Banco BBVA Perú and Subsidiaries

Consolidated Financial Statements

December 31, 2019 and 2018

(Including Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of

Banco BBVA Perú

We have audited the accompanying consolidated financial statements of Banco BBVA Perú (formerly Banco BBVA Continental, a subsidiary of BBVA Perú Holding S.A.C., an entity established in Peru) and Subsidiaries (hereinafter the "BBVA Peru Group"), which comprise the consolidated statement of financial position as of December 31, 2019 and 2018, the consolidated statements of income, income and other comprehensive income, changes in equity, and cash flows for the years then ended, as well as the corresponding notes, including the summary of significant accounting policies.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for their application in Peru by the Dean's Council of the Peruvian Professional Associations of Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of Banco BBVA Perú and Subsidiaries as of December 31, 2019 and 2018, their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with accounting standards established by SBS for financial entities in Peru.

Lima, Peru

February 25, 2020

Caipo y Asociados

Countersigned by:

Eduardo Alejos P. (Partner)
Peruvian CPA
Registration Number 01-29180

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Consolidated Financial Statements

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Consolidated Statement of Financial Position
As of December 31, 2019 and 2018

In thousands of soles	***Note***	**2019**	**2018**
Assets			
Cash and due from banks	*5*	14,816,709	12,934,941
Interbank funds		150,137	-
Investments at fair value through profit or loss and available-for-sale	*6*	6,639,844	6,540,074
Loan portfolio, net	*7*	56,398,279	52,015,135
Trading derivatives	*8*	567,686	457,876
Hedging derivatives	*8*	4,611	1,439
Realizable assets and assets seized and recovered through legal actions		187,561	248,430
Associates	*9*	15,602	13,758
Property, furniture, and equipment, net	*10*	988,104	940,176
Deferred income tax	*24*	439,139	365,444
Goodwill	*11*	1,316	5,289
Other assets, net	*11*	1,569,911	1,460,156
Total assets		**81,778,899**	**74,982,718**
Risks and contingent commitments	*16*	**29,978,308**	**26,237,810**

In thousands of soles	***Note***	**2019**	**2018**
Liabilities			
Obligations to the public and deposits from financial system entities	*12*	56,159,283	51,007,523
Interbank funds		150,016	817,265
Borrowings and financial obligations	*13*	9,678,796	10,370,961
Trading derivatives	*8*	490,934	348,759
Hedging derivatives	*8*	19,777	197,492
Provisions and other liabilities	*14*	6,099,627	3,888,505
Total liabilities		**72,598,433**	**66,630,505**
Equity	*15*		
Share capital		5,885,209	5,368,602
Reserves		1,669,835	1,522,035
Adjustments to equity		22,816	(7,996)
Retained earnings		1,602,606	1,469,572
Total equity		**9,180,466**	**8,352,213**
Total liabilities and equity		**81,778,899**	**74,982,718**
Risks and contingent commitments	*16*	**29,978,308**	**26,237,810**

The accompanying notes on pages 6 to 83 are an integral part of these consolidated financial statements.

Banco BBVA Perú and Subsidiaries
Consolidated Statement of Income
For the years ended December 31, 2019 and 2018

In thousands of soles	***Note***	**2019**	**2018**
Interest income	*17*	4,796,546	4,483,439
Interest expenses	*18*	(1,374,912)	(1,319,288)
Gross financial income		**3,421,634**	**3,164,151**
Provisions for direct loans, net of recoveries	*7*	(757,874)	(744,119)
Net financial income		**2,663,760**	**2,420,032**
Income from financial services, net	*19*	812,837	813,435
Financial income net of income and expenses for financial services		**3,476,597**	**3,233,467**
Profit or loss from financial operations	*20*	692,868	581,371
Operating margin		**4,169,465**	**3,814,838**
Administrative expenses	*21*	(1,680,871)	(1,553,155)
Depreciation and amortization		(167,825)	(150,019)
Net operating margin		**2,320,769**	**2,111,664**
Valuation of assets and provisions		(103,548)	(64,420)
Net operating profit or loss		**2,217,221**	**2,047,244**
Other income and expenses, net	*22*	22,042	(10,540)
Profit or loss before income tax		**2,239,263**	**2,036,704**
Income tax	*23*	(630,207)	(567,778)
Net profit or loss		**1,609,056**	**1,468,926**
Basic and diluted earnings per share in soles	***25***	**0.273**	**0.250**
Weighted-average number of outstanding shares (in thousands of shares)	***25***	**5,885,209**	**5,885,209**

The accompanying notes on pages 6 to 83 are an integral part of these consolidated financial statements.

Banco BBVA Perú and Subsidiaries
Consolidated Statement of Income and Other Comprehensive Income
For the years ended December 31, 2019 and 2018

In thousands of soles	**2019**	**2018**
Net profit or loss	1,609,056	1,468,926
Other comprehensive income:		
Unrealized gain (loss) on available-for-sale investments	34,124	(10,862)
Unrealized gain (loss) on cash flow hedges	916	(8,449)
Interest in other comprehensive income of associates	(43)	53
Unrealized loss on actuarial liabilities	(8,894)	-
Income tax related to components of other comprehensive income	4,709	4,875
Other comprehensive income for the year, net of income tax	**30,812**	**(14,383)**
Total comprehensive income for the year	**1,639,868**	**1,454,543**

The accompanying notes on pages 6 to 83 are an integral part of these consolidated financial statements.

Banco BBVA Perú and Subsidiaries
Consolidated Statement of Changes in Equity
For the years ended December 31, 2019 and 2018

In thousands of soles	Number of shares in thousands (note 15.B)	Share capital (note 15.B)	Reserves (note 15.C)	Adjustments to equity (note 15.D)	Retained earnings (note 15.E)	Total equity
Balance as of January 1, 2018	4,883,119	4,883,119	1,383,079	6,387	1,386,686	7,659,271
Net profit or loss	-	-	-	-	1,468,926	1,468,926
Other comprehensive income:						
Unrealized loss on available-for-sale investments	-	-	-	(8,479)	-	(8,479)
Unrealized loss on cash flow hedging derivatives	-	-	-	(5,957)	-	(5,957)
Interest in other comprehensive income of associates	-	-	-	53	-	53
Total comprehensive income for the year		**-**	**-**	**(14,383)**	**1,468,926**	**1,454,543**
Changes in equity (not included in the comprehensive income):						
Dividends	-	-	-	-	(762,901)	(762,901)
Capitalization of retained earnings	485,483	485,483	-	-	(485,483)	-
Adjustment for correction of errors	-	-	-	-	1,053	1,053
Transfers to reserves and other movements	-	-	138,956	-	(138,709)	247
Balance as of December 31, 2018	**5,368,602**	**5,368,602**	**1,522,035**	**(7,996)**	**1,469,572**	**8,352,213**
Balance as of January 1, 2019	5,368,602	5,368,602	1,522,035	(7,996)	1,469,572	8,352,213
Net profit or loss	-	-	-	-	1,609,056	1,609,056
Other comprehensive income:						
Unrealized gain on available-for-sale investments	-	-	-	36,480	-	36,480
Unrealized gain on cash flow hedging derivatives	-	-	-	645	-	645
Interest in other comprehensive income of associates	-	-	-	(43)	-	(43)
Unrealized loss on actuarial liabilities	-	-	-	(6,270)	-	(6,270)
Total comprehensive income for the year		**-**	**-**	**30,812**	**1,609,056**	**1,639,868**
Changes in equity (not included in the comprehensive income):						
Dividends	-	-	-	-	(811,812)	(811,812)
Capitalization of retained earnings	516,607	516,607	-	-	(516,607)	-
Transfers to reserves and other movements	-	-	147,800	-	(147,603)	197
Balance as of December 31, 2019	**5,885,209**	**5,885,209**	**1,669,835**	**22,816**	**1,602,606**	**9,180,466**

The accompanying notes on pages 6 to 83 are an integral part of these consolidated financial statements.

Banco BBVA Perú and Subsidiaries
Consolidated Statement of Cash Flows
For the years ended December 31, 2019 and 2018

In thousands of soles	*Note*	2019	2018
Reconciliation of net profit with cash and cash equivalents from operating activities			
Net profit or loss		1,609,056	1,468,926
Adjustments:			
Depreciation and amortization		167,826	150,019
Impairment of property, furniture, and equipment and intangible assets		26,300	15,001
Impairment of goodwill		3,972	-
Provisions		834,928	794,591
Other adjustments		509,901	531,255
Net changes in assets and liabilities			
Loan portfolio		(5,450,916)	(2,030,899)
Available-for-sale investments		(622,846)	(846,227)
Accounts receivable and others		(1,287,209)	3,124,712
Non-subordinated financial liabilities		4,377,190	1,084,767
Accounts payable and others		2,076,725	(3,437,344)
Profit or loss for the year after net changes in assets, liabilities, and adjustments		**2,244,927**	**854,801**
Income tax paid		(636,951)	(297,975)
Net cash and cash equivalents from operating activities		**1,607,976**	**556,826**
Cash flows from investing activities:			
Acquisition of securities on associates and available for sale investments		(40)	(1,973)
Sale of intangible assets and property, furniture, and equipment		-	5,460
Purchase of intangible assets and property, furniture, and equipment		(236,552)	(249,203)
Other cash inflows related to investing activities		80,953	49,812
Net cash and cash equivalents used in investing activities		**(155,639)**	**(195,904)**
Cash flows from financing activities			
Dividends paid		(810,470)	(761,550)
Issuance of debt securities and bonds		577,427	445,336
Payment of debt securities and bonds		(665,100)	(1,773,443)
Net cash and cash equivalents used in financing activities		**(888,143)**	**(2,089,657)**
Net increase (decrease) in cash and cash equivalents before effect of movements in exchange rates		**564,194**	**(1,728,735)**
Effect of movements in exchange rates on cash and cash equivalents		(127,102)	399,699
Net increase (decrease) in cash and cash equivalents		**437,092**	**(1,329,036)**
Cash and cash equivalents at the beginning of the year		**15,325,466**	**16,654,502**
Cash and cash equivalents at the end of the year		**15,762,558**	**15,325,466**
Funds pledged as collateral		2,256,757	1,208,377
Interbank funds		(150,137)	-
Investments with a maturity of less than 90 days		(3,052,469)	(3,598,902)
Cash and due from banks as per the consolidated statement of financial position	*5*	**14,816,709**	**12,934,941**

The accompanying notes on pages 6 to 83 are an integral part of these consolidated financial statements.

1. Reporting Entity and Business Activity

A. Reporting entity

Banco BBVA Perú (formerly BBVA Banco Continental, hereinafter referred to as "the Bank") is a subsidiary of BBVA Perú Holding S.A.C. (entity incorporated in Peru, formerly Newco Perú S.A.C.), which holds 46.12% of its share capital as of December 31, 2019 and 2018. Banco Bilbao Vizcaya Argentaria S.A. (hereinafter BBVA S.A.) holds 100% of the shares of BBVA Perú Holding S.A.C.

At General Shareholders' Meeting, held on March 27, 2019, the shareholders approved the modification of the Bank's name to Banco BBVA Perú.

B. Business activity

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

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

The registered office and headquarters of the Bank are located at Av. República de Panamá N° 3055, San Isidro, Lima, Peru.

The Bank has shareholding with 100% voting rights over its following subsidiaries: BBVA Bolsa Sociedad Agente de Bolsa S.A. (formerly, Continental Bolsa Sociedad Agente de Bolsa S.A.), BBVA Asset Management S.A. SAF (formerly, BBVA Asset Management Continental S.A. Sociedad Administradora de Fondos), BBVA Sociedad Titulizadora S.A. (Formerly, Continental Sociedad Titulizadora S.A.), Inmuebles y Recuperaciones BBVA S.A. (Formerly, Inmuebles y Recuperaciones Continental S.A.), BBVA Consumer Finance EDPYME, Forum Comercializadora del Perú S.A. and Forum Distribuidora del Perú S.A. Although the Bank does not have any equity interest in capital nor the voting rights over Continental DPR Finance Company (DPR), given the characteristics of its corporate purpose and its relationship with the Bank, the accounting standards governing the Bank require that the financial statements of DPR be included on the consolidated basis with those of the Bank (all these companies, including the Bank, shall be hereinafter referred to as "BBVA Peru Group", formerly "Continental Group").

C. Approval of the consolidated financial statements

The consolidated financial statements as of December 31, 2019 were approved by the Bank's Management and will be submitted for approval to the Board of Directors and at the General Shareholders' Meeting within the term established by law. In Management's opinion, these consolidated financial statements will be approved without amendments by the Board of Directors and at the General Shareholders' Meeting. On March 27, 2019, the consolidated financial statements as of December 31, 2018 were approved at the General Shareholders' Meeting.

2. Basis of Preparation of the Consolidated Financial Statements

A. Statement of compliance

The consolidated financial statements have been prepared and presented in accordance with the accounting standards and practices authorized by the SBS for financial entities (in exercising the powers delegated to it in accordance with the provisions of Banking Law). These standards are included in the Accounting Manual for Financial System Entities (hereinafter "Accounting Manual") approved by SBS Resolution 895-98 dated September 1, 1998 effective January 1, 2001, and supplementary standards and amendments.

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

Peruvian GAAP comprises the Standards and Interpretations issued or adopted by the IASB, which include IFRS, International Accounting Standards (IAS), and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or by the former Standing Interpretations Committee (SIC), adopted by the IASB and made official by the CNC for their application in Peru.

B. Basis of consolidation

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

Subsidiaries are all companies over which the Bank has the control. The Bank controls an entity when it is exposed or has a right over the variable returns arising from its involvement with the entity and has the ability to affect those returns exerting its power over the entity. The consolidation of subsidiaries ceases when the Bank loses control of the subsidiaries.

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

	Assets		Liabilities		Equity	
In millions of soles	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Entity						
Banco BBVA Perú	81,722	74,979	72,534	66,621	9,188	8,359
BBVA Bolsa Sociedad Agente de Bolsa S.A.(i)	41	398	22	376	19	22
BBVA Asset Management S.A. SAF (ii)	43	65	4	6	39	59
BBVA Sociedad Titulizadora S.A. (iii)	6	4	1	-	5	4
Inmuebles y Recuperaciones BBVA S.A. (iv)	168	159	4	3	164	156
Continental DPR Finance Company (v)	145	202	145	202	-	-
BBVA Consumer Finance Edpyme (vi)	539	517	447	443	92	74
Forum Comercializadora del Perú S.A. (vii)	2	2	-	-	2	2
Forum Distribuidora del Perú S.A. (viii)	183	174	160	155	23	19

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

(ii) BBVA Asset Management S.A. Sociedad Administradora de Fondos (hereinafter "Sociedad Administradora") is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Sociedad Administradora is engaged in the administration of mutual funds and investment funds, which have been authorized to operate by SMV, as well as the purchase and sale of securities. As of December 31, 2019, Sociedad Administradora manages 24 securities investment mutual funds, 2 private investment funds, and 1 public investment fund.

(iii) BBVA Sociedad Titulizadora S.A. (hereinafter "Sociedad Titulizadora") is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Sociedad Titulizadora undertakes a trustee role in securitization processes and acquires assets with the purpose of establishing equity trust to back the issuance of credit securities. As of December 31, 2019, Sociedad Titulizadora manages assets in 15 equity trusts.

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

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

(vi) BBVA Consumer Finance Edpyme (hereinafter "Edpyme") is a subsidiary of the Bank. The Bank holds 100% of its voting shares representing capital. Edpyme is dedicated to financing persons that conduct qualified activities such as operate or own a small and micro businesses.

