

Banco Continental S.A. and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements

Years ended December 31, 2010 and 2009

Translation of a report originally issued in Spanish

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Banco Continental S.A.

1. We have audited the accompanying consolidated financial statements of Banco Continental S.A. ("The Bank", a subsidiary of Holding Continental S.A.) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Peru for financial entities. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable under the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Peru. 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.
4. An audit involves performing the procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material 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 Bank'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 Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

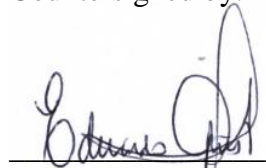
6. In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Banco Continental S.A. and Subsidiaries as of December 31, 2010 and 2009, and its consolidated financial performance and its consolidated cash flows for years then ended, in accordance with accounting principles generally accepted in Peru for financial entities.

Emphasis of matters

7. As described in Notes 2 (e) and 2 (x) to the accompanying consolidated financial statements, pursuant to SBS Resolution N° 11356-2008, on July 2010 the Bank changed the segmentation of the loan portfolio and their loan losses requirements, which affects the comparability of the composition of the portfolio.
8. As explained in Notes 2 (a-2) and 21 to the accompanying consolidated financial statements, as of December 31, 2010, the Bank applied the option of Multiple Official Letter N° 4049-2011 of the SBS, which determines that deferred workers' profit sharing should not be longer recognized. The accumulated balance as of December 31, 2009 in the amount of S/.25.4 million was adjusted against income of the year 2010.
9. The accompanying consolidated financial statements have been translated into English for convenience of the readers.

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

Countersigned by:

 (Partner)

Eduardo Gris Percovich
CPC Register No.12159

February 11, 2011

BANCO CONTINENTAL S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009

<u>ASSETS</u>	<u>Notes</u>	<u>2010</u> S/000	<u>2009</u> S/000	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Notes</u>	<u>2010</u> S/000	<u>2009</u> S/000
CASH AND DUE FROM BANKS:	4			OBLIGATIONS TO THE PUBLIC	9		
Cash and deposits in Peruvian Central Bank		9,578,320	4,474,145	Demand deposits		7,963,184	6,573,767
Deposits in local and foreign banks		349,722	332,499	Savings deposits		5,940,556	5,197,986
Clearing accounts		114,757	51,786	Time deposits		11,553,694	8,930,136
Other deposits		4,438	8,434	Other obligations		83,181	177,160
Accrued interest on cash and due from banks		8,535	345	Accrued interest payable		17,593	24,191
Total		<u>10,055,772</u>	<u>4,867,209</u>	Total		<u>25,558,208</u>	<u>20,903,240</u>
INTERBANK FUNDS		40,009	49,003	DEPOSITS FROM FINANCIAL INSTITUTIONS	9	359,232	610,450
INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS AVAILABLE-FOR-SALE AND HELD TO MATURITY, net	5	2,260,555	3,923,508	INTERBANK FUNDS	10	479,805	635,201
LOANS, net	6	24,004,149	19,806,530	DUE TO BANKS AND CORRESPONDENTS	11	5,013,198	2,126,994
INVESTMENTS IN ASSOCIATED COMPANIES		1,995	1,908	SECURITIES, BONDS AND OUTSTANDING OBLIGATIONS	12	1,870,329	1,772,926
PROPERTY, FURNITURE AND EQUIPMENT, net	7	447,086	388,674	OTHER LIABILITIES	8	1,125,435	1,119,327
OTHER ASSETS	8	980,755	1,020,118	TOTAL LIABILITIES		<u>34,406,207</u>	<u>27,168,138</u>
				SHAREHOLDERS' EQUITY:	13		
				Capital stock		1,843,427	1,471,243
				Special reserve		-	1,180
				Legal reserve		508,640	415,889
				Retained earnings		1,032,047	1,000,500
				Total		<u>3,384,114</u>	<u>2,888,812</u>
				TAX SITUATION	20		
				TRANSACTIONS WITH RELATED PARTIES	23		
TOTAL ASSETS		<u>37,790,321</u>	<u>30,056,950</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>37,790,321</u>	<u>30,056,950</u>
CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS	15			CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS	15		
Contingent accounts		25,137,764	19,815,202	Contingent accounts		25,137,764	19,815,202
Off-balance sheet accounts		85,113,542	90,041,844	Off-balance sheet accounts		85,113,542	90,041,844
Trusts and administrations		6,567,727	6,247,897	Trusts and administrations		6,567,727	6,247,897
Total		<u>116,819,033</u>	<u>116,104,943</u>	Total		<u>116,819,033</u>	<u>116,104,943</u>

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

BANCO CONTINENTAL S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Notes</u>	<u>2010</u> S/.000	<u>2009</u> S/.000
FINANCIAL INCOME			
Interest from loans	6 (a)	2,081,645	2,143,341
Income from changes in fair value, revenue, interests and gain on sales of investment in securities	5	198,347	347,341
Interest from deposits in financial institutions	4	34,794	7,276
Exchange difference from various transactions	3	175,882	247,348
Dividends and share profit from associates investments		554	370
Adjustment for indexation		9,825	1,191
Interest and commissions from inter-bank funds		988	663
Gain from derivative instruments, net	15 (b) and 11 (a)	12,120	-
Gain from hedging transactions	15 (b)	12,156	-
Other		9,657	5,812
Total		<u>2,535,968</u>	<u>2,753,342</u>
FINANCIAL EXPENSES			
Interest on deposits	9 (b)	(250,402)	(379,584)
Interest on obligations with financial institutions and international financial organizations	11	(101,245)	(177,906)
Premium paid to the "Fondo de Seguro de Depósito" (Deposit Insurance Fund)		(27,762)	(25,757)
Interest on securities and obligations outstanding	12	(81,184)	(79,945)
Loss from derivative instruments, net	15 (b)	-	(25,988)
Adjustment for indexation		(6,171)	(691)
Other		(5,217)	(8,990)
Total		<u>(471,981)</u>	<u>(698,861)</u>
Gross financial margin		2,063,987	2,054,481
PROVISIONS FOR IMPAIRMENT OF LOAN LOSSES			
Loans	6 (d)	(674,348)	(523,531)
Recovery of provisions for loan losses	6(d) and 15 (a)	392,659	192,120
Total		<u>(281,689)</u>	<u>(331,411)</u>
Net Financial margin		1,782,298	1,723,070
INCOME FROM FINANCIAL SERVICES			
Commissions from contingent operations		136,626	104,996
Other income from various financial services	16	415,888	375,938
Total		<u>552,514</u>	<u>480,934</u>
Operating profit margin		<u>2,334,812</u>	<u>2,204,004</u>

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BBVA BANCO CONTINENTAL S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Notes</u>	<u>2010</u> S/.000	<u>2009</u> S/.000
OTHER EXPENSE AND INCOME			
Employees and Board of Directors' expenses	17	(388,851)	(379,674)
Administrative expenses	18	(412,077)	(358,841)
Provisions for accounts receivable		(26,345)	(42,182)
Recovery for assets seized and recovered through legal actions		(1,053)	(2,970)
Provisions for contingent operations	15	(48,694)	(23,885)
Other provisions		(6,375)	(6,187)
Depreciation and amortization	7	(59,487)	(60,529)
Income from recovery of loan portfolio previously written-off		15,503	11,097
Other income and expenses, net	19	<u>6,407</u>	<u>8,377</u>
Total		(920,972)	(854,794)
Income before workers' profit sharing and Income Taxes		1,413,840	1,349,210
Workers' profit sharing and Income Taxes	20 (c)	<u>(407,531)</u>	<u>(421,441)</u>
Net income		<u>1,006,309</u>	<u>927,769</u>
Weighted average number of outstanding shares (in thousands of shares)			
Basic and diluted earning per share in Peruvian nuevos soles	22	1,843,427 0.55	1,843,427 0.50

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

BANCO CONTINENTAL S.A. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Capital Stock</u> S/.000	<u>Special Reserve</u> S/.000	<u>Legal Reserve</u> S/.000	<u>Retained Earnings</u> S/.000	<u>Total</u> S/.000
Balances as of January 1, 2009	1,109,301	59,324	343,478	721,614	2,233,717
Capitalization of reserves and retained earnings	361,942	(59,325)	-	(302,617)	-
Transfer of retained earnings to legal reserve	-	-	72,411	(72,411)	-
Cash dividends	-	-	-	(362,055)	(362,055)
Others	-	1,181	-	80	1,261
Unrealized gain and losses and transfers to the statements of income for available-for-sale investments	-	-	-	88,120	88,120
Net income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>927,769</u>	<u>927,769</u>
Balances as of December 31, 2009	1,471,243	1,180	415,889	1,000,500	2,888,812
Capitalization of reserves and retained earnings	372,184	(1,180)	-	(371,004)	-
Transfer of retained earnings to legal reserve	-	-	92,751	(92,751)	-
Cash dividends	-	-	-	(463,755)	(463,755)
Unrealized gain and losses and transfers to the statements of income for available-for-sale investments	-	-	-	(47,252)	(47,252)
Net income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,006,309</u>	<u>1,006,309</u>
Balances as of December 31, 2010	<u>1,843,427</u>	<u>-</u>	<u>508,640</u>	<u>1,032,047</u>	<u>3,384,114</u>

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

BANCO CONTINENTAL S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
	S/.000	S/.000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	1,006,309	927,769
Adjustments to reconcile net income to cash provided by operating activities:		
Provisions for loan losses, net of recoveries	281,689	331,411
Depreciation and amortization	59,487	60,529
Provisions for seized and recovered through legal actions assets, net of recoveries	1,053	2,970
Provisions for accounts receivable	26,345	42,182
Provisions for contingent operations, net of recoveries	48,694	23,885
Other provisions, net of recoveries	6,375	6,127
Deferred income taxes	(24,364)	(63,302)
Net gain from sale of securities	(9,918)	(7,694)
Net gain from sale of seized, recovered through legal actions and fixed assets	(3,012)	(4,697)
Changes in assets and liabilities:		
Net decrease in other assets	30,124	296,481
Net decrease in other liabilities	(49,213)	(228,953)
	<u>1,373,569</u>	<u>1,386,708</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, furniture and equipment	(132,250)	(100,068)
Sale of assets seized and recovered through legal actions	23,568	14,044
	<u>(108,682)</u>	<u>(86,024)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in obligations to the public, deposits from financial institutions and interbank funds	4,248,354	1,086,938
Net increase (decrease) in due to banks and correspondents	2,886,204	(4,859,743)
Net increase (decrease) in securities, bonds and outstanding obligations	97,403	(70,547)
Net (increase) decrease in loan portfolio	(4,479,308)	433,403
Net decrease in investments	1,625,532	422,276
Cash dividends	(463,503)	(362,055)
other	-	1,180
	<u>3,914,682</u>	<u>(3,348,548)</u>
Cash and cash equivalents provided by (applied in) financing activities		
	<u>5,179,569</u>	<u>(2,047,864)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	<u>4,916,212</u>	<u>6,964,076</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
	<u>10,095,781</u>	<u>4,916,212</u>

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

BANCO CONTINENTAL S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. BANK'S IDENTIFICATION AND ITS ECONOMIC ACTIVITIES

Background

Banco Continental S.A. (hereinafter, the Bank) is a subsidiary of Holding Continental S.A. which owns 92.24% of the capital stock of the Bank (92.08% as of December 31, 2009). The Bank is a public company incorporated in 1951, authorized to operate by the Superintendency of Banking, Insurances and Private Pension Fund Administrators of Peru (hereinafter, the SBS for its Spanish acronym) and domiciled in Peru. The Bank's main office legal address is Av. República de Panamá No. 3055 San Isidro, Lima.

Business activity

The Bank's operations primarily include financial intermediation, which consists of universal banking activities regulated by SBS in accordance with General Law of the Financial and Insurance Systems and Organic Law of the SBS - Law N° 26702 (hereinafter, the General Law) and its amendments. The General Law establishes certain requirements, rights, obligations, restrictions and other conditions that legal entities operating in the financial and insurance system are subject to.

The Bank performs its activities through a national network of 246 offices as of December 31, 2010 (243 as of December 31, 2008). The total number of employees of the Bank and its subsidiaries as of December 31, 2010 and 2009 was 4,686 and 4,376, respectively.

At December 31, 2010 and 2009 the Bank has ownership and voting rights of 100% over the subsidiaries Continental Bolsa Sociedad de Agente de Bolsa S.A., Continental S.A. Sociedad Administradora de Fondos, Continental Sociedad Titulizadora S.A. and Inmuebles y Recuperaciones Continental S.A. While the Bank does not participate in the ownership or voting rights of Continental DPR Finance Company (hereinafter, DPR), given the characteristics of its activity and their relationship with the Bank, accounting standards require DPR's financial statements be included in a consolidated basis with the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of Grupo Continental's consolidated financial statements are set out below and were consistently applied to all of the years presented, unless otherwise stated.

