direct and indirect loans rated as standard, and additionally a procyclical component is recorded if the SBS orders its application. At the Bank, the generic provision further includes voluntary provisions.

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

Specific provision is recorded for direct loans and credit risk equivalent exposure of indirect loans of debtors rated in a risk rating higher than standard category.

The equivalent credit risk exposure of indirect loans is determined by multiplying indirect loans by the following Credit Conversion Factors (CCF):

	Description	CCF (%)
(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 supporting 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 confirmations of letters of credit not included in subparagraph (a), as well as bank acceptances.	100
(d)	Granted loans not disbursed and credit lines not used.	-
(e)	Other indirect loans not covered in the previous paragraphs.	100

Provision requirements are determined considering the debtor's risk rating, whether they are secured or not by a guarantee, and based on the type of guarantee.

Provisions for loans are determined according to SBS Resolution 11356-2008. Applied percentages are shown below:

Risk category	Without guarantee	Preferred guarantee	Preferred easily realizable guarantee	Preferred readily realizable guarantee
Standard				
Corporate loans	0.70%	0.70%	0.70%	0.70%
Large business loans	0.70%	0.70%	0.70%	0.70%
Medium-sized business loans	1.00%	1.00%	1.00%	1.00%
Small business loans	1.00%	1.00%	1.00%	1.00%
Micro business loans	1.00%	1.00%	1.00%	1.00%
Revolving consumer loans	1.00%	1.00%	1.00%	1.00%
Non-revolving consumer loans	1.00%	1.00%	1.00%	1.00%
Mortgage loans	0.70%	0.70%	0.70%	0.70%
With Potential Problems	5.00%	2.50%	1.25%	1.00%
Substandard	25.00%	12.50%	6.25%	1.00%
Doubtful	60.00%	30.00%	15.00%	1.00%
Loss	100.00%	60.00%	30.00%	1.00%

As of December 31, 2018 and 2017, the pro-cyclical rule of the provision for the loan portfolio is deactivated as per Official Letter SBS B-2224-2014.

Provisions for direct loans are presented by deducting the balance of the corresponding asset (note 7), while provisions for indirect loans are presented as liabilities (note 14).

F. Property, furniture, and equipment

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

	Years
Buildings and facilities	33 and 10
Facilities and improvements in leased properties	10
Furniture and equipment	10 and 4
Vehicles	5

Expenditures incurred after a fixed asset has been put into use are capitalized, 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 spare repair are recognized as expenses during the period as incurred. When a fixed asset is sold or is retired from active use, the cost and accumulated depreciation of assets are eliminated from their respective accounts, and any resulting gain or loss is included in the consolidated statement of income of the year.

Banks are not allowed to apply the reassessment model as the only model accepted for subsequent recognition is the cost model. Also, banks are not allowed to provide the goods of their fixed assets as guarantee, except for those acquired under finance lease operations.

G. Realizable assets and assets seized and recovered through legal actions

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

Furthermore, the following provisions shall be made in accordance with Resolution SBS 1535-2005 "Regulation for the Treatment of Recovered and Awarded Assets Awarded and Provisions."

- 20% of the value on the date of award or recovery for all assets received.

- For properties, a monthly impairment provision shall be made in a term not exceeding 42 months on the net value obtained during the 12th or the 18th month of its award or recovery, depending on whether an extension by the SBS is granted, and until 100% of the asset carrying amount is completed. Every year the net carrying amounts of properties is compared with the realizable value determined by a qualified independent appraiser, and in if this value is lower, an impairment provision is recorded.

- For assets other than properties, a provision for the remaining balance is made in a term not exceeding 18 or 12 months, depending on whether an extension by the SBS is granted.

An impairment loss is recognized when the fair value of such assets is reduced (when their net realizable value is lower than their net carrying amount); accordingly, the carrying amount will be reduced and the loss shall be recognized in the consolidated statement of income. If the net realizable value is higher than the net carrying amount, the higher value shall not be recognized in the books.

H. Impairment of non-financial assets

When there are events or 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 asset recoverable value, an impairment loss is recognized in the consolidated statement of income. The recoverable amounts are estimated for each asset.

I. Intangible assets

Intangible assets with finite useful lives are recognized at their acquisition cost and are presented net of accumulated amortization and any accumulated impairment loss. 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 maintenance of software are recognized as expense when incurred. Development costs and costs related to single and identifiable software, that will probably result in future economic benefits, are recorded as intangible assets.

J. Goodwill

Goodwill resulting from the acquisition of a subsidiary or associate corresponds to the excess of the paid consideration on the net fair value of the identifiable assets, liabilities and contingent liabilities of the investee 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 cash generating unit is lower than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit, and then to the remaining assets on a pro rata basis depending on the carrying amounts of each one of the assets of the unit. 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 determined that the recoverable value of its cash-generating units is higher than its carrying amounts, including goodwill. Therefore, any goodwill impairment loss has been recorded by the Bank as of December 31, 2018.

K. Non-current held-for-sale assets

Non-current held-for-sale assets presented in the consolidated statement of financial position as 'other assets' are measured at the lower of carrying amount and fair value less selling costs. Non-current assets are classified as held-for-sale when its disposal is highly probable and 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. Outstanding borrowings, securities, bonds, and obligations

Outstanding borrowings, securities, bonds, and obligations are financial liabilities 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 effective period of the related liabilities. Accrued interest is recognized in the consolidated statement of income.

Outstanding borrowings, securities, bonds, and obligations 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 mainly sold for the purpose of repurchasing it in the near term.
- If it is 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.
- If it is 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 any measurement or recognition inconsistency.
- If the financial liabilities are part of a group of financial assets, a group of financial liabilities, or both, which are managed and assessed on a fair value basis, in accordance with a documented risk management or investment strategy of the Bank, and whose information is provided internally on that basis.
- If the financial liabilities are 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.

The financial liabilities 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 statement of income.

M. Employee benefits

Short-term employee benefits

Vacations and other benefits
Annual vacations of staff, paid absences, and other benefits are estimated on an accrual basis taking into account the 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 (CTS for its Spanish acronym)
The provision for severance payment of staff is made related to all the indemnities according to the law in force. Payments made, that are considered definitive, are mainly deposited in the Bank as the financial entity selected by the employees.

Long-term benefits
Long-term post-employment benefits for active and passive staff of the Bank are primarily related to long-service awards and medical benefits have been 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 to 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 staff 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. 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:

(a) At least 50% of the total variable remuneration is settled in cash and, subsequently, it will be assigned in shares of Parent Company at the market price of the settlement date. One part is delivered in the year of the settlement and the balance in up to 3 years.
(b) 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.
(c) In addition, the Bank establishes 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 made in the first months of the following year. Management has made an estimate of it, thus as of December 31, 2018 and 2017, a provision has been recorded for the deferred portion in the amount of S/ 8 million and S/ 12 million, respectively.

O. 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 current value of the expenditure required to settle the provision.

(ii) Contingent Assets and Liabilities

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.

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.

P. Income tax

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

According to the tax law in force, current income tax is determined by applying the tax rate on the net taxable income of the period and is recognized as expense.

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 by using the income tax rate enacted or effective as of the date of the consolidated statement of financial position.

Q. Income and expense recognition

Interest income and expense and service commissions 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 judicial collection loans, as well as loans classified in the doubtful and loss category, are recognized in the consolidated statement of income when they are collected. When it is considered 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.

R. 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 outstanding common shares during the year. Due to the fact that the Bank does not have any financial instruments with a dilutive effect, the basic and diluted earning per share is the same.

S. Reporting operations

The Bank applies SBS Resolution 5790-2014 which establishes that securities sold, under repurchase agreements on a specific future date, are not derecognized from the consolidated statement of financial position since the Bank retains substantially all of the risks and rewards inherent to the property.

The Bank recognizes received cash and liability recorded in 'accounts payable' for the obligation to return such cash at maturity. Also, it will make the reclassification of securities subject to the operation in conformity with SBS provisions. The accounting records of returns will depend on the agreements between the parties. The difference between the final amount and initial amount will be recognized as expenses against liabilities, within the term of the operation applying the effective interest rate method.

As of December 31, 2018 and 2017, the Bank conducts reporting operations of securities and currencies (notes 5 and 6).

T. 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 the valuation of available-for-sale investments, modifications of related hypotheses with actuarial liabilities, and valuation of cash flow 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 profit or loss for the year, other comprehensive income for the year, accumulated effect of changes in accounting policies or error correction, if any, changes in shareholders' transactions (such as payment of dividends and capital contributions), and the reconciliation between the initial and final balances, while disclosing each movement or change.

U. Cash and cash equivalents

Cash and cash equivalents presented in the consolidated statement of cash flows 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, the Bank prepares and presents this statement by using the indirect method.

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

V. Trust activities

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

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

Since Sociedad Agente de Bolsa only manages the funds of the clients, it cannot use these resources and there is a commitment to return them to the clients; these resources do not belong to the Sociedad Agente de Bolsa and are recorded in contingent and memorandum accounts

X. Foreign currency transactions

Transactions in foreign currency are recorded upon initial recognition by using the functional currency. For that purpose, the amounts in foreign currency are translated to a functional currency by applying the exchange rate ruling on 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 corresponding to the closing date of the reporting period.
- 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 of 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 settling monetary assets and liabilities or 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 profit or loss of the year in which they occur.
- When the profit or loss resulting from a non-monetary item is recognized in other comprehensive income, any exchange difference should be recognized in other comprehensive income.
- For non-monetary items, whose profit or loss is recognized in the profit or loss for the year, any exchange difference should be recognized in the profit or loss for the year.

Y. Fundamental errors

Fundamental errors in the preparation of the consolidated financial statements of previous years corrected in the current year are retrospectively recognized by restating the initial balances of the assets, liabilities, and equity accounts, as applicable. As of December 31, 2018 and 2017, no fundamental errors that imply the restatement of the consolidated financial statements were reported.

Find below the errors related to previous years, corrected by the Subsidiaries in 2018 and charged to retained earnings that, in Management's opinion, are not material - jointly and severally - for the consolidated financial statements as a whole; therefore, they do not involve the restatement of inception balances:

In millions of S/

Subsidiary	Description	Adjustment in retained earnings
Inmuebles y Recuperaciones Continental S.A.	Reversal of provision for tax credit of sales tax (IGV) corresponding to previous years	2.07
	Difference of provision for impairment of available-for-sale properties	(1.41)
	Deferred income tax implications for the difference in the provision for impairment of available-for-sale properties	0.42
Forum Distribuidora S.A.	Return of unidentified deposits to accounts payable	(0.33)
Continental Bolsa Sociedad Agente de Bolsa S.A.	Excess of provision for bonuses	0.30
	Total	**1.05**

4. Balances in Foreign Currency

The consolidated statement of financial position includes balances of foreign currency transactions, mainly in US dollars (US$), which are recorded in soles (S/) at the exchange rate established by SBS. As of December 31, 2018 and 2017, the exchange rate was US$ 1 = S/ 3.373 and US$ 1 = S/ 3.241, respectively.

Foreign currency transactions within the country and international trade transactions referred to the concepts authorized by Central Reserve Bank of Peru (BCRP for its Spanish acronym) are channeled through an interbank foreign exchange market. As of December 31, 2018, the buy and sell exchange rates used were US$ 1 = S/ 3.369 and US$ 1 = S/ 3.379, respectively (US$ 1 = S/ 3.238 buy and US$ 1 = S/ 3.245 sell, as of December 31, 2017).