In 2019, Edpyme has presented SBS a plan to integrate its businesses with those of the Bank.

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

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

C. Basis of measurement

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

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

D. Functional and presentation currency

The consolidated financial statements are presented in soles (S/ or PEN), which is the currency of the primary economic environment in which it operates, and the currency that has influence on its transactions and services, among other factors. All amounts are presented in thousands of soles and have been rounded to the nearest unit, unless otherwise indicated.

E. Use of judgments and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis.. The related effects are recorded in the accounts of the consolidated statement of income as from the year in which the revision is conducted.

The most significant estimates in the preparation of the consolidated financial statements are as follows:

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

F. Reclassifications

As of December 31, 2018, certain items of the consolidated financial statements have been reclassified to make them comparable to those in 2019. Management considers that the reclassifications made do not imply changes in the decisions taken based on them. The reclassified amounts and affected accounts are summarized as follows:

Consolidated statement of changes in equity for the period ended December 31, 2018

For comparative purposes, a loss of S/ 1.4 million has been reclassified from interest in other comprehensive income of associates to unrealized profit or loss of available-for-sale investments.

Consolidated Statement of Cash Flows for the year ended December 31, 2018

In thousands of soles	**Balance without reclassification**	**Reclassification**	**Reclassified balances**
Net changes in assets and liabilities			
Accounts receivable and others	3,119,424	5,288	3,124,712
Non-subordinated financial liabilities	(285,765)	1,370,532	1,084,767
Profit or loss for the year after net changes in assets, liabilities and adjustments	**(521,019)**	**1,375,820**	**854,801**
Net cash and cash equivalents from operating activities	**(818,994)**	**1,375,820**	**556,826**
Other cash inflows related to investing activities	55,100	(5,288)	49,812
Net cash and cash equivalents used in investing activities	**(190,616)**	**(5,288)**	**(195,904)**
Issuance of debt securities and bonds	202,425	242,911	445,336
Payment of debt securities and bonds	(160,000)	(1,613,443)	(1,773,443)
Net cash and equivalents used in financing activities	**(719,125)**	**(1,370,532)**	**(2,089,657)**

As of December 31, 2018, the Bank reclassified cash inflows and outflows of non-subordinated financial liabilities from Operating activities to Financing activities for a better presentation.

G. New accounting pronouncements

i. New accounting pronouncements not early adopted

The following modifications, amendments and interpretations have been published by the IASB and are applicable to periods beginning on or after January 1, 2020.

Standards, amendments, and interpretations	**Effective date**
Amendments to References to *Conceptual Framework in IFRS Standards*	For annual periods beginning on or after January 1, 2020.
Definition of a business (amendments to IFRS 3).	For annual periods beginning on or after January 1, 2020.
Definition of material (amendments to IAS 1 *Presentation of Financial Statements*, and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).	For annual periods beginning on or after January 1, 2020.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures)*	Available for optional adoption. The effective date has been postponed indefinitely.

In the event that such standards were approved by the SBS, we note that management has not assessed the impact that these modifications, amendments, and interpretations may have on the consolidated financial statements of the BBVA Peru Group.

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

Through Resolution 003-2019EF/30, issued on September 21, 2019, the CNC made official the complete set of 2019 IFRS version (IAS, IFRS, IFRIC and SIC), and the Conceptual Framework for Financial Reporting. The validity of the indicated standards is that established in each one of them.

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

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

iii. Main pronouncements issued by the SBS

In 2019, the SBS published, among others, important pronouncements which are stated below:

- SBS Resolution 5570-2019, dated November 28, 2019, which modifies the "Credit and Debit Card Regulation", the "Retail Over-Indebtedness Risk Management Regulation", the "Regulations for the Regulatory Capital Requirement for Credit Risk", and other legal provisions. This Resolution becomes effective 360 days after its publication, except for certain articles that become effective between the day following their publication and up to 180 days later.

- SBS Resolution SBS 4838-2019, dated October 21, 2019, approving the "Reverse Mortgage Regulation", whose effective date was November 1, 2019.

- SBS Resolution 1884-2019, dated May 3, 2019, supersedes article 35 of the "Market Risk Management Regulation" and modifies the "Accounting Manual for Financial System Entities", which became effective the day after its publication.

- SBS Resolution 904-2019, dated March 15, 2019, supersedes article 28 of the "Financial System Market Conduct Management Regulations", approved by SBS Resolution 3274-2017, which became effective the day after its publication.

- SBS Resolution 682-2019, dated February 21, 2019, modifying the "Liquidity Risk Management Regulation" and the "Accounting Manual for Financial System Entities", approved by SBS Resolution 9075-2012 and its amendments, which became effective on March 1, 2019, with the exception of the amendments to 15-A and 15-C Appendixes and their respective methodological notes, which became effective on July 1, 2019.

SBS Resolution 0008-2019, dated January 4, 2019, which extends the exceptional treatment indicated in the first final and transitory provision of the "Regulation for the Treatment of Recovered and Awarded Assets and their Provisions", approved by SBS Resolution 1535-2005, which became effective the day after its publication.

3. Accounting Principles and Practices

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

A. Financial instruments

Recognition of financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability, or an equity instrument in another.

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

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

Classification of financial instruments

The BBVA Peru Group classifies its financial instruments at initial recognition and on an instrument-by-instrument basis. According to the Accounting Manual, they are classified at fair value through profit or loss, loans and accounts receivable, available-for-sale, held-to-maturity, at amortized cost, and other liabilities.

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

Derecognition of financial assets and liabilities

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

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

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

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

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

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

Foreign currency forwards, interest rate swaps, currency swaps, and currency options are recorded at their estimated market value, recognizing an asset or a liability in the consolidated statement of financial position, as applicable, and any gain or loss from the valuation or settlement of the financial derivatives is recorded in the profit or loss for the year. The face value of derivative financial instruments is recorded in their corresponding committed or agreed currency in the contingent and memorandum accounts.

Hedging derivative financial instruments
A hedging derivative financial instrument is recorded as such if, on the trading date, it is expected that changes in its fair value or in the cash flows generated will be highly effective in offsetting the changes generated in the hedged item, which must be documented on the trading date of the derivative financial instrument and during the hedging term. According to SBS Resolution 1737-2006 and its amendments, a hedge is considered to be highly effective if changes in fair value or in cash flows of the respective hedged instrument and the instrument used for hedging are within a range between 80 to 125% to reduce the risk associated with the exposure being covered.

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

(i) Fair value hedges

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

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

(ii) Cash flow hedges

Cash flow hedges are valued and recognized at fair value and might have an impact on equity and profit or loss accounts. The effective portion of the adjustment at fair value is recognized in equity accounts (consolidated statement of income and other comprehensive income). The ineffective portion is recognized in the consolidated statement of income.

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

C. Investments

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

Investments at fair value through profit or loss

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

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

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

Investments at fair value through profit or loss that are given as collateral shall be reclassified as available-for-sale investments. At the conclusion of these operations, the investments shall be reclassified to their original category, transferring the unrealized profit or loss of the equity to the consolidated statement of income.

Held-to-maturity investments

This category includes debt instruments whose collections are of a fixed or determinable amount and whose maturities are fixed, and which also meet the following requirements: i) they have been acquired or reclassified with the intention to hold them to maturity; ii) entities shall have the financial capacity to hold them to maturity; and iii) they are instruments other than those designated by the company at initial recognition as at fair value through profit or loss or as available-for-sale assets.

Likewise, they should be rated by at least two local or foreign risk rating agencies, and the ratings should be within the parameters established by the SBS. These requirements do not apply to instruments of Central Banks from countries whose sovereign debt obtains as a minimum the rating corresponding to the Peruvian sovereign debt.

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

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

Available-for-sale investments

This category includes all investment instruments not classified as investments at fair value through profit or loss, held-to-maturity investments, or investment in subsidiaries, associates and joint ventures. Furthermore, securities explicitly required by the SBS regulations will be classified under this category.

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

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

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

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

Interest income on available-for-sale investments is recognized using the effective interest rate method, calculated over the instrument term. Premiums or discounts originated on the investment purchase date are considered in the calculation of its effective interest rate.

Dividends are recognized in the consolidated statement of income when the right to receive the payment has been established.

D. Associates

Comprises securities representing equity participations acquired in an associate, obtaining significant influence, but not control, over itsfinancial and operating policies.

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

The excess between the consideration paid and the fair value of the identifiable assets acquired and the liabilities assumed on the date of acquisition is recognized as goodwill. This goodwill is included in the carrying amount of the investment and is evaluated for impairment as part of the investment. If the fair value of the investment exceeds the consideration paid, this amount is recognized as a gain in the consolidated statement of income for the year.

The Bank has determined that the fair value of these investments is equivalent to the carrying amount of the investees on the date of acquisition because they do not have significant non-monetary assets or they have non-monetary assets recorded at their fair value.

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

E. Loans and provision for loan losses

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

Finance lease operations are accounted for using the financial method, recording the amount of the receivable installments as loans. Corresponding finance income is recorded on an accrual basis in accordance with the terms of the finance lease agreement. Initial direct costs are immediately recorded as expenses.

Types of credit

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

Credit risk rating categories

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

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

Provision for loan losses

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

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

Voluntary provision is determined based on the economic situation of debtors of the high-risk loan portfolio (past due, refinanced, restructured and under judicial collection loans), previous experience, and other factors that, in Management's opinion, make it worth recognizing possible losses in the loan portfolio. The amount of voluntary provision is regularly reported to the SBS.

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

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

	Description	CCF (%)
(a)	Confirmations of irrevocable letters of credit of up to one year, when the issuing bank is a first-level entity from a foreign financial system.	20
(b)	Issuance of letters of guarantee supporting the obligations to do or not to do.	50
(c)	Issuance of guarantees, import letters of credit, and letters of guarantee not included in subparagraph (b) above, and confirmations of letters of credit not included in subparagraph (a), as well as bank acceptances.	100
(d)	Granted loans not disbursed and credit lines not used.	0
(e)	Other indirect loans not covered in the previous paragraphs.	100

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

Percentages applied to determine the provision for loan portfolio are as follows:

Risk category	Without collateral	Preferred collateral	Readily liquidating preferred collateral	Self-liquidating preferred collateral
Standard				
Corporate loans	0.70%	0.70%	0.70%	0.70%
Large business loans	0.70%	0.70%	0.70%	0.70%
Medium business loans	1.00%	1.00%	1.00%	1.00%
Small business loans	1.00%	1.00%	1.00%	1.00%
Micro business loans	1.00%	1.00%	1.00%	1.00%
Revolving consumer loans	1.00%	1.00%	1.00%	1.00%
Non-revolving consumer loans	1.00%	1.00%	1.00%	1.00%
Mortgage loans	0.70%	0.70%	0.70%	0.70%
With Potential Problems	5.00%	2.50%	1.25%	1.00%
Substandard	25.00%	12.50%	6.25%	1.00%
Doubtful	60.00%	30.00%	15.00%	1.00%
Loss	100.00%	60.00%	30.00%	1.00%

As of December 31, 2019 and 2018, the pro-cyclical rule of the provision for the loan portfolio is deactivated as per Official Letter SBS B-2224-2014.

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

F. Property, furniture, and equipment

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

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

Expenditures incurred after a component of property furniture and equipment has been put into use are capitalized only when they can be measured reliably, and it is probable that such expenditures result in future economic benefits exceeding the normal yield originally evaluated for that asset.

Expenditures incurred for maintenance and repairs are expensed during the period as incurred. When a component of property, furniture and equipment is sold or is retired from active use, the cost and accumulated depreciation of assets are eliminated from their respective accounts, and any resulting gain or loss is included in the consolidated statement of income for the year.

Banks are not allowed to apply the reassessment model as the only model accepted for subsequent recognition is the cost model. Likewise, banks are not allowed to provide the goods that are part of their property, furniture and equipment as guarantee, except for those acquired under finance lease operations.

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

Realizable assets and assets seized and recovered through legal actions are recorded at the value determined by a court or arbitrator or at the value agreed in the payment in kind contract. Recovered goods due to termination of contract are initially recorded at the lower of the debt unpaid balance and the net realizable value. Should the debt unpaid balance be higher than the balance of the recovered good, the difference is recognized as a loss, provided that its recovery is unlikely.

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

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

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

H. Impairment of non-financial assets

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

I. Intangible assets

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

Costs related to the maintenance of software are recognized are expensed as incurred. Development costs and costs related to unique and identifiable software, that will probably result in future economic benefits, are recorded as intangible assets.

J. Goodwill

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largerly independent of the cash inflows of other assets or cash-generating units. Goodwill is allocated to each of the Bank's cash-generating units that are expected to benefit from the synergies of the business combination. A cash generating unit to which the acquired goodwill has been allocated should be tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is lower than the carrying amount, the impairment loss is allocated first by reducing the carrying amount of any goodwill allocated to the cash generating unit, and then to the remaining assets on a pro rata basis depending on the carrying amounts of each one of the assets of the unit. Any goodwill impairment loss is recognized against the consolidated profit or loss of the period in which it is produced. An impairment loss recognized in the acquired goodwill is not reversed in subsequent periods.

K. Non-current held-for-sale assets

Non-current held-for-sale assets presented in the consolidated statement of financial position as 'other assets' are measured at the lower of carrying amount and fair value less selling costs. Non-current assets are classified as held-for-sale when the asset is available for immediate sale and its sale is highly probable, the appropriate level of management must be committed to a plan to sell the asset, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

L. Borrowings and financial obligations

Borrowings and financial obligations are financial liabilities recorded at amortized cost using the effective interest rate method. The amortized cost is calculated considering any discount or issuance premium. Costs that are an integral part of the effective interest rate are amortized during the effective period of the related liabilities. Accrued interest is recognized in the consolidated statement of income.

Borrowings and financial obligations are classified as financial liabilities at fair value through profit or loss when they are held for trading, or when they have been designated upon initial recognition to be measured at fair value through profit or loss.

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

- If it is principally sold for the purpose of repurchasing it in the near term.

- If it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

- If it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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

- If, by doing so, the Bank eliminates or significantly reduces any measurement or recognition inconsistency.

- If the financial liabilities are part of a group of financial assets, a group of financial liabilities, or both, which are managed and assessed on a fair value basis, in accordance with a documented risk management or investment strategy of the Bank, and information about the group is provided internally on that basis.

- If the financial liabilities are part of a contract containing one or more embedded derivatives, and IAS 39 allows the entity to designate the entire hybrid contract (combined) as a financial asset or financial liability at fair value through profit or loss.

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

M. Employee benefits

Short-term employee benefits

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

Severance payment (CTS for its Spanish acronym)
The provision for severance payment of staff is made considering all the indemnities according to the law in force. Payments made, that are considered definitive, are mainly deposited in the Bank as the financial entity selected by the employees.

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

Profit sharing
The Bank recognizes a liability and an expense for staff based on 5% of taxable base determined according to the current tax legislation.

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

N. Share-based payment transactions

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

- Concerning the annual variable remuneration, 60% is paid in the year following the year to which the remuneration corresponds, during the first quarter of the year; 50% being paid in cash and the other 50% being paid in parent company's shares at the market price ruling on the settlement day.

- The outstanding balance of variable compensation is deferred for 3 years; 50% being paid in cash and the other 50%, in shares.

- In addition, the Bank establishes assumptions that could limit or prevent, in certain cases, the delivery of the deferred variable remuneration.

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

The settlement of the variable remuneration is made in the first months of the following year. As of December 31, 2019 and 2018, Management's estimate of deferred variable compensation is S/ 8 million.