(a) Basis for preparation, presentation and accounting change

(a-1) Basis for preparation and presentation

Consolidated financial statements have been prepared and presented in conformity with legal provisions and accounting principles generally accepted in Peru applicable to financial entities, which comprise accounting standards and practices authorized by the SBS by virtue of the authority conferred in accordance with General Law. Those standards are contained in the Accounting Manual for the Financial System Companies (Accounting Manual) approved through SBS Resolution N° 895-98 dated September 1, 1998, effective January 1, 2001 as well as supplemental standards and amendments.

The SBS has established that in the event of situations not addressed by such standards, provisions set forth in Generally Accepted Accounting Principles in Peru (GAAP in Peru) shall be applied.

Peru GAAP is composed of: (a) the standards and interpretations issued or adopted by the International Accounting Standards Board (hereinafter, IASB) which include International Financial Reporting Standards (hereinafter, IFRS), International Accounting Standards (hereinafter, IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter, IFRIC) or by the former Standing Interpretation Committee (hereinafter, SIC) adopted by IASB, made official by the Peruvian Accounting Board (hereinafter, CNC, for its Spanish acronym) for its application in Peru and, (b) the application in Peru of the equity method for the valuation of investment in subsidiaries.

The standards official in Peru by the CNC as of December 31, 2010, are the international current versions as of the date of approval by CNC, which corresponds from IFRS 1 to 8, IAS 1 to 41, IFRIC 1 to 14, and SIC 1 to 32 (except repealed).

Full adoption of International Financial Reporting Standards (IFRS)

By means of Resolution No. 102-2010-EF/94.01.1 issued on October 14, 2010, CONASEV ruled that all companies under the scope of its supervision, are required to prepare financial statements with full observance of the International Financial Reporting Standards (IFRS) issued by the IASB in force internationally, showing in the notes to the financial statements an explicit statement and without reservation on compliance with those standards. The resolution states that the preparation and presentation of the first financial statements of full implementation of IFRS, will be the annual audited financial information as of December 31, 2011, and shall be in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards".

The aforementioned standards and interpretations will be applicable to Grupo Continental as stated by the SBS or for situations not addressed in the Accounting Manual or through the process of IFRS harmonization that SBS is developing, through guidelines in such Manual.

In the preparation and presentation of the accompanying financial statements, Grupo Continental's management complied with the standards issued by the SBS as of December 31, 2010 and 2009.

It has been published internationally the following standards and amendments to existing standards and interpretations issued or adopted by the IASB, which could impact 2012 financial statements for entities supervised by the SBS:

Framework (revised September 2010)
IFRS 1 "First-time Adoption of IFRS" (revised May 2010)
IFRS 2 "Share-Based Payment" (revised June 2009)
IFRS 3 "Business Combinations" (revised May 2010)
IFRS 5 "Non-current assets held for sale and discontinued operations" (revised April 2009)
IFRS 7 Financial Instruments: Disclosures "(revised May 2010)
IFRS 8 "Operating Segments" (revised April 2009)
IAS 1 "Presentation of Financial Statements" (revised May 2010)
IAS 7 "Statement of Cash Flows" (revised April 2009)
IAS 16 "Property, Plant and Equipment" (revised May 2008)
IAS 17 "Leases" (revised April 2009)
IAS 18 "Revenue" (revised April 2009)
IAS 19 "Employee Benefits" (revised May 2008)
IAS 23 "Borrowing Costs" (revised May 2008)
IAS 24 "Related Party Disclosures" (revised November 2009)
IAS 27 "Consolidated and Separate Financial Statements" (revised May 2010)
IAS 28 "Investments in Associates" (revised May 2008)
IAS 29 "Financial reporting in hyperinflationary economies" (revised May 2008)
IAS 31 "Interests in Joint Ventures" (revised May 2008)
IAS 32 "Financial Instruments: Presentation" (revised October 2009)
IAS 34 "Interim Financial Reporting" (revised May 2010)
IAS 36 "Impairment of Assets" (revised April 2009)
IAS 38 "Intangible Assets" (revised April 2009)
IAS 39 "Financial Instruments: Recognition and Measurement "(revised April 2009)
IFRIC 8 "Scope of IFRS 2" (reviewed June 2009)
IFRIC 9 "Reassessment of Embedded Derivatives "(revised April 2009)
IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions" (revised June 2009)
IFRIC 13 "Customer Loyalty Programmes" (revised May 2010)
IFRIC 14 "IAS 19 - The limit on a defined benefit asset, Minimum Funding Requirements and their Interaction" (revised November 2009)
IFRIC 15 "Agreements for the construction of Real Estate"(issued July 2008)
IFRIC 17 " Distributions of Non-cash Assets to Owners" (issued in November 2008)
IFRIC 18 "Transfer of assets from customers" (issued in January 2009)
IFRIC 19 "Extinguishing financial liabilities with equity instruments" (issued in November 2009)

New Accounting Pronouncements approved internationally to be applied after 2011

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (revised December 2010)
IFRS 7 "Financial Instruments: Disclosures" (revised October 2010)
IFRS 9 "Financial Instruments" (revised November 2009)
IAS 12 "Income Taxes" (revised December 2010)

(a-2) Change in accounting policy

According to the clarification of the International Financial Reporting Interpretations Committee (IFRIC) of September and November 2010, they concluded, among other issues, that statutory workers' profit sharing must be recorded in accordance with IAS 19 Employee Benefits and not by analogy with IAS 12 Income Taxes nor IAS 37 Provisions, Contingent Liabilities and Contingent Assets. In consequence, the recognition of statutory workers' profit sharing should be made only for the compensation for services rendered in the year, and consequently no deferred asset or deferred liability should be recorded for temporary differences referred to in IAS 12.

The Bank as a result of the above, being the only consolidated entity affected by it, and applying the option of Multiple Office Letter No. 4049-2011 of SBS, has decided not to recognize deferred workers' profit sharing, which is considered a change in accounting policy, and adjusted the balance accumulated as of December 31, 2009 against income for the year 2010 given the low materiality of the effect of the change; maintaining as of December 31, 2010 the presentation of current workers' profit sharing, as indicated by the SBS.

(b) Consolidation basis

Grupo Continental is composed of controlled entities and a special purpose entity.

Subsidiaries and Special Purpose Entity

Controlled entities are all entities over which the Bank has the power to control the financial and operating policies generally owning more than half of its voting shares. The consolidated financial statements include the assets, liabilities, and income and expenses of Grupo Continental. Inter-company transactions between the entities composing Grupo Continental, including balances and unrealized gains are eliminated upon consolidation. The subsidiaries are fully consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date control ceases.

Acquisitions of the subsidiaries by the Bank are recorded using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets received, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus directly attributable costs.

Continental DPR Finance Company is a special purpose entity created with the objective described in Note 15 (e) (securitization of remittances).

The main balances of the Bank, its subsidiaries, and the special purpose entity as of December 31, 2010 and 2009, are the following:

<u>Entity</u>	<u>In millions of Peruvian nuevos soles</u>					
	<u>Assets</u>		<u>Liabilities</u>		<u>Equity</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Banco Continental S.A.	37,785	30,047	34,401	27,159	3,384	2,888
Continental Bolsa - Sociedad Agente de Bolsa S.A.	38	35	15	17	23	18
Continental S.A. - Sociedad Administradora de Fondos	39	29	5	4	34	25
Continental Sociedad Titulizadora S.A.	2	2	-	-	2	2
Inmuebles y Recuperaciones Continental S.A.	25	24	5	17	20	7
Continental DPR Finance Company	1,317	733	1,317	733	-	-

(c) Functional and presentation currency

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

(d) Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions for determining assets and liabilities balances and the amounts of income and expenses, and disclosing contingent assets and liabilities, to date of consolidated financial statements. Should any changes subsequently occur to the estimates or assumptions due to variations in the circumstances they were based on, the effect of change should be included in the determination of the net gain or loss for the year of the change, and future periods if applicable. The significant estimates related to the consolidated financial statements correspond to the determination of the fair value through profit and losses for available-for-sale and associates investments, provision for loan losses, other assets and contingent loan portfolio, provision for other accounts receivable included in other assets, provision for seized assets, useful lives assigned to property, furniture and equipment, contingent liabilities, deferred income taxes, and derivative financial instruments.

(e) Allowance for loan losses

The Allowance for loan losses is determined in accordance with the criteria and percentages established by the SBS Resolution N° 11356-2008 “Regulations for the Evaluation and Classification of a Debtor and the Required Provision”.

The SBS has established quantitative criteria (level of sales and borrowing in the financial system) for the classification of the loan portfolio per type and categories of direct and indirect loans. Until June 2010, the segmentation of the loan portfolio was made in four categories (commercial, micro and small business, consumer and mortgage loans). The new segmentation effective since July 1, 2010 is outlined below:

1. Corporate

In this category will be considered further:

- a. Multilateral Development Banks
- b. Sovereign
- c. Public sector entities
- d. Stock brokers
- e. Financial System Companies

2. Large business

3. Medium business

4. Small businesses

5. Micro-business

6. Revolving consumer loans

7. Non-revolving consumer loans

8. Mortgage loans

Provisions for indirect loans are calculated from July 2010, after adjusting balances through the application of the following credit conversion factors:

Indirect loans	Conversion factor
a) Confirmed irrevocable letters of credit of up to one year, when the issuing bank is a first class financial system company	20%
b) Issuance of stand by letters supporting affirmative and negative covenants	50%
c) Issuance of guarantees, import letters of credit and stand by letters not included in paragraph "b)", and confirmations of letters of credit not included in paragraph "a)" and bank acceptances	100%
d) Undisbursed Loans granted and unused lines of credit	0%
e) Other indirect loans not covered in previous subparagraphs	100%

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

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

General allowances include those with respect to debtors classified as normal in accordance with requirements of the SBS, as well as general voluntary provisions.

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

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

In conformity with current standards, management reviews and analyzes the non-retail loan portfolio classifying debtors according to the assessment of their cash flows, global indebtedness with third parties and level of compliance with the payment of such debts. Retail loan portfolio (small business, micro-business, revolving consumer, non-revolving consumer and mortgage loans) is classified and provisioned in accordance with the delay in loan payments and takes into account the classification of the debtors by other entities of the financial system. Additionally, pursuant to SBS Resolution No. 041-2005 SBS, Grupo Continental assesses the exposure to credit exchange risks for loans in foreign currency

The minimum percentages required for credit allowances, are as follows:

Normal Category

Loans	Fixed Component	Variable Component (Procyclical)
Commercial loans	0.70%	0.40%
Commercial loans with customer deposit guarantees	0.70%	0.30%
Large business loans	0.70%	0.45%
Large business loans with customer deposit guarantees	0.70%	0.30%
Medium business loans	1.00%	0.30%
Small business loans	1.00%	0.50%
Micro business loans	1.00%	0.50%
Revolving consumer loans	1.00%	1.50%
Non-revolving consumer loans	1.00%	1.00%
Revolving consumer loans under eligible agreements	1.00%	0.25%
Mortgage loans	0.70%	0.40%
Mortgage loans with customer deposit guarantees	0.70%	0.30%

As of December 31, 2010 the pro-cyclical component for the allowance for loan losses was activated (Multiple Official Letter No. B-2193-2010-SBS). As of December 31, 2009, this pro-cyclical factor was deactivated (Multiple Official Letter N° 40755-2009-SBS).

Other risk categories and per type of guarantee are as follows:

Risk Category	No Guarantee	Preferred Guarantee	Readily liquid preferred guarantees
With potential problems	5.00%	2.50%	1.25%
Substandard	25.00%	12.50%	6.25%
Doubtful	60.00%	30.00%	15.00%
Loss	100.00%	60.00%	30.00%

(f) Financial lease portfolio

Financial lease operations are recorded in accordance with SBS rule and IAS 17, as loans. The initial recording of transactions is made by the gross value of the loan, composed of principal, interest, commission and other financing concepts as agreed with the customer, and the difference between the gross amount of the loan and value of the goods, is recognized as “unearned interest and commission”, presented net of loans and recognized as income on an accrual basis.

(g) Derivative financial instruments

In accordance with SBS Resolution No 1737-2006 and its amendments, derivative financial instruments are initially recognized at trade date.

Trading

The measurement and initial recognition are made at fair value. Monthly, trading derivative financial instruments are measured at fair value. The gain or loss in valuation or settlement of trading derivative financial instruments is recorded in the statements of income. The nominal value of derivative financial instruments is recorded in their respective committed or agreed currency in off-balance sheet accounts (Note 15 (b)).

Hedge

A derivative financial instrument that seeks to ensure financial hedge of a given risk is accounted for as hedging purposes if, in its negotiation, it is expected that changes in fair value or cash flows will be highly effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk from the beginning, which should be documented in the negotiation of the derivative, and during the period of hedging. A hedge is considered highly effective if it is expected that changes in fair value or cash flows of the hedged item and hedge financial instrument are within a range of 80% to 125%.