As of December 31, the balances in foreign currency stated in thousands of US dollars are summarized as follows:

	2018			2017		
In thousands of dollars	**US dollars**	**Other currencies**	**Total**	**US dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	2,917,118	162,333	3,079,451	3,955,621	82,244	4,037,865
Investments at fair value through profit or loss and available-for-sale	131,666	-	131,666	69,447	-	69,447
Loan portfolio, net	5,093,853	1,286	5,095,139	5,285,534	62	5,285,596
Other assets, net	133,781	22,970	156,751	100,744	3,993	104,737
	8,276,418	**186,589**	**8,463,007**	**9,411,346**	**86,299**	**9,497,645**
Liabilities						
Obligations to the public and deposits from financial system entities	6,101,483	133,896	6,235,379	6,027,378	51,995	6,079,373
Interbank funds	-	-	-	80,010	-	80,010
Borrowings and financial obligations	2,131,294	2	2,131,296	2,537,291	193	2,537,484
Provisions and other liabilities	180,457	12,544	193,001	245,235	3,095	248,330
	8,413,234	**146,442**	**8,559,676**	**8,889,914**	**55,283**	**8,945,197**
Net liability position	**(136,816)**	**40,147**	**(96,669)**	**521,432**	**31,016**	**552,448**
Asset derivative instruments	2,766,213	106,686	2,872,899	2,055,380	180,787	2,236,167
Liability derivative instruments	2,597,322	154,803	2,752,125	2,514,784	215,886	2,730,670
Net position	**32,075**	**(7,970)**	**24,105**	**62,028**	**(4,083)**	**57,945**

During years 2018 and 2017, net gains from foreign exchange difference of S/ 493 million and S/ 387 million, respectively, corresponding to the valuation of balances in foreign currency, as well as purchase and sale operations of foreign currency (note 20), were recorded in 'Profit or loss from financial operations' of the consolidated statement of income.

The percentages variation of the exchange rate (sol in relation to the US dollar) were 4.07% and -3.43% for the years 2018 and 2017, respectively.

5. Cash and Due from Banks

As of December 31, this caption comprises the following:

In thousands of soles	**2018**	**2017**
Central Reserve Bank of Peru (a)	5,851,447	6,357,252
Banks and other foreign financial entities (b)	2,698,163	2,008,656
Cash (a)	2,573,620	2,446,498
Security funds (c)	860,783	4,088,612
Banks and other local financial entities (b)	500,600	117,744
Clearing	102,545	102,624
Other cash and due from banks	347,783	205,115
	12,934,941	**15,326,501**

(a) As of December 31, 2018, funds held in cash and in BCRP include US$ 1,904 million and S/ 1,649 million (US$ 2,087 million and S/ 1,875 million as of December 31, 2017) destined to cover the legal reserves that the Bank shall reserve for deposits and obligations assumed according to the current provisions. These funds are in the Bank's vaults or deposited in the BCRP.

As of December 31 2018, the funds destined to legal reserves in local and foreign currency are subject to an implicit rate of 5% and 35%, respectively, on the total of obligations subject to legal reserves (TOSE for its Spanish acronym) as per the BCRP (5% in local currency and 44.33% in foreign currency as of December 31, 2017).

The minimum legal reserves of 5% do not bear interest. The legal reserves correspond to the additional mandatory reserves in local and foreign currency bear interest at a nominal rate established by the BRCP.

(b) Deposits in local and foreign banks mainly comprise balances in soles and in US dollars, as well as other currencies for small amounts, which are free withdrawal and bear interest at market rates.

(c) This item corresponds to security funds supporting the currency repurchase agreements with the BCRP for US$ 255 million (US$ 1,262 million as of December 31, 2017) (note 14(a)).

During 2018 and 2017, interest income from cash and due from banks amounted to S/ 64 million and S/ 44 million, respectively, and was disclosed in 'interest income' in the consolidated statement of income (note 17).

6. Investments at Fair Value through Profit and Loss and Available-for-Sale

As of December 31, this caption comprises the following:

In thousands of soles	**2018**	**2017**
Investments at fair value through profit or loss:		
BCRP deposit certificates (a)	2,643,161	3,720,682
Bonds of the Peruvian Public Treasury (b)/(c)	319,160	363,445
Investments in mutual funds (d)	39,007	114,868
	3,001,328	**4,198,995**
Available-for-sale investments:		
BCRP deposit certificates (a)	2,009,549	2,662,108
Bonds of the Peruvian Public Treasury (b)/(c)	1,148,839	699,896
Corporate bonds (c)	174,447	105,640
Bills of exchange of the US Treasury (c)	167,868	-
Shares in local companies (e)	37,033	41,656
Shares in foreign companies	1,010	821
	3,538,746	**3,510,121**
	6,540,074	**7,709,116**

(a) BCRP deposit certificates issued by the BCRP are freely negotiable securities with a maturity until August 2019 (March 2019, as of December 31, 2017); they were awarded through BCRP public bid or traded in the Peruvian secondary market. Of these certificates, S/ 405 million were allocated to reporting operations as of December 31, 2017.

As of December 31, 2018, the annual interest in local currency generated by these certificates fluctuates between 2.52% and 2.78% (between 3.05% and 3.25% in local currency and 1.60% in foreign currency as of December 31, 2017).

(b) The bonds of the Peruvian Public Treasury include sovereign bonds of the Republic of Peru in local currency and global bonds in foreign currency, both issued by the Peruvian Ministry of Economy and Finance (MEF) representing internal public debt instruments of the Republic of Peru. Of these certificates, as of December 31, 2018, S/ 526 million are allocated to reporting operations (S/ 310 million as of December 31, 2017).

As of December 31, 2018, these bonds accrue interest at annual rates ranging from 1.50% to 6.50% (1.16% to 6.10% as of December 31, 2017) in local currency with maturity until February 2055 (until February 2042 as of December 31, 2017) and 0.66% in foreign currency with maturity until March 2019.

As from November 2017, the 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 mature in October 2024 and January 2035. As of December 31, 2018, the carrying amount is S/ 491 million.

(c) As of December 31, 2018, a portion of the sovereign bonds, corporate bonds, and bills of exchange of the US Treasury in foreign currency have a cash flow hedge (note 8 (ii)).

(d) As of December 31, 2018 and 2017, the investment in mutual funds corresponds to the interest quotes held by the SAF in different mutual funds it manages.

(e) As of December 31, 2018 and 2017, it mainly includes shares of the Lima Stock Exchange (BVL for its Spanish acronym) for S/ 36 million and S/ 41 million, respectively.

As of December 31, 2018 and 2017, the accrued interest of the investment portfolio managed amounts to S/ 223 million and S/ 253 million, respectively (note 17).

7. Loan Portfolio, Net

As of December 31, this caption comprises the following:

In thousands of soles	2018		2017	
Direct loans				
Borrowings	18,785,579	37%	18,140,414	38%
Mortgage loans	12,301,459	24%	11,637,944	24%
Consumer loans	5,985,749	12%	5,065,356	9%
Foreign trade	5,420,179	10%	6,130,095	12%
Finance lease	4,240,729	8%	4,679,738	9%
Discounts	1,230,118	2%	1,111,484	3%
Others	3,721,252	7%	2,776,049	5%
	51,685,065	**100%**	**49,541,080**	**100%**
Loans under judicial collection	1,607,406	2%	1,400,138	2%
Refinanced and restructured loans	1,087,051	2%	1,111,473	2%
	54,379,522	**104%**	**52,052,691**	**104%**
Plus (less):				
Accrued interest on current loans	321,095	1%	362,993	1%
Non-accrued interest	(55,288)	-	(57,774)	-
Provision for doubtful loans	(2,630,194)	(5%)	(2,361,469)	(5%)
	52,015,135	**100%**	**49,996,441**	**100%**
Contingent loans (note 16)	**15,477,765**		**15,577,486**	

Direct loans are secured by guarantees received from clients, mainly composed by mortgages, deposits, letters of guarantee, guarantees, warrants, and finance lease operations, amounting to S/ 37,184 million as of December 31, 2018 (S/ 38,736 million as of December 31, 2017).

As of December 31, 2018, part of the mortgage loan portfolio guarantees a debt with Fondo MIVIVIENDA - MIHOGAR Program (housing and credit program) up to S/ 460 million (S/ 500 million as of December 31, 2017) (note 13(b)).

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

	2018		2017	
Active operations	**Local currency**	**Foreign currency**	**Local currency**	**Foreign currency**
Loans and discounts	7.70	5.69	7.77	5.67
Mortgage loans	7.78	6.84	8.29	7.31
Consumer loans	25.50	29.45	25.27	28.31

As of December 31, the balances of the direct loan portfolio segmented per type of client - in accordance with Resolution SBS N° 11356-2008 - are as follows:

In thousands of soles	**2018**		**2017**	
Mortgage loans	12,765,478	24%	12,028,957	23%
Medium-sized business loans	12,046,296	22%	11,551,131	22%
Corporate	10,177,388	19%	10,956,495	21%
Large business loans	9,987,938	18%	8,927,043	17%
Consumer loans	6,183,591	11%	5,280,969	10%
Small business loans	1,411,110	3%	1,257,689	3%
Public sector entities	918,006	2%	925,380	2%
Financial system entities	536,245	1%	659,919	1%
Securities brokers	183,874	-	262,297	1%
Micro business loans	92,595	-	95,910	-
Multilateral development banks	77,001	-	106,901	-
	54,379,522	**100%**	**52,052,691**	**100%**

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

	2018						2017					
In thousands of soles	**Direct**	**%**	**Contingent**	**%**	**Total**	**%**	**Direct**	**%**	**Contingent**	**%**	**Total**	**%**
Risk category												
Standard	50,202,875	92	14,622,185	94	64,825,060	93	48,042,161	92	14,660,552	94	62,702,713	93
With potential problems	1,134,794	3	196,103	1	1,330,897	2	1,219,475	2	117,678	1	1,337,153	2
Substandard	849,047	2	581,275	4	1,430,322	2	790,767	2	708,982	5	1,499,749	2
Doubtful	789,043	1	40,975	1	830,018	1	840,815	2	53,906	-	894,721	1
Loss	1,348,475	2	37,227	-	1,385,702	2	1,101,699	2	36,728	-	1,138,427	2
	54,324,234	**100**	**15,477,765**	**100**	**69,801,999**	**100**	**51,994,917**	**100**	**15,577,846**	**100**	**67,572,763**	**100**
Non-accrued interest	55,288		-		55,288		57,774		-		57,774	
	54,379,522		**15,477,765**		**69,857,287**		**52,052,691**		**15,577,846**		**67,630,537**	

In 2018, waivers for loan operations of S/ 60 million (S/ 33 million as of December 31, 2017), which correspond to capital, interest and fees, were carried out.

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

In thousands of soles	**2018**	**2017**
Balances as of January 1	2,361,469	2,356,212
Additions debited to profit or loss	1,705,241	1,507,629
Recovery of provisions	(961,057)	(956,694)
Portfolio sale	(523,229)	(520,981)
Foreign exchange difference and other adjustments	47,770	(24,697)
Balances as of December 31	**2,630,194**	**2,361,469**

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

In thousands of soles	**2018**	**2017**
Provision for doubtful loans	1,705,241	1,507,629
Recovery of provisions	(961,057)	(956,694)
Income from portfolio recovery	(65)	(13)
Provisions for loans, net of recoveries	**744,119**	**550,922**

Management considers that the level of provision for doubtful loans covers eventual losses in the direct loan portfolio 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, 2018, the general provision for loan portfolio includes general voluntary and procyclical provisions of S/ 565 million (S/ 585 million as of December 31, 2017).

The 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.

In 2018, the Continental Group sold a loan portfolio of S/ 242 million (S/ 298 million during 2017). The selling value amounted to S/ 25 million (S/ 28 million as of December 31, 2017) and is disclosed in 'Profit or loss from financial operations' of the consolidated statement of income.

8. Trading and Hedging Derivatives

As of December 31, 2018 and 2017, the Continental Group - through the Bank - holds agreements related to foreign currency forwards, cross currency swaps (CCS), interest rate swaps (IRS), and options. As of December 31, the changes in fair value of these derivative financial instruments are recorded as accounts receivable (assets) or accounts payable (liabilities).