O. Provisions, contingent assets and liabilities

(i) Provisions

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

(ii) Contingent assets and liabilities

Contingent assets are not recognized in the consolidated financial statements, but are only disclosed in the notes to the consolidated financial statements when an inflow of economic benefits has become probable.

Contingent liabilities are not recognized in the consolidated financial statements; they are disclosed in notes to the financial statements unless the possibility of an outflow of economic benefits is remote.

P. Income tax

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

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

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

Q. Income and expense recognition

Interest income and expense and service commissions are recognized in profit or loss for the year as accrued, based on the timing of the operations that generate them.

Interest generated by past due, refinanced, restructured and under judicial collection loans, as well as loans classified under the Doubtful and Loss categories, are recognized in the consolidated statement of income when they are collected. When it is considered that the financial position of the debtor has improved and that the doubt about the collectibility of the principal has dissipated, the recording on accrual basis is restated.

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

R. Basic and diluted earnings per share

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

S. Repurchase transactions

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

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

As of December 31, 2019 and 2018, the Bank conducts reporting transactions of securities and currencies (notes 5 and 6).

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

The consolidated statement of income and other comprehensive income includes unrealized gains and losses resulting from the valuation of available-for-sale investments, modifications of premises related to actuarial liabilities, and valuation of cash flow hedging derivatives. Deferred tax related to those items is treated according to their corresponding note (note 3.P).

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

U. Cash and cash equivalents

Cash and cash equivalents presented in the consolidated statement of cash flows include cash and due from banks (excluding funds pledged as collateral), interbank funds, as well as cash equivalents that correspond to short-term and highly liquid financial investments. These investments are easily converted into cash and are subject to an insignificant risk of changes in value. They have maturity of less than 90 days as from the acquisition date. As set out by SBS, the Bank prepares and presents this statement by using the indirect method.

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

V. Trust activities

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

W. Intermediation activities

Intermediation activities on behalf of third parties correspond to purchase-sale operations carried out in the stock market and over-the-counter market under specific instructions given by customers to *Sociedad Agente de Bolsa*. In this type of operations, the customers transfer funds to *Sociedad Agente de Bolsa*, so that it can settle the operations according to the instructions of the customers. These funds are recorded as assets and liabilities in the consolidated statement of financial position.

X. Foreign currency transactions

Transactions in foreign currency are recorded upon initial recognition by using the functional currency. For that purpose, the amounts in foreign currency are translated into functional currency at the exchange rates at the dates of the transactions, which are the dates when all conditions for recognition are met.

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

- Monetary assets and liabilities are translated at the exchange rate corresponding to the closing date of the reporting period.

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

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

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

- The exchange difference arising when settling monetary assets and liabilities or converting such items at exchange rates different from those used in their initial recognition, which have been produced during the year or in previous periods, are recognized in profit or loss for the year in which they occur.

- When the profit or loss resulting from a non-monetary item is recognized in other comprehensive income, any exchange difference should be recognized in 'other comprehensive income'.

- For non-monetary items, whose gain or loss is recognized in the profit or loss for the year, any exchange difference should be recognized in the profit or loss for the year.

Y. Fundamental errors

Fundamental errors in the preparation of the consolidated financial statements of previous years corrected in the current year are retrospectively recognized by restating the initial balances of the assets, liabilities, and equity accounts, as applicable. As of December 31, 2019 and 2018, no fundamental errors that imply the restatement of the consolidated financial statements were reported.

4. Balances in Foreign Currency

The consolidated statement of financial position includes balances of foreign currency transactions, mainly in US dollars (US$), which are recorded in soles (S/) at the exchange rate established by SBS. As of December 31, 2019 and 2018, the exchange rate was US$ 1 = S/ 3.314 and US$ 1 = S/ 3.373, respectively.

Foreign currency transactions within the country and international trade transactions referred to the concepts authorized by Central Reserve Bank of Peru (BCRP for its Spanish acronym) are channeled through an interbank foreign exchange market. As of December 31, 2019, the buy and sell exchange rates used were US$ 1 = S/ 3.311 and US$ 1 = S/ 3.317, respectively (US$ 1 = S/ 3.369 buy and US$ 1 = S/ 3.379 sell, as of December 31, 2018).

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

	2019			**2018**		
In thousands of US dollars	**US dollars**	**Other currencies**	**Total**	**US dollars**	**Other currencies**	**Total**
Assets						
Cash and due from banks	3,369,079	51,194	3,420,273	2,917,118	162,333	3,079,451
Interbank funds	45,002	-	45,002	-	-	-
Investments at fair value through profit or loss and available-for-sale	242,063	-	242,063	131,666	-	131,666
Loan portfolio	5,436,511	1,686	5,438,197	5,093,853	1,286	5,095,139
Other assets	302,813	17,513	320,326	133,781	22,970	156,751
	9,395,468	**70,393**	**9,465,861**	**8,276,418**	**186,589**	**8,463,007**
Liabilities						
Obligations to the public and deposits from financial system entities	7,123,878	60,805	7,184,683	6,101,483	133,896	6,235,379
Interbank funds	-	-	-	-	-	-
Borrowings and financial obligations	2,011,361	-	2,011,361	2,131,294	2	2,131,296
Provisions and other liabilities	112,123	18,354	130,477	180,457	12,544	193,001
	9,247,362	**79,159**	**9,326,521**	**8,413,234**	**146,442**	**8,559,676**
Net asset (liability) position	**148,106**	**(8,766)**	**139,340**	**(136,816)**	**40,147**	**(96,669)**
Derivative financial assets	3,934,152	286,569	4,220,721	2,766,213	106,686	2,872,899
Derivative financial liabilities	3,970,620	286,354	4,256,974	2,597,322	154,803	2,752,125
Net position	**111,638**	**(8,551)**	**103,087**	**32,075**	**(7,970)**	**24,105**

In years 2019 and 2018, net gains from foreign exchange differences amounting to S/ 569 million and S/ 493 million, respectively, were recorded under 'profit or loss from financial operations' in the consolidated statement of income. They correspond to the valuation of exchange positions, as well as purchase and sale operations of foreign currency (note 20).

The percentage variation of the exchange rate (*sol* in relation to the US dollar) was -1.75% and 4.07% for the years 2019 and 2018, respectively.

5. Cash and Due from Banks

As of December 31, this caption comprises the following:

In thousands of soles	**2019**	**2018**
Cash (a)	2,625,449	2,573,620
Central Reserve Bank of Peru (a)	6,256,301	5,851,447
Banks and other local financial entities (b)	1,319,428	500,600
Banks and other foreign financial entities (b)	2,313,270	2,698,163
Clearing	45,005	102,545
BCRP funds pledged as collateral (c)	2,223,584	860,783
Other funds pledged as collateral (d)	33,173	347,595
Other cash and due from banks	499	188
	14,816,709	**12,934,941**

(a) As of December 31, 2019, funds held in cash and in BCRP include US$ 2,026 million and S/ 1,707 million (US$ 1,904 million and S/ 1,649 million as of December 31, 2018) destined to cover the legal reserves that the Bank shall reserve for deposits and obligations assumed according to the current provisions. These funds are in the Bank's vaults or deposited in the BCRP.

As of December 31, 2019 and 2018, the funds destined to legal reserves in local and foreign currency are subject to a rate of 5% and 35%, respectively, on the total of obligations subject to legal reserves (TOSE for its Spanish acronym) as per the BCRP.

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

(b) As of December 31, 2019 and 2018, deposits in local and foreign banks mainly comprise balances in soles and in US dollars, as well as other currencies in smaller balances, which have free withdrawal option and bear interest at market rates.

(c) As of December 31, 2019, this item corresponds to funds pledged as collateral supporting currency repurchase agreements with the BCRP for US$ 671 million (US$ 255 million as of December 31, 2018) (note 14(a)).

(d) As of December 31, 2019, it mainly corresponds to commitments with foreign financial institutions for transactions with derivative financial instruments for S/ 27 million (S/ 342 million as of December 31, 2018) and rental deposits for S/ 5 million (S/ 4.5 million as of December 31, 2018).

During 2019 and 2018, interest income from cash and due from banks amounted to S/ 148 million and S/ 64 million, respectively, and was disclosed in 'interest income' in the consolidated statement of income (note 17).

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

As of December 31, this caption comprises the following:

In thousands of soles	**2019**	**2018**
Investments at fair value through profit or loss:		
BCRP deposit certificates (a)	2,371,433	2,643,161
Bonds of the Peruvian Public Treasury (b)	297,690	319,160
Investments in mutual funds (d)	26,331	39,007
	2,695,454	**3,001,328**
Available-for-sale investments:		
BCRP certificates of deposits (a)	1,831,273	2,009,549
Bonds of the Peruvian Public Treasury (b) / (c)	1,470,316	1,148,839
US Treasury bills (c)	496,661	167,868
Corporate bonds (c)	117,312	174,447
Shares in local companies (e)	27,818	37,033
Shares in foreign companies	1,010	1,010
	3,944,390	**3,538,746**
	6,639,844	**6,540,074**

(a) Certificates of Deposits issued by the BCRP are freely negotiable securities; they were awarded through BCRP public bid or traded in the Peruvian secondary market. As of December 31, 2019, the Bank has committed S/ 983 million from the balance of these instruments in repurchase transactions (note 14(a)).

As of December 31, 2019, these instruments have maturities until in February 2021 (as of December 31, 2018, maturities until August 2019), and the annual return in local currency generated by these certificates fluctuates between 2.04% and 2.47% (between 2.52% and 2.78% in local currency and 1.60% in foreign currency as of December 31, 2018).

(b) The bonds of the Peruvian Public Treasury include sovereign bonds of the Republic of Peru in local currency for S/ 1,559 million (S/ 1,346 million as of December 31, 2018) and a global bond in foreign currency equivalent to S/ 209 million (S/ 122 million as of December 31, 2018), both issued by the Peruvian Ministry of Economy and Finance (MEF) representing internal public debt instruments of the Republic of Peru. As of December 31, 2019, the Bank has committed S/ 457 million from the balance of these instruments to repurchase transactions (S/ 526 million as of December 31, 2018).

As of December 31, 2019, these bonds accrue interest at annual rates in local currency ranging from 1.08 % to 5.42 % (from 1.50% to 6.50% as of December 31, 2018) and an annual rate of 2.91 % in foreign currency (annual rate of 0.66% as of December 31, 2018). As of December 31, 2019 and 2018, these bonds in local currency have maturities until February 2055 in both periods; in foreign currency they have maturities until July 2025 and March 2019, respectively

(c) As of December 31, 2019, a portion of the sovereign bonds and bills of exchange of the US Treasury in foreign currency have a cash flow hedge (note 8 (ii)).

(d) As of December 31, 2019 and 2018, it corresponds to the shares held by Inmuebles y Recuperaciones BBVA S.A. in the various funds managed by BBVA Asset Management S.A. SAF.

(e) As of December 31, 2019 and 2018, it mainly includes shares of the Lima Stock Exchange (BVL for its Spanish acronym) for S/ 27 million and S/ 36 million, respectively.

As of December 31, 2019 and 2018, the accrued interest of the investment portfolio amounts to S/ 211 million and S/ 223 million, respectively (note 17).

7. Loan Portfolio, Net

As of December 31, this caption comprises the following:

In thousands of soles	2019		2018	
Direct loans:				
Borrowings	20,251,280	36%	18,785,579	36%
Mortgage	12,847,424	23%	12,301,459	24%
Consumer	6,700,410	12%	5,985,749	12%
Foreign trade	5,535,077	10%	5,420,179	10%
Finance lease	3,986,476	7%	4,240,729	8%
Project finance	1,716,350	3%	379,653	1%
Factoring	1,492,391	3%	1,279,515	2%
Discounts	1,186,831	2%	1,230,118	2%
Other	2,247,844	4%	2,062,084	5%
	55,964,083	**100%**	**51,685,065**	**100%**
Past due loans and under judicial collection	1,793,133	2%	1,607,406	2%
Refinanced loans	1,248,536	2%	1,087,051	2%
	59,005,752	**104%**	**54,379,522**	**104%**
Plus (Iminus):				
Accrued interest on performing loans	362,568	1%	321,095	1%
Non-accrued interest	(63,032)	-	(55,288)	-
Provision for direct loan losses	(2,907,009)	(5%)	(2,630,194)	(5%)
	56,398,279	**100%**	**52,015,135**	**100%**
Contingent loans	**16,607,497**		**15,477,765**	

As of December 31, 2019 and 2018, 51% of the direct loan portfolio is concentrated in 2,313 and 2,156 customers, equivalent to S/ 30,648 million and S/ 27,914 million, respectively.

Direct loans are secured by guarantees received from customers, mainly composed by mortgages, deposits, letters of guarantee, guarantees, and warrants, amounting to S/ 41,285 million as of December 31, 2019 (S/ 37,184 million as of December 31, 2018).

As of December 31, 2019, part of the mortgage loan portfolio guarantees a debt with Fondo MIVIVIENDA S.A. (housing and credit program) up to S/ 453 million (S/ 460 million as of December 31, 2018) (note 13(b)).

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

	2019		2018	
Type of transaction (%)	**Local currency**	**Foreign currency**	**Local currency**	**Foreign currency**
Loans and discounts	7.21	5.19	7.70	5.69
Mortgage	7.52	6.49	7.78	6.84
Consumer	23.57	28.07	25.50	29.45

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

In thousands of soles	**2019**		**2018**	
Mortgage loans	13,384,264	23%	12,765,478	24%
Corporate loans	13,231,810	22%	10,177,388	19%
Medium business loans	11,537,013	20%	12,046,296	22%
Large business loans	9,910,587	17%	9,987,938	18%
Consumer loans	6,959,035	12%	6,183,591	11%
Small business loans	1,752,997	3%	1,411,110	3%
Public sector entities	926,515	2%	918,006	2%
Financial system entities	806,950	1%	536,245	1%
Securities brokers	331,300	-	183,874	-
Micro business	107,280	-	92,595	-
Multilateral development banks	58,001	-	77,001	-
	59,005,752	**100%**	**54,379,522**	**100%**

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

	2019						2018					
In thousands of soles	**Direct**	**%**	**Contingent**	**%**	**Total**	**%**	**Direct**	**%**	**Contingent**	**%**	**Total**	**%**
Risk category												
Standard	54,440,658	92	15,809,430	96	70,250,088	93	50,202,875	92	14,622,185	95	64,825,060	93
With potential problems	1,170,438	2	318,155	2	1,488,593	2	1,134,794	3	196,103	1	1,330,897	2
Substandard	938,551	2	392,589	2	1,331,140	2	849,047	2	581,275	4	1,430,322	2
Doubtful	874,345	1	38,165	-	912,510	1	789,043	1	40,975	-	830,018	1
Loss	1,518,728	3	49,158	-	1,567,886	2	1,348,475	2	37,227	-	1,385,702	2
	58,942,720	**100**	**16,607,497**	**100**	**75,550,217**	**100**	**54,324,234**	**100**	**15,477,765**	**100**	**69,801,999**	**100**
Non-accrued interest	63,032		-		63,032		55,288		-		55,288	
	59,005,752		**16,607,497**		**75,613,249**		**54,379,522**		**15,477,765**		**69,857,287**	

In 2019, the BBVA Peru Group forgave loan operations for S/ 66 million, comprising capital, interest and fees (S/ 60 million in 2018).