If the SBS considers the documentation deemed as unsatisfactory or find weaknesses in the methodologies used, it may require the dissolution of the hedging and the recording of the derivative financial instrument, as trading.

For fair value hedges that qualify as such, the change in fair value of the hedging derivative is recognized in the statements of income. Changes in the fair value of the hedged item attributable to the hedged risk are recorded as part of the balance of the hedged item and recorded in the statements of income.

If the hedging instrument expires, is sold, terminated or exercised, or the time when the hedge no longer meets the criteria for hedge accounting, the hedging relationship is ended prospectively and the balances recorded in the balance sheet are transferred to the statements of income within the term of the hedged item.

(h) Investments at fair value through profit and loss, available for sale investments and held to maturity investments

The investments in securities of Grupo Continental are classified and valued, since March 2009, in accordance with SBS Resolution N° 10639-2008 through the new "Regulation for the Classification and Valuation of Investments of Financial System Companies".

Among others, the changes introduced by SBS Resolution No. 10639-2008 include:

- The unrealized gain or loss generated by changes in the fair value of the available-for-sale investment is directly recognized in equity; which previously was only allowed for the recognition of unrealized losses on the basis of the total portfolio.
- It also provides that in case of debt instruments prior to valuation at fair value, entities must update the amortized cost using the effective interest rate methodology and then, recognize the gains and losses that arose from the comparison with their fair value.
- The exchange difference of capital instruments for available-for-sale investments shall be recognized in the equity accounts, provided that they do not relate to hedging operations.
- It eliminates the classification of long-term investments, which shall be reclassified to the corresponding investment category.
- The investment in subsidiaries and associates category is created.

Investment in securities are initially recognized at acquisition cost, without considering acquisition expenses such as taxes, brokers fees, rights and other commissions.

(h-1) Investments at fair value through profit and loss

Investments maintained for sale in the short-term, having a pattern of making short-term gains or having been designated by Grupo Continental in this category since its initial recording are valued at fair value. The gain or loss on the valuation or sale of these investments is recorded in the statements of income.

(h-2) Available-for-sale investments

This category includes all investment instruments that are not classified as investments at fair value through profit and loss, held-to-maturity investments or investments in subsidiaries and associates.

The changes in fair value of these investments are recognized directly in equity, except for impairment losses that are recorded in the consolidated statements of income (Note 2 (l)). Gain or losses realized on disposal of available-for-sale investments, which had been previously recognized in equity, is transferred and recorded in the consolidated net income (loss) for the year.

(h-3) Held-to-maturity investments

This category includes the investment instruments that meet the following requirements: (i) were acquired or reclassified with the intent to hold to their maturity date and for which Grupo Continental must have the financial capacity to maintain the instrument investment until maturity, and (ii) shall be classified by at least two local or foreign risk credit rating and they must be within the parameters set by the SBS.

The valuation of these investments is carried at amortized cost using the effective interest rate method. The impairment loss is recorded in the statements of income (Note 2 (m)).

(i) Investments in associates

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

(j) Property, furniture and equipment

Property, furniture and equipment are recorded at cost, which includes acquisition-related disbursements and are presented net of accumulated depreciation. Annual depreciation is expensed, and determined on a cost basis through the straight-line method based on the estimated useful life of assets, as follows:

Buildings	33 years
Fixed and not-fixed facilities	33-10 years
Leasehold improvements	10 years
Furniture and fixtures	10 years
Vehicles	5 years
Computer equipment	4 years

The disbursements subsequently incurred, related to assets the cost of which can be reliably measured and as to which it is likely that future economic benefits will be obtained from such asset, are capitalized or recognized as property, furniture and equipment. Disbursements for maintenance and repairs are expensed during the period as incurred. When a fixed asset is sold or disposed of, the corresponding cost and accumulated depreciation are eliminated in the accounts and the resulting gain or loss is recognized in the statements of income.

Grupo Continental requests valuations of its properties in a period no longer than 2 years. Furthermore, management periodically reviews the estimated useful life of assets and

corresponding residual value, on the basis of anticipated profits for the components of property, furniture and equipment.

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

(k) Assets seized and recovered through legal actions

Seized assets included in “other assets” of the consolidated balance sheet are initially recorded at the lower of the market value or the unpaid value of the debt based on the value assigned through legal proceedings or out of court settlements. Assets recovered by resolution of contract, are initially recorded at the lower of the outstanding debt or the net realizable value. If the outstanding debt value is greater, the difference is recognized as a loss, if there is no probability of recovery.

In addition, in accordance with SBS standards, Grupo Continental records the following provisions on seized assets:

- 20% of the value of goods received at acquisition date.
- For assets other than buildings, the remaining balance is provisioned within a term no longer than 18 months.
- Additionally, for buildings, a monthly impairment allowance is recorded effective from the 18th month following the acquisition or recovery, which shall be constituted over a term of 42 months or less, based on the net value obtained during the 18th month. Likewise, the net carrying amount of real estate is annually compared to the realization value determined by an independent appraiser, and if this value is lower, an impairment provision shall be constituted.

(l) Intangible assets

Software licenses are recorded at acquisition cost or useful cost. The amortization is determined under the straight-line method based on the estimated useful life of the assets between one and five years.

Software maintenance related costs are expensed as incurred. Costs directly related to unique and identifiable software products, controlled by Grupo Continental which are likely to generate economic benefits for more than a year, are recognized as intangible assets.

The costs incurred in developing computer programs recognized as assets are amortized over their estimated useful lives.

(m) Impairment loss

When there are events or circumstantial economic changes indicating that the value of an asset might not be recoverable, management reviews the book value of these assets at each

balance sheet date. If after this analysis the book value of the asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income. Recoverable amounts are estimated for each asset.

(n) Due to banks and correspondents – Outstanding securities, bonds and obligations

Due to banks and correspondents and securities' issuances (corporate, subordinate and leasing bonds) are recorded at their nominal value and interests earned are recognized in the consolidated statements of income for the period at their effective rate.

Premiums and discounts granted in the placement of bonds are deferred and amortized throughout the bonds lifetime.

(o) Provisions

Provisions are recognized only when Grupo Continental has a present obligation (legal or implicit) as a result of a past event, it is probable that resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are reviewed periodically, and adjusted to reflect the best estimate as of the consolidated balance sheet date. When the effect of the time value of money is material, the amount recorded as a provision is equal to the present value of future payments required to settle the obligation.

(p) Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in a note to the consolidated financial statements, unless their occurrence is considered remote.

Contingent assets are not recognized in the consolidated financial statements, they are disclosed in a note to the consolidated financial statements only when it is likely that an inflow of resources will take place.

Items previously treated as contingent assets or liabilities are recognized in the consolidated financial statements in the period in which the change in probabilities occurs; that is when it is determined to be likely, or virtually certain, that an inflow or outflow of resources will take place, respectively.

(q) Employee benefits

Workers' profit Sharing

Grupo Continental recognizes a liability and an expense for workers' profit sharing on the basis of 5% of the tax base determined in accordance with current tax legislation.

According to legal regulations, subsidiaries are not required to determine workers' profit sharing when the number of their workers is less than twenty.

Workers' vacations and other workers' benefits

Annual vacations of employees, paid absences and other employee benefits are recognized on the accrual basis. Provisions for annual vacations, paid absences and other benefits to employees resulting from services rendered by employees are recognized at the balance sheet date.

Accrual for seniority indemnities

The accrual for seniority indemnities comprises all the liabilities related to the employees' vested rights according to the Labor Law. Payments are deposited mainly at the Bank, which is the financial institution elected by the employees.

(r) Income and expense recognition

Interest income and expenses and commissions from services are recognized in the consolidated statements of income on an accrual basis in the period related to the relevant transaction.

Interest on past-due loans, refinanced, restructured loans, and under legal collection loans, as well as interests of loans classified as doubtful or loss, are recognized in the consolidated statements of income when collected.

When the debtor's financial condition is determined to have improved thus eliminating the uncertainty as to the recoverability of principal, the interest is again recorded on an accrual basis.

Other income and expense are recognized in the period in which they fall due.

(s) Exchange gains (losses)

Foreign currency transactions are translated at the current exchange rate established by the SBS at the transaction date.

Exchange gains and losses from the settlement of monetary items denominated in foreign currency, or from the adjustment of assets and liabilities for exchange rate variations after initial recording, are recognized as an income or an expense in the statement of income for the period during which such gains or losses arise.

(t) Deferred income taxes and workers' profit sharing

(t-1) Deferred income taxes

A liability for deferred income taxes is recognized for all taxable temporary differences arising from comparing the book values of assets and liabilities to their tax basis, regardless of when such temporary differences are expected to be reversed. An asset for deferred income taxes is recognized for deductible temporary differences, arising from comparing the book values of assets and liabilities to their tax basis, to the extent that it is probable that

Grupo Continental will have future taxable income against which the deductible temporary differences can be applied, within the established time-limit, in accordance with law. Assets and liabilities are measured at the income tax rate in effect at the related balance sheet date expected to be applied to the taxable income in the year in which the liabilities are settled or the assets are recovered.

The income tax is recognized as expense or income for the year or recorded in equity when the related transaction affects an equity account.

(t-2) Workers' profit sharing

Until December 31, 2009, deferred workers' profit sharing were recognized (asset or liability), applying to taxable and deductible temporary differences the percentage of existing workers' profit sharing in effect at the related balance sheet date. Effective 2010, the Bank stopped this recognition based on Multiple Official Letter N° 4049-2011 SBS (Note 2 (a-2)).

(u) Dividend distribution

Dividend distribution is recognized as a liability in the consolidated financial statements in the year when the dividends are approved by the Bank's shareholders.

(v) Basic and diluted earnings per share

Basic earnings per share were computed by dividing net consolidated income by the weighted-average number of ordinary shares outstanding during each year. Since the Bank does not have financial instruments with diluting effects, basic and diluted earnings per share are the same.

(w) Fiduciary activity

Assets derived from fiduciary activities where there is a commitment to return those assets to the customers and when Grupo Continental acts as a holder, trustee or agent, have been excluded from the consolidated financial statements. Such assets are presented in the off-balance sheets accounts.

(x) Reclassifications

Certain reclassifications to the consolidated financial statements as of December 31, 2009 have been made to make the presentation comparative with financial statements as of December 31, 2010. These reclassifications arise as a result of the SBS Resolutions N° 11356-2008 and N° 914-2010. The following is a summary of the main reclassifications to the consolidated financial statements of 2009:

- Leasing contracts settled, recorded as accounts receivable for a net amount of S/.8.9 million have been reclassified from "Other Assets" to "Loans, net".

- Financial expenses of S/.1.3 million (recorded in "Other income, net") were reclassified to "Other Financial Expenses."
- Miscellaneous income of previous years by S/.10.7 million (recorded in "Other income, net") was reclassified to "Administrative Expenses."
- "Provision for Accounts Receivable" of S/. 8.7 million was reclassified to "Provisions for loan losses."
- "Administrative Expenses" of S/.1.9 million were reclassified to "Recovery of provisions for loan losses."

(y) Cash and cash equivalents

Cash and cash equivalents shown in the consolidated statement of cash flow comprises balances in cash and due from banks and interbank funds. Based on SBS regulation, Grupo Continental prepares and presents the consolidated cash flow using the indirect method.

Bank overdrafts are reclassified as liabilities.