In thousands of soles	**Underlying**	**Face**	**Assets**	**Liabilities**
2018				
Trading derivatives				
Currency forwards		12,667,235	53,911	49,556
Share, currency and other options		1,700,511	6,744	6,744
Cross currency swaps		4,908,918	335,101	251,091
Interest rate swaps		5,567,032	66,980	41,368
Provision for country risk		-	(4,860)	-
		24,843,696	**457,876**	**348,759**
Hedging derivatives (notes 6 and 13)				
At fair value (i)				
Cross currency swaps	Bond issuance	254,469	-	55,159
Interest rate swaps	Borrowings	1,298,605	-	33,000
Interest rate swaps	Bond issuance	2,698,400	-	102,039
Cash flows (ii)				
Interest rate swaps	Borrowings	67,460	1,439	-
Cross currency swaps	Sovereign bonds	118,055	-	3,767
Cross currency swaps	Corporate bonds	33,730	-	1,075
Currency forwards	Corporate bonds	15,114	-	278
Currency forwards	US Treasury bill of exchange	170,560	-	2,174
		4,656,393	**1,439**	**197,492**
		29,500,089	**459,315**	**546,251**

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)				
Cross 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**

Hedging derivatives at fair value

(i) As of December 31, 2018, the Bank has contracted CCS for the fair value hedging of bonds issued for a face value equivalent to S/ 254 million (S/ 245 million as of December 31, 2017). Through the CCS, the Bank converts its issuance in local currency to US dollars. In 2018, the changes in the fair value of the CCS resulted in a profit of S/ 1 million, which is included in 'profit or loss from financial operations' of the consolidated statement of income (profit of S/ 11 million in 2017).

As of December 31, 2018, the Bank has contracted IRS for a face value equivalent to S/ 3,997 million in order to hedge debts and bond issuance. Through the IRS, the Bank receives interest at a fixed rate in US dollars and pays interest at a floating rate in the same currency. In 2018, the changes in the fair value of the IRS resulted in a loss of S/ 21 million, which is included in 'profit or loss from financial operations' of the consolidated statement of income (profit of S/ 1 million in 2017).

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

			Hedging instrument at fair value in thousands of S/	
Hedged item	**Hedging instrument**	**Face value in thousands of US$**	**2018**	**2017**
Fifth issuance - Corporate bond fifth program for S/ 200 million (note 13 (d))	***Cross Currency Swap (CCS)*** The Bank receives cash flows in soles at a fixed interest rate and pays cash flows in US dollars at a floating interest rate.	75,443	(55,159)	(45,544)
First international corporate bond issuance for US$ 500 million (note 13 (d))	***Interest Rate Swap (IRS)*** The Bank receives a fixed rate and pays a floating rate.	500,000	(53,122)	(32,428)
Borrowing from Deutsche Bank for US$ 350 million (note 13 (a))	***Interest Rate Swap (IRS)*** The Bank receives fixed interest and pays floating interest.	350,000	(29,927)	(22,862)
Borrowing from Wells Fargo for US$ 35 million (note 13 (a))	***Interest Rate Swap (IRS)*** The Bank receives fixed interest and pays floating interest.	35,000	(3,073)	(3,006)
First international subordinated bond issuance for US$ 300 million (note 13 (d))	***Interest Rate Swap (IRS)*** The Bank receives fixed interest and pays floating interest.	300,000	(48,917)	(34,613)
Third international issuance for US$ 500 million (note 13 (d))	***Interest Rate Swap (IRS)*** The Bank receives fixed interest and pays floating interest.	-	-	(4,329)

Cash flow hedging derivatives

(ii) As of December 31, 2018, the Bank has contracted IRS for a face value equivalent to S/ 67 million in order to hedge borrowings (S/ 83 million as of December 31, 2017). The Bank receives floating interest in US dollars and pays fixed interest in the same currency. In 2018, the changes in the fair value of IRS resulted in a profit of S/ 1 million, which is recorded in equity accounts (profit of S/ 0.9 million in 2017).

As of December 31, 2018, the Bank has contracted CCS for a face value equivalent to S/ 152 million for the hedging of bonds accounted for as available-for-sale investments (US$ 35 million of sovereign bonds and US$ 10 million of a corporate bond). The Bank receives fixed interest in soles and pays fixed interest in US dollars. In 2018, the changes in the fair value of CCS resulted in a loss of S/ 3.7 million, which is recorded in equity accounts.

As of December 31, 2018, the Bank has contracted currency forwards and CCS for a face value equivalent to S/ 186 million for the hedging of bonds accounted for as available-for-sale investments (US$ 4 million of corporate bonds and US$ 51 million of US Treasury bills of exchange). The Bank receives fixed interest in soles and pays fixed interest in US dollars. In 2018, the changes in the fair value of currency forwards and CCS resulted in a loss of S/ 2.3 million, which is recorded in equity accounts.

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

			Hedging instrument at fair value in thousands of S/	
Hedged item	**Hedging instrument**	**Face value in thousands of US$**	**2018**	**2017**
Borrowing from Standard Chartered for US$ 20 million (note 13 (a))	***Interest Rate Swap (IRS)*** The Bank receives floating interest and pays fixed interest.	20,000	1,439	1,191
Sovereign bonds for US$ 35 million (note 6 (c))	***Cross Currency Swap (CCS)*** The Bank receives floating interest and pays fixed interest.	35,000	(3,767)	-
Corporate bonds for US$ 10 million (note 6 (c))	***Cross Currency Swap (CCS)*** The Bank receives floating interest and pays fixed interest.	10,000	(1,075)	-
Corporate bonds for US$ 4 million (note 6 (c))	***Currency forwards*** The Bank receives fixed interest in soles and pays fixed interest in US dollars.	4,481	(278)	-
US Treasury bills of exchange for US$ 51 million (note 6 (c)).	***Cross Currency Swap (CCS)*** The Bank receives fixed interest in soles and pays fixed interest in US dollars.	50,556	(2,174)	-

9. Interest in Associates

As of December 31, this caption comprises the following:

In thousands of soles	**2018**	**2017**
Compañía Peruana de Medios de Pagos S.A.C. (a)	9,487	8,281
TFP S.A.C. (b)	4,271	3,945
	13,758	**12,226**

(a) Due to the increase in the equity share of the Bank in Compañía Peruana de Medios de Pago S.A.C. (VisaNet Perú) from 19.63% to 20.28%, 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 in 2017. It is worth indicating that this equity share 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 among VISA-accepting merchants. As of December 31, 2018 and 2017, Continental Group - through the Bank - holds a 20.96% interest in the share capital of Compañía Peruana de Medios de Pago S.A.C. (VisaNet Perú).

(b) As of December 31, 2018 and 2017, Continental Group - through the Bank - holds a 24.30% interest 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 2018 and 2017 is as follows:

In thousands of soles	Lands	Buildings and facilities	Furniture and equipment	Vehicles	Premises and improvements in leased properties	Works-in-progress	Units in transit and replacing units	Total
Cost								
Balance as of January 1, 2017	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 or 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**
Additions	-	10,373	64,775	663	3,942	72,076	37	151,866
Adjustments or other	(2,261)	641	(18,446)	(680)	7,675	(22,405)	-	(35,475)
As of December 31, 2018	**118,224**	**852,940**	**671,058**	**8,564**	**263,908**	**118,157**	**292**	**2,033,144**
Depreciation								
Balance as of January 1, 2017	**-**	**454,005**	**311,894**	**6,491**	**114,038**	**-**	**-**	**886,428**
Additions	-	35,907	55,944	809	23,261	-	-	115,921
Adjustments or 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**
Additions	-	36,117	62,486	781	23,552	-	-	122,936
Impairment	-	-	-	-	5,520	-	-	5,520
Adjustments or other	-	(3,593)	(24,325)	(680)	(19)	-	-	(28,617)
As of December 31, 2018	**-**	**527,473**	**398,566**	**6,356**	**160,873**	**-**	**-**	**1,092,968**
Net cost								
Balance as of December 31, 2018	**118,224**	**325,467**	**272,492**	**2,208**	**103,335**	**118,157**	**292**	**940,176**
Balance as of December 31, 2017	**120,485**	**346,977**	**264,324**	**2,326**	**120,471**	**68,486**	**255**	**923,324**

According to the current legislation, banks in Peru may not grant as guarantee the assets that are part of their property, furniture, and equipment, except for those acquired through the issuance of finance lease bonds and to carry out finance lease operations.

11. Other Assets, Net

As of December 31, this caption comprises the following:

In thousands of soles	**2018**	**2017**
Transactions in progress (a)	944,090	850,177
Intangible assets, net of amortizations for S/ 58 million (S/ 20 million in 2017)	290,665	233,388
Prepaid expenses (b)	121,792	97,206
Other accounts receivable	34,879	52,753
Tax credit (IGV)	26,020	18,056
Tax credit, net of income tax	16,220	289,054
Accounts receivable from the sale of goods, services, and trust	4,927	325
Other	21,563	17,787
	1,460,156	**1,558,746**

(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 the Bank. As of December 31, 2018 and 2017, they include S/ 905 million and S/ 803 million related to Treasury transactions, respectively.

(b) As of December 31, 2018 and 2017, prepaid expenses include mainly prepaid insurance and deferred loan origination fees, related to fees paid to external sales force.

12. Obligations to the Public and Deposits from Financial System Entities

As of December 31, this caption comprises the following:

In thousands of soles	**2018**	**2017**
Obligations to the public		
Demand liabilities	18,134,256	16,122,804
Savings deposits	16,189,450	14,625,612
Time deposits	14,548,264	16,574,653
Other obligations	74,510	78,707
	48,946,480	**47,401,776**
Deposits from financial system entities		
Time deposits	945,737	1,489,919
Demand liabilities	875,277	370,175
Savings deposits	240,029	64,194
	2,061,043	**1,924,288**
	51,007,523	**49,326,064**

As of December 31, 2018 and 2017, obligations include deposits received as guarantee for direct and contingent loans for S/ 782 million and S/ 667 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:

	2018		2017	
	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	0.00 - 0.50	0.10 - 0.25	0.125 - 0.75	0.125
Time deposits and bank certificates	0.80 - 1.35	0.10 - 0.80	0.80 - 1.35	0.10 - 0.80
'Super depósito' bank account	0.80 - 1.35	0.10 - 0.25	0.80 - 1.35	0.10 - 0.25
Severance payment	1.50 - 2.50	0.60 - 1.10	1.50 - 2.50	0.60 - 1.10

13. Borrowings and Financial Obligations

As of December 31, this caption comprises the following:

In thousands of soles	2018	2017
Borrowings and financial obligations		
Foreign financial entities (a)	3,702,640	3,366,121
MIVIVIENDA - MIHOGAR Program (b)	517,577	542,843
Foreign financial entities (c)	337,300	125,010
Corporación Financiera de Desarrollo - COFIDE (Development Finance Corporation)	9,689	12,112
Accrued interest payable	25,353	23,920
	4,592,559	**4,070,006**
Securities and bonds (d)		
Corporate bonds	3,303,926	4,582,939
Subordinated bonds	1,561,330	1,514,978
Finance lease bonds	563,100	563,100
Notes (debt instruments)	182,497	226,202
Negotiable deposit certificates	92,923	63,788
Accrued interest payable	74,626	87,694
	5,778,402	**7,038,701**
	10,370,961	**11,108,707**

(a) As of December 31, 2018, the Continental Group's borrowings with foreign financial entities accrued interest at an annual average rates ranging from LIBOR + 0.4% to 7.4% (from 3.6% to 7.4% as of December 31, 2017).