The movement in the provision for direct loan losses is detailed below:

In thousands of soles	**2019**	**2018**
Balance as of January 1	2,630,194	2,361,469
Additions debited to profit or loss	1,685,206	1,705,241
Recovery of provisions	(923,471)	(961,057)
Portfolio sale	(378,969)	(523,229)
Write-off	(96,166)	(2,907)
Foreign exchange differences and other adjustments	(9,785)	50,677
Balance as of December 31	**2,907,009**	**2,630,194**

Provision for direct loan losses, net, shown in the consolidated statement of income, is as follows:

In thousands of soles	**2019**	**2018**
Provision for direct loan losses	1,685,206	1,705,241
Recovery of provisions	(923,471)	(961,057)
Income from portfolio recovery	(3,861)	(65)
Provisions for loan losses, net of recoveries	**757,874**	**744,119**

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

As of December 31, 2019, the generic provision for loan portfolio includes general voluntary and procyclical provisions of S/ 570 million (S/ 565 million as of December 31, 2018).

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

As of December 31, 2019, the BBVA Peru Group wrote off impaired loan portfolio of S/ 96 million (as of December 31, 2018, it amounted to S/ 3 million).

In 2019, the BBVA Peru Group sold loan portfolio of S/ 332 million (S/ 242 million during 2018). The selling value amounted to S/ 21 million (S/ 25 million in year 2018) and is disclosed in 'profit or loss from financial operations' of the consolidated statement of income.

8. Trading and Hedging Derivatives

As of December 31, 2019 and 2018, the BBVA Peru Group - through the Bank - holds agreements related to foreign currency forwards, cross currency swaps (CCS), interest rate swaps (IRS), and options. As of December 31, the changes in fair value of these derivative financial instruments are recorded as accounts receivable (assets) or accounts payable (liabilities).

In thousands of soles	***Note***	**Underlying**	**Face value**	**Assets**	**Liabilities**
2019					
Trading derivatives					
Currency forwards			18,997,442	145,334	148,048
Interest rate swaps			8,279,557	111,093	102,770
Cross currency swaps			6,287,069	302,746	224,063
Share, currency and other options			1,167,909	16,053	16,053
Provision for country risk			-	(7,540)	-
			34,731,977	**567,686**	**490,934**
Hedging derivatives	*6 and 13*				
At fair value (i)					
Interest rate swaps		Bond issuance	2,651,200	-	7,986
Interest rate swaps		Borrowings	1,242,750	-	5,888
Cash flows (ii)					
Interest rate swaps		Borrowings	47,343	134	-
Cross currency swaps		Borrowings	331,400	-	1,784
Cross currency swaps		2025 global bond	99,420	-	4,119
Currency forwards		Time deposits	351,313	67	-
Currency forwards		US Treasury bill	198,840	4,410	-
			4,922,266	**4,611**	**19,777**
			39,654,243	**572,297**	**510,711**

In thousands of soles	***Note***	**Underlying**	**Face value**	**Assets**	**Liabilities**
2018					
Trading derivatives					
Currency forwards			12,667,235	53,911	49,556
Interest rate swaps			5,567,032	66,980	41,368
Cross currency swaps			4,908,918	335,101	251,091
Share, currency and other options			1,700,511	6,744	6,744
Provision for country risk			-	(4,860)	-
			24,843,696	**457,876**	**348,759**
Hedging derivatives	*6 and 13*				
At fair value (i)					
Cross currency swaps		Bond issuance	254,469	-	55,159
Interest rate swaps		Bond issuance	2,698,400	-	102,039
Interest rate swaps		Borrowings	1,298,605	-	33,000
Cash flows (ii)					
Interest rate swaps		Borrowings	67,460	1,439	-
Cross currency swaps		2019 global bond	118,055	-	3,767
Cross currency swaps		Corporate bonds	33,730	-	1,075
Currency forwards		Corporate bonds	15,114	-	278
Currency forwards		US Treasury bill	170,560	-	2,174
			4,656,393	**1,439**	**197,492**
			29,500,089	**459,315**	**546,251**

(i) Hedging derivatives at fair value

Interest Rate Swap (IRS)
As of December 31, 2019, the Bank has contracted IRS for a face value equivalent to S/ 3,894 million in order to hedge debts and bond issuance (S/ 3,997 million as of December 31, 2018). Through the IRSs, the Bank receives interest at a fixed rate in US dollars and pays interest at a floating rate in the same currency. In 2019, the variation in the fair value of the IRSs resulted in a gain of S/ 120 million, which is included in 'Profit or loss from financial transactions' in the consolidated statement of income (loss of S/ 21 million in 2018).

Cross currency swaps - CCS
As of December 31, 2018, the Bank has contracted a CCS (face value of S/ 254 million) for fair value hedging of issued bonds, which matured in April 2019). Through the CCS, the Bank converts its fixed-rate bond issuance in local currency to a variable-rate in US dollars. In 2019, the variation in the fair value of the CCS resulted in a gain of S/ 0.1 million, which is included in 'Profit or loss from financial transactions' in the consolidated statement of income (gain of S/ 1 million in 2018).

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

Hedged item	Hedging instrument	Face value of hedging instrument, stated in thousands of S/		Fair value of hedging instrument, stated in thousands of S/	
		2019	2018	2019	2018
Fair value hedges		**3,893,950**	**4,251,474**	**(13,874)**	**(190,198)**
First international corporate bond issuance for US$ 500 million (note 13 (d))	***Interest rate swap (IRS)*** The Bank receives fixed interest and pays floating interest.	1,657,000	1,686,500	(3,459)	(53,122)
Borrowing from Deutsche Bank for US$ 350 million (note 13 (a))	***Interest rate swap (IRS)*** The Bank receives fixed interest and pays floating interest.	1,159,900	1,180,550	(5,280)	(29,927)
First international subordinated bond issuance for US$ 300 million (note 13 (d))	***Interest rate swap (IRS)*** The Bank receives fixed interest and pays floating interest.	994,200	1,011,900	(4,527)	(48,917)
Borrowing from Wells Fargo for US$ 25 million (note 13 (a))	***Interest rate swap (IRS)*** The Bank receives fixed interest and pays floating interest.	82,850	118,055	(608)	(3,073)
Fifth issuance - Fifth corporate bond program for S/ 200 million	***Cross currency swap (CCS)*** The Bank receives cash flows in soles at a fixed interest rate and pays cash flows in US dollars at a floating interest rate.	-	254,469	-	(55,159)

(ii) Cash flow hedging derivatives

Interest Rate Swap (IRS)
As of December 31, 2019, the Bank has contracted IRS (face value equivalent to S/ 47 million) in order to hedge borrowings (S/ 67 million as of December 31, 2018). Through the IRS, the Bank receives interest at a floating rate in US dollars and pays interest at a fixed rate in the same currency. During 2019, the variation in the fair value of this IRS amounts to S/ 0.1 million of profit, recorded in equity accounts net of its deferred income tax (S/ 1 million net profit from its deferred income tax of in the year 2018).

Cross currency swaps - CCS
As of December 31, 2019, the Bank has contracted CCS (face value equivalent to S/ 431 million) in order to hedge bonds accounted for as available-for-sale investments and borrowings (US$ 30 million of a global bond and US$ 100 million of a borrowing). Through the CSS of the global bonds, the Bank receives interest at a fixed rate in soles and pays interest at a fixed rate in US dollars. Through the CSS for the borrowing, the Bank receives interest at a fixed rate in US dollars and pays interest at a fixed rate in soles.

As of December 31, 2018, the Bank has contracted CCS (face value equivalent to S/ 152 million) for the hedging of bonds accounted for as available-for-sale investments (US$ 35 million of global bonds and US$ 10 million of a corporate bond). Through the CCS, the Bank receives interest at a fixed rate in soles and pays interest at a fixed rate in US dollars.

During 2019, the variation in the fair value of this CCS amounts to a loss of S/ 3.5 million, recorded in equity accounts, net of its deferred tax (loss of S/ 3.7 million net of deferred tax as of December 31, 2018).

Currency forwards
As of December 31, 2019, the Bank has contracted currency forwards (face value equivalent to S/ 550 million) for hedging of debt instruments accounted for as available-for-sale investments and a time deposit (US$ 60 million of US Treasury bills and US$ 106 million of a time deposit). Through the currency forward of the US Treasury bills, the Bank receives a future flow in soles and pays a future flow in US dollars; and through the currency forward of the time deposit, the Bank receives a future flow in US dollars and pays a future flow in soles.

As of December 31, 2018, the Bank has contracted currency forwards (face value equivalent to S/ 186 million) for hedging of bonds accounted for as available-for-sale investments (US$ 4 million of corporate bonds and US$ 51 million of US Treasury bills). The Bank receives interest at fixed rate in soles and pays interest at fixed rate in US dollars.

During 2019, the variation in the fair value of this currency forwards amounts to a loss of S/ 1 million, recorded in equity accounts net of its deferred tax (a loss of S/ 2.3 million net of its deferred tax during year 2018).

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

Hedged item	Hedging instrument	Face value of hedging instrument, stated in thousands of S/		Fair value of hedging instrument, stated in thousands of S/	
		2019	2018	2019	2018
Cash flow hedges		**1,028,316**	**404,919**	**(1,292)**	**(5,855)**
Borrowing from Standard Chartered for US$ 14 million (note 13 (a))	***Interest rate swap (IRS)*** The Bank receives floating interest and pays fixed interest.	47,343	67,460	134	1,439
Borrowing from Wells Fargo for US$ 100 million (note 13 (a))	***Cross currency swap (CCS)*** The Bank receives fixed interest in US dollars and pays fixed interest in soles.	331,400	-	(1,784)	-
Global bonds for US$ 30 million (note 6 (c))	***Cross currency swap (CCS)*** The Bank receives fixed interest in soles and pays fixed interest in US dollars.	99,420	-	(4,119)	-
Time deposits for US$ 106 million (note 12)	***Forward currency*** The Bank receives a future flow in US dollars and pays a future flow in soles	351,313	-	67	-
US Treasury bills for US$ 60 million (note 6 (c))	***Forward currency*** The Bank receives a future flow in soles and pays a future flow in US dollars	198,840	-	4,410	-
Global bonds for US$ 35 million	***Cross currency swap (CCS)*** The Bank receives fixed interest in soles and pays fixed interest in US dollars.	-	118,055	-	(3,767)
Corporate bonds for US$ 10 million	***Cross currency swap (CCS)*** The Bank receives fixed interest in soles and pays fixed interest in US dollars.	-	33,730	-	(1,075)
US Treasury bills of exchange for US$ 51 million	***Forward currency*** The Bank receives fixed interest in soles and pays fixed interest in US dollars.	-	170,560	-	(2,174)
Corporate bonds for US$ 4 million	***Forward currency*** The Bank receives fixed interest in soles and pays fixed interest in US dollars.	-	15,114	-	(278)

9. Associates

As of December 31, this caption comprises the following:

In thousands of soles	2019	2018
Compañía Peruana de Medios de Pago S.A.C. (a)	11,070	9,487
TFP S.A.C. (b)	4,532	4,271
	15,602	**13,758**

(a) As of December 31, 2019 and 2018, BBVA Peru Group, through the Bank, holds a 21.03% interest in the share capital of Compañía Peruana de Medios de Pago S.A.C. (VisaNet Peru) (20.96% as of December 31, 2018).

(b) As of December 31, 2019 and 2018, BBVA Peru Group, through the Bank, holds a 24.30% interest in the share capital of TFP S.A.C.

10. Property, Furniture, and Equipment, Net

The movement in property, furniture, and equipment and accumulated depreciation in 2019 and 2018 is as follows:

In thousands of soles	**Land**	**Buildings and facilities**	**Furniture and equipment**	**Vehicles**	**Premises and improvements in leased properties**	**Work-in-progress**	**Units in transit and replacing units**	**Total**
Cost								
Balance as of January 1, 2018	120,485	841,926	624,729	8,581	252,291	68,486	255	1,916,753
Additions	-	10,373	64,775	664	3,942	72,076	36	151,866
Disposal through sale	(2,189)	(2,261)	(1,183)	-	-	-	-	(5,633)
Derecognition of assets and others	(72)	(3,265)	(24,732)	(680)	(1,093)	-	-	(29,842)
Transfers	-	6,167	7,470	-	8,768	(22,405)	-	-
As of December 31, 2018	**118,224**	**852,940**	**671,059**	**8,565**	**263,908**	**118,157**	**291**	**2,033,144**
Additions	-	8,267	55,102	-	1	93,690	-	157,060
Disposal through sale	-	-	(8)	-	-	-	-	(8)
Derecognition of assets and others	-	(236)	(11,222)	(477)	-	-	(36)	(11,971)
Transfers	-	109,809	17,422	-	(509)	(126,722)	-	-
As of December 31, 2019	**118,224**	**970,780**	**732,353**	**8,088**	**263,400**	**85,125**	**255**	**2,178,225**
Depreciation								
Balance as of January 1, 2018	-	**494,949**	**360,405**	**6,255**	**131,820**	-	-	**993,429**
Additions	-	36,117	62,486	781	23,552	-	-	122,936
Disposal through sale	-	(1,693)	(128)	-	-	-	-	(1,821)
Impairment	-	-	-	-	5,220	-	-	5,220
Derecognition of assets and others	-	(1,902)	(24,195)	(680)	(19)	-	-	(26,796)
As of December 31, 2018	-	**527,471**	**398,568**	**6,356**	**160,573**	-	-	**1,092,968**
Additions	-	34,600	68,285	760	5,701	-	-	109,346
Disposal through sale	-	-	(8)	-	-	-	-	(8)
Impairment	-	-	-	-	854	-	-	854
Derecognition of assets and others	-	(4)	(12,558)	(477)	-	-	-	(13,039)
Transfers	-	1,493	-	-	(1,493)	-	-	-
As of December 31, 2019	-	**563,560**	**454,287**	**6,639**	**165,635**	-	-	**1,190,121**
Net cost								
Balance as of December 31, 2019	**118,224**	**407,220**	**278,066**	**1,449**	**97,765**	**85,125**	**255**	**988,104**
Balance as of December 31, 2018	**118,224**	**325,469**	**272,491**	**2,209**	**103,335**	**118,157**	**291**	**940,176**

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

11. Other Assets, Net

As of December 31, this caption comprises the following:

In thousands of soles	2019	2018
Transactions in progress (a)	1,045,503	944,090
Intangible assets, net of amortization	287,362	290,665
Prepaid expenses (b)	162,033	121,792
Other accounts receivable	34,816	34,879
Tax credit	30,699	42,240
Accounts receivable for the sale of goods, services, and trust	7,117	4,927
Other	2,381	21,563
	1,569,911	**1,460,156**

(a) Transactions in progress are transactions carried out principally during the last days of the month and are reclassified in the following month to their definitive accounts in the consolidated statement of financial position. These transactions do not affect the profit or loss of BBVA Peru Group. As of December 31, 2019, it mainly comprises treasury operations: i) purchase and sale of coins for S/ 873 million (S/ 431 million as of December 31, 2018), and ii) sale of securities for S/ 136 million (S/ 474 million as of December 31, 2018), respectively.

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

Goodwill

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

The acquisition value of the entities was S/ 105 millions. The equity of entities acquired as of March 31, 2016 was S/ 100 millions.

The goodwill of S/ 5 million is the highest value paid on the carrying amounts of entities acquired and corresponds to the expected value of the acquired business.

As of December 31, 2019, the Bank has evaluated the recoverable value of the cash generating units it holds, and has recognized a provision for impairment of goodwill of S/ 4 million.