(z) Pronouncements of SBS

During 2010, the SBS issued, among others, the following rules:

Resolution (R) / Circular (C) SBS N°	Standard	Effective date
C. B-2186-2010	Requirements regarding the relevant information to be available for issuance of financial instruments in series.	January, 2010
R. 6884-2010	Modification of the Single Text of Administrative Procedures of the SBS. It incorporates the procedure No. 148, "Authorization to use internal ratings based methods for calculating the requirement of regulatory capital for credit risk.	July, 2010
C. B-2184-2010	Establishes rules relating to the minimum information that the companies supervised by the SBS should require their customers both for granting, monitoring, controlling, evaluating and classification of loans as well as for measuring risk.	July, 2010
R. 13525-2010	Minimum scope for the independent review of operational risk management to be performed by external audit firms.	October, 2010

Resolution (R) / Circular (C) SBS N°	Standard	Effective date
R. 15536- 2010	Amends the limits on foreign currency position: The overall position of oversold of companies may not exceed fifteen percent (15%) of regulatory capital. The overall position of overbought of companies may not exceed sixty percent (60%) of regulatory capital.	November, 2010
R. 17025- 2010	Create in the Superintendency of Banking, Insurance and Private Pension Funds Companies, the Registry of External Audit Firms, which will be briefly called RESA.	December, 2010
R. 18400- 2010	Approves the Regulations for the classification of financial and insurance companies.	December, 2010
R. 17026- 2010	Approves the Regulation of External Audit.	January, 2011
R. 18441- 2010	Amends Reports N° 2-C1 "Regulatory Capital Requirement for Operational Risk - Basic Indicator Method" and No. 2-C2 "Regulatory Capital Requirement for Operational Risk - Standard Alternative Method " to add a row in which record additional regulatory capital for operational risk.	January, 2011
R. 11823- 2010	Approves the Regulation for Consolidated Supervision of Financial and Mix Conglomerates.	January, 2011

3. FOREIGN CURRENCY TRANSACTIONS AND EXPOSURE TO FOREIGN EXCHANGE RISK

As of December 31, 2010 and 2009, the balances of financial assets and liabilities denominated in foreign currency are expressed in Peruvian Nuevos soles at the weighted average buying and selling exchange rate market published by the SBS, set on that date for each currency. These balances are summarized as follows:

	<u>2010</u> US\$000	<u>2009</u> US\$000
Assets:		
Cash and due from banks	1,676,850	1,384,895
Investments in securities, net	85,476	173,321
Loans, net	4,355,312	3,389,682
Other assets	<u>19,792</u>	<u>40,771</u>
	6,137,430	4,988,669
Liabilities:		
Obligations to the public and deposits of financial institutions	4,120,393	3,748,692
Due to banks and correspondents	1,825,027	916,744
Outstanding securities, bonds and obligations	385,621	385,621
Other liabilities	<u>107,406</u>	<u>101,408</u>
	6,438,447	5,152,465
Balance sheet position	(301,017)	(163,796)
Forward contracts and other derivatives, net of sales position	<u>282,042</u>	<u>109,133</u>
Net global position	<u><u>(18,975)</u></u>	<u><u>(54,663)</u></u>

Most of the assets and liabilities of Grupo Continental in foreign currency are denominated in U.S. dollars. As of December 31, 2010, the exchange rate established by SBS used to express these amounts in Nuevos soles was S/.2.809 per US\$1.00 (S/.2.89 as of December 31, 2009).

Local operations in foreign currency and international trade operations are channeled through the free banking market. As of December 31, 2010, the weighted average exchange rate of the free banking market published by the SBS for purchase and sale transactions in U.S. dollars were S/.2.808 and S/.2.809 per US\$1.00, respectively (S/.2.888 and S/.2.891 per US\$1.00, respectively, as of December 31, 2009).

As of December 31, 2010; Grupo Continental recorded foreign exchange gains amounting to S/.175.9 million (S/.247.4 million as of December 31, 2009), which are presented net in the “Exchange difference from various transactions” item in the financial income or financial expenses of the statements of income.

The revaluation percentages of the Peruvian Nuevo sol as compared to the U.S. dollar, calculated on the buying and selling exchange rate published by the SBS, were 2.84% and 7.99% as of December 31, 2010 and 2009, respectively; the inflation (deflation) percentages, in accordance with the Domestic Wholesale Price Index (IPM for its Spanish acronym), were 4.57% and 5.05%, respectively.

4. CASH AND DUE FROM BANKS

The balance comprises:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Cash	1,099,948	881,371
Peruvian Central Bank - BCRP	8,478,372	3,592,774
Local Banks and other local financial entities	98,378	58,535
Foreign Banks and other foreign financial entities	251,344	273,964
Clearing	114,757	51,786
Other deposits	4,438	8,434
Accrued interest	<u>8,535</u>	<u>345</u>
Total	<u><u>10,055,772</u></u>	<u><u>4,867,209</u></u>

As of December 31, 2010, cash and due from banks include approximately US\$1,567.3 million and S/.1,288.9 million (US\$1,265.1 million and S/.616.5 million as of December 31, 2009) which represent the legal reserve that Peruvian entities must maintain as a guarantee of third party deposits. These funds are deposited in Bank’s vaults and in the Peruvian Central Bank (BCRP for its Spanish acronym).

As of December 31, 2010, Grupo Continental maintained deposits with the Central Bank by S/.3,734 million which have current maturity and accrue annual interests in local currency from 2.95% to 3.19%.

Obligations subject to legal reserve in local and foreign currencies according to the regulations in force at December 31, 2010 have a legal minimum reserve of 9% on a basis calculated on information of July, 2010; additionally excess deposits in local and foreign currency are subject to an additional reserve of 25% and 55%, respectively. Debt to international financial institutions and financial organisms in foreign currency, with maturity less than 2 years, are subject to a special rate of 35%, 40%, 50%, 65% and 75% depending on the date of the agreement.

The legal minimum reserve funds are not interest-bearing. The legal additional reserve amount in foreign currency accrues interest at annual nominal rate established by the BCRP. As of December 31, 2010, interest income on reserves amounted to S/.6.4 million

(S/.5.6 million as of December 31, 2009), and were included in the interest on cash and due from banks, in the consolidated statements of income. According to effective legal provisions, legal reserves are not seizable.

Cash and due from Banks as of December 31, 2010 includes funds subject to restriction for S/.2.1 million (S/.5.8 million as of December 31, 2009) required in connection with legal proceedings against the Bank to guarantee any potential liabilities generated by these lawsuits.

As of December 31, 2009, cash and due from banks also includes S/.228 million relating to an overnight operation deposited in the BCRP with a maturity date of January 4, 2010.

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

As of December 31, 2010 and 2009, investments in securities are classified by the Bank as follows:

	<u>2010</u>	<u>2009</u>
	S/.000	S/.000
Investments at fair value through profit and loss	263,558	147,839
Available-for-sale investments (Note 13 (c))	1,577,467	3,358,039
Held to maturity investments	<u>419,530</u>	<u>417,630</u>
Total	<u><u>2,260,555</u></u>	<u><u>3,923,508</u></u>

Investments in securities according to the type of financial instrument, were as follows:

	<u>2010</u>	<u>2009</u>
	S/.000	S/.000
Bonds		
Peruvian Treasury	1,341,486	1,364,571
Peruvian Global Treasury	207,976	471,053
Asset Backed Securities	8,461	10,032
Corporate	8,237	8,789
BCRP certificates of deposits	606,458	2,022,131
Stock	50,850	193
Participation in mutual funds	34,143	23,910
Other investments	<u>2,944</u>	<u>22,829</u>
Total	<u><u>2,260,555</u></u>	<u><u>3,923,508</u></u>

Bonds have been mainly acquired at market rates and prices as of the purchase date. As of December 31, 2010, Peruvian Treasury bonds in local currency accrued annual interest at rates between 1.48% and 6.80% (between 1.02% and 6.26% as of December 31, 2009) and in foreign currency at rates between 3.20% and 4.08% (between 4.35% and 5.24% as of December 31, 2009), with maturities through February 2042.

BCRP certificates of deposits are trading securities with maturities due within one year acquired in public auctions or secondary markets, based on prices offered by the financial institutions. As of December 31, 2010, annual interest rates on local currency range between 0.09% and 3.02% (between 1.20% and 1.29% as of December 31, 2009) and have maturities until June, 2011.

As of December 31, 2010 and 2009, mutual fund investments correspond to participation quotes held by Grupo Continental with various mutual funds managed by Continental Fondos S.A. Sociedad Administradora de Fondos.

As of December 31, 2010, other investments include Lima Stock Exchange securities of S/.17.7 million (S/.13.8 million as of December 31, 2009) pledged to CONASEV by Continental Bolsa - Sociedad Agente de Bolsa in compliance with the article N°136 of the Compiled Text of the Securities Markets Law.

As of December 31, 2010 and 2009, the investment portfolio has the following terms to maturity:

	<u>2010</u>		<u>2009</u>	
	S/.000	%	S/.000	%
Up to 1 month	182,002	8	667,201	17
More than 1 month and less than 3 months	183,746	8	486,612	13
More than 3 months and less than 6 months	257,407	12	879,759	22
More than 6 months and less than 1 year	205,203	9	125,318	3
More than 1 year and less than 5 years	339,891	15	585,896	15
More than 5 years	1,004,565	44	1,132,287	29
No contractual maturity	87,741	4	46,435	1
Total	<u>2,260,555</u>	<u>100</u>	<u>3,923,508</u>	<u>100</u>

As of December 31, 2010 the provision for impairment of investment securities portfolio amounts to S/.11.8 million (S/.14 million as of December 31, 2009). Grupo Continental's management estimates that the provision is sufficient to cover potential losses in the investments in securities portfolio.

6. LOANS, NET

a) The balances comprises:

	<u>2010</u>		<u>2009</u>	
	S/.000	%	S/.000	%
Direct credits				
Loans	9,562,760	40	8,140,799	41
Mortgage loans	4,695,209	20	3,819,087	19
Leasing transactions	3,794,109	16	3,524,291	18
Consumer loans	2,257,613	9	1,956,460	10
Loans for foreign trade	2,260,669	9	1,284,922	6
Discounted notes	791,280	3	712,859	4
Overdrafts and advance accounts	288,645	1	257,319	1
Loans to financial institutions	183,294	1	235,756	1
Credit cards	114,336	1	90,058	1
Loans to foreign financial institutions	81,110	1	89,500	1
Credits to be settled	14,848	-	8,645	-
Factoring transactions	9,102	-	30,244	-
Other	733,256	3	349,679	2
Refinanced and restructured loans	311,801	1	282,683	1
Past due accounts and in legal collection	264,635	1	236,482	1
	<u>25,362,667</u>	<u>106</u>	<u>21,018,784</u>	<u>106</u>
Plus:				
Accrued interest	<u>160,994</u>	<u>1</u>	<u>144,731</u>	<u>1</u>
Less:	25,523,661	107	21,163,515	107
Unearned interest on leasing transactions	<u>(447,649)</u>	<u>(2)</u>	<u>(449,299)</u>	<u>(2)</u>
	25,076,012	105	20,714,216	105
Deferred income from loans	(22,511)	(1)	(25,328)	(1)
Allowance for loan losses	<u>(1,049,352)</u>	<u>(4)</u>	<u>(882,358)</u>	<u>(4)</u>
	<u>24,004,149</u>	<u>100</u>	<u>19,806,530</u>	<u>100</u>
Indirect loans (Note 15)	<u>7,721,418</u>		<u>5,455,395</u>	

Loans are collateralized with guarantees granted by customers, principally comprising mortgages, deposits, stand-by letters, warrants and finance leasing operations amounting to S/.13,491 million and S/.12,314 million, as of December 31, 2010 and 2009, respectively.

As of December 31, 2010, a debt with Fondo Mi Vivienda - Mi Hogar was secured by a loan portfolio up to S/.201.8 million (S/.116.4 million as of December 31, 2009) (Note 11 (d)).

As of December 31, 2010 and 2009, the annual effective weighted average rates for the main products were as follows:

	<u>2010</u>		<u>2009</u>	
	S/.	US\$	S/.	US\$
	%	%	%	%
Loans and discounts	7.68	6.68	7.67	8.00
Mortgage	9.88	9.37	10.17	9.74
Consumer	21.91	16.83	20.22	15.09
Credit cards	40.36	31.60	45.45	35.31
Loans	14.68	11.39	15.12	11.99

b) The balances as of December 31, 2010 of the loan portfolio under the new segmentation settled by SBS Resolution N° 11356-2008 are as follows (Note 2 (e)):

	<u>2010</u>	
	S/.000	%
Medium business	6,375,605	25
Large business	5,594,678	22
Mortgage	4,757,799	19
Corporate	3,959,563	16
Consumer	2,344,116	9
Small business	1,261,794	5
Stock brokers	319,865	1
Public sector entities	275,608	1
Micro business	208,556	1
Financial system companies	188,708	1
Other	76,375	-
Total	25,362,667	100

c) The credit risk classification of the Bank's loan portfolio, according to SBS standards is as follows:

	Direct loans		<u>2010</u> Indirect loans		Total		Direct loans		<u>2009</u> Indirect loans		Total	
	S/.000	%	S/.000	%	S/.000	%	S/.000	%	S/.000	%	S/.000	%
Normal	23,572,919	95	7,650,361	99	31,223,280	96	19,046,770	93	5,401,577	99	24,448,347	94
With potential problems	522,388	2	46,550	1	568,938	2	785,999	4	32,740	1	818,739	3
Substandard	297,897	1	11,082	-	308,979	1	286,734	1	10,300	-	297,034	1
Doubtful	323,724	1	5,802	-	329,526	1	279,567	1	2,617	-	282,184	1
Loss	175,579	1	7,623	-	183,202	-	145,087	1	8,161	-	153,248	1
Total	24,892,507	100	7,721,418	100	32,613,925	100	20,544,157	100	5,455,395	100	25,999,552	100
Unearned interest on leasing transactions	447,649		-		447,649		449,299		-		449,299	
Unearned interest on loan transactions	22,511		-		22,511		25,328		-		25,328	
Total	25,362,667		7,721,418		33,084,085		21,018,784		5,455,395		26,474,179	

As of December 31, 2010 and 2009 Grupo Continental has identified borrowers exposed to exchange rate risk and considers that their risk level is appropriate. Therefore, no additional provision has been recorded for this concept.

During 2010, Grupo Continental wrote off non-accrual interest of S/.5 million (S/.8 million as of December 31, 2009) relating to interest for past due loans or loans in legal collection.