	2018		2017		
In thousands	**US$**	**S/**	**US$**	**S/**	**Maturity**
Deutsche Bank (i)	341,043	1,150,338	341,962	1,108,301	November 2020
Standard Chartered	200,000	674,600	140,000	453,740	January 2019 and February 201
Credit Suisse (ii)	200,000	674,600	200,000	648,200	October 2040
Wells Fargo Bank	100,000	337,300	55,000	178,255	March 2019
Sumitomo Bank, NY	100,000	337,300	-	-	May 2019
ICO - Instituto de Crédito	63,000	212,499	-	-	December 2021
Citibank NY	50,000	168,650	150,000	486,150	November 2021
Toronto Dominion	-	-	40,000	129,640	January 2018
Bank of Nova Scotia	-	-	40,000	129,640	January 2018
Banco del Estado de Chile	-	-	40,000	129,640	January 2018
Other	43,686	147,353	31,643	102,555	January 2019
	1,097,729	**3,702,640**	**1,038,605**	**3,366,121**	
Accrued interest	6,886	23,225	7,021	22,755	
	1,104,615	**3,725,865**	**1,045,626**	**3,388,876**	

(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. As of December 31, 2018 and 2017, this loan is hedged by IRS, which resulted in accrued gains of S/ 28 million and S/ 22 million, respectively (note 8(i)).

(ii) It corresponds to a subordinated loan in foreign currency arranged at 7.38% annual interest rate. Pursuant to Resolution SBS 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 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 Continental Group which, in Management's opinion, have been fully complied with.

As of December 31, 2018 and 2017, the Continental Group holds in accounts payable a balance of S/ 8 million and S/ 9 million corresponding to deferred issuance expenses, respectively.

(b) As of December 31, 2018, these debts mainly include resources obtained for the MI VIVIENDA - MI HOGAR Program for S/ 454 million in local currency and US$ 2 million in foreign currency (S/ 492 million in local currency and US$ 3 million in foreign currency as of December 31, 2017). This loan has maturities until December 2036 and accrues interest at an annual effective rate of 7.75% in US dollars and 6.25% in soles on the principal plus the Constant Adjustment Index (VAC for its Spanish acronym).

As of December 31, 2018 and 2017, borrowings with Fondo MIVIVIENDA are secured with mortgage loan portfolio up to S/ 460 million and S/ 500 million, respectively (note 7). These borrowings consider specific arrangements about how these funds should be used, financial conditions that the borrower shall meet, as well as other administrative matters.

(c) Borrowings with foreign financial entities accrue an annual interest rate of 2.56% applicable to international markets as of December 31, 2018 (LIBOR + 1.35% to 6.38% as of December 31, 2017) and are unsecured. As of December 31, this caption comprises the following:

	2018		**2017**		
In thousands	**US$**	**S/**	**US$**	**S/**	**Maturity**
Corporación Andina de Fomento	100,000	337,300	30,000	97,230	January 2019
International Finance Corporation - IFC	-	-	8,751	27,780	December 2018
	100,000	**337,300**	**38,751**	**125,010**	
Accrued interest payable	134	452	44	142	
	100,134	**337,752**	**38,795**	**125,152**	

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

Program	Authorized amount	Currency	Original amount placed	2018	2017	Maturity
Corporate bonds						
7th issuance, single series	US$ 100 million or S/ 315 million	PEN	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	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	199,527	198,655	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	350,000	November 2020
1st issuance, series A - Seventh program	US$ 1,000 million	PEN	132,425	132,425	-	June 2021
1st issuance, series B - Seventh program		PEN	69,435	69,435	-	June 2021
2nd issuance, series A - Seventh program		PEN	100,000	100,000	-	July 2023
2nd issuance, series B - Seventh program		PEN	73,465	74,854	-	August 2023
1st issuance, series C - Seventh program		PEN	70,000	70,000	-	September 2021
1st program, international issuance (ii)	US$ 500 million	US$	500,000	1,637,685	1,586,647	August 2022
3rd program, international issuance	US$ 500 million	US$	500,000	-	1,617,637	April 2018
				3,303,926	**4,582,939**	
Subordinated bonds						
2nd issuance, series A - First program	US$ 50 million or S/ 158.30 million	US$	20,000	67,180	64,527	May 2027
3rd issuance, series A - First program		PEN	55,000	78,478	76,879	June 2032
2nd issuance, series A - Second program	US$ 100 million	PEN	50,000	69,872	68,448	November 2032
3rd issuance, series A - Second program		US$	20,000	67,460	64,820	February 2028
4th issuance, single series - Second program		PEN	45,000	60,685	59,449	July 2023
5th issuance, single series - Second program		PEN	50,000	66,558	65,202	September 2023
6th issuance, single series - Second program		PEN	30,000	39,247	38,447	December 2033
1st issuance, single series - Third program	US$ 55 million	US$	45,000	151,785	145,845	October 2028
1st program, international issuance - Single series (iii)	US$ 300 million	US$	300,000	960,065	931,361	September 2029
				1,561,330	**1,514,978**	
Notes						
2nd issuance of notes - Series 2012-C and 2012-D (iv)	US$ 235 million	US$	235,000	182,497	226,202	June 2022
				182,497	**226,202**	
Finance lease bonds						
1st issuance, series A - Second program	US$ 250 million	PEN	158,000	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	200,000	January 2020
				563,100	**563,100**	
Negotiable deposit certificates				**92,923**	**63,788**	
Interest payable on outstanding securities, bonds, and obligations				**74,626**	**87,694**	
				5,778,402	**7,038,701**	

As of December 31, 2018 and 2017, corporate bonds are unsecured and accrue interest at annual rates in local currency ranging from 4.40% to 7.50% (from 4.80% to 7.50% as of December 31, 2017) and an annual rate of 5.00% in foreign currency (ranging from 3.30% to 5.00% as of December 31, 2017).

(i) The issuance of corporate bonds for S/ 200 million is hedged with a Cross Currency Swap - CCS, which has resulted in retained earnings of S/ 0.4 million as of December 31, 2018 (retained earnings of S/ 1 million as of December 31, 2017).

(ii) In August 2012, the Bank issued corporate bonds to the international market for a nominal amount of US$ 500 million at an annual fixed interest rate of 5.00%, maturing in August 2022. The principal shall be fully paid upon maturity. Such issuance has a fair value hedged through an IRS, which has resulted in retained earnings of S/ 49 million as of December 31, 2018 (retained earnings of S/ 34 million as of December 31, 2017).

(iii) In September 2014, the Bank made an international issuance of subordinated bonds with a nominal amount of US$ 300 million at an annual fixed interest rate of 5.25%, maturing in September 2029. The principal shall be fully paid upon maturity. Such issuance has a fair value hedged through an IRS, which has resulted in retained earnings of S/ 46 million as of December 31, 2018 (retained earnings of S/ 35 million as of December 31, 2017).

(iv) The issuance of notes dated June 2012, whose balance is US$ 55 million as of December 31, 2018 (US$ 71 million as of December 31, 2017), comprises a financing of US$ 20 million, maturing in June 2022, with a cash flow hedge through an IRS. In addition, it includes a financing of US$ 35 million at an annual fixed interest rate of 5%, maturing in June 2022, which has a fair value hedge through an IRS, resulting in retained earnings of S/ 3 million as of December 31, 2018 and as of December 31, 2017 (both periods).

All financing is guaranteed by current and future flows generated by clients' electronic payment orders (Diversified Payments Rights - DPR). In addition, it is subject to compliance clauses based on financial ratios and other specific terms related to the flows assigned which, in Management's opinion, have been fully complied with as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, subordinated bonds were issued according to the conditions set forth in the Banking Law and accrue interest at annual rates ranging from Constant Adjustment Index plus a spread to 5.4% in local currency and from 5.25% to 6.50% in foreign currency.

Finance lease bonds accrue interest at annual rates ranging from 4.60% to 6.00% in local currency as of December 31, 2018 and 2017, and are secured by loan transactions subject to finance lease that have been financed by such bonds.

As of December 31, 2018 and 2017, the Bank has accounts payable amounting to S/ 8 million and S/ 12 million, respectively, corresponding to deferred issuance costs.

14. Provisions and Other Liabilities

As of December 31, this caption comprises the following:

In thousands of soles	2018	2017
Accounts payable		
BCRP repurchase agreements (a)	1,245,865	4,827,739
Accounts payable to suppliers	313,149	276,678
Premiums to deposit insurance fund, contributions, and obligations with tax collection entities	121,976	143,833
Dividends, profit sharing, and remunerations payable	112,811	105,592
Interest payable	28,377	274,434
Other accounts payable	402,540	31,262
	2,224,718	**5,659,538**
Other liabilities		
Transactions in progress (b)	931,609	720,123
Deferred income and other liabilities	31,193	25,851
	962,802	**745,974**
Provisions		
Provision for lawsuits, litigations, and other contingencies (d)	219,646	214,459
Provision for contingent loans (c)	214,604	232,563
Other provisions	266,735	226,781
	700,985	**673,803**
	3,888,505	**7,079,315**

(a) It corresponds with the balance of the foreign currency repurchase agreement that was entered into, and BCRP deposit certificates and Sovereign Bonds of the Republic of Peru held 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 to the definitive accounts of the consolidated statement of financial position one month later. These transactions do not affect the profits or loss of Continental Group. As of December 31, 2018, liability transactions in progress mainly include Treasury transactions for S/ 845 million (S/ 569 thousand as of December 31, 2017).

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

In thousands of soles	2018	2017
Balance as of January 1	232,563	142,362
Provision	105,580	148,595
Recoveries and reversals	(124,727)	(55,738)
Foreign exchange differences and other adjustments	1,188	(2,656)
	214,604	**232,563**

As of December 31, 2018, the general provision for indirect loan portfolio for S/ 100 million (S/ 101 million as of December 31, 2017) includes procyclical provisions for S/ 35 million (S/ 34 million as of December 31, 2017).

(d) The Continental Group has several lawsuits, claims, and other proceedings related to the activities it develops. In the opinion of the Management and its legal advisors, they will not result in additional liabilities.

15. Equity

A. Regulatory capital and legal limits

The Banking Law sets forth that the regulatory capital shall not be lower than 10% of the assets and standby credits weighted by credit, market and operation risks. As of December 31, 2018, the Bank and EDPYME apply the standard method for calculating the amount of regulatory capital requirement for credit, market and operation risks.

As of December 31, 2018, on an individual basis, the regulatory capital of the Bank and Entidad de Desarrollo de la Pequeña y Microempresa - EDPYME (Micro and Small Business Development Entity), calculated according to the current regulatory provisions is S/ 9,989 million and S/ 79 million, respectively (S/ 8,947 million and S/ 69 million, respectively, as of December 31, 2017). The regulatory capital is used to calculate certain limits and restrictions applicable to all Peruvian Banks which, in the Management's opinion, have been fully complied with.

As of December 31, 2018, the assets and standby credits weighted by credit, market and operation risks of the Bank and the EDPYME, in accordance with the current legal standards, amount to S/ 66,830 million and S/ 573 million, respectively (S/ 63,012 million and S/ 523 million, respectively, as of December 31,2017).

As of December 31, 2018, the aggregate capital ratio by credit, market and operation risk of the Bank and the EDPYME is 14.95% and 13.76%, respectively (14.20% and 13.28%, respectively, as of December 31, 2017).

B. Share capital

As of December 31, 2018, the Bank's authorized, subscribed and fully paid-in share capital - in accordance with the Bank's by-laws and the respective amendments - is represented by 5,368,602 thousand of outstanding common shares with a par value of one Sol (S/ 1.00) each (4,883,119 thousand shares as of December 31, 2017).

At Obligatory General Shareholders' Meetings, held on March 28, 2018 and March 30, 2017, an agreement was reached to increase the share capital by S/ 485 million and S/ 482 million, respectively, through the capitalization of retained earnings and discretionary reserve.