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

As of December 31, this caption comprises the following:

In thousands of soles	2019	2018
Obligations to the public		
Time deposits	18,913,066	14,548,264
Demand deposits	18,404,285	18,134,256
Savings deposits	17,239,084	16,189,450
Other obligations	103,543	74,510
	54,659,978	**48,946,480**
Deposits from financial system entities		
Time deposits	1,094,989	945,737
Demand liabilities	353,260	875,277
Savings deposits	51,056	240,029
	1,499,305	**2,061,043**
	56,159,283	**51,007,523**

As of December 31, 2019, one of the time deposits from customers for US$ 106 million has an accounting hedge through a currency forward (note 8 (ii)).

As of December 31, 2019 and 2018, obligations to the public include deposits received as guarantee for direct and contingent loans for S/ 776 million and S/ 782 million, respectively.

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

	2019		2018	
%	Local currency	Foreign currency	Local currency	Foreign currency
Checking accounts	0.00 – 0.25	0.00 – 0.125	0.00 – 0.25	0.00 – 0.125
Savings deposits	0.00 – 0.50	0.00 – 0.125	0.00 – 0.50	0.10 – 0.25
Time deposits and bank certificates	0.80 – 1.35	0.10 – 0.50	0.80 – 1.35	0.10 – 0.80
'Super depósito' bank account	0.80 – 1.35	0.10 – 0.50	0.80 – 1.35	0.10 – 0.25
Severance payment	1.50 – 2.50	0.60 – 1.75	1.50 – 2.50	0.60 – 1.10

13. Borrowings and Financial Obligations

As of December 31, this caption comprises the following:

In thousands of soles	2019	2018
Borrowings and financial obligations		
Foreign financial entities (a)	2,980,024	3,702,640
Local financial system entities (b)	539,802	517,577
Foreign financial agencies (c)	331,400	337,300
Corporación Financiera de Desarrollo - COFIDE (Development Finance Corporation)	8,070	9,689
Accrued interest payable	27,524	25,353
	3,886,820	**4,592,559**
Securities and bonds (d):		
Corporate bonds	3,306,077	3,303,926
Subordinated bonds	1,589,292	1,561,330
Finance lease bonds	358,000	563,100
Negotiable certificates of deposit	332,359	92,923
Notes (debt instruments)	129,635	182,497
Accrued interest payable	76,613	74,626
	5,791,976	**5,778,402**
	9,678,796	**10,370,961**

Certain loan contracts include standard clauses regarding compliance with financial ratios, use of funds and other administrative matters. In management's opinion, as of December 31, 2019 and 2018, these clauses are being adequately complied with and do not represent any restriction on the operations of the BBVA Peru Group.

(a) As of December 31, 2019, BBVA Peru Group's borrowings with foreign financial institutions accrued interest at annual average rates ranging from LIBOR + 0.35% to 7.4% (from 0.4% to 7.4% as of December 31, 2018).

	2019		2018		
In thousands	**US$**	**S/**	**US$**	**S/**	**Maturity**
Deutsche Bank (i)	348,328	1,154,357	341,043	1,150,338	November 2020
Credit Suisse (ii)	200,000	662,800	200,000	674,600	October 2040
Citibank NY	150,000	497,100	50,000	168,650	February 2020 and November 2021
ICO - Instituto de crédito	100,895	334,367	63,000	212,499	December 2021, April 2022 and August 2022
Wells Fargo Bank	100,000	331,400	100,000	337,300	May 2022
Standard Chartered	-	-	200,000	674,600	January 2019 and February 2019
Sumitomo Bank, NY	-	-	100,000	337,300	May 2019
Other	-	-	43,686	147,353	January 2019
	899,223	**2,980,024**	**1,097,729**	**3,702,640**	
Accrued interest payable	7,380	24,457	6,886	23,225	
	906,603	**3,004,481**	**1,104,615**	**3,725,865**	

(i) Loan with a nominal amount of US$ 350 million which accrues interest at an annual fixed rate of 5.50% and has maturity in November 2020. As of December 31, 2019 and 2018, this loan is hedged throught an IRS, which resulted in accrued gains of S/ 4 million and S/ 28 million, respectively (note 8(i)).

(ii) It corresponds to a subordinated loan in foreign currency arranged at 7.38% annual interest rate. Pursuant to Resolution SBS 975-2016, this loan is considered as Tier 1 Regulatory Capital, complying with the adequacy period established by the Subordinated Debt Regulation, effective February 2016.

(b) As of December 31, 2019, these debts mainly include resources obtained for the MI VIVIENDA - MI HOGAR housing program for S/ 448 million in local currency and US$ 1 million in foreign currency (S/ 454 million in local currency and US$ 2 million in foreign currency as of December 31, 2018). As of December 31, 2019 and 2018, this loan has maturities until December 2039 and December 2036, respectively, and accrues interest at an annual effective rate of 7.75% in US dollars and 6.25% in soles on the principal plus the Constant Adjustment Index (VAC for its Spanish acronym) for both periods.

As of December 31, 2019 and 2018, borrowings with Fondo MIVIVIENDA S.A. are secured with the mortgage loan portfolio for up to S/ 453 million and S/ 460 million, respectively (note 7). These borrowings consider specific arrangements about how these funds should be used, financial conditions that the borrower shall meet, as well as other administrative matters.

(c) As of December 31, 2019 and 2018, it corresponds to a borrowing with Corporación Andina de Fomento for US$ 100 million, which generates interest at annual rates of 2.01% and 2.56%, respectively, and does not have specific guarantees.

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

Program	Authorized amount	Currency	Original amount placed	in thousands of S/ 2019	in thousands of S/ 2018	Maturity
Corporate bonds						
1st issuance, single series - Fourth program	US$ 100 million	PEN	40,000	40,000	40,000	August 2020
2nd issuance, series A - Fourth program		PEN	80,000	80,000	80,000	August 2020
2nd issuance, series A - Fifth program	US$ 250 million	PEN	150,000	150,000	150,000	December 2026
5th issuance, single series - Fifth program		PEN	200,000	-	199,527	April 2019
1st issuance, series A - Sixth program	US$ 250 million	PEN	150,000	-	150,000	April 2019
1st issuance, series B - Sixth program		PEN	100,000	-	100,000	April 2019
2nd issuance, series A - Sixth program		PEN	150,000	150,000	150,000	June 2021
3rd issuance, series A - Sixth program		PEN	350,000	350,000	350,000	November 2020
1st issuance, series A - Seventh program	US$ 1,000 million	PEN	132,425	132,425	132,425	June 2021
1st issuance, series B - Seventh program		PEN	69,435	69,435	69,435	June 2021
2nd issuance, series A - Seventh program		PEN	100,000	100,000	100,000	July 2023
2nd issuance, series B - Seventh program		PEN	73,465	73,293	74,854	August 2023
1st issuance, series C - Seventh program		PEN	70,000	70,000	70,000	September 2021
1st issuance, series D - Seventh program		PEN	120,000	120,000	-	July 2022
1st issuance, series E - Seventh program		PEN	65,520	65,520	-	August 2022
1st issuance, series F - Seventh program		PEN	150,000	150,000	-	October 2022
2nd issuance, series C - Seventh program		PEN	96,550	96,550	-	December 2024
1st program, international issuance (i)	US$ 500 million	USD	500,000	1,658,854	1,637,685	August 2022
				3,306,077	**3,303,926**	
Subordinated bonds						
2nd issuance, series A - First program	US$ 50 million or S/ 158.30 million	USD	20,000	66,030	67,180	May 2027
3rd issuance, series A - First program		PEN	55,000	79,959	78,478	June 2032
2nd issuance, series A - Second program	US$ 100 million	PEN	50,000	71,190	69,872	November 2032
3rd issuance, series A - Second program		USD	20,000	66,280	67,460	February 2028
4th issuance, single series - Second program		PEN	45,000	61,831	60,685	July 2023
5th issuance, single series - Second program		PEN	50,000	67,814	66,558	September 2023
6nd issuance, series A - Second program		PEN	30,000	39,987	39,247	December 2033
1st issuance, single series - Third program	US$ 55 million	USD	45,000	149,130	151,785	October 2028
1st program, international issuance - Single series (ii)	US$ 300 million	USD	300,000	987,071	960,065	September 2029
				1,589,292	**1,561,330**	
Finance lease bonds						
1st issuance, series A - Second program	US$ 250 million	PEN	158,000	158,000	158,000	December 2020
1st issuance, series B - Second program		PEN	205,100	-	205,100	October 2019
1st issuance, series C - Second program		PEN	200,000	200,000	200,000	January 2020
				358,000	**563,100**	
Negotiable certificates of deposit				**332,359**	**92,923**	
Notes (iii)						
2nd issuance - Series 2012-C and 2012-D	US$ 235 million	USD	235,000	129,635	182,497	June 2022
Accrued interest payable				**76,613**	**74,626**	
				5,791,976	**5,778,402**	

(i) In August 2012, the Bank issued corporate bonds in the international market for a nominal amount of US$ 500 million at an annual fixed interest rate of 5%, maturing in August 2022. The principal shall be fully paid upon maturity. Such issuance has a fair value hedged through an IRS, which has resulted in accumulated losses of S/ 2 million as of December 31, 2019 (retained earnings of S/ 49 million as of December 31, 2018).

(ii) In September 2014, the Bank issued subordinated bonds in the international market for a nominal amount of US$ 300 million at an annual fixed interest rate of 5.25%, maturing in September 2029. The principal shall be fully paid upon maturity. Such issuance has a fair value hedged through an IRS, which has resulted in retained earnings of S/ 2 million as of December 31, 2019 (retained earnings of S/ 46 million as of December 31, 2018).

(iii) The issuance of notes dated June 2012, whose balance is US$ 39 million as of December 31, 2019 (US$ 55 million as of December 31, 2018), comprises a financing of US$ 14 million, maturing in June 2022, with a cash flow hedge through an IRS (note 8(ii)). In addition, it includes financing of US$ 25 million at an annual fixed interest rate of 5%, maturing in June 2022, which has a fair value hedge through an IRS, resulting in retained earnings of S/ 0.5 million and S/ 3 million as of December 31, 2019 and 2018, respectively.

All financing is guaranteed by current and future flows generated by customers' electronic payment orders (Diversified Payments Rights - DPR). In addition, it is subject to compliance clauses based on the Bank's financial ratios and other specific terms related to the flows assigned which, in Management's opinion, have been fully complied with as of December 31, 2019 and 2018.

As of December 31, 2019, corporate bonds are unsecured and accrue interest at annual rates in local currency ranging from 4.10% to 7.50% and an annual rate of 5% in foreign currency (ranging from 4.40% to 7.50% in local currency and 5% in foreign currency as of December 31, 2018).

As of December 31, 2019 and 2018, subordinated bonds were issued according to the conditions set forth in the Banking Law and accrue interest at annual rates ranging from Constant Adjustment Index plus a spread to 5.6% in local currency and from 5.3% to 6.5% in foreign currency.

As of December 31, 2019 and 2018, finance lease bonds accrue interest at annual rates ranging from 4.60% to 6.00% in local currency, and are secured by loan transactions subject to finance lease that have been financed by such bonds.

As of December 31, 2019 and 2018, the BBVA Peru Group has accounts payable amounting to S/ 10 million and S/ 8 million, respectively, corresponding to deferred issuance costs.

14. Provisions and Other Liabilities

As of December 31, this caption comprises the following:

In thousands of soles	2019	2018
Accounts payable		
Repurchase agreements (a)	3,545,845	1,245,865
Accounts payable to suppliers	276,410	313,149
Dividends, profit sharing, and remunerations payable	134,086	112,811
Premiums to deposit insurance fund, contributions, and obligations with tax collection entities	128,329	121,976
Interest payable	68,766	28,377
Other accounts payable (b)	63,530	402,540
	4,216,966	**2,224,718**
Other liabilities		
Transactions in progress (c)	1,097,046	931,609
Deferred income and others	24,990	31,193
	1,122,036	**962,802**
Provisions		
Provision for indirect loans (d)	226,175	214,604
Provision for lawsuits, litigations, and other contingencies (e)	218,680	219,646
Other provisions	315,770	266,735
	760,625	**700,985**
	6,099,627	**3,888,505**

(a) It corresponds to the balance of obligations arising from foreign currency repurchase agreements, BCRP certificates of deposits, and Sovereign Bonds of the Republic of Peru, entered into with BCRP and Peruvian financial system entities (notes 5 and 6).

As of December 31, 2019, foreign currency repurchase agreements are subject to rates that fluctuate between 3.47% and 5.01% (between 3.37% and 5.01% as of December 31, 2018). As of December 31, 2019 and 2018, these operations have maturities until October 2020.

(b) As of December 31, 2018, it included S/ 355 million of funds received from a customer of BBVA Bolsa Sociedad Agente de Bolsa S.A. for a public offer of securities held in January 2019.

(c) Transactions in progress are mainly those carried out during the last days of the month and are reclassified to the definitive accounts of the consolidated statement of financial position one month later. These transactions do not affect BBVA Peru Group’s profit or loss. As of December 31, 2019, deposits in progress mainly include treasury transactions for S/ 1,028 million (S/ 845 million as of December 31, 2018).

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

In thousands of soles	2019	2018
Balance as of January 1	214,604	232,563
Provision	93,089	105,580
Recoveries and reversals	(77,882)	(124,727)
Foreign exchange differences and other adjustments	(3,636)	1,188
Balance as of December 31	**226,175**	**214,604**

As of December 31, 2019, the generic provision for indirect loan portfolio of S/ 118 million (S/ 100 million as of December 31, 2018) includes procyclical provisions of S/ 34 million S/ 35 million as of December 31, 2018).

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

15. Equity

A. Regulatory capital and legal limits

The Banking Law sets forth that the regulatory capital shall not be lower than 10% of the assets and contingent loans weighted by credit, market and operation risks, which are calculated by the Bank and EDPYME applying the standardized approach for calculating the amount of regulatory capital requirement for credit and market risks. In the case of operational risk, the Bank uses the alternative standardized approach, while the EDPYME uses the basic indicator approach.

As of December 31, 2019, on an individual basis, the regulatory capital of the Bank and EDPYME, determined according to the current regulatory provisions is S/ 10,776 million and S/ 85 million, respectively (S/ 9,989 million and S/ 79 million, respectively, as of December 31, 2018). The regulatory capital is used to calculate certain limits and restrictions applicable to all Peruvian Banks which, in Management's opinion, have been fully complied with.

As of December 31, 2019, the assets and contingent loans weighted by credit, market and operational risks of the Bank and EDPYME, in accordance with the current legal standards, amount to S/ 76,706 million and S/ 613 million, respectively (S/ 66,830 million and S/ 573 million, respectively, as of December 31,2018).

As of December 31, 2019, the aggregate capital ratio by credit, market and operational risk of the Bank and EDPYME is 14.05% and 13.82%, respectively (14.95% and 13.76%, respectively, as of December 31, 2018).

As of December 31, 2019, the additional regulatory capital requirement of the Bank and EDPYME amounts to S/ 1,604 million and S/ 9 million, respectively (S/ 1,425 million and S/ 9 million, respectively, as of December 31, 2018).

B. Share capital

As of December 31, 2019, the Bank's authorized, subscribed and fully paid-in share capital - in accordance with the Bank's by-laws and the respective amendments - is represented by 5,885,209 thousand outstanding common shares with a par value of one *sol* (S/ 1.00) each (5,368,602 thousand shares as of December 31, 2018).

At the Obligatory General Shareholders' Meetings, held on March 27, 2019 and March 28, 2018, an agreement was reached to increase the share capital by S/ 517 million and S/ 485 million, respectively, through the capitalization of retained earnings.