As of December 31, 2010 and 2009, the loan portfolio was distributed in the following economic sectors:

	<u>2010</u>		<u>2009</u>	
	S/.000	%	S/.000	%
Mortgage and consumer loans	7,101,915	28	5,907,888	28
Manufacturing	5,091,480	20	4,016,091	19
Commerce	4,124,824	16	3,327,558	16
Transport, storage and communications	2,233,474	9	1,670,399	8
Real estate	1,841,812	7	1,304,475	6
Utilities	715,967	3	740,298	3
Construction	656,396	3	503,403	3
Agriculture and livestock	608,252	2	557,686	3
Mining	516,357	2	644,839	3
Hotels and restaurants	490,020	2	456,199	2
Financial Intermediation	443,765	2	620,654	2
Other activities for community services	395,300	2	262,686	2
Education	373,772	1	337,750	1
Fishing	234,422	1	213,666	1
Public administration and defense	225,102	1	213,446	1
Social and health services	158,225	1	124,053	1
Other	151,584	-	117,693	1
Total	<u>25,362,667</u>	<u>100</u>	<u>21,018,784</u>	<u>100</u>

d) As of December 31, 2010 and 2009, the change in the allowance for loan losses is shown below:

	<u>2010</u>	<u>2009</u>
	S/.000	S/.000
Balances as of January 1	882,358	775,928
Provision	674,348	523,531
Recoveries and reversals	(327,563)	(173,468)
Write-offs	(21,034)	(31,637)
Sale of portfolio	(148,733)	(187,460)
Foreing Exchange differences and other adjustments	<u>(10,024)</u>	<u>(24,536)</u>
Balances as of December 31	<u>1,049,352</u>	<u>882,358</u>

Management considers that the level of the allowance for loan losses is adequate to cover potential losses in the portfolio as of the balance sheet date. As of December 31, 2010 the general provision of loan portfolio of S/.655.5 million (S/.532.4 million as of December 31, 2009) includes pro-cyclical provisions of S/.100.5 million (S/.96.5 million as of December 31, 2009). Grupo Continental also maintains voluntary provisions for S/.364 million and S/.297 million as of December 31, 2010 and 2009, respectively.

As of July 31, 2010, the adoption of SBS Resolution N°11356-2008 had net impact of lower provisions requirement of S/.0.9 million, which is the net between the increase of provisions of S/.25.5 million for direct loans, and the decrease of provisions of S/.26.3 million for indirect loans.

During 2010 Grupo Continental entered into agreements to sale certain loans and the related rights over that portfolio of approximately S/.191.5 million (S/.318.1 million as of December 31, 2009). These loans were in legal collection status. Proceeds from these sales of S/.11.6 million (S/.5.3 million as of December 31, 2009) were recognized as other income, net in the consolidated statements of income.

- e) As of December 31, 2010 and 2009, the loan portfolio, had the following maturities schedule:

	<u>2010</u>		<u>2009</u>	
	S/.000	%	S/.000	%
Up to 1 month	2,696,317	11	2,923,495	14
More than 1 month and less than 3 months	3,740,449	15	3,157,951	15
More than 3 months and less than 6 months	2,763,354	11	1,770,129	8
More than 6 months and less than 1 year	3,060,340	12	2,493,299	12
More than 1 year and less than 5 years	8,673,105	34	7,229,950	35
More than 5 years	4,164,467	16	3,207,478	15
Past due and in legal collection loans	<u>264,635</u>	<u>1</u>	<u>236,482</u>	<u>1</u>
Total	<u><u>25,362,667</u></u>	<u><u>100</u></u>	<u><u>21,018,784</u></u>	<u><u>100</u></u>

7. PROPERTY, FURNITURE AND EQUIPMENT, NET

The change in cost and accumulated depreciation of property, furniture and equipment in 2010 and 2009 were as follows:

<u>2010</u>	<u>Beginning Balances</u> S/.000	<u>Additions</u> S/.000	<u>Disposals</u> S/.000	<u>Adjustments or other</u> S/.000	<u>Ending Balances</u> S/.000
<u>Cost:</u>					
Land	55,378	27,965	-	8,304	91,647
Buildings and installations	413,529	29,583	(1,246)	3,937	445,803
Furniture and equipment	141,439	39,062	(6,712)	25,170	198,959
Vehicles	4,560	2	-	-	4,562
Installations and improvements in leased property	52,651	19,538	(700)	8,189	79,678
Work in progress	33,314	12,129	-	(23,698)	21,745
Units to receive	33,667	3,971	-	(37,483)	155
Total	734,538	132,250	(8,658)	(15,581)	842,549
<u>Accumulated depreciation:</u>					
Buildings and installations	260,071	20,079	(1,205)	(889)	278,056
Furniture and equipment	71,870	32,112	(6,376)	(1,084)	96,522
Vehicles	1,714	890	-	-	2,604
Installations and improvements in leased property	12,209	6,406	(636)	302	18,281
Total	345,864	59,487	(8,217)	(1,671)	395,463
Net	388,674				447,086
<u>2009</u>	<u>Beginning Balances</u> S/.000	<u>Additions</u> S/.000	<u>Disposals</u> S/.000	<u>Adjustments or other</u> S/.000	<u>Ending Balances</u> S/.000
<u>Cost:</u>					
Land	56,160	109	(891)	-	55,378
Buildings and installations	413,375	8,780	(19,173)	10,547	413,529
Furniture and equipment	116,567	24,980	(24,327)	24,219	141,439
Vehicles	3,169	1,639	(248)	-	4,560
Installations and improvements in leased property	41,519	6,850	(2,313)	6,595	52,651
Work in progress	22,690	25,890	-	(15,266)	33,314
Units to receive	21,539	31,820	-	(19,692)	33,667
Total	675,019	100,068	(46,952)	6,403	734,538
<u>Accumulated depreciation:</u>					
Buildings and installations	256,815	18,898	(16,331)	689	260,071
Furniture and equipment	53,437	36,095	(23,657)	5,995	71,870
Vehicles	1,155	787	(228)	-	1,714
Installations and improvements in leased property	10,331	4,749	(2,313)	(558)	12,209
Total	321,738	60,529	(42,529)	6,126	345,864
Net	353,281				388,674

Management periodically reviews projections for the remaining years of useful lives of fixed assets. In management's opinion, recoverable values of property, furniture and equipment as of December 31, 2010 and 2009, are reasonable, so it was not considered necessary to record any provision for impairment losses for those assets.

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

Grupo Continental has still in use fully depreciated assets for S/.86.2 million and S/.61.3 million as of December 31, 2010 and 2009, respectively.

8. OTHER ASSETS AND LIABILITIES

The balance comprises:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Other assets:		
Accounts receivable from derivatives (Note 15 (b))	301,121	338,142
Tax credit from General Sales Tax (a)	260,827	279,660
Deferred income tax (b) (Note 21)	268,352	218,610
Deferred workers' profit sharing (Note 21)	-	25,378
Prepaid expenses, deferred charges and intangible assets	80,815	70,559
Transactions in process (c)	27,802	50,354
Assets seized and recovered through legal actions, net	24,023	19,434
Other accounts receivable (d)	16,502	16,668
Other assets	<u>1,313</u>	<u>1,313</u>
Total	<u>980,755</u>	<u>1,020,118</u>
Other liabilities:		
Other provisions (e)	405,788	419,755
Accounts payable from derivatives (Note 15 (b))	287,036	242,432
Suppliers (f)	200,332	217,468
Other accounts payable	53,009	67,781
Allowance for contingent credits (Note 15 (a))	55,322	70,680
Transactions in process (c)	42,396	25,064
Deferred income	15,995	18,187
Dividends and workers' profit sharing	58,337	52,901
Other	<u>7,220</u>	<u>5,059</u>
Total	<u>1,125,435</u>	<u>1,119,327</u>

(a) Corresponds to the tax credit on the acquisition of assets for leasing.

(b) Deferred income tax asset is mainly related to general provisions for loans.

- (c) Transactions in process primarily refer to transactions carried out during the last days of the month, which are reclassified in the next month to their specific accounts in the balance sheet. These transactions do not affect the results of Grupo Continental.
- (d) As of December 31, 2010 and 2009, other accounts receivable are net of accumulated provision of S/.77.7 million and S/.96.6 million, respectively.
- (e) Other provisions mainly includes, among others, provisions for taxes, lawsuits (Note 15(g)), bonuses for staff and health insurance.
- (f) It includes provisions for services of Grupo Continental's ordinary activities.

9. OBLIGATIONS TO THE PUBLIC AND DEPOSITS FROM FINANCIAL INSTITUTIONS

As of December 31, the balances comprise:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Deposits and other obligations	25,558,208	20,903,240
Deposits from financial institutions	<u>359,232</u>	<u>610,450</u>
Total	<u><u>25,917,440</u></u>	<u><u>21,513,690</u></u>

Deposits include accounts that have been pledged in favor of Grupo Continental to secure credit operations of S/.400.5 million and US\$71.5 million as of December 31, 2010 (S/.287.2 million and US\$68.3 million as of December 31, 2009).

- (a) As of December 31, 2010 and 2009, deposits and other obligations have the following maturities:

	<u>2010</u> S/.000	%	<u>2009</u> S/.000	%
Up to 1 month	9,375,337	36	6,215,936	29
More than 1 month and less than 3 months	4,826,214	19	4,678,388	22
More than 3 months and less than 6 months	1,891,998	7	2,029,562	9
More than 6 months and less than 1 year	1,716,840	7	1,687,220	8
More than 1 year and less than 5 years	6,641,975	26	5,724,564	27
More than 5 years	<u>1,465,076</u>	<u>5</u>	<u>1,178,020</u>	<u>5</u>
Total	<u><u>25,917,440</u></u>	<u><u>100</u></u>	<u><u>21,513,690</u></u>	<u><u>100</u></u>

(b) Interest rates on deposits and other obligations accounts are established by Grupo Continental based on current market interest rates. During 2010 and 2009 prevailing effective annual interest rates were as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Accounts in</u>		<u>Accounts in</u>	
	S/.	US\$	S/.	US\$
	%	%	%	%
Checking accounts	0.00 - 1.20	0.00 - 0.60	0.00 - 1.55	0.00 - 0.65
Saving deposits	0.25 - 2.00	0.125 - 1.00	0.25 - 2.00	0.25 - 1.25
Time deposits and CBME	0.50 - 1.35	0.10 - 1.15	0.50 - 1.35	0.20 - 1.50
Superdeposits	1.00 - 1.35	0.45 - 1.00	1.00 - 1.35	0.45 - 1.00
Severance deposits	2.75 - 4.00	0.50 - 3.50	2.75 - 4.00	0.50 - 3.50

10. INTERBANK FUNDS

Interbank funds with local financial institutions, as of December 31, 2010 and 2009, have current maturities (within 30 days), accrue interest at an average effective annual interest rate of 3% in local currency and 0.25% in foreign currency (1.25% in local currency and 0.34% in foreign currency in 2009).

11. DUE TO BANKS AND CORRESPONDENTS

The balances were as follows:

	<u>2010</u>	<u>2009</u>
	S/.000	S/.000
Foreign Financial Institutions (a)	2,715,691	498,662
International Financial Organizations (b)	1,473,650	1,465,643
Private debt contract (c)	561,800	-
Programa Mi Vivienda - Mi Hogar (My Housing - My Home program) (d)	201,785	116,404
Corporación Financiera de Desarrollo - COFIDE	30,000	32,507
Accrued interest payable	30,272	13,778
Total	<u>5,013,198</u>	<u>2,126,994</u>

Loan agreements signed with certain foreign financial institutions and International Financial Organizations include covenants that require compliance with financial ratios and other specific conditions. Grupo Continental's management believes it is in compliance with these covenants as of December 31, 2010 and 2009.

(a) Foreign Financial institutions

As of December 31, 2010, the loan balance with foreign financial institutions accrued interest based on market rates between 0.6% and 7.4% (1.8% and 3.1% as of December 31, 2009). The breakdown of these transactions is as follows:

<u>Name of creditor</u>	<u>Balances as of</u> <u>December 31, 2010</u>		<u>Balances as of</u> <u>December 31, 2009</u>		<u>Due dates</u>
	<u>US\$000</u>	<u>S/.000</u>	<u>US\$000</u>	<u>S/.000</u>	
Deutsche Bank (i)	325,984	915,689	-	-	November 2020
Credit Suisse (ii)	200,000	561,800	-	-	October 2040
Syndicated loan (iii)	100,000	280,900	100,000	289,000	October 2012
JP Morgan Chase Bank	70,000	196,630	-	-	January 2011
Citibank NA	70,000	196,630	-	-	January 2011
DEG Deutsche Investitions (iv)	65,000	182,585	70,000	202,300	October 2017 and June 2018
Bank of America	46,000	129,214	-	-	January 2011
Wells Fargo Bank	40,000	112,360	-	-	January 2011
Sumimoto Bank	30,000	84,270	-	-	January 2011
HSBC Bank PLC	15,000	42,135	-	-	February 2011
Other	4,798	13,478	2,547	7,362	January 2011
Total	966,782	2,715,691	172,547	498,662	

(i) Loan for an amount of US\$350 million, fixed rate of 5.5% and maturity in November 2020, which is recorded at fair value. The change in fair value is hedged by an IRS (Note 15 (b)). As of December 31, 2010, Grupo Continental has recorded gain for S/.56.9 million corresponding to the change in fair value, which is included in the "Gain from hedge transactions" item, of the statements of income.