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

	2018		2017	
Interest	**N° of shareholders**	**Interest %**	**N° of shareholders**	**Interest %**
Up to 1	7,676	3.37	7,719	3.31
From 1.01 to 5	3	4.39	3	4.45
From 45.01 to 100	2	92.24	2	92.24
	7,681	**100.00**	**7,724**	**100.00**

C. Reserves

The Banking Law sets forth that the Bank shall have a legal reserve of at least 35% of the paid-in 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' Meetings, held on March 28, 2018 and March 30, 2017, an agreement was reached to make a legal reserve in an amount equivalent to 10% of profits for 2017 (S/ 139 million) and 2016 (S/134 million), respectively.

D. Adjustments to equity

As of December 31, 2018, they include S/ 0.1 million for unrealized losses on available-for-sale investments (S/ 8.4 million of unrealized gains as of December 31, 2017), S/ 5.1 million for unrealized losses on valuation of cash flow hedging derivatives (S/ 0.9 million for unrealized gains as of December 31, 2017), S/ 0.1 million for unrealized gains on other adjustments of associates (S/ 0.2 million as of December 31, 2017), and S/ 2.8 million for unrealized losses on the actuarial reserve calculation for long-term employees' benefits in both periods.

E. Retained earnings

At Obligatory General Shareholders' Meetings, held on March 28, 2018 and March 30, 2017, an agreement was reached to approve the capitalization of retained earnings for S/ 485 million and S/482 million, respectively. Also, both Shareholders' Meetings approved a dividend distribution amounting to S/ 763 million and S/ 723 million, respectively.

As of December 13, 2018, the Board of Directors, entitled by the powers granted by the Obligatory General Shareholders' Meeting dated March 28, 2018 and in compliance with Article 184° (A) (2) of the Banking, unanimously committed to capitalizing the profits for 2018 for an amount of S/ 352 million. This commitment shall be made official in the next Obligatory General Shareholders' Meeting.

16. Risks and Contingent Commitments

As of December 31, this caption comprises the following:

In thousands of soles	**2018**	**2017**
Indirect loans:		
Guarantees and letters of guarantee	14,470,009	14,474,922
Letters of credit and bank acceptances	1,007,756	1,102,924
	15,477,765	**15,577,846**
Unused credit lines and non-disbursed granted loans	10,760,045	9,071,095
	26,237,810	**24,648,941**

In the normal course of business, Continental Group takes part in transactions, whose risk is recorded in contingent accounts. These transactions expose it to credit risk, other than the amounts disclosed in the consolidated statement of financial position.

The credit risk in contingent transactions is related to the possibility that one of the parts of the agreement does not comply with the terms established.

Continental Group applies similar credit policies to assess and grant direct and indirect loans. In Management's opinion, the contingent transactions do not represent an exceptional credit risk, since it is expected that a portion of such loans expires without being used. The total amounts of contingent loans do not necessarily represent future cash outflows for the Continental Group.

Management estimates that no significant losses will arise from current contingent transactions as of December 31, 2018 and 2017.

17. Interest Income

This caption comprises the following:

In thousands of soles	***Note***	**2018**	**2017**
Direct loan portfolio	*7*	4,188,678	4,104,010
Investments at fair value through profit or loss	*6*	121,576	70,129
Available-for-sale investments	*6*	101,868	159,669
Cash and due from banks	*5*	64,126	43,728
Interbank funds		3,133	6,877
Held-to-maturity investments	*6*	-	23,438
Profit or loss from hedging transactions		-	2,818
Other finance income		4,058	4,133
		4,483,439	**4,414,802**

18. Interest Expenses

This caption comprises the following:

In thousands of soles	***Note***	**2018**	**2017**
Obligations		560,889	638,547
Borrowings and financial obligations	*13*	517,129	521,123
Accounts payable		133,149	283,039
Deposits in financial system entities		69,885	61,411
Profit or loss from hedging transactions		19,084	-
Interbank funds		13,004	4,657
Other finance costs		6,148	1,238
		1,319,288	**1,510,015**

19. Income from Finance Services, Net

This caption comprises the following:

In thousands of soles	**2018**	**2017**
Income		
Income from credit card commissions	250,638	249,228
Commissions on transfers	154,252	140,121
Income from commissions on collection services	130,895	123,399
Income from indirect loans	203,553	205,086
Income from services and maintenance of checking accounts	48,294	45,562
Income from advisory services	16,261	15,743
Income from online corporate banking services	42,518	35,213
Income from trusts and commission of a trustee	1,098	1,116
Other income from services	323,136	289,864
	1,170,645	**1,105,332**
Expenses		
Deposit insurance fund premiums	(68,027)	(62,532)
Transfers	(9,155)	(7,179)
Checking account maintenance expenses	(4,426)	(4,545)
Spot exchange rate	(7,449)	(11,452)
Other expenses for services	(268,153)	(225,439)
	(357,210)	**(311,147)**
	813,435	**794,185**

20. Profit or Loss from Financial Transactions

This caption comprises the following:

In thousands of soles	*Note*	2018	2017
Gain on exchange difference	*4*	492,572	387,079
Trading derivatives		27,207	92,094
Investments at fair value through profit or loss		8,948	29,290
Gain on interest		8,303	6,790
Available-for-sale investments		5,006	17,065
Other		39,335	31,473
		581,371	**563,791**

21. Administrative Expenses

This caption comprises the following:

In thousands of soles	2018	2017
Personnel and board of directors expenses	771,414	728,036
Expenses for services provided by third parties	735,709	724,565
Taxes and contributions	46,032	46,342
	1,553,155	**1,498,943**

22. Other Expenses, Net

As of December 31, 2018 and 2017, 'other expenses, net' mainly includes loss from the sale of awarded assets and non-current held-for-sale assets, expenses in awarded and recovered assets, loss not covered by insurance, donations made, lease income, among other income and expenses.

23. Tax Matters

Income tax systems

A. The Continental Group is subject to Peruvian tax system. As of December 31, 2018 and 2017, corporate income tax rate in Peru is calculated on the basis of the net taxable income at a rate of 30%.

By means of Legislative Decree 1261, published on December 10, 2016 and effective January 1, 2017, the rate applicable to legal entity domiciled in Peru was modified. Consequently, the rates applicable to income tax on dividends for the last taxable years are as follows:

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

In addition, the above-mentioned Decree and its amendments establish that the income tax rates applicable to distribution of dividends and any other form of profit distribution corresponding to the last fiscal years are the following:

For income generated until fiscal year 2014	4.1%
For income generated in fiscal years 2015 and 2016	6.8%
For income generated from fiscal year 2017 onwards	5.0%

B. In accordance with current Peruvian tax legislation, non-domiciled individuals only pay taxes for their Peruvian source income. Thus, in general terms, revenues obtained by non-domiciled individuals from the services rendered in the country shall be subject to a 30% income tax on gross income, provided that no double tax treaties have been signed by the country and are effective. Currently, Peru has entered into double tax treaties with the Andean Community, Chile, Canada, Brazil, Portugal, Switzerland, Mexico, and South Korea.

Concerning the technical assistance or digital services rendered by non-domiciled individuals to domiciled individuals, regardless of the place where the service is rendered, they shall be subject to a 15 and 30% income tax rate on gross income, respectively. Technical assistance will be subject to a 15% rate, provided that Income Tax Act requirements are met. As indicated above, the withholding rate in these cases may vary or even the withholding may be inapplicable in the cases where some provisions of an effective double tax treaty are applied.

Income tax determination

C. The Bank and its subsidiaries computed their taxable base for the years ended December 31, 2018 and 2017, and determined a consolidated current income tax of S/ 568 million and S/ 506 million, respectively.

Income tax expense by entity is the following:

In thousands of soles	**2018**	**2017**
Entities		
BBVA Banco Continental	550,160	495,806
Bolsa Sociedad Agente de Bolsa S.A.	2,562	862
BBVA Asset Management Continental S.A. SAF	6,185	5,554
Continental Sociedad Titulizadora S.A.	231	240
Inmuebles y Recuperaciones Continental S.A.	1,113	1,067
BBVA Consumer Finance EDPYME	5,931	1,550
Forum Comercializadora del Perú S.A.	54	96
Forum Distribuidora del Perú S.A.	1,542	359
	567,778	**505,534**

Income tax expense comprises:

In thousands of soles	**2018**	**2017**
Current income tax	549,546	458,979
Deferred income tax:	-	-
Profit or loss for the year	10,557	52,855
Income tax (adjustment/recovery of provision)	7,675	(6,300)
	567,778	**505,534**

Income tax exemptions and exceptions

D. 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 computable cost is the highest of the value of securities at the closing of taxable fiscal year 2009 (quotation value), acquisition cost, or increase in the equity value, as per procedure established by Executive Order Decree 011-2010-EF.

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

Temporary tax on net assets

E. 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 reserve, and specific provisions for credit risk. The tax rate is 0.4% for the years 2018 and 2017 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

F. For fiscal years 2018 and 2017, the Tax on Financial Transactions (ITF for its Spanish acronym) 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

G. For income tax determination purposes, transfer pricing for transactions carried out with 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. Up to fiscal year 2016, the formal obligations of Transfer Pricing were the presentation of a Transfer Pricing Sworn Statement and a Technical Study. By means of Legislative Decree 1312, published on December 31, 2016 and effective January 1, 2017, the following formal obligations were established to replace the former ones: (i) presentation of a Local File (if accrued income exceeds 2,300 tax units (UIT for its Spanish acronym)), (ii) presentation of a Master File (if accrued income exceeds 20,000 UIT), and (iii) presentation of a Country-by-Country Report (if 2017 consolidated accrued revenues of the multinational group's Parent Company exceeded S/ 2,700 million or € 750 million). The last two reports are mandatory for transactions corresponding to fiscal year 2017 onwards.

According to Peruvian Tax Authorities' Resolution 014-2018-SUNAT, published on January 18, 2018, the Electronic Form 3560 for the presentation of the Local File, deadline, content, and format to be included were approved.

Thus, the deadline for the presentation of the Local File for fiscal year 2018 will be in June 2019, in accordance with the maturity schedule established for tax period of May, published by the Tax Authorities. The Local File for fiscal year 2017 was presented in June 2018 according to the schedule of monthly tax obligations agreed for the tax period of May, published by the Tax Authorities.

The content and format of the Local File are stated in Exhibits I, II, III, and IV of the Peruvian Tax Authorities' Resolution 014-2018-SUNAT.

The above-mentioned Legislative Decree 1312 also established that intra-group services with low added value shall not have a margin greater than 5% of their costs. Concerning the services rendered between related parties, taxpayers must comply with the benefit test and provide the requested documentation and information under specific conditions for the deduction of costs or expenses.

Legislative Decree 1116 established that Transfer Pricing Standards are not applicable to sales tax (IGV).

Tax assessment

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

The income tax returns of the following Continental Group's entities are open for review by the Peruvian Tax Authorities:

Entities	**Tax returns open for review**
Bolsa Sociedad Agente de Bolsa S.A.	2014-2018
BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos	2014-2018
Continental Sociedad Titulizadora S.A.	2014-2018
Inmuebles y Recuperaciones Continental S.A.	2014-2018
BBVA Consumer Finance EDPYME	2014-2018
Forum Comercializadora del Perú S.A.	2014-2018
Forum Distribuidora del Perú S.A.	2014-2018

Income tax returns for fiscal years 2015, 2017, and 2018, and tax return to be filed by the Bank for the year 2019 are open for review by the Peruvian Tax Authorities. As of the date of this report, Peruvian Tax Authorities are assessing the Bank's income tax returns for fiscal years 2012, 2013, and 2016.

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; 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 internal legal advisors that any possible additional settlement of taxes would not be significant for the consolidated financial statements of the Bank as of December 31, 2018 and 2017.