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

	2019		2018	
Interest	**Number of shareholders**	**Interest %**	**Number of shareholders**	**Interest %**
Up to 1	7,664	3.04	7,676	3.37
From 1.01 to 5	3	4.72	3	4.39
From 45.01 to 100	2	92.24	2	92.24
	7,669	**100.00**	**7,681**	**100.00**

C. Reserves

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

At Obligatory General Shareholders' Meetings, held on March 27, 2019 and March 28, 2018, an agreement was reached to make a legal reserve in an amount equivalent to 10% of profits for 2018 (S/ 148 million) and 2017 (S/139 million), respectively.

D. Adjustments to equity

As of December 31, 2019, they include S/ 36.3 million for unrealized gains on available-for-sale investments (S/ 0.1 million of unrealized losses as of December 31, 2018), S/ 4.4 million for unrealized losses arising from the valuation of cash flow hedging derivatives (S/ 5.1 million for unrealized losses as of December 31, 2018), S/ 9.1 million for unrealized losses arising from the actuarial reserve calculation for long-term employee benefits (S/ 2.8 million of unrealized losses as of December 31, 2018).

E. Retained earnings

At the Obligatory General Shareholders' Meetings, held on March 27, 2019 and March 28, 2018, an agreement was reached to approve the capitalization of retained earnings for S/ 517 million and S/485 million, respectively. Also, both Shareholders' Meetings approved a dividend distribution amounting to S/ 812 million and S/ 763 million, respectively.

As of October 30, 2019, the Board of Directors, entitled by the powers granted by the Obligatory General Shareholders' Meeting dated March 27, 2019 and in compliance with Article 184° (A) (2) of the Banking Law, unanimously committed to capitalizing the profits for 2019 for an amount of S/ 408 million. This commitment shall be formalized in the next Obligatory General Shareholders' Meeting.

As of December 31, 2018, the Board of Directors, entitled by the powers granted by the Obligatory General Shareholders' Meeting dated March 28, 2018 and in compliance with Article 184° (A) (2) of the Banking Law, unanimously committed to capitalizing the profits for 2018 for an amount of S/ 352 million. This commitment was formalized on March 27, 2019 at General Shareholders' Meeting.

16. Risks and Contingent Commitments

As of December 31, this caption comprises the following:

In thousands of soles	2019	2018
Indirect loans:		
Guarantees and letters of guarantee	15,510,355	14,464,612
Letters of credit and bank acceptances	1,097,142	1,007,756
	16,607,497	**15,472,368**
Unused credit lines and non-disbursed granted loans	13,365,509	10,760,045
Various responsibilities	5,302	5,397
	29,978,308	**26,237,810**

In the normal course of business, the BBVA Peru Group takes part in transactions, whose risk is recorded in contingent accounts. These transactions expose the BBVA Peru Group to credit risk, additional to the risk generated for the amounts disclosed in the consolidated statement of financial position.

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

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

Management estimates that no significant losses will arise from current contingent transactions as of December 31, 2019 and 2018.

17. Interest Income

This caption comprises the following:

In thousands of soles	2019	2018
Direct loan portfolio	4,429,896	4,188,678
Cash and due from banks	148,193	64,126
Available-for-sale investments	111,688	101,868
Investments at fair value through profit or loss	99,802	121,576
Interbank funds	2,190	3,133
Other finance income	4,777	4,058
	4,796,546	**4,483,439**

18. Interest Expenses

This caption comprises the following:

In thousands of soles	**2019**	**2018**
Obligations to the public	688,545	560,889
Borrowings and financial obligations	496,913	517,129
Accounts payable	69,122	133,149
Deposits in financial system entities	59,485	69,885
Profit or loss from hedging transactions	36,559	19,084
Interbank funds	8,737	13,004
Other finance costs	15,551	6,148
	1,374,912	**1,319,288**

19. Income from Finance Services, Net

This caption comprises the following:

In thousands of soles	**2019**	**2018**
Income		
Income from credit card commissions	269,405	250,638
Income from indirect loans	206,605	203,553
Income from commissions on transfers	167,651	154,252
Income from commissions on collection services	133,497	130,895
Income from services and maintenance of checking accounts	49,653	48,294
Income from online corporate banking services	45,930	42,518
Income from advisory services	20,682	16,261
Income from cashier services	15,778	15,499
Income from technical and legal studies	12,701	12,713
Income from trusts and commission of a trustee	1,286	1,098
Other income from services	296,209	294,924
	1,219,397	**1,170,645**
Expenses		
Expenses from Visa and Mastercard operations	(141,368)	(118,589)
Customer loyalty programs	(93,093)	(86,028)
Deposit insurance fund premiums	(74,402)	(68,027)
Transfers	(11,768)	(9,155)
Foreign exchange spot transaction	(7,388)	(7,449)
Checking account maintenance expenses	(4,353)	(4,426)
Other expenses for services	(74,188)	(63,536)
	(406,560)	**(357,210)**
	812,837	**813,435**

20. Profit or Loss from Financial Transactions

This caption comprises the following:

In thousands of soles	***Note***	**2019**	**2018**
Gain on exchange difference	*4*	568,956	492,572
Investments at fair value through profit or loss		44,407	8,948
Available-for-sale investments		31,114	5,006
Income from interest in associates	*9*	10,382	8,303
Trading derivatives		4,270	27,207
Other		33,739	39,335
		692,868	**581,371**

21. Administrative Expenses

This caption comprises the following:

In thousands of soles	**2019**	**2018**
Personnel and board of directors expenses	866,146	771,414
Expenses for services provided by third parties	764,917	735,709
Taxes and contributions	49,808	46,032
	1,680,871	**1,553,155**

22. Other Income and Expenses, Net

As of December 31, 2019 and 2018, it mainly includes the loss from the sale of assets seized and assets recovered through legal actions and non-current held-for-sale assets, expenses in realizable assets and assets recovered through legal actions, loss not covered by insurance, donations made, lease income, among other income and expenses.

23. Tax Matters

Income tax systems

A. The BBVA Peru Group is subject to Peruvian tax system. As of December 31, 2019 and 2018, corporate income tax rate in Peru is calculated on the basis of the net taxable income at a rate of 29.5%, according to Legislative Decree 1261, published on December 10, 2016 and effective January 1, 2017.

In addition, the above-mentioned Decree and its amendments establish that the income tax rates applicable to distribution of dividends and any other form of profit distribution shall be 5%.

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

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

Income tax determination

C. The Bank and its subsidiaries computed their taxable base for the years ended December 31, 2019 and 2018, and determined a combined current income tax of S/ 630 million and S/ 568 million, respectively.

Income tax expense by entity is the following:

In thousands of soles	2019	2018
Entities		
Banco BBVA Perú	612,246	550,160
BBVA Bolsa Sociedad Agente de Bolsa S.A.	1,355	2,562
BBVA Asset Management S.A. SAF	6,716	6,185
BBVA Sociedad Titulizadora S.A.	386	231
Inmuebles y Recuperaciones BBVA S.A.	1,297	1,113
BBVA Consumer Finance Edpyme	5,674	5,931
Forum Comercializadora del Perú S.A.	-	54
Forum Distribuidora del Perú S.A.	2,533	1,542
	630,207	**567,778**

Income tax expense comprises:

In thousands of soles	2019	2018
Current tax	672,261	549,546
Deferred tax		
Profit or loss of deferred income tax for the year	(68,986)	10,557
Adjustment and recovery of provisions	26,932	7,675
	630,207	**567,778**

Income tax exemptions and exceptions

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

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

Temporary tax on net assets

E. The Bank and its subsidiaries are subject to temporary tax on net assets whose taxable base is composed of the prior period adjusted net asset value less depreciations, amortizations, legal reserve, and specific provisions for credit risk. The tax rate is 0.4% for the years 2019 and 2018 and is applied to the amount of net assets exceeding S/ 1 million. It may be paid in cash or in nine consecutive monthly installments. The paid amount may be used as a credit against payments on account of income tax for taxable periods from March to December of the fiscal period for which the tax was paid until maturity date of each of the payments on account, and against the payment for regularization of income tax of the corresponding taxable period. In the event a remaining balance is not applied, its refund could be requested.

Tax on financial transactions

F. For fiscal years 2019 and 2018, the Tax on Financial Transactions (ITF for its Spanish acronym) was fixed at the rate of 0.005%. This tax is applied on charges and credits in bank accounts or movements of funds made through the financial system, unless the account is tax-exempt.

Transfer pricing

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

Effective January 1, 2017, by means of Legislative Decree 1312, published on December 31, 2016 and the following formal obligations were established to replace the former ones: i) presentation of a Local File (if accrued income exceeds 2,300 tax units (UIT for its Spanish acronym)), ii) presentation of a Master File (if taxpayer's accrued income exceeds 20,000 UIT), and iii) presentation of a Country-by-Country Report (if previous year combined accrued revenues of the multinational group exceeds S/ 2,700 million or € 730 million). The last two reports are mandatory for transactions corresponding to fiscal year 2017 onwards.

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

According to Peruvian Tax Authorities' Resolution 014-2018-SUNAT, published on January 18, 2019, SUNAT approved the Electronic Form 3560 for the presentation of the Local File, as well as deadline, content, and format to be included were approved.

Thus, the deadline for the presentation of the Local File for fiscal year 2019 will be in June 2020, in accordance with the schedule established for tax period of May, published by the Tax Authorities.

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

Legislative Decree 1116 established that transfer pricing standards are not applicable to sales tax (IGV) purposes.

Tax assessment

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

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

Entities	**Tax returns open for review**
BBVA Bolsa Sociedad Agente de Bolsa S.A.	2015-2019
BBVA Asset Management Continental S.A. S.A.F.	2015-2019
BBVA Sociedad Titulizadora S.A.	2015-2019
Inmuebles y Recuperaciones BBVA S.A.	2015-2019
BBVA Consumer Finance EDPYME	2015-2019
Forum Comercializadora del Perú S.A.	2015-2019
Forum Distribuidora del Perú S.A.	2015-2019

I. The Bank's income tax returns for fiscal years 2017 and 2018, and the tax return to be filed by the Bank for the year 2019 have not been reviewed by the Peruvian Tax Authorities. As of the reporting date, the Peruvian Tax Authority is reviewing the year 2013 income tax return and is about to start the review of the year 2014 and 2015 income tax returns. The current review of the year 2016 income tax return that was in progress as of December 31, 2018, was completed in April 2019.

In management's opinion, the tax processes and the tax returns not yet reviewed will not generate significant liabilities that would impact on the results of the companies that make up the BBVA Peru Group, in accordance with IFRIC 23.

Due to the possibility of various interpretations of the current legal regulations by the Tax Authorities, it is not possible to determine, to date, whether a future tax audit will or will not result in liabilities for the Bank and subsidiaries; therefore, any major tax, surcharges, and sanctions that might arise from eventual tax audits would be applied to profit or loss of the period in which they are recognized. However, it is the opinion of Management and its internal legal advisors that any possible additional settlement of taxes would not be significant for the consolidated financial statements as of December 31, 2019 and 2018.

Tax regime applicable to sales tax (IGV)

J. Legislative Decree 1347, published on January 7, 2017, and effective July 1, 2017, established the reduction of one percentage point in the sales tax, provided that the goal of annual sales tax collection as of May 31, 2017 is reached, net of internal refunds of 7.2% of the Gross Domestic Product (GDP). In other words, if the aforementioned requirement is met, the IGV tax rate (including the Municipal Tax) will be reduced from 18% to 17%. However, the estimated collection goal was not met at the end of the term, so the sales tax rate shall be held at 18%.

Major amendments to tax laws effective from January 1, 2019

K. ***New accrual accounting concept:*** Legislative Decree1425 introduced the definition of "legal accrual" for income tax purposes, stating that: a) income from transfer of goods occurs when i) control has been transferred (in accordance with IFRS 15); or ii) risk has been transferred to the acquirer (Risk Theory set out in the Civil Code), whichever occurs first; and b) income from service rendering occurs when realization level of the rendered service has been established.

The new 'legal accrual' concept is applicable to lessees when determining the tax treatment of the expense associated with lease agreements regulated by IFRS 16.

L. ***Thin capitalization***: Beginning 2019 and until December 31, 2020, the finance cost generated by indebtedness of independent and related parties is subject to thin capitalization limit of 3:1 debt-to-equity ratio, which is calculated at the end of the prior period. Beginning January 1, 2021, finance cost will be deductible up to 30% of the tax-EBITDA (Net Income – Loss Offsetting + Net Interest + Depreciation + Amortization) of the prior period. There are some exemptions regarding this 30% limit for banks, taxpayers whose income is lower than 2,500 UIT (tax units), infrastructure, public services, among others.

M. ***Deduction of expenses or costs incurred in operations with non-domiciled individuals:*** Legislative Decree 1369 requires that costs and/or expenses (including outbound interest) incurred with non-domiciled individuals must be paid effectively to be deducted in the year they were incurred. Otherwise, their impact on the determination of net income will be deferred to the year in which they are actually paid and the corresponding withholding will be applied.

The aforementioned standard eliminated the obligation to pay the amount equivalent to the withholding on the amount recorded as cost and/or expense.

N. ***Indirect loans***: As from January 1, 2019, under certain requirements, domiciled entities receiving foreign inbound dividends may deduct as direct loan the income tax that would have been levied on the foreign dividends and the Corporate Income Tax (indirect loan) paid by the tier 1 and tier 2 non-domiciled entity (provided they are in the same jurisdiction) that would have distributed the dividends from abroad.

Measures to implement the general anti-avoidance rule provided in the regulation XVI of Tax Code

O. Legislative Decree 1422 establishes the procedure for the implementation of the general anti-avoidance rule, stating that: (i) it is applicable only to final audit procedures where acts, events or situations that have occurred since July 19, 2012, are reviewed; (ii) it is applicable only if there is a favorable opinion from a review committee composed of Tax Authorities' officers (said opinion is not appealable); and (iii) final audit procedures, in which the General Anti-avoidance Rule is applicable, are not subject to the 1-year term to request information from the audited parties.

On May 6, 2019, Supreme Decree 145-2019-EF was published in the Official Gazette El Peruano. This Decree approves the substantive and formal parameters for the application of the general anti-avoidance rule contained in Rule XVI of the Tax Code; thus, inferring that the requirement to release the suspension established by Law 30230 for the application of said rule was met. Likewise, SUNAT's Audit Procedure Regulations have been adapted for this purpose.

Information related to ultimate beneficiaries

P. In line with the regulations to strengthen the fight against tax evasion and avoidance, as well as against money laundering and terrorism financing, as from August 3, 2018, provisions introduced by Legislative Decree 1372 are currently in force. The aforementioned decree requires the presentation of information related to ultimate beneficiaries to the competent authorities by means of a sworn statement. Said statement shall disclose the names of the natural persons that effectively retain ownership or control. Accordingly, it is mandatory to report the following information: (i) identification of the ultimate beneficiary, ii) chain of title with its respective supporting documents; and (iii) identification of third parties that have said information, if applicable. Also, it states that the information related to the identification of the ultimate beneficiaries of legal persons and legal entities provided to the competent authorities within the framework of these standards neither violates professional secrecy nor is subject to restrictions on the disclosure of information arising from secrecy requirements under contracts or any regulatory provision.

If the informative sworn statement with the information related to the ultimate beneficiary is not presented, the legal representatives of the entity that failed to comply with the presentation of said statement will assume the joint and several liability.