(ii) Corresponds to subordinated debt, approved by the SBS and it is considered as part of TIER 1 Regulatory Capital.

(iii) In September 2010, the Bank entered into a syndicated loan for US\$ 100 million with the participation of the following foreign financial entities: Standard Chartered Bank, Wells Fargo Bank, Banco de Chile, Bank of Taiwan, Banco Monte Dei Paschi di Siena S.p.A. and Mizuho Corporate Bank Ltd. The applicable rate is Libor plus a spread. The term of the loan is 25 months with settlement of principal at maturity. Interest will be paid every six months.

As of December 31, 2009, the Bank maintained a syndicated loan for US\$100 million, entered into August 2008 with a term of 25 months. Such loan was settled in September, 2010.

(iv) Corresponds to subordinated debt for an amount of US\$30 million approved by the SBS. It is considered part of TIER 2 Regulatory Capital.

(b) International financial organizations

Debts to international financial organizations accrued interest at international market rates between 1.4% and 6.4% as of December, 2010 and 2009, and are unsecured.

Name of creditor	Balances as of		Balances as of		Due Dates
	December 31, 2010		December 31, 2009		
	US\$000	S/.000	US\$000	S/.000	
Banco Interamericano de Desarrollo (i)	275,000	772,476	245,000	708,050	February 2012/2014/2017/2019
Internacional Finance Corporation	165,333	464,420	195,000	563,550	December 2012 / 2018
Corporación Andina de Fomento	50,000	140,450	50,000	144,500	December 2012
Corporación Interamericana de Inversiones	34,284	96,304	17,143	49,543	May 2011 / August 2014
Total	<u>524,617</u>	<u>1,473,650</u>	<u>507,143</u>	<u>1,465,643</u>	

(i) Includes two subordinated loans for an amount of US\$50 million, approved by the SBS and it is considered as part of TIER 2 Regulatory Capital.

(c) Debt private contract

As of December 2010, due to banks and correspondents include a debt private contract from a securitization of remittances (Note 15 (e)) for an amount of US\$200 million.

(d) Programa Mi Vivienda - Mi Hogar (My Housing – My home Program)

Resources obtained for the social housing program “Mi Vivienda” in local currency for S/.141.1 million and foreign currency for US\$13.8 million. This loan amortizes through December 2031 and accrues interest at an effective annual rate of 7.75% on the foreign currency portion and 6.25% plus the Constant Value Adjustment Index (hereinafter VAC for its Spanish acronym) on the local currency portion.

The obligation to the Fondo Mi Vivienda - Mi Hogar of S/.201.8 million as of December 31, 2010 (S/.116.4 million as of December 31, 2009) is collateralized by a portion of the mortgage loan portfolio up to that amount (Note 6). Loans include specific agreements about how these funds must be used, financial conditions that the borrower must have, as well as administrative terms.

As of December 31, 2010 and 2009, the financial obligations had the following maturities:

	2010		2009	
	S/.000	%	S/.000	%
Up to 1 month	733,582	15	8,237	-
More than 1 month and less than 3 months	42,823	1	147	-
More than 3 months and less than 6 months	47,432	1	15,586	-
More than 6 months and less than 1 year	5,731	-	437,884	21
More than 1 year and less than 5 years	890,796	18	1,075,838	51
More than 5 years	<u>3,292,834</u>	<u>65</u>	<u>589,302</u>	<u>28</u>
Total	<u>5,013,198</u>	<u>100</u>	<u>2,126,994</u>	<u>100</u>

As of December 31, 2010 and 2009, some of the loans in U.S. dollars are associated with "swaps" contracts to reduce the interest rate risk (Note 15 (b)).

12. SECURITIES, BONDS AND OUTSTANDING OBLIGATIONS

The balances were as follows:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Notes (debt instruments) - Note 15 (e)	702,250	722,500
Corporate Bonds	556,242	440,171
Subordinated Bonds	455,128	454,581
Leasing Bonds	140,225	142,250
Accrued expenses payable	<u>16,484</u>	<u>13,424</u>
Total	<u><u>1,870,329</u></u>	<u><u>1,772,926</u></u>

As of December 31, 2010 and 2009, outstanding securities, bonds and obligations had the following maturities:

	<u>2010</u> S/.000	%	<u>2009</u> S/.000	%
Up to 1 month	21,372	1	1,338	-
More than 1 month and less than 3 months	9,033	-	5,935	-
More than 3 months and less than 6 months	6,079	-	6,151	-
More than 6 months and less than 1 year	-	-	-	-
More than 1 year and less than 5 years	1,128,492	60	450,171	26
More than 5 years	<u>705,353</u>	<u>39</u>	<u>1,309,331</u>	<u>74</u>
Total	<u><u>1,870,329</u></u>	<u><u>100</u></u>	<u><u>1,772,926</u></u>	<u><u>100</u></u>

As of December 31, 2010 and 2009 the detail of issued bonds and notes was as follows:

<u>Program</u>	<u>Authorized amount</u>	<u>Issuance</u>	<u>Series</u>		<u>Amount of Disbursed Currency</u>	<u>Balance as of December 31, 2010 S./000</u>	<u>Balance as of December 31, 2009 S./000</u>	<u>Maturity Date</u>
<u>Corporate Bonds</u>								
Second	US\$50 million or S/.160 million	First	A	S/.	70,000	70,000	70,000	October 2012
		First	B	S/.	23,000	23,000	23,000	March 2013
		First	C	S/.	30,000	30,000	30,000	April 2013
		First	D	S/.	17,000	17,000	17,000	May 2013
		Second	A	S/.	20,000	20,000	20,000	January 2011
Third	US\$100 million or S/.315 million	First	A	S/.	40,000	40,000	40,000	December 2012
		Second	A	S/.	40,000	40,000	40,000	March 2012
		Third	A	US\$	9,969	28,003	28,811	September 2012
		Fourth	A	US\$	8,533	23,969	24,660	September 2014
		Sixth	A	US\$	30,000	84,270	86,700	October 2012
		Seventh	Only	S/.	60,000	60,000	60,000	May 2018
Fourth	US\$ 100 million	First	Only	S/.	40,000	40,000	-	August 2020
		Second	A	S/.	80,000	80,000	-	August 2020
						<u>556,242</u>	<u>440,171</u>	
<u>Subordinated Bonds</u>								
First	US\$50 million or S/.158.30 million	First	A	S/.	40,000	39,773	39,753	May 2022
		Second	A	US\$	20,000	55,892	57,486	May 2027
		Third	A	S/.	55,000	61,594	60,258	June 2032
Second	US\$100 million	First	A	US\$	20,000	56,180	57,800	September 2017
		Second	A	S/.	50,000	54,839	53,649	November 2032
		Third	A	US\$	20,000	56,180	57,800	February 2028
		Fourth	Only	S/.	45,000	47,629	46,596	July 2023
		Fifth	Only	S/.	50,000	52,238	51,105	September 2023
		Sixth	A	S/.	30,000	30,803	30,134	December 2033
						<u>455,128</u>	<u>454,581</u>	
<u>Leasing Bonds</u>								
First	US\$200 million	First	A	US\$	25,000	70,225	72,250	April 2016
		Second	A	S/.	30,000	30,000	30,000	September 2014
		Third	A	S/.	40,000	40,000	40,000	November 2014
						<u>140,225</u>	<u>142,250</u>	
<u>Notes</u>								
First	US\$250 million	First	A	US\$	250,000	702,250	722,500	December 2015
Total						<u>1,853,845</u>	<u>1,759,502</u>	

Corporate bonds are unsecured and accrued annual interest at rates between 5.8% and 7.9% for local currency and between 6.2% and 6.4% for foreign currency as of December 31, 2010 and 2009.

Subordinated bonds were issued according to General Law requirements and with annual interest rates between 5.9% and VAC plus spread for local currency and between 6% and Libor plus spread for foreign currency.

Leasing bonds are secured by the same assets financed by the Bank with interests at a nominal annual rate of 6.3% for local currency and 7.2% for foreign currency.

13. SHAREHOLDERS' EQUITY

(a) Capital stock

As of December 31, 2010, the authorized, issued and fully paid capital stock of the Bank consisted of 1,843,427,288 outstanding ordinary shares with a face value of S/.1 each, (1,471,242,652 ordinary shares as of December 31, 2009).

The Bank General Shareholders' Annual Meetings held on March 30, 2010 and March 31, 2009, authorized an increase of the capital stock of S/.372.2 and S/.361.9 million, respectively, by means of the capitalization of special reserve and retained earnings.

The Bank's common stock is listed on the Lima Stock Exchange (hereinafter, BVL for its Spanish acronym). As of December 31, 2010 and 2009, the stock market quotation value of the Bank's stock was S/.7.70 and S/.9.05 per share, respectively.

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

<u>Percentage of individual interest</u> %	<u>Number of shareholders</u>	<u>Total interest</u> %
1 or less	8,564	5.46
1.01 to 5	2	2.30
More than 80	<u>1</u>	<u>92.24</u>
	<u><u>8,567</u></u>	<u><u>100.00</u></u>

(b) Legal and special reserve

Pursuant to applicable law, all Peruvian banks must create and maintain a legal reserve. Each year a Peruvian bank must allocate 10% of its net income to its legal reserve until the legal reserve is equal to 35% of its paid-in capital stock.

The General Shareholders' Annual Meeting held on March 30, 2010 and March 31, 2009, approved an allocation to the legal reserve of S/.92.8 and S/.72.4 million respectively, the equivalent of 10% of net income for each year.

As of December 31, 2009, Special Reserve is considered freely available. The General Shareholders' Annual Meetings held on March 30, 2010 and March 31, 2009 approved the capitalization of special reserves by S/.1.2 million and S/.59.3 million, respectively.

(c) Retained earnings

General Shareholders' Annual Meetings held on March 30, 2010, and March 31, 2009, agreed to distribute dividends for S/.463.8 and S/.362.1 million, respectively and were paid on April 27, 2010 and April 28, 2009, respectively.

Dividends distributed to shareholders other than domiciled legal entities, are subject to the rate of income tax rate of 4.1%, which should be withheld by the Bank.

Retained Earnings include S/.21.4 million for unrealized gain of the available-for-sale investments (S/.68.5 million as of December 31, 2009), S/.3.1 million corresponding to unrealized gains of held to maturity investments (S/.3.3 million as of December 31, 2009).

The General Shareholders' Annual Meetings held on March 30, 2010 and March 31, 2009, approved the capitalization of retained earnings by S/.371 million and S/.302.6 million, respectively.

14. REGULATORY CAPITAL AND LEGAL LIMITS

As of December 31, 2010, Bank's regulatory capital calculated following SBS regulations was S/.3,807.2 million (S/.2,755.2 million, as of December 31, 2009). This amount is used to calculate certain limits and restrictions applicable to all financial entities in Peru. In the Bank's management opinion, such limits and restrictions are fully met by the Bank.

According to the General Law, the regulatory capital amount cannot be less than 9.8% of credit, market and operational risk average weighted assets and contingent loans (9.5% as of December 31, 2009).

SBS Resolution N° 14354-2009 "Rules for Regulatory Capital Requirement for Credit Risk" entered into effect on July 1, 2010, and provides that financial institutions can calculate their regulatory capital requirement for credit risk using the standard or the internal ratings based methods.

- i) In the standard method, SBS establishes the methodology for calculating the exposure, the acceptable mitigating, the weighting factors for credit risk depending on the type of exposure, type of debtor and its external rating of credit risk.
- ii) In the internal ratings based methods, its use is subject to compliance with the minimum requirements of the regulations and the approval of the SBS. Under these methods, organizations can calculate their regulatory capital requirements using internal estimates of risk components: probability of default (PD), loss given default (LGD), exposure at default (EAD) and maturity (M).

As of December 31, 2010, the Bank uses the standard method for calculating regulatory capital requirement for credit risk.

Credit, market and operational risk average weighted assets calculated in accordance with applicable regulations amount to S/.25,984.8 million as of December 31, 2010 (S/.20,699.6 million as of December 31, 2009). The Bank has estimated that implementation of the new regulation, considering the gradual adjustment in the weighting of certain exposures, has had an additional impact on credit risk weighted assets of 2.71%.

As of December 31, 2010 and 2009, the Bank's global leverage ratio for credit risk, market and operational risks is 14.65% and 13.31% respectively.