Tax regime applicable to sales tax (IGV)

I. Legislative Decree 1347, published on January 7, 2017, and effective July 1, 2017, established the reduction of one percentage point in the sales tax, provided that the goal of annual sales tax collection as of May 31, 2017 is reached, net of internal refunds of 7.2% of the Gross Domestic Product (GDP). In other words, if the aforementioned requirement is met, the IGV tax rate (including the Municipal Tax) will be reduced from 18% to 17%.

However, the estimated collection goal was not met at the end of the term, so the sales tax rate shall be held at 18%.

24. Deferred Income Tax

The deferred income tax has been calculated applying the liability method and is attributed to the following items:

In thousands of soles	**Balance as of 01.01.2017**	**Equity additions (recoveries)**	**Profit or loss additions (recoveries) for the year**	**Other**	**Balance as of 12.31.2017**	**Equity additions (recoveries)**	**Profit or loss additions (recoveries) for the year**	**Other**	**Balance as of 12.31.2018**
Assets									
General provision for loans	341,965	-	(59,418)	187	282,734	-	10,582	-	293,316
General provision for contingent loans	37,451	-	(1,342)	-	36,109	-	(1,762)	-	34,347
Provision for awarded assets	29,447	-	12,755	(2,393)	39,809	424	2,851		43,084
Specific provision for contingent loans	9,658	-	29,037	-	38,695	-	(5,265)	-	33,430
Provisions for various expenses and other	50,181	-	3,234	289	53,704	-	9,700	-	63,404
Labor provisions	48,658	1,193	8,030	-	57,881	-	11,991	-	69,872
Tax loss	4,147	-	(164)	-	3,983	-	(3,983)	-	-
In-suspense interest	3,955	-	(3,677)	-	278	-	-	-	278
Available-for-sale investment	1,096	628	-	-	1,724	2,383	-	-	4,107
Cash flow hedges	-	-	-	-	-	2,131	-	-	2,131
	526,558	**1,821**	**(11,545)**	**(1,917)**	**514,917**	**4,938**	**24,114**	**-**	**543,969**
Liabilities									
Assessment of borrowings	(33,485)	-	4,542	-	(28,943)	-	(8,339)	-	(37,282)
Cash flow hedges	(575)	213	-	-	(362)	362	-	-	-
Intangible assets / deferred charges	(51,028)	-	(37,836)	-	(88,864)	-	(19,449)	-	(108,313)
Property tax depreciation	(5,827)	-	(1,381)	-	(7,208)	-	(635)	-	(7,843)
Balancing of assets and liabilities due to exchange difference	(12,204)	-	(6,635)	-	(18,839)	-	(6,248)	-	(25,087)
	(103,119)	**213**	**(41,310)**	**-**	**(144,216)**	**362**	**(34,671)**	**-**	**(178,525)**
Net deferred tax asset	**423,439**	**2,034**	**(52,855)**	**(1,917)**	**370,701**	**5,300**	**(10,557)**	**-**	**365,444**

The movement in deferred income tax is as follows:

In thousands of soles	2018	2017
Balance at the beginning of the year	370,701	423,439
Credit to equity	5,300	2,034
Charge to profit or loss for the year	(10,557)	(52,855)
Other	-	(1,917)
	365,444	**370,701**

25. Earnings per Share

The table below shows the computation of the weighted average of shares and earnings per shares as of December 31, 2018 and 2017:

In thousands of soles	Outstanding shares	Weighted average number of basic shares	Effective days to year-end	Weighted average number of common shares
2018				
Balance as of January 1, 2018	4,883,119	4,883,119	365	4,883,119
Capitalization of 2017 profit or loss	485,483	485,483	365	485,483
Balance as of December 31, 2018	**5,368,602**	**5,368,602**		**5,368,602**
2017				
Balance as of January 1, 2017	4,401,368	4,401,368	365	4,401,368
Capitalization of 2016 profit or loss	481,751	481,751	365	481,751
Capitalization of 2017 profit or loss		485,483	365	485,483
Balance as of December 31, 2017	**4,883,119**	**5,368,602**		**5,368,602**

As of December 31, 2018 and 2017, earnings per share calculated based on the weighted average number of shares amounted to S/ 0.2736 and S/ 0.2587, respectively.

26. Related Party Transactions

As of December 31, the consolidated financial statements of the Continental Group include transactions with related parties that, as contained in IAS 24, comprise the controlling party, subsidiaries, related parties, associates, other related parties, and key directors and executives. All related party transactions are conducted in accordance with the market conditions applicable to non-related third parties.

(a) Find below the balances of the consolidated statement of financial position of the Bank with the related parties as of December 31:

	2018						2017					
In thousands of soles	Controlling party	Subsidiaries	Related parties (*)	Associates	Key staff and directors	Total	Controlling party	Subsidiaries	Related parties (*)	Associates	Key staff and directors	Total
Assets:												
Cash and due from banks	500,355	-	287	-	-	500,642	220,332	-	-	-	-	220,332
Loan portfolio, net	-	-	300,277	49	23,434	323,760	-	-	612,061	10,016	12,107	634,184
Trading derivatives	135,977	-	69,105	-	-	205,082	213,705	-	4,939	-	-	218,644
Other assets, net	144,865	-	125,735	-	-	270,600	188,454	-	47,055	-	-	235,509
Total assets	**781,197**	**-**	**495,404**	**49**	**23,434**	**1,300,084**	**622,491**	**-**	**664,055**	**10,016**	**12,107**	**1,308,669**
Liabilities:												
Obligations to the public and deposits from financial system entities	212,881	-	357,950	953	126,152	697,936	112,998	-	355,747	2,499	112,588	583,832
Borrowings and financial obligations	-	-	6,018	-	-	6,018	-	-	57,724	-	4	57,728
Trading derivatives	250,641	-	1,462	-	-	252,103	212,170	-	3,504	-	-	215,674
Provisions and other liabilities	11,839	-	39,088	-	18	50,945	56,816	-	19,735	-	-	76,551
Total liabilities	**475,361**	**-**	**404,518**	**953**	**126,170**	**1,007,002**	**381,984**	**-**	**436,710**	**2,499**	**112,592**	**933,785**
Contingent and memorandum accounts:												
Indirect loans	-	-	298,291	200	1,457	299,948	-	-	285,088	51,446	-	336,534
Derivative financial instruments	11,071,499	-	701,705	-	-	11,773,204	11,455,383	-	220,038	-	-	11,675,421

(*) Related parties include the balances and transactions with other related parties as contained in IAS 24.

(b) Find below the effects of transactions with related parties in the consolidated statement of income of Continental Group for the year ended December 31:

	2018						2017					
In thousands of soles	**Controlling party**	**Subsidiaries**	**Related parties (*)**	**Associates**	**Key staff and directors**	**Total**	**Controlling party**	**Subsidiaries**	**Related parties (*)**	**Associates**	**Key staff and directors**	**Total**
Interest income	-	-	1,164	-	110	1,274	-	-	1,780	-	63	1,843
Interest expenses	-	-	(9,570)	-	(218)	(9,788)	-	-	(8,473)	-	(144)	(8,617)
	-	**-**	**(8,406)**	**-**	**(108)**	**(8,514)**	**-**	**-**	**(6,693)**	**-**	**(81)**	**(6,774)**
Income from financial services	-	-	251	-	16	267	-	-	220	-	10	230
Expenses in financial services	-	-	(60)	-	-	(60)	-	-	(706)	-	-	(706)
	-	**-**	**191**	**-**	**16**	**207**	**-**	**-**	**(486)**	**-**	**10**	**(476)**
Net profit or loss from financial operations												
Administrative expenses	(16,910)	-	(74,866)	-	-	(91,776)	(14,496)	-	(65,340)	-	-	(79,836)
Other income, net	-	-	179	-	1	180	-	-	177	-	-	177
	(16,910)	**-**	**(74,687)**	**-**	**1**	**(91,596)**	**(14,496)**	**-**	**(65,163)**	**-**	**-**	**(79,659)**

(*) Related parties include the balances and transactions with other related parties as contained in IAS 24.

(c) Loans to staff and key staff compensation

As of December 31, 2018 and 2017, Directors, officers, and employees of the Bank have credit transactions subject to the Banking Law, which governs and establishes certain limits to the transactions with Directors, officers, and employees of banks in Peru. As of December 31, 2018 and 2017, direct loans to employees, directors, officers, and key staff amount to S/ 438 million and S/ 422 million, respectively.

Furthermore, as of December 31, 2018 and 2017, key staff compensation and Director's fees totaled S/ 10 million and S/ 11 million, respectively.

27. Trust Fund Activities

The Bank offers structuring and administration services of trust operations and commissions of a trustee and is in charge of the preparation of agreements related to these operations. The assets kept in trust are not disclosed in the 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, 2018, the allocated value of assets in trusts and commissions of a trustee amounts to S/ 11,964 million (S/ 12,786 million as of December 31, 2017).

28. Classification of Financial Instruments

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

	2018						
	At fair value through profit or loss			Available-for-sale			
In thousands of soles	Held-for-trading	Designated at inception	Loans and items receivable	At amortized cost	At fair value	Held-to-maturity	Hedging derivatives
Assets							
Cash and due from banks	-	-	12,934,941	-	-	-	-
Interbank funds	-	-	-	-	-	-	-
Investments	3,001,328	-	-	2,193	3,536,553	-	-
Capital instruments	39,007	-	-	2,193	35,850	-	-
Debt instruments	2,962,321	-	-	-	3,500,703	-	-
Loan portfolio	-	-	52,015,135	-	-	-	-
Trading derivatives	457,876	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	1,439
Accounts receivable	-	-	39,806	-	-	-	-
Other assets	-	-	1,087,038	-	-	-	-
	3,459,204	**-**	**66,076,920**	**2,193**	**3,536,553**	**-**	**1,439**

	2018				
	At fair value through profit or loss				
In thousands of soles	Held-for-trading	Designated at inception	At amortized cost	Other liabilities	Hedging derivatives
Liabilities					
Obligations to the public	-	-	48,946,480	-	-
Interbank funds	-	-	817,265	-	-
Deposits from financial system entities and foreign financial entities	-	-	2,061,043	-	-
Borrowings and financial obligations	-	-	10,370,961	-	-
Trading derivatives	348,759	-	-	-	-
Hedging derivatives	-	-	-	-	197,492
Accounts payable	-	-	1,839,635	382,992	-
	348,759	**-**	**64,035,384**	**382,992**	**197,492**

	2017						
	At fair value through profit or loss			Available-for-sale			
In thousands of soles	Held-for-trading	Designated at inception	Loans and items receivable	At amortized cost	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**

	2017				
	At fair value through profit or loss				
In thousands of soles	Held-for-trading	Designated at inception	At amortized cost	Other liabilities	Hedging derivatives
Liabilities					
Obligations to the public	-	-	47,401,776	-	-
Interbank deposits	-	-	911,486	-	-
Deposits from financial system entities and foreign financial entities	-	-	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**

29. Financial Risk Management

The risk management plays a fundamental role in Continental Group's strategy since it ensures solvency and sustained development of the local group. The risk profile of the Continental Group has been established based on the BBVA Group's strategies and policies and it considers a unique, independent and global management model.

- Unique: Focused on a single objective. The risk appetite is determined based on fundamental metrics, 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 Risk Unit allows to closely monitor the business and thus detect opportunities.

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

For an effective management with a comprehensive vision, the Risk Unit of the Continental Group is structured by type of risks: admission of retail and wholesale credit risks, monitoring, collections and recoveries, trust, market and structural risks, control, validation, and regulation. With the purpose of creating synergy and integrating processes, from strategy and planning to implementation of management models and tools, 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 risks, which adapt to local regulation and circumstances.

The Risk Unit 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 to establish policies throughout the business cycle from admission and monitoring to 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 and/or platforms that incorporate in the risk management and commercial network, as the case may be.