Indirect transfer of shares

Q. Since January 1, 2019, an anti-avoidance measure has been applied to prevent the split of operations, which allows indirect transfer of shares of companies domiciled in Peru.

In order to determine if, within a 12-month period, the transfer of 10% or more of the Peruvian company's capital has been conducted, transfers made by the analyzed individual and transfers to its related parties will be considered, whether transfers are executed by one or several (simultaneous or successive) operations. The relationship shall be established in accordance with provisions of article 32 (A) (b) of the Income Tax Law.

Regardless of compliance with the provisions of the Income Tax Law, there is taxable indirect transfer when, in any 12-month period, the total amount of transferred shares of the Peruvian legal person is equal to or greater than 40,000 UITs.

Likewise, when the transferor is a non-domiciled legal person that has a branch office or any permanent establishment in Peru with allocated equity, the latter is considered a jointly liable party. Thus, the latter shall provide information, among other, regarding the transferred shares or interest of the non-domiciled legal person.

Joint and several liability of legal representatives and Directors

R. As of September 14, 2018, by means of Legislative Decree 1422, when an audited individual is subject to the general anti-avoidance rule, it is automatically considered that there is joint and several liability of legal representatives due to fraud, gross negligence or misuse of powers, unless proven otherwise. The aforementioned joint and several liability shall be attributed to said representatives provided that they collaborated in the design, approval or execution of the acts, situations or business relationships with an avoidance purpose.

This regulation also applies to the members of the Board of Directors, indicating that they shall establish a tax strategy for the companies in which they act as directors, having to decide whether or not to approve the acts, situations or business relationships to be carried out within the framework of tax planning; they shall not delegate such responsibility.

The members of the domiciled companies' Board of Directors were granted a term, with maturity on March 29, 2019, to verify or modify the acts, situations or business relationships carried out within the tax planning and implemented as of September 14, 2018, that continue having tax effect to date.

Besides the term established for compliance with said formal obligation, the aforementioned joint and several liability attributable to legal representatives and directors, and the absence of a definition of "tax planning", it will be crucial to review any act, situation or economic relation that has: (i) increased tax allocation; and/or (ii) generated a lower payment of taxes for the aforementioned periods, in order to avoid the attribution of joint and several liability, both administratively and punitively, depending on the supervisory agent criterion. The latter, in case the company to be audited by the Tax Authorities is subject to the general anti-avoidance rule.

24. Deferred Income Tax

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

In thousands of soles	Balance as of 01.01.2018	Equity additions (recoveries)	Profit or loss additions (recoveries) for the year	Balance as of 12.31.2018	Equity additions (recoveries)	Profit or loss additions (recoveries) for the year	Balance as of 12.31.2019
Assets:							
Generic provision for direct loan losses	282,734	-	10,582	293,316	-	4,852	298,168
Generic provision for indirect loan losses	36,109	-	(1,762)	34,347	-	7,111	41,458
Provision for realizable assets and assets seized and recovered through legal actions	39,809	424	2,851	43,084	-	8,813	51,897
Specific provision for indirect loan losses	38,695	-	(5,265)	33,430	-	(2,412)	31,018
Other generic provisions	53,704	-	9,700	63,404	-	(1,991)	61,413
Labor provisions	57,881	-	11,991	69,872	2,624	14,341	86,837
Tax loss	3,983	-	(3,983)	-	-	13	13
Interest of non-performing loans	278	-	-	278	-	-	278
Available-for-sale investment	1,724	2,383	-	4,107	2,355	-	6,462
Cash flow hedges	-	2,131	-	2,131	(270)	-	1,861
Valuation of hedge borrowings and bonds	-	-	-	-	-	1,101	1,101
Total assets	**514,917**	**4,938**	**24,114**	**543,969**	**4,709**	**31,828**	**580,506**
Liabilities:							
Fair value hedges	(28,943)	-	(8,339)	(37,282)	-	37,282	-
Cash flow hedges	(362)	362	-	-	-	-	-
Intangible assets / deferred charges	(88,864)	-	(19,449)	(108,313)	-	(10,644)	(118,957)
Valuation of derivative financial instruments	(7,208)	-	(635)	(7,843)	-	-	(7,843)
Property tax depreciation	-	-	-	-	-	(921)	(921)
Balancing of assets and liabilities due to exchange difference	(18,839)	-	(6,248)	(25,087)	-	11,441	(13,646)
Total liabilities	**(144,216)**	**362**	**(34,671)**	**(178,525)**	**-**	**37,158**	**(141,367)**
Net deferred tax asset	**370,701**	**5,300**	**(10,557)**	**365,444**	**4,709**	**68,986**	**439,139**

25. Earnings per Share

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

In thousands	Outstanding shares	Weighted average number of basic shares	Effective days to year-end	Weighted average number of common shares
2019				
Balance as of January 1, 2019	5,368,602	5,368,602	365	5,368,602
Capitalization of 2018 profit or loss	516,607	516,607	365	516,607
Balance as of December 31, 2019	**5,885,209**	**5,885,209**		**5,885,209**
2018				
Balance as of January 1, 2018	4,883,119	4,883,119	365	4,883,119
Capitalization of 2017 profit or loss	485,483	485,483	365	485,483
Capitalization of 2018 profit or loss	-	516,607	365	516,607
Balance as of December 31, 2018	**5,368,602**	**5,885,209**		**5,885,209**

As of December 31, 2019 and 2018, earnings per share calculated (note 3.N) based on the weighted-average number of shares amounted to S/ 0.2734 and S/ 0.2495, respectively.

26. Related Party Transactions

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

(a) Find below the balances of the consolidated statement of financial position that the BBVA Peru Group holds with the related parties as of December 31:

In thousands of soles	2019 Controlling party	2019 Related parties (*)	2019 Associates	2019 Key personnel and directors	2019 Total	2018 Controlling party	2018 Related parties (*)	2018 Associates	2018 Key personnel and directors	2018 Total
Assets:										
Cash and due from banks	126,460	-	-	-	126,460	500,355	287	-	-	500,642
Loan portfolio, net	-	520,561	11	28,970	549,542	-	311,372	49	26,532	337,953
Trading derivatives	282,154	793	-	-	282,947	135,977	69,105	-	-	205,082
Other assets, net	30,227	36,154	-	-	66,381	144,865	125,735	-	-	270,600
Total assets	**438,841**	**557,508**	**11**	**28,970**	**1,025,330**	**781,197**	**506,499**	**49**	**26,532**	**1,314,277**
Liabilities:										
Obligations to the public and deposits from financial system entities	223,118	458,269	875	157,338	839,600	212,881	357,950	953	147,141	718,925
Borrowings and financial obligations	-	6,000	-	-	6,000	-	6,018	-	-	6,018
Trading derivatives	246,544	581	-	-	247,125	250,641	1,462	-	-	252,103
Provisions and other liabilities	44,902	9,613	-	21	54,536	11,839	39,088	-	29	50,956
Total liabilities	**514,564**	**474,463**	**875**	**157,359**	**1,147,261**	**475,361**	**404,518**	**953**	**147,170**	**1,028,002**
Off-balance sheet accounts:										
Indirect loans	-	250,655	292	1,326	252,273	-	298,291	200	1,457	299,948
Derivative financial instruments	16,245,167	144,097	-	-	16,389,264	11,071,499	701,705	-	-	11,773,204

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

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

	2019					2018				
In thousands of soles	**Controlling party**	**Related parties (*)**	**Associates**	**Key personnel and directors**	**Total**	**Controlling party**	**Related parties (*)**	**Associates**	**Key personnel and directors**	**Total**
Interest income	-	1,640	-	132	1,772	-	1,229	-	125	1,354
Interest expense	-	(10,275)	-	(237)	(10,512)	-	(9,610)	-	(224)	(9,834)
	-	**(8,635)**	**-**	**(105)**	**(8,740)**	**-**	**(8,381)**	**-**	**(99)**	**(8,480)**
Income from financial services	-	413	-	5	418	-	255	-	17	272
Expenses from financial services	-	-	-	-	-	-	(60)	-	-	(60)
	-	**413**	**-**	**5**	**418**	**-**	**195**	**-**	**17**	**212**
Net profit or loss from financial operations	(3,257)	(6,543)	-	-	(9,800)	-	-	-	-	-
Administrative expenses	(18,217)	(80,155)	-	-	(98,372)	(16,910)	(74,866)	-	-	(91,776)
Other income and expenses, net	-	288	-	11	299	-	189	-	2	191
	(21,474)	**(86,410)**	**-**	**11**	**(107,873)**	**(16,910)**	**(74,677)**	**-**	**2**	**(91,585)**

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

(c) Loans to personnel and key management personnel compensation

As of December 31, 2019 and 2018, directors, officers, and employees of the Bank have credit transactions subject to the Banking Law, on which certain limits to the transactions with directors, officers, and employees of banks in Peru has been established. As of December 31, 2019 and 2018, direct loans to employees, directors, officers, and key personnel amount to S/ 472 million and S/ 438 million, respectively.

Furthermore, as of December 31, 2019 and 2018, key management personnel compensation and director's fees totaled S/ 11 million and S/ 10 million, respectively.

27. Trust Fund Activities

The Bank offers structuring and administration services of trust operations and commissions of a trustee and is in charge of the preparation of related agreements. The assets kept in trust are not disclosed in the consolidated financial statements. The Bank is responsible for the appropriate management of these trusts until the limit established by applicable laws and the respective agreement. As of December 31, 2019, the allocated value of assets in trust and commissions of a trustee amount to S/ 5,001 million (S/ 11,964 million as of December 31, 2018).

28. Classification of Financial Instruments

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

	2019					
	At fair value through profit or loss		Loans and accounts receivable	Available-for- sale		Hedging derivatives
In thousands of soles	Held-for- trading	Designated at inception		At amortized cost	At fair value	
Assets						
Cash and due from banks	-	-	14,816,709	-	-	-
Interbank funds	-	-	150,137	-	-	-
Investments						
Equity instruments	26,331	-	-	1,881	26,947	-
Debt instruments	2,669,123	-	-	-	3,915,562	-
Loan portfolio, net	-	-	56,398,279	-	-	-
Trading derivatives	567,686	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	4,611
Accounts receivable	-	-	41,933	-	-	-
Other assets	-	-	1,209,497	-	-	-
	3,263,140	**-**	**72,616,555**	**1,881**	**3,942,509**	**4,611**

	2019				
	At fair value through profit or loss				
In thousands of soles	Held-for- trading	Designated at inception	At amortized cost	Other liabilities	Hedging derivatives
Liabilities					
Obligations to the public	-	-	54,659,978	-	-
Interbank funds	-	-	150,016	-	-
Deposits from financial system entities and foreign financial agencies	-	-	1,499,305	-	-
Borrowings and financial obligations	-	-	9,678,796	-	-
Trading derivatives	490,934	-	-	-	-
Hedging derivatives	-	-	-	-	19,777
Accounts payable	-	-	4,189,238	24,582	-
	490,934	**-**	**70,177,333**	**24,582**	**19,777**

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

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

29. Financial Risk Management

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

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

- Independent: Independent from and complementary to the business. The adaptation process of the Risk Unit allows closely monitoring of the business and thus the ability to detect opportunities.

- Global: the BBVA Peru Group has a risk model adaptable to all risks, countries, and businesses.

For an effective management with a comprehensive vision, the Risk Unit of the BBVA Peru Group is structured by various types of risks: admission of retail and wholesale credit risks, monitoring, collections and recoveries, trust, market and structural risks, control, validation, reporting and regulation. With the purpose of creating synergy and integrating processes, from strategy and planning to implementation of management models and tools, the Risk Solution team consolidates cross-cutting functions supporting risk management.

Credit risks

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

The Risk Unit structure for the credit risk management is as follows:

- *Portfolio Management, Data & Reporting*: It manages the credit risk by defining strategies, developing metrics, and calculating parameters to establish policies throughout the business cycle from admission and monitoring to recovery in order to control the credit quality of the portfolio and ensure a sustained profitability according to capital consumption. Additionally, it is responsible for the development and maintenance of the credit risk models that are used in BBVA Peru Group's risk management.

- *Risk Internal Control*: It is the risk activity control unit. Specifically and independently, it compares and control the regulations and the governance structure regarding financial risks and their application and operation in risk matters. It also compares the development and execution of the financial risk management and control processes. It is also responsible for validating the risk models.

- *Risk Solution*: It manages the project portfolio of the Risk area. It guarantees the correct definition, prioritization, execution and implementation of projects.

- *Risk Transformation*: Team responsible for ensuring the execution and continuous improvement of dependent processes, meeting the established quality and productivity standards. As part of the process organization, it seeks for efficiency and synergy among the involved services.

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

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

- *Wholesale Credit*: It manages credit risk in the corporate segments of the Retail Network, Corporate Banking, Institutions, Global Customers, IFIs and the Real Estate Sector, integrating -in accordance with the guidelines defined in the Wholesale Credit Risk Policy- the origination, admission and monitoring phases.

  During 2019, based on the group's strategy and considering a more challenging environment for the Peruvian market, the BBVA Peru Group maintained its dynamism and strengthened the control of asset allocation limits and suggested sector profiles, consistent with the risk appetite. Special emphasis was placed on risk management in Corporate Banking, reducing the NPL ratio and significantly improving the cost of risk.

  On the other hand, the diversification of the portfolio was promoted through the monitoring of concentration thresholds for each sector; consolidating the integration of the new portfolio management model through the deployment of strategies among the network of offices, as a criterion for identification of opportunities, preventive action and redirection.

  Under the new agile structure, the admission team was reorganized, creating two groups:

  - Stage 1: Principal axis of analysis under Sectoral groupings, maintaining specialization by Segment.

  - Stage 2 and Company Monitoring: Under a preventive management approach, with strategies to maintain and/or reduce the risk of this Portfolio, as well as to retain the deterioration, by structuring suitable financial solutions.

  On the other hand, the role of the Portfolio Management team was focused on the development of Sectoral Frameworks, construction of a dashboard to centralize and show useful information for the analysis of credit risk.
  Ratings, Risk Analyst and Bureau tools are an important support in decision-making process. Likewise, the Automated Financial Program and the Digital Financial Program, used in the BEC and CIB segments, respectively, continued as digital platforms for the preparation and analysis of credit proposals.

- *Collection, Mitigation & Workout*: This integrates the functions and processes necessary for monitoring, controlling defaults, collection, recoveries and decrease the impaired portfolio, both in retail and wholesale banking, achieving a comprehensive efficiency in the processes, as well as in the external (collection agencies, calls and law firms) and internal (network of offices) management channels.

The impaired portfolio is managed through a centralized strategy that defines the policies for refinancing, awarding and payment agreements with customers, which seeks to minimize the expenses for provisions and the delinquency level, differentiating each segment and the stages of the credit life cycle.

Since 2018, the Integral Collection Plan has been implemented; it is a transformation project that involves improvements in processes, information management, remedial products, customer experience and the technological platform, among the most important that will continue to be addressed in 2020.

This plan included the implementation, in 2019, of the procedures for write-offs in the portfolios, the strengthening of KPI (Key Performance Indicator) and KRI (Key Risk Indicator) dashboards for collections and recoveries, execution of new tenders in the external collection channels and legal firms, strengthening of the Service Level Agreements (SLA) and the supervision of the performance of suppliers. These new management improvements also envisaged the launch of the BEC and Retail Solution Office, which enabled a better approach to impaired portfolio and an improvement in the levels of containment.