15. CONTINGENT AND OFF-BALANCE SHEET ACCOUNTS

The balances were as follows:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Contingent transactions:		
Indirect loans: (a)		
Guarantees and stand by letters	6,899,642	4,878,402
Letters of credit and bank acceptances	<u>821,776</u>	<u>576,993</u>
Total	7,721,418	5,455,395
Derivative financial instruments (b)		
Unused lines of credits	<u>13,282,062</u>	<u>11,232,893</u>
Total	<u>25,137,764</u>	<u>19,815,202</u>
Off-balance sheet accounts:		
Guarantees received for loans given (c)	28,249,049	23,660,637
Assets and contingents qualification and credit risk weighting	-	27,027,905
Securities and assets in custody of third parties	24,715,309	10,827,725
Owned securities and assets in custody	2,996,907	4,865,440
Shares received as collection	1,603,977	1,475,582
Letter of credit	594,120	305,036
Securities and goods in guarantee	220,881	245,912
Interest on loans in suspense	189,596	151,904
Loans written-off	161,622	164,463
Consignments received	418	472
Securities in custody of CAVALI (f)	5,734,033	5,447,706
Other debtors	6,195,179	4,684,328
Other creditors (e)	<u>14,452,451</u>	<u>11,184,734</u>
Total	85,113,542	90,041,844
Trusts and administrations (d)	<u>6,567,727</u>	<u>6,247,897</u>
Total	<u>116,819,033</u>	<u>116,104,943</u>

a) Indirect loans

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

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

Grupo Continental uses similar credit policies in evaluating and granting direct loans and contingent loans. In management's opinion, contingent transactions do not represent an exceptional credit risk, since it is expected that a portion of these contingent loans expire without being called and the total amounts of contingent loans do not represent necessarily future cash disbursements for Grupo Continental.

Grupo Continental's management does not expect significant losses for contingent operations in force as of December 31, 2010.

The change of allowance for contingent operations (indirect loans) included in other liabilities on the balance sheet was as follows:

	<u>2010</u>	<u>2009</u>
	S/./000	S/./000
Balances as of January 1	70,680	69,418
Provision	48,694	23,885
Recoveries and reversals	(63,143)	(18,539)
Exchange rate differences and other adjustments	<u>(909)</u>	<u>(4,084)</u>
Balances as of December 31	<u><u>55,322</u></u>	<u><u>70,680</u></u>

As of December 31, 2010, the general provision of indirect loan portfolio of S/.49.3 million (S/.60.9 million as of December 31, 2009) includes pro-cyclical provisions of S/.16.2 million (S/.22.4 million as of December 31, 2009).

b) Derivative Financial Instruments

The Bank enters into forward agreements for the purchase and sale of foreign currency (Forwards), interest rates swaps (IRS), cross currency swaps (CCS), and purchase and sale of options on several underlying (exchange rate, index, commodities, etc.).

Forward contracts for buying and selling foreign currency are agreements to deliver a currency at a future date at a pre-established price.

IRS operations are agreements in which the exchange of periodic cash flows are calculated on the basis of the application of either a variable or fixed interest rate according to the terms and conditions based on the definitions and regulations developed by the International Swaps and Derivatives Association, Inc. (ISDA) for foreign clients, and a Frame Contract for local clients.

- (i) As of December 31, 2010, the Bank entered into an interest rate swap to hedge the exposure to changes in fair value of the loan from Deutsche Bank for US\$350 million, which was agreed at a fixed rate of 5.50% and maturity in November 2020 (Note 11 (a)). Through interest rate swap, the Bank receives a fixed rate in U.S. dollars and delivers a variable interest rate in that currency. As of December 31, 2010, the fair value of interest rate swap has been reduced in S/.44.8 million (loss), which is recorded under "Gain from hedging transactions" of the consolidated statements of income.

Interest rate derivatives are recorded in off-balance sheet accounts, amounting to S/.5,620 million as of December 31, 2010 (S/.4,502 million as of December 31, 2009), other derivatives are recorded in contingent accounts amounting to S/.13,282 million as of December 31, 2010 (S/.11,233 as of December 31, 2009).

Accounts receivable and payable from derivative financial instruments transactions on the consolidated balance sheet consisted mainly of accrued amounts corresponding to the fluctuations resulting from derivative financial instruments valuations (exchange and interest rate); these are presented in the line Gain/Loss from derivative instruments, net in the consolidated statements of income.

- c) Collateral for loans given

Collateral is reflected at the agreed value on the date of the loan contract. This amount does not necessarily represent the market value of collateral held by Grupo Continental.

- d) Trusts and administrations

Grupo Continental renders asset management services to third parties such that Grupo Continental is involved in the selection and decisions of purchases and sales of investments on behalf of third parties. These assets which are maintained in trusts are not included in the consolidated financial statements.

As of December 31, 2010, the equity of investment mutual funds and of securitizations managed by Grupo Continental, amounts to S/.3,342 million and S/.271 million, respectively (S/.2,965 million and S/.436 million, respectively, as of December 31, 2009).

- e) Other creditors

As of December 31, 2008, Continental DPR Finance Company, a special purpose entity incorporated in the Cayman Islands, issued Notes through a private placement of debt instruments for US\$250 million. The maturity date of the notes is December 15, 2015 and they have fixed quarterly coupons with a 2-year grace period. The debt instruments bear interest at Libor rate plus a spread (Note 12).

As of April 30, 2010, Continental DPR Finance Company, entered into a debt through a private contract totaling US\$200 million (Series 2010-A). This series expire on March 15, 2017 with quarterly coupons with a 2-year grace period. The aforementioned debt accrues interest at Libor plus a spread (Note 11 (c)).

The debt and the issuance of the Note are secured by present and future flows generated by electronic payment orders of clients (Diversified Payments Rights - DPR) sent to the Bank using the SWIFT (Society for Worldwide Interbank Financial Telecommunications Network) system.

The operative documents for the issuance of the notes include covenants requiring compliance by the Bank with certain financial ratios and other specific conditions related to transferred flows. The Bank's management believes it was in compliance with such conditions as of December 31, 2010.

f) Securities in custody in CAVALI S.A.

Corresponds to the face value of investments negotiated by Grupo Continental on behalf of clients of Continental Bolsa - Sociedad Agente de Bolsa S.A. which are in the custody of Cavali S.A. ICLV.

g) Lawsuits and legal processes

As of December 31, 2010, Grupo Continental was party to various pending legal complaints and other lawsuits which are related to the general operating activities which, in the opinion of management and its legal advisors, will not give rise to significant liabilities. Therefore, management has not considered necessary a higher provision than that recorded for these contingencies in other liabilities of the consolidated balance sheet, which amounted to S/.213.7 million as of December 31, 2010 and S/.248.9 million as of December 31, 2009).

16. OTHER INCOME

Other income for years ended December 31, 2010 and 2009 comprises commissions for credit and debit cards renewals, maintenance fees for savings accounts, collection, transferances, bank drafts, checking accounts operations and clearing, financial advisory and other services related to credit or intermediation activities.

17. EMPLOYEES' AND BOARD OF DIRECTORS' EXPENSES

As of December 31, 2010 and 2009, employees' and Board of Directors' expenses comprises:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Salaries	162,552	150,626
Bonuses	136,616	145,257
Social contributions and other	38,929	37,563
Accrual for seniority indemnities	22,155	20,445
Vacations	14,401	13,561
Other	<u>14,198</u>	<u>12,222</u>
Total	<u><u>388,851</u></u>	<u><u>379,674</u></u>

18. ADMINISTRATIVE EXPENSES

Administrative expenses for 2010 and 2009 mainly comprised expenses for technology services fees and transport of money, taxes, advertising and promotions, insurances, general services expenses, security and surveillance, among others.

19. OTHER INCOME AND EXPENSES, NET

Other income and expenses, net comprises:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Gain from sales of seized, recovered assets	1,879	5,245
Administrative penalties	(809)	(710)
Uninsured losses	(4,616)	(3,277)
Other income	<u>9,953</u>	<u>7,119</u>
Total	<u><u>6,407</u></u>	<u><u>8,377</u></u>

20. TAX SITUATION

(a) Income tax

Under current legislation, the determination of taxes on a consolidated basis is not permitted. The Bank and its subsidiaries have made this determination on an individual basis.

Management believes that the taxable income determined under the general income tax regime under current tax law, which requires adding and deducting from the result, shown in the financial statements, those items recognized as taxable and non taxable, respectively. The tax rate on income from the 2010 and 2009 is 30%.

(b) Income tax regime

(i) Income tax rates

Pursuant to Legislative Decree N° 945, dated December 23, 2003, effective 2004 tax period, the income tax rate for domiciled legal entities is 30%..

Legal entities are subject to an additional rate of 4.1% on any amount that may be considered indirect income, including, among others, amounts charged to expenses and unreported income, expenses which may have benefited the shareholders or workers, among others, outside business expenses or shareholders participation, which are assumed by the legal entity.

Companies not domiciled in Peru, and individual persons will pay a 4.1% tax on dividends distributed.

(ii) Transfer Pricing

For the purposes of income tax calculation and General Sales Tax, legal entities engaged in transactions with related companies or with companies resident in territories with low or no taxation, must have a Transfer Pricing Technical Study, including the supporting documentation for this study. This formal obligation arises when the amount of accrued income exceeds S/.6 million, and the entity has conducted transactions with non-domiciled related companies for an amount over S/.1 million. As per requested by the applicable regulations, companies with transactions in excess of (in thousands) S/.200 must file an annual affidavit to comply with transfer pricing requirements.

Both formal obligations will also be required in the event that at least one transaction to, from or through countries with low or no taxation had been made.

From 2008 onwards, the domiciled taxpayers' transactions that were carried out with domiciled related parties, must be included in the Transfer Pricing Technical Study.

Grupo Continental conducted a Transfer Pricing Technical Study for 2009. The Technical Study for the year 2010 is under development. In management's opinion, no

liabilities will arise for financial statements for 2010 and 2009 fiscal years, in connection with transfer pricing.

(c) Significant changes to income tax

Effective January 1, 2011 some changes in the determination of the income tax, applicable to companies subject to Laws 29498 and 29645 entered into effect. Law 29645 was published on December 31, 2010. The following is a brief summary of the most important changes for companies:

- Amounts spent on staff training may be deducted as an expense up to a maximum amount equal to 5% of total expenses of the year. For this purpose, an Annual Training Program must be presented before the Ministry of Labor.
- Interest from foreign loans granted to the National Public Sector will be exempted.
- "Development credits" are defined, for the purposes of applying the exemption to interest thereby, as loan operations that are intended to fund projects or programs for the country's development in public infrastructure works and public services, as well as to finance micro business loans.
- Interest paid by a domiciled company in favor of a non-resident natural person, will be subject to a withholding tax of 4.99% (previously 30%), unless is a related party or if the creditor's residency is located in a country with not taxation.
- The interests credited by local banks to non-residents' entities,, shall be subject to a withholding of 4.99% (previously 1%), when the payments are made using their credit lines outside the country.
- Interest paid to non-resident legal entities from bonds or other debt instruments, deposits in the National Financial System, repurchase agreements, securities lending and other interests from credit operations, are subject to a withholding tax of 4.99% (previously 30%).
- In the case of foreign loans with non-compliance on the requirements set out in paragraph a) of Article 56 ° or when the creditor is a related company or when such creditor is used to hide a credit transaction between related parties, the rate of withholding tax on interest will be 30%. In a tax audit, the taxpayer must demonstrate that the operation is truly a loan or credit from an unrelated party.
- Certain special rules have been established for taxation of income derived from repurchase agreements and securities lending, which are considered as financing transactions.

(d) The income tax expense and workers' profit sharing expenses, comprised the following:

	<u>2010</u>	<u>2009</u>
	S/.000	S/.000
Current workers' profit sharing and income taxes	433,845	484,743
Deferred income taxes	<u>(26,314)</u>	<u>(63,302)</u>
Total	<u><u>407,531</u></u>	<u><u>421,441</u></u>

(e) Tax situation

Income tax returns of Grupo Continental which are pending for review by the tax administration are as follows:

<u>Companies</u>	<u>Years subject to review</u>
Banco Continental	2007 to 2010
Continental Bolsa Sociedad Agente de Bolsa S.A.	2005 to 2010
Continental S.A. Sociedad Administradora de Fondos	2005 to 2010
Continental Sociedad Titulizadora S.A.	2005 to 2010
Inmuebles y Recuperaciones Continental S.A.	2008 to 2010

The Tax Administration is authorized to perform reviews within four years following the year of submittal of the corresponding income tax return. Management considers that no significant liabilities will arise resulting from pending reviews.

Due to possible interpretations that tax authorities may make on legal regulations in force, it is not possible to determine whether liabilities for Grupo Continental will result from future reviews, so that any eventual higher tax or charge that might result from fiscal reviews will be charged to the statements of income for the year in which they are determined. However, management considers that no potential additional settlement of taxes would be significant for the financial statements as of December 31, 2010 and 2009.