- Retail Risk Unit: It manages the credit risk in the admission stage of the personal and business banking (small and medium-sized businesses). For personal banking, the admission focuses on tools assessing the profile, ability to pay, and credit behavior of the client in the Continental Group and in the financial system. For business banking, the admission focuses on economic and financial data obtained from field visits providing an adequate size of the business and debtor's capacity to pay, through the use of specific methodologies per economic activity, as well as tools assessing the behavioral profile of the businesses.

  For origination processes of both personal and business banking, the Bank conducts a mass assessment through campaigns and specific tactical actions in accordance with the growth strategy and portfolio management.

- Wholesale Risk Unit: It integrates the origination and policy functions, as well as the admission of business, corporate and mortgage loans in order to enhance the risk model with greater synergies based on the communication and feedback of the teams in the management of the risk inherent to the types of operation, products, sectors, among others.

  The origination and policy team is in charge of managing the wholesale portfolio and defining the growth policies and strategies. The Admission Unit defines the credit risk profile in the policies of the Continental Group for the following segments: Retail network, business banking and institutions, global clients, and realtors.

  In 2018, 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 of the Continental Group. Moreover, the portfolio diversification was promoted through the monitoring of concentration thresholds per sectors and the integration of the new portfolio management model was consolidated strategically through the network of offices for identification of opportunities, preventive action, and renewal.

  The rating, risk analyst and bureau tools are an important support in the decision-making process; and the Automated Financial Program and Digital Financial Program in the business banking and corporate investment banking (CIB) segments constitute digital platforms for the preparation and analysis of the credit proposals.

- Monitoring, Collection and Recovery Unit: It integrates the functions of renewal and surveillance to critical cases, collections through external agencies, management of bad debts, and strategies for divestment of portfolios both in the retail and wholesale units.

  The monitoring management, which includes the risk portfolios related to personal and business banking, uses statistical information to detect both warning indicators and high-risk groups.

  Regarding preliminary ruling, the collection and recovery management is oriented to prevention through behavioral tools, call center actions, and field visits. Regarding judicial field, the collection monitoring is coordinated with legal firms.

  Furthermore, in the Wholesale Unit, the monitoring function aims at identifying those clients with potential problems from the beginning in order to manage the credit risk, while the Recovery Unit seeks to negotiate payment agreements with the clients through refinancing, payment in kind, or execution of guarantees.

Maximum exposure to credit risk

Find below the maximum exposure to credit risk as of December 31:

In thousands of soles	2018	2017
Cash and due from banks	12,934,941	15,326,501
Investments at fair value through profit or loss	3,001,328	4,198,995
Available-for-sale investments	3,538,746	3,510,121
Loan portfolio	52,015,135	49,996,441
Trading derivatives	457,876	499,288
Hedging derivatives	1,439	1,191
Accounts receivable	39,806	53,078
Other assets	1,087,038	965,170
	73,076,309	**74,550,785**

Received guarantees

The requirement of guarantees may be a necessary instrument, but not sufficient for granting credits and their acceptance is supplementary to the credit process that requires the previous verification of the debtor's payment capacity or whether this debtor is able to generate sufficient resources to allow the amortization of the risk assumed under the terms agreed.

The procedures for the management and valuation of guarantees are included in the Internal Manuals on Credit Risk Management Policies and Procedures (retail and wholesale). They establish the basic principles for credit risk management, that include the administration of the guarantees received in the transactions with clients, ensuring that such guarantees are legalized, recorded in the respective registry, and insured with the corresponding insurance policies.

The valuation of guarantees is governed by prudence principles, involving appraisals for mortages, market price for listed securities, value of interest in an investment fund, etc. Subject to these prudence principles, milestones, that may be stricter than those contained in local regulations and under which the valuation of guarantees may be updated, are established considering the requirements and level of recognition by the regulator that entities making appraisals shall comply with.

In thousands of soles	2018		2017	
Mortgages	21,640,200	40%	20,277,630	39%
Finance lease	4,475,583	8%	4,827,736	9%
Readily realizable guarantees	515,922	1%	322,419	1%
Guarantees and letters of guarantee received	472,497	1%	723,624	1%
Pledges on vehicles and industrial, agricultural and other pledges	86,369	-	106,021	-
Product and merchandise warrants	-	-	10,486	-
Rest of guarrantees	9,993,435	18%	12,468,059	24%
Secured loans	**37,184,006**	**68%**	**38,735,975**	**74%**
Unsecured loans	17,195,516	32%	13,316,716	26%
	54,379,522	**100%**	**52,052,691**	**100%**

Loan portfolio impairment loss

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

	2018						**2017**					
In thousands of soles	**Wholesale credits**	**Small and micro business loans**	**Consumer loans**	**Mortgage loans**	**Total**	**%**	**Wholesale credits**	**Small and micro business loans**	**Consumer loans**	**Mortgage loans**	**Total**	**%**
Neither past due nor impaired loans	**31,780,846**	**1,351,702**	**5,818,277**	**12,053,308**	**51,004,133**	**99**	**31,289,982**	**1,195,986**	**4,961,742**	**11,434,982**	**48,882,692**	**99**
Standard	31,263,973	1,320,806	5,709,670	11,858,120	50,152,569	97	30,716,493	1,165,279	4,877,061	11,234,542	47,993,375	97
With potential problems	516,873	30,896	108,607	195,188	851,564	2	573,489	30,693	84,681	200,440	889,303	2
Substandard	-	-	-	-	-	-	-	14	-	-	14	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Past due but not impaired loans	**39,045**	**1**	**6**	**566**	**39,618**	**-**	**33,528**	**164**	**177**	**502**	**34,371**	**-**
Standard	10,725	1	1	-	10,727	-	11,901	164	51	-	12,116	-
With potential problems	28,320	-	5	566	28,891	-	21,627	-	126	502	22,255	-
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Impaired loans	**2,106,857**	**152,000**	**365,310**	**711,604**	**3,335,771**	**7**	**2,065,656**	**157,409**	**319,106**	**593,457**	**3,135,628**	**6**
Standard	39,422	268	2	-	39,692	-	37,854	281	6	-	38,141	-
With potential problems	257,868	92	8	-	257,968	-	313,515	93	12	-	313,620	1
Substandard	487,411	21,711	91,440	253,643	854,205	2	492,595	21,936	74,366	208,327	797,224	1
Doubtful	446,808	36,172	149,133	170,993	803,106	2	502,853	46,144	132,522	180,421	861,940	2
Loss	875,348	93,757	124,727	286,968	1,380,800	3	718,839	88,955	112,200	204,709	1,124,703	2
Gross loan portfolio	**33,926,748**	**1,503,703**	**6,183,593**	**12,765,478**	**54,379,522**	**106**	**33,389,166**	**1,353,559**	**5,281,025**	**12,028,941**	**52,052,691**	**105**
Less: Provisions	(1,711,936)	(124,339)	(338,055)	(455,864)	(2,630,194)	(6)	(1,570,237)	(119,253)	(302,483)	(369,496)	(2,361,469)	(5)
Net total	**32,214,812**	**1,379,364**	**5,845,538**	**12,309,614**	**51,749,328**	**100**	**31,818,929**	**1,234,306**	**4,978,542**	**11,659,445**	**49,691,222**	**100**

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

Type of debtor	Impairment criterion
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 related to the transactions that, as of December 31, 2018, have been classified as 'past due but not impaired' loans and 'impaired' loans amount to S/ 1,610 million (S/ 1,355 million as of December 31, 2017).

In 2018 and 2017, the transactions with clients that, during these periods, were classified as 'past due but not impaired' loans and 'impaired' loans resulted in a finance income of S/ 149 million in both periods.

As of December 31, 2018 and 2017, the guarantees of the 'past due but not impaired' loans and 'impaired' loans amount to S/ 2,062 million and S/ 1,928 million, respectively, of which S/ 1,864 million and S/ 1,755 million correspond to mortgages.

The 'past due but not impaired' loans as of December 31, 2018 and 2017 amount to S/ 40 million and S/ 34 million, respectively. Find below a breakdown of those credits listed per past-due date:

In thousands of soles	2018				2017			
Past-due date	**16-30**	**31-60**	**61-90**	**Total**	**16-30**	**31-60**	**61-90**	**Total**
Types of credit								
Corporate	-	-	-	-	-	3	1	4
Large business	3,462	4,463	16	7,941	336	5,783	26	6,145
Medium-sized business	16,091	12,696	2,317	31,104	14,951	8,831	3,767	27,549
Subtotal	**19,553**	**17,159**	**2,333**	**39,045**	**15,287**	**14,617**	**3,794**	**33,698**
Small business	-	-	1	1	-	164	-	164
Micro business	-	-	-	-	-	-	-	-
Consumer	-	6	-	6	-	7	-	7
Mortgage	-	566	-	566	-	502	-	502
Subtotal	**-**	**572**	**1**	**573**	**-**	**673**	**-**	**673**
TOTAL	**19,553**	**17,731**	**2,334**	**39,618**	**15,287**	**15,290**	**3,794**	**34,371**

Risk concentration

Loan portfolio is distributed in the following economic sectors:

In thousands of soles	**2018**		**2017**	
Mortgage and consumer loans	18,949,069	35%	17,309,926	33%
Commerce	9,305,933	17%	9,086,584	18%
Manufacturing	8,646,783	16%	8,951,081	18%
Real estate, business and leasing	3,344,181	6%	3,017,877	6%
Transport, storage, and communications	3,202,268	6%	2,574,841	5%
Agriculture and livestock	1,561,275	3%	1,570,296	2%
Mining	1,492,798	3%	1,740,273	3%
Financial intermediation	1,312,247	2%	1,041,749	2%
Power, gas, and water	1,157,200	2%	1,290,543	3%
Construction	952,964	2%	1,107,513	2%
Other	4,454,804	8%	4,362,008	8%
	54,379,522	**100%**	**52,052,691**	**100%**

As of December 31, financial instruments are distributed based on the following geographical areas:

	2018					
	At fair value through profit or loss					
In thousands of soles	Held-for-trading	At inception	Loans and items receivable	Available-for-sale	Hedging derivatives	Total
Financial instruments						
Peru	3,320,755	-	54,483,759	3,369,868	-	61,174,382
Rest of South America	-	-	26,312	980	-	27,292
Rest of the world	135,977	-	11,821	-	-	147,798
Mexico	1,957	-	2,010	-	-	3,967
United States of America	1,361	-	1,707	167,868	-	170,936
Europe	4,014	-	10,949	30	1,439	16,432
	3,464,064	**-**	**54,536,558**	**3,538,746**	**1,439**	**61,540,807**
Provisions	(4,860)	-	(2,747,544)	-	-	(2,752,404)
Accrued interest	-	-	321,214	-	-	321,214
Deferred	-	-	(55,288)	-	-	(55,288)
	3,459,204	**-**	**52,054,940**	**3,538,746**	**1,439**	**59,054,329**

	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 of America	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**

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

The main risks generated may be classified into the following three groups:

- 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 fluctuations in the exchange rates for the different currencies.

- Price risk: It arises as a result of movements in the market prices, either by specific factors of the instrument itself or by factors affecting 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 Value at Risk ("VaR") is the basic variable to measure and control the market risk of the Continental Group. This risk measure estimates the maximum loss on a reliable basis that may occur in the market positions of a portfolio for a specific time horizon. In the Continental Group, the VaR is calculated by using the parametric method with a 99% reliability basis 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 risk, among others.

In addition, validity tests are made 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 crisis scenarios.

The market risk of the Continental Group was lower in 2018 related to 2017. This decrease was due to a lower position in sovereign bonds and currency swaps.

The detail of VaR per risk factors was as follows:

In thousands of soles	**2018**	**2017**
VaR per risk factor		
VaR without smoothing	3,412	4,456
VaR - Interest rate	3,172	4,001
VaR - Currency	791	2,135
Average VaR	3,661	4,375
Maximum VaR	4,927	6,893
Minimum VaR	2,625	2,480

The stress analysis is based on the historical crisis scenarios taking into account the Bankruptcy of Lehman Brothers in 2008.