21. DEFERRED INCOME TAXES

The change in the net income taxes asset in 2010 and 2009, and workers' profit sharing until December 31, 2009 (Note 2 (a-2)), and the description of related temporary differences were as follows:

<u>2010</u>	Additions/Recoveries in the statements of income				Ending <u>Balances</u> S/.000
	Beginning <u>Balances</u> S/.000	<u>Equity</u> S/.000	Deferred <u>income taxes</u> S/.000	Adjustment for deferred workers' <u>profit sharing</u> S/.000	
Assets:					
General allowance for loans	178,348	-	39,019	(18,633)	198,734
Allowance for contingent loans - general	20,386	-	(3,482)	(2,130)	14,774
Allowance for seized assets	6,704	-	323	(89)	6,938
Allowance for contingent credits - specific	2,535	-	(432)	(265)	1,838
Allowance for suppliers	35,582	-	(1,377)	(887)	33,318
Labor allowance	7,556	-	20,587	(3,585)	24,558
Advancement of depreciation	3,049	-	(1,920)	(319)	810
Discontinued interest on impaired loans	-	-	1,129	-	1,129
Total asset	254,160	-	53,847	(25,908)	282,099
Liabilities:					
Other	5,109	1,950	4,848	-	11,907
Leveling of assets and liabilities	5,063	-	(2,693)	(530)	1,840
Total liabilities	10,172	1,950	2,155	(530)	13,747
Deffered income tax asset, net	<u>243,988</u>	<u>(1,950)</u>	<u>51,692</u>	<u>(25,378)</u>	<u>268,352</u>

According to Note 2 (a-2), Grupo Continental adjusted the effect of modification of treatment of deferred workers' profit sharing, which represented a lower balance in the net income for the year 2010, for an amount of S/.25.4 million.

Also, during 2010, Grupo Continental recorded temporary items of deferred income tax related to labor liabilities and securitization of remittances for previous years. The effect of this situation resulted in a greater balance of the net income for 2010 for an amount of S/.14.7 million.

<u>2009</u>	Additions/Recoveries			Ending <u>Balances</u> S/.000
	<u>Beginning</u> <u>Balances</u> S/.000	<u>Equity</u>	<u>Net</u> <u>Income</u>	
Assets:				
General allowance for loans	160,219	-	18,129	178,348
Allowance for contingent loans - general	20,151	-	235	20,386
Allowance for seized assets	5,757	-	947	6,704
Allowance for contingent credits - specific	1,822	-	713	2,535
Allowance for suppliers	6,802	-	28,780	35,582
Allowance for bonuses	-	-	7,556	7,556
Advancement of depreciation	-	-	3,049	3,049
Tax Loss	583	-	(583)	-
Total asset	195,334	-	58,826	254,160
Liabilities:				
Other	4,402	707	-	5,109
Leveling of assets and liabilities	9,539	-	(4,476)	5,063
Total liabilities	13,941	707	(4,476)	10,172
Deffered income tax asset, net	181,393	(707)	63,302	243,988

Changes in deferred income tax assets were as follows:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Deferred taxes recognized:		
Deferred taxes at the beginning of the year	243,988	181,393
Debit to equity (Note 2 (t))	(1,950)	(707)
Credit to income of the year	26,314	63,302
Deferred income taxes asset at end of the year	268,352	243,988

22. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share were as follows:

	Quantity of shares	
	<u>2010</u>	<u>2009</u>
	In thousands	In thousands
Outstanding at beginning of the year	1,471.2	1,109.3
Special reserve capitalization	1.2	60.5
Retained earnings capitalization	<u>371.0</u>	<u>673.6</u>
Outstanding at end of the year	<u><u>1,843.4</u></u>	<u><u>1,843.4</u></u>
Net income for the year (in thousands of nuevos soles)	<u><u>1,006,309</u></u>	<u><u>927,769</u></u>
Basic and diluted earnings per share	<u><u>0.55</u></u>	<u><u>0.50</u></u>

23. TRANSACTIONS WITH RELATED PARTIES

As of December 31, 2010 and 2009, the main transactions with related companies and subsidiaries for credits, financial services and corresponding relationships recorded at nominal values, among others, were as follows:

	<u>2010</u>	<u>2009</u>
	S/.000	S/.000
Assets:		
Cash and due from banks	25,482	25,910
Loans, net	135	48
Other assets	77,144	120,735
Liabilities:		
Obligations to the public and deposits from financial institutions	429,495	137,483
Other liabilities	129,165	99,664
Contingent and off-balance sheet accounts:		
Contingent accounts	4,927,095	4,163,548
Off-balance sheet accounts	1,724,479	1,645,700

Transactions of Grupo Continental with related parties have been carried out in the normal course of operations and in conditions that could have been granted to third parties.

Operations carried out with related parties, included in the consolidated statements of income for 2010 and 2009 were the following:

	<u>2010</u> S/.000	<u>2009</u> S/.000
Financial income	9	36
Financial expenses	(4,580)	(8,523)
Other income (expenses), net	(47,442)	(41,230)

Personnel Loans

As of December 31, 2010 and 2009, directors, executives and employees of Grupo Continental maintain permitted operations with Grupo Continental in accordance with General Law, which regulates and establishes certain limits on transactions with directors, executives and employees of banks in Peru. As of December 31, 2010 and 2009, direct loans to employees, directors, executives and key personnel were S/.232.8 million and S/.135.2 million, respectively.

For 2010, key staff salaries and director salaries amounted to S/.7.1 million. (S/.6.2 million as of December 31, 2009).

24. FINANCIAL RISK MANAGEMENT

Management, based on Grupo Continental's policies and on its knowledge of the market and experience in the sector, establishes policies for the control of business risks to minimize potential adverse effects.

The analysis of financial risk management has been made considering the significance in the consolidated financial statements of the Bank.

Market risks

Grupo Continental is exposed to market risks during the normal performance of its transactions. Market risk consists of the risk of loss due to future negative movements regarding prices of the products in financial markets where Grupo Continental has open positions.

The Bank uses Value at Risk (hereinafter VaR) as a methodological tool to estimate market risks based on a series of assumptions for certain changes in the general conditions of financial markets, showed in distortions of, for instance, interest rates or exchange rates, under the assumption that the portfolio would remain unchanged during a temporary period. This tool follows a parametric model to reach a 99% level of reliability and a 10-day time horizon.

In this context, the Bank establishes a policy of limits whose axis is the VaR and are daily followed to control that consumption does not exceed the established limits and/or alerts. The Bank has established a pattern of weekly backtesting and limits within which the VaR is accepted (up to 4 negative exceptions), which are monitored on a weekly basis with daily information.

In addition, the Bank has stress testing scenarios, which are monitored on a daily basis.

Liquidity risk

Liquidity risk (illiquidity) is the possibility that an entity may not meet its payment commitments or that, in order to meet them; it may have to obtain funds under unfavorable conditions.

Liquidity risk can be observed from two different perspectives. The first perspective may be caused by instability in the markets, which increases with existing concentration in certain products and currencies. Therefore, it represents the risk of potential loss of value which could be produced due to the lack of transactions of the market at a given time and with a specific product. The second perspective considers the risk of finance liquidity, which could arise from a temporary lag in the cash flows between the assets and liabilities or from unforeseen needs.

Measurement of liquidity risk occurs on a daily basis by short-term internal models which identify available net flows or basic liquidity, potential flows, and liquidity considering funding that can be obtained in order to meet payment commitments. This analysis is carried out both in Nuevos soles and in other currencies and it is complemented with measuring of risk of medium-term liquidity which allows identification of any future gap in liquidity.

In addition to measuring liquidity risks, the Bank has a Contingency Plan of Liquidity, which considers scenarios of very low liquidity and the role that would correspond to each area of the Bank.

Interest rate risk

Structural Interest Risk refers to the impact that variations in interest rates may have over the finance margin and the economic value of an entity. The starting point of this methodology is the analysis of temporary gaps of repricing of assets and liabilities of the balance (Bank book) as per currency and length of the term.

Exposure to interest rate risk is measured under a triple perspective: results, economical value and economical capital. From the results perspective, the analysis is limited to a 12-month time horizon, where incidence of variations in the interest rates over the annual finance margin is evaluated. Under the perspective of the economical value, the horizon analysis goes over the whole balance via the evaluation of the effect of movements in the market curves in the value of assets and liabilities. According to the criteria of the economical capital, 105 rate scenarios are built, which are used to calculate the same number of economical values and, with a given level of reliability, to determine maximum expected loss.

There is also active and permanent follow-up of limits and alerts for these indicators, which allows active management of the balance sheet by Grupo Continental.

Exchange rate risk

Exchange rate risk is the risk that the value of positions on the balance sheet could be negatively affected by the fluctuations of exchange rates. Value of positions issued in foreign currency could decrease due to movements of exchange rates. This risk depends on the position of the currency and the volatility of exchange rates.

Most of the assets and liabilities are denominated in U.S. dollars. Grupo Continental minimizes the exchange rate risk by matching assets and liabilities.

Credit risk

Credit risk consists of the probability of incurring losses due to non-compliance with credit obligations by counterparty.

Management of credit risk of Grupo Continental is based on an integral approach at all stages of the process: analysis, admission, follow-up and recovery, which strengthen tools designed for risk management.

Regarding the follow-up stage, a permanent activity is the monitoring of portfolio quality at Grupo Continental level, segments of businesses and their geographic distribution, evaluating their behavior according to different indicators which include ratios of delayed and weighted portfolio, as well as entries and exits of delay in payment, evaluating in the former ones, profiles of delay per product and to which group they correspond, the activity that has the objective of providing guidelines of admission of credit risk, establishing corrective measures.

Also, credit risk is monitored via evaluation and analysis of individual transactions such as credit concentration of economic groups, individual limits to grant credits, evaluation of economic sectors, expected portfolio losses, preferred guarantees and requirement of working capital.

Financial assets that potentially present credit risk mainly consist of cash and cash equivalents, deposits banks accruing interests, investments in securities, loans and other assets. Cash and cash equivalents, as well as term bank deposits are placed in prestigious financial institutions.

Information related to interest rates applicable to credits, maturities and levels of loan concentrations are presented in Note 6.

Operational risk

Operational risk is defined as the risk of having losses as a consequence of failures in processes, systems, human errors or due to external circumstances. The general policy of Grupo Continental regarding the operating risk is based on the good governance concept.

Grupo Continental understands that good management of operating risk needs to establish methodologies and procedures allowing identification, evaluation and follow-up of this type of risks in order to establish measures to control/mitigate accordingly.

This is done balancing the level of risk assumed and the cost of control/mitigation.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments are classified as of liability or as capital according to the nature of contractual agreement which originated it. Interests, dividends, the gains and losses generated by a financial instrument classified as a liability, are registered as expenses or income in the statements of income. Payments to holders of financial instruments recorded as capital are recorded directly in stockholders' equity. Financial instruments are settled when Grupo Continental has legal right to liquidate them and management has the intention to cancel them over a net basis, or to realize the asset and cancel the liability, simultaneously.

Fair value is the amount by which an asset could be exchanged between a well informed buyer and seller, or an obligation which can be settled between a debtor and creditor with sufficient information, when conducted in an open market.

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

The fair value measurements of Grupo Continental's financial instrument have the following considerations:

- i) Cash and due from Grupo Continentals and inter-bank funds represent cash or short-termed deposits which do not represent significant credit risks.
- ii) Fair value of investments has been determined based on quotations of the market or quotations of underlying (sovereign risk rate) to the date of financial statements. Debt instruments investments accrue interests at market rates.
- iii) Fair value of loan portfolio is similar to book value, due to fact that they are net of their corresponding allowance for loan losses, which allows management to

consider it as an estimated amount of recovery as of the dates of financial statements. In addition, credit portfolio accrues interest at current market rates.

- iv) Market value of obligations to the public and deposits from financial entities and interbank funds corresponds to its respective book value mainly due to its current nature and to the fact that rates of interest are comparable to that of other similar liabilities.
- v) Debts and financial obligations and outstanding securities, bonds and obligations generate interests at fixed and variable rates and have maturities of short and long-term. Securities with variable rates represent its market value and those with fixed rates are subject to variations of the market interest rates.
- vi) As described on Note 15, the Bank granted guarantees, letters of guarantees and letters of credits and has received guarantees backing-up credits granted. Based on the level of commissions currently charged for granting those contingent loans and considering due dates and interest rates, together with current solvency of counterparts, the difference between book value and fair value is not considered as significant by management.
- vii) Foreign currency and interest rate derivative financial instruments are recorded at their estimated market value. Grupo Continental values the derivatives operations discounting respective flows into present value using the market curves, which are calculated on a daily basis for it. These curves are built using inputs that are observable public contributors (price vendors) or trading systems (Datatec, Bloomberg, Reuters, etc.).

26. SUBSEQUENT EVENTS

We are not aware of any subsequent events, having occurred from the consolidated financial statements closing date to date of this report, which have not been disclosed therein or could significantly affect the consolidated financial statements.