According to the type of market risk assumed by the trading portfolio, at the closing of 2018 (as usual), interest rate was deemed the highest risk and currency the lowest risk.

The parametric VaR method related to market risk is validated by backtesting on a regular basis.

Structural interest rate risk
The aim of managing interest rate risk of the banking book is to maintain the Continental Group's exposure to variations in market interest rates at levels in line with its strategy and target risk profile. For this purpose, the Assets and Liabilities Committee (COAP for its Spanish acronym) actively manages the banking book through operations intended to optimize the level of risk borne according to the expected earnings and to comply with the maximum acceptable risk levels.

COAP uses the interest rate risk measurements performed by the Risk Area which, acting as an independent unit, quantifies the impact of interest rate fluctuations on the Bank's net interest margin and economic value on a regular basis.

In addition to measuring the sensitivity to 100-basis-point changes in market interest rates, the Continental Group 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 of the Continental Group, excluding the Treasury activities, based on interest rate curve simulation models. The Bank regularly performs stress testing to supplement the assessment of its interest rate risk profile of the Continental Group.

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

Find below the consumption of the Continental Group's structural interest risk levels in 2018 and 2017:

2018		Dec.-18	Nov.-18	Oct.-18	Sep.-18	Aug.-18	Jul.-18	Jun.-18	May-18	Apr.-18	Mar.-18	Feb.-18	Jan.18
Limit consumption													
Financial margin sensitivity	6%	4.5%	4.6%	4.0%	3.7%	3.8%	3.7%	2.0%	2.3%	1.9%	1.6%	2.6%	2.3%
Alert consumption													
Economic value sensitivity	700	396	391	419	427	421	427	433	433	464	439	429	411
Economic Capital (EC)	1,100	887	893	882	891	889	903	915	914	944	923	905	886
Earnings at Risk (EaR)	7%	2.2%	2.1%	1.9%	1.7%	1.7%	1.8%	1.2%	1.3%	1.1%	1.3%	1.4%	1.4%

2017		Dec.-17	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%	3.7%	4.0%	4.1%	4.1%	4.0%	3.9%	4.0%	4.3%	4.3%	4.1%	4.4%	4.1%
Alert consumption													
Economic value sensitivity	610	342	338	325	317	313	319	314	292	293	301	281	299
Economic capital (EC)	1,000	744	760	755	737	711	689	675	681	659	657	651	624
Earnings at risk (EaR)	7%	2.0%	2.1%	2.2%	2.2%	2.3%	2.4%	2.4%	2.5%	2.6%	2.8%	2.5%	1.9%

As part of the measurement process, the Continental Group 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 a short-term residual maturity.

Liquidity Risk

The aim of liquidity risk control, monitoring and management is to ensure, in the short-term, that the Bank's payment commitments can be duly met without having to resort to borrowing funds under burdensome terms, or damaging the image and reputation of the Bank. 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, markets, and regulatory changes.

Management of liquidity and structural funding within the Continental Group 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 one year. It is focused on the management of payments and collections from the market activities, resources from volatile clients, and the Continental Group'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 is responsible for the comprehensive management of liquidity. The Financial Management unit, as part of the Financial Division, analyzes the implications of the Continental Group'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 regard, the Financial Management unit, in accordance with the approved budgets, executes the proposals agreed by the COAP 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 Trust, Market and Structural Risk Unit, which reports monthly the liquidity risk levels to the COAP; and more frequently to the management units.

On the other side, regarding regulatory aspects, the Basel Committee on Banking Supervision has proposed a new liquidity regulation scheme based on two ratios: Liquidity Coverage Ratio (LCR) effective as from 2015 and Net Stable Funding Ratio (NSFR) implemented in 2018. Both the Local Group and the BBVA Group, as a whole, were part of 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 Ratio of Coverage of Liquidity (RCL), 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. The distribution by residual maturity of assets and liabilities as of December 31, 2018 and 2017, is presented below, including respective accrued income related to the loan and deposits portfolio:

In thousands of soles	Up to 1 month	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 judicial collection loans	Non-contractual maturity	Total
2018									
Assets									
Cash and due from banks	7,054,833	952,598	219,127	356,963	4,351,420	-	-	-	12,934,941
Investments at fair value through profit or loss	2,962,321	-	-	-	-	-	-	39,007	3,001,328
Available-for-sale investments	2,592,194	169,310	27,439	33,393	208,915	507,495	-	-	3,538,746
Loan portfolio	7,430,590	7,258,834	4,449,079	4,805,662	17,404,169	11,744,877	1,607,406	-	54,700,617
Trading derivatives	20,967	21,082	15,655	15,663	235,947	148,562	-	-	457,876
Hedging derivatives	-	-	-	-	1,439	-	-	-	1,439
	20,060,905	**8,401,824**	**4,711,300**	**5,211,681**	**22,201,890**	**12,400,934**	**1,607,406**	**39,007**	**74,634,947**
Liabilities									
Obligations to the public	7,178,851	4,895,708	2,293,129	2,944,925	31,633,867	-	-	-	48,946,480
Demand deposits	2,294,062	1,679,028	-	-	14,161,166	-	-	-	18,134,256
Savings	1,291,414	945,000	-	-	13,953,036	-	-	-	16,189,450
Time	3,518,865	2,271,680	2,293,129	2,944,925	3,519,665	-	-	-	14,548,264
Other	74,510	-	-	-	-	-	-	-	74,510
Interbank funds	817,265	-	-	-	-	-	-	-	817,265
Deposits from financial system entities	893,614	907,382	126,480	42,921	90,646	-	-	-	2,061,043
Borrowings and financial obligations	918,741	741,708	821,038	248,413	5,082,093	2,558,968	-	-	10,370,961
Trading derivatives	31,554	20,004	40,263	28,657	171,481	56,800	-	-	348,759
Hedging derivatives	-	5,941	55,437	1,075	86,122	48,917	-	-	197,492
Accounts payable	593,770	450,000	62,466	100,000	1,016,391	-	-	-	2,222,627
Other liabilities	962,802	-	-	-	-	-	-	-	962,802
	11,396,597	**7,020,743**	**3,398,813**	**3,365,991**	**38,080,600**	**2,664,685**	**-**	**-**	**65,927,429**

In thousands of soles	Up to 1 month	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 judicial collection loans	Non-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									
Obligations to the public	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 from financial system 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**	**4,610,303**	**34,019,796**	**3,081,327**	**-**	**-**	**68,276,385**

Operation Risk
The Continental Group has an operation risk management model implemented at corporate level based on identification, assessment and monitoring procedures and methodologies supported by tools that allow qualitative and quantitative management.

This model is based on a decentralized risk operation management conducted by control specialists under the coordination of a Report and Methodological Unit. It reports to the corresponding operation risk committees allowing an adequate integration in management.

Regarding the qualitative management, the STORM tool (Support Tool for Operation Risk Management) enables the identification and quantification of operation risks associated at the process level, as well as the regular assessment of controls related to critical risks. In 2018, the risks and controls have been updated, maintaining the model validity.

On the other hand, the Sistema Integrado de Riesgo Operacional - SIRO (Operation Risk Integrated System) is a fundamental quantitative tool. It is a database that collects all operation risk events that represent a loss for the Continental Group.

By means of the Bank, the Continental Group is authorized to use the alternative standard method to calculate the regulatory capital requirement for operation risk, which allows it to optimize the regulatory capital.

As of December 31, 2018, the regulatory capital requirement for operation risk based on the alternative standard method amounts to S/ 451 million.

Among the relevant initiatives implemented in 2018, it stands out the strengthening of the internal control scheme of the Continental Group in the business through the provision of a greater structure and work methodologies. In addition, the quality assurance procedure, with the purpose of granting the traceability and ensuring the quality and control of all initiatives provided to the client, was implemented

30. Fair Value
Fair value is the amount for which an asset may be exchanged between knowledgeable willing parties (a buyer and a seller), or a liability may be 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 current value of expected cash flows, or other valuation techniques, which are significantly affected by the different assumptions used.

Although Management uses its best judgment to estimate the fair value of its financial instruments, there are weaknesses inherent to 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 may be applied to the methodology and assumptions used in the fair value estimates of the Continental Group'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 interest 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 by valuation techniques or models using, mostly, potential data from the market and minimizing the use of data calculated 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 rates) on 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, 2018 and 2017, the carrying amounts and fair values of the financial assets and liabilities are presented as follows:

	Carrying amount		**Fair value**	
In thousands of soles	**2018**	**2017**	**2018**	**2017**
Assets				
Cash and due from Banks	12,934,941	15,326,501	12,934,941	15,326,501
Investments at fair value through profit or loss and available-for-sale	6,540,074	7,709,116	6,540,074	7,709,116
Loan portfolio	52,015,135	49,996,441	52,015,135	49,996,441
Trading derivatives	457,876	499,288	457,876	499,288
Hedging derivatives	1,439	1,191	1,439	1,191
Accounts receivable	39,806	53,078	39,806	53,078
Other assets	1,087,038	965,170	1,087,038	965,170
Total	**73,076,309**	**74,550,785**	**73,076,309**	**74,550,785**
Liabilities				
Obligations to the public and deposits from financial system entities	51,007,523	49,326,064	51,007,523	49,326,064
Interbank funds	817,265	911,486	817,265	911,486
Borrowings and financial obligations	10,370,961	11,108,707	10,441,674	10,644,379
Trading derivatives	348,759	383,174	348,759	383,174
Hedging derivatives	197,492	142,782	197,492	142,782
Accounts payable	2,222,627	5,658,198	2,222,627	5,658,198
Total	**64,964,627**	**67,530,411**	**65,035,340**	**67,066,083**

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

Financial instruments recorded at fair value and value hierarchy

	2018				2017			
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								
Capital instruments	39,007	39,007	-	-	114,868	114,868	-	-
Debt instruments	2,962,321	-	2,962,321	-	4,084,127	-	4,084,127	-
Available-for-sale investments								
Capital instruments	27,226	-	27,226	-	40,879	-	40,879	-
Debt instruments	3,509,327	464,335	3,044,992	-	3,467,643	388,770	3,078,873	-
Trading derivatives	457,876	-	457,876	-	499,288	-	499,288	-
Hedging derivatives	1,439	-	1,439	-	1,191	-	1,191	-
	6,997,196	**503,342**	**6,493,854**	**-**	**8,207,996**	**503,638**	**7,704,358**	**-**
Liabilities								
Borrowings and financial obligations	4,062,651	-	4,062,651	-	5,585,463	-	5,585,463	-
Trading derivatives	348,759	-	348,759	-	383,174	-	383,174	-
Hedging derivatives	197,492	-	197,492	-	142,782	-	142,782	-
	4,608,902	**-**	**4,608,902**	**-**	**6,111,419**	**-**	**6,111,419**	**-**

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

Description of valuation techniques for instruments recorded at fair value

Level 2		Valuation technique / Hypothesis	Significant inputs used
Borrowings and financial obligations		Calculation of the current value of the hedging 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 flow projection.	▪ Closing exchange rates ▪ Market interest rate curves
Derivatives	(a) Forwards, IRS, and CCS	Calculation of the current 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), flow projection, discount curves for each underlying asset, and current market interest rates.	▪ Forward points ▪ Fixed and variable quotes ▪ Closing exchange rates ▪ Market interest rate curves
	(b) Options	**For share, currency or raw material options:** The Black-Scholes hypothesis considers the possible adjustments to convexity.	**Share, currency or raw material derivatives:** ▪ Forward structure of underlying assets ▪ Volatility of options ▪ Observable correlations between different underlying assets
		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 ▪ 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 for their issuance, which may affect them significantly.