Maximum exposure to credit risk
As of December 31, the maximum exposure to credit risk is as follows:

In thousands of soles	**2019**	**2018**
Cash and due from banks	14,816,709	12,934,941
Interbank funds	150,137	-
Investments at fair value through profit or loss	2,695,454	3,001,328
Available-for-sale investments	3,944,390	3,538,746
Loan portfolio, net	56,398,279	52,015,135
Trading derivatives	567,686	457,876
Hedging derivatives	4,611	1,439
Accounts receivable	41,933	39,806
Other assets	1,209,497	1,087,038
	79,828,696	**73,076,309**

Received collaterals

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

The procedures for the management and valuation of collaterals received for loans granted to customers as indicated in the Collateral Policies, cover the collateral acceptance policies and the basic principles for setting, maintenance and release. All collaterals assigned are to be properly instrumented and recorded in the corresponding register, monitoring they are currently updated and have the corresponding insurance policies, in strict compliance with the rules laid down by the regulatory body.

The valuation of collaterals guarantees is governed by prudence principles, involving appraisals for mortgages, market price for listed securities, value of interest in an investment fund, among others. These principles establish internal milestones that may be stricter than those contained in local regulations, and under which the value of collaterals is updated.

In thousands of soles	**2019**	**%**	**2018**	**%**
Mortgages	22,288,636	38	21,640,200	40
Leased goods	4,212,785	7	4,475,583	8
Readily realizable guarantees	373,483	1	515,922	1
Guarantees and letters of guarantee received	613,827	1	472,497	1
Pledges on vehicles, and industrial, agricultural and other pledges	62,206	-	86,369	-
Product and merchandise warrants	-	-	-	-
Rest of collaterals	13,734,788	23	9,993,435	18
Secured loans	**41,285,725**	**70**	**37,184,006**	**68**
Unsecured loans	**17,720,027**	**30**	**17,195,516**	**32**
	59,005,752	**100**	**54,379,522**	**100**

Loan portfolio credit quality

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

	2019						2018					
In thousands of soles	Wholesale credits	Small and micro business loans	Consumer loans	Mortgage loans	Total	%	Wholesale credits	Small and micro business loans	Consumer loans	Mortgage loans	Total	%
Neither past due nor impaired loans	**34,787,681**	**1,695,694**	**6,164,737**	**12,626,590**	**55,274,702**	**99**	**31,780,846**	**1,351,702**	**5,818,183**	**12,053,308**	**51,004,133**	**99**
Standard	34,242,297	1,662,230	6,049,531	12,449,842	54,403,900	97	31,263,973	1,320,806	5,709,592	11,858,120	50,152,569	97
With potential problems	545,384	33,464	115,206	176,748	870,802	2	516,873	30,896	108,591	195,188	851,564	2
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Past due but not impaired loans	**39,561**	**1**	**15**	**444**	**40,021**	**-**	**39,045**	**1**	**6**	**566**	**39,618**	**-**
Standard	11,608	1	15	3	11,627	-	10,725	1	1	-	10,727	-
With potential problems	27,953	-	-	441	28,394	-	28,320	-	5	566	28,891	-
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Impaired loans	**2,333,877**	**164,583**	**435,339**	**757,230**	**3,691,029**	**7**	**2,106,857**	**152,000**	**365,310**	**711,604**	**3,335,771**	**7**
Standard	29,138	28	1	-	29,167	-	39,422	268	2	-	39,692	-
With potential problems	274,266	101	8	-	274,375	-	257,868	92	8	-	257,968	-
Substandard	587,792	22,196	95,693	242,039	947,720	2	487,411	21,711	91,440	253,643	854,205	2
Doubtful	465,771	39,416	182,749	199,352	887,288	2	446,808	36,172	149,133	170,993	803,106	2
Loss	976,910	102,842	156,888	315,839	1,552,479	3	875,348	93,757	124,727	286,968	1,380,800	3
Gross loan portfolio	**37,161,119**	**1,860,278**	**6,600,091**	**13,384,264**	**59,005,752**	**106**	**33,926,748**	**1,503,703**	**6,183,593**	**12,765,478**	**54,379,522**	**106**
Less: Provisions	(1,857,527)	(140,362)	(407,568)	(501,552)	(2,907,009)	(6)	(1,711,936)	(124,339)	(338,055)	(455,864)	(2,630,194)	(6)
Net portfolio	**35,303,592**	**1,719,916**	**6,192,523**	**12,882,712**	**56,098,743**	**100**	**32,214,812**	**1,379,364**	**5,845,538**	**12,309,614**	**51,749,328**	**100**

Criteria used to determine if a credit is impaired is the following:

Type of loan/debtor	Criteria
Retail	Loans past due over 90 days
	Loans rated as substandard, doubtful or loss
Wholesale	Loans rated as substandard, doubtful or loss
	Refinanced or restructured loans

The specific provisions related to the transactions that, as of December 31, 2019, have been classified as 'past due but not impaired' loans and 'impaired' loans amount to S/ 1,844 million (S/ 1,610 million as of December 31, 2018).

In 2019 and 2018, the transactions with clients that, during these periods, were classified as 'past due but not impaired' loans and 'impaired' loans resulted in finance income of S/ 146 million and S/149 million, respectively.

As of December 31, 2019 and 2018, the guarantees of the 'past due but not impaired' loans and 'impaired' loans amount to S/ 2,255 million and S/ 2,062 million, respectively, of which S/ 2,119 million and S/ 1,864 million correspond to mortgages.

The 'past due but not impaired' loans as of December 31, 2019 and 2018 amount to S/ 40 million for both periods. Find below a breakdown of those credits listed per past-due date:

	2019				**2018**			
Past-due date	**16- 30**	**31- 60**	**61 - 90**	**Total**	**16- 30**	**31- 60**	**61 - 90**	**Total**
In thousands of soles								
Types of credit								
Wholesale:								
Large business loans	2,447	2,558	4,392	9,397	3,462	4,463	16	7,941
Medium business loans	16,359	11,356	2,449	30,164	16,091	12,696	2,317	31,104
	18,806	**13,914**	**6,841**	**39,561**	**19,553**	**17,159**	**2,333**	**39,045**
Retail								
Small business loans	-	-	1	1	-	-	1	1
Consumer loans	-	10	5	15	-	6	-	6
Mortgage	-	444	-	444	-	566	-	566
	-	**454**	**6**	**460**	**-**	**572**	**1**	**573**
	18,806	**14,368**	**6,847**	**40,021**	**19,553**	**17,731**	**2,334**	**39,618**

Risk concentration

Loan portfolio is distributed in the following economic sectors:

In thousands of soles	**2019**		**2018**	
Mortgage and consumer loans	20,343,298	35%	18,949,069	35%
Commerce	9,866,544	17%	9,305,933	17%
Manufacturing	8,836,261	15%	8,646,783	16%
Real estate, business and leasing	4,713,457	8%	3,344,181	6%
Transport, storage, and communications	3,700,744	6%	3,202,268	6%
Agriculture and livestock	1,815,548	3%	1,561,275	3%
Financial intermediation	1,801,589	3%	1,312,247	2%
Mining	1,604,248	3%	1,492,798	3%
Power, gas, and water	1,020,874	2%	1,157,200	2%
Construction	898,794	2%	952,964	2%
Other	4,404,395	6%	4,454,804	8%
	59,005,752	**100%**	**54,379,522**	**100%**

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

	2019					
	At fair value through profit or loss					
In thousands of soles	Held-for-trading	At inception	Loans and accounts receivable	Available-for- sale	Hedging derivatives	Total
Financial instruments						
Peru	2,915,867	-	59,103,937	3,446,719	1,448	65,467,971
Rest of South America	-	-	28,135	980	-	29,115
Mexico	793	-	1,996	-	-	2,789
United States of America	-	-	18,485	496,661	-	515,146
Europe	5,298	-	10,557	30	3,163	19,048
Rest of the world	348,722	-	14,502	-	-	363,224
	3,270,680	**-**	**59,177,612**	**3,944,390**	**4,611**	**66,397,293**
Provisions	(7,540)	-	(3,036,937)	-	-	(3,044,477)
Accrued interest	-	-	362,568	-	-	362,568
Deferred	-	-	(63,032)	-	-	(63,032)
	3,263,140	**-**	**56,440,211**	**3,944,390**	**4,611**	**63,652,352**

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

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

The main risks factors affecting market price are: interest rate, currency and price risks.

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

- Currency risk: It arises due to fluctuations in the exchange rates for the different currencies.

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

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

The Value at Risk ("VaR") is the basic variable to measure and control the market risk of BBVA Peru Group. This risk measure estimates the maximum loss on a reliable basis that may occur in the market positions of a portfolio for a specific time horizon. In the BBVA Peru Group, the VaR is calculated by using the parametric method with a 99% reliability basis and a time horizon of one day, and the data period taken is one year.

The market-risk limits structure determines a scheme of limits based on VaR and Economic Capital per market risk and specific alerts and sub-limits per type of risk, among others.

In addition, validity tests are made on the risk measurement models used to estimate the maximum loss that could be incurred in the positions assessed with a certain level of probability (backtesting), as well as measurements of the impact of extreme market events on risk positions (stress testing). Currently the stress analysis is carried out on the basis of historical crisis scenarios of Lehman Brothers (2008) and Resampling.

The detail of VaR per risk factors was as follows:

In thousands of soles	**2019**	**2018**
VaR per risk factor		
VaR without smoothing	6,607	3,412
VaR - Interest rate	6,381	3,172
VaR - Currency	1,912	791
Average VaR	7,215	3,661
Maximum VaR	13,669	4,927
Minimum VaR	3,799	2,625

Structural interest rate risk

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

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

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

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

Find below the consumption of the BBVA Peru Group's structural interest risk levels in 2019 and 2018:

2019		Dec-19	Nov-19	Oct-19	Sep 19	Aug-19	Jul-19	Jun-19	May-19	Apr-19	Mar-19	Feb-19	Jan-19
Limit consumption													
Financial margin sensitivity	7%	4.8%	5.0%	5.3%	4.8%	4.4%	4.8%	4.6%	4.5%	4.5%	4.7%	4.7%	4.6%
Alert consumption													
Economic value sensitivity	1,000	630	645	651	645	657	624	597	595	851	898	847	381
Economic capital (EC)	1,100	733	751	759	757	767	751	923	868	873	947	887	903
Earnings at risk (EaR)	7%	1.8%	1.9%	1.9%	1.9%	1.8%	1.8%	1.8%	1.7%	1.9%	2.0%	1.9%	2.0%

2018		Dec-18	Nov-18	Oct-18	Sep-18	Aug-18	Jul-18	Jun-18	May-18	Apr-18	Mar-18	Feb-18	Jan18
Limit consumption													
Financial margin sensitivity	6%	4.5%	4.6%	4.0%	3.7%	3.8%	3.7%	2.0%	2.3%	1.9%	1.6%	2.6%	2.3%
Alert consumption													
Economic value sensitivity	700	396	391	419	427	421	427	433	433	464	439	429	411
Economic capital (EC)	1,100	887	893	882	891	889	903	915	914	944	923	905	886
Earnings at risk (EaR)	7%	2.2%	2.1%	1.9%	1.7%	1.7%	1.8%	1.2%	1.3%	1.1%	1.3%	1.4%	1.4%

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

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

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

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

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

Periodic measurements of the risk incurred and the monitoring of the consumption of limits are made from the Trust, Market and Structural Risk Unit, which reports monthly the liquidity risk levels to the COAP; and more frequently to the management units.

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

According to SBS guidelines, the distribution by residual maturity of assets and liabilities as of December 31, 2019 and 2018, including accrued interest related to the loan and deposits portfolios is as follows:

In thousands of soles	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Past-due and judicial collection loans**	**Non-contractual maturity**	**Total**
2019									
Assets									
Cash and due from banks	7,541,462	1,527,000	1,363,901	627,710	3,756,636	-	-	-	14,816,709
Interbank funds	150,137	-	-	-	-	-	-	-	150,137
Investments at fair value through profit or loss	1,686,055	201,992	376,990	404,086	-	-	-	26,331	2,695,454
Available-for-sale investments	3,070,209	200,171	592	55,284	145,221	472,913	-	-	3,944,390
Loan portfolio, net	8,622,381	8,154,915	5,461,885	6,642,202	16,188,253	9,553,296	1,775,347	-	56,398,279
Trading derivatives	159,133	49,071	29,343	33,782	135,190	161,167	-	-	567,686
Hedging derivatives	-	-	4,477	-	134	-	-	-	4,611
	21,229,377	**10,133,149**	**7,237,188**	**7,763,064**	**20,225,434**	**10,187,376**	**1,775,347**	**26,331**	**78,577,266**
Liabilities									
Obligations to the public									
Demand deposits	2,354,538	1,724,509	-	-	14,325,238	-	-	-	18,404,285
Savings	1,296,508	949,552	-	-	14,993,024	-	-	-	17,239,084
Time	4,723,826	3,164,942	2,143,447	4,997,749	3,883,102	-	-	-	18,913,066
Other	103,543	-	-	-	-	-	-	-	103,543
Interbank funds	150,016	-	-	-	-	-	-	-	150,016
Deposits from financial system entities	395,280	464,044	215,260	338,084	86,637	-	-	-	1,499,305
Borrowings and financial obligations	915,484	69,629	29,260	2,119,658	3,915,357	2,629,408	-	-	9,678,796
Trading derivatives	142,991	59,460	46,277	29,113	105,019	108,074	-	-	490,934
Hedging derivatives	-	-	1,783	-	13,875	4,119	-	-	19,777
Accounts payable	1,641,221	966,000	1,506,599	100,000	-	-	-	-	4,213,820
Other liabilities	1,122,036	-	-	-	-	-	-	-	1,122,036
	12,845,443	**7,398,136**	**3,942,626**	**7,584,604**	**37,322,252**	**2,741,601**	**-**	-	**71,834,662**

In thousands of soles	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	More than 5 years	Past-due and judicial collection loans	Non-contractual maturity	Total
2018									
Assets									
Cash and due from banks	7,054,833	952,598	219,127	356,963	4,351,420	-	-	-	12,934,941
Investments at fair value through profit or loss	2,962,321	-	-	-	-	-	-	39,007	3,001,328
Available-for-sale investments	2,592,194	169,310	27,439	33,393	208,915	507,495	-	-	3,538,746
Loan portfolio, net	7,430,590	7,258,834	4,449,079	4,805,662	17,404,169	11,744,877	1,607,406	-	54,700,617
Trading derivatives	20,967	21,082	15,655	15,663	235,947	148,562	-	-	457,876
Hedging derivatives	-	-	-	-	1,439	-	-	-	1,439
	20,060,905	**8,401,824**	**4,711,300**	**5,211,681**	**22,201,890**	**12,400,934**	**1,607,406**	**39,007**	**74,634,947**
Liabilities									
Obligations to the public									
Demand deposits	2,294,062	1,679,028	-	-	14,161,166	-	-	-	18,134,256
Savings	1,291,414	945,000	-	-	13,953,036	-	-	-	16,189,450
Time	3,518,865	2,271,680	2,293,129	2,944,925	3,519,665	-	-	-	14,548,264
Other	74,510	-	-	-	-	-	-	-	74,510
Interbank funds	817,266	-	-	-	-	-	-	-	817,266
Deposits from financial system entities	893,614	907,382	126,480	42,921	90,646	-	-	-	2,061,043
Borrowings and financial obligations	918,741	741,708	821,038	248,413	5,082,093	2,558,968	-	-	10,370,961
Trading derivatives	31,554	20,004	40,263	28,657	171,481	56,800	-	-	348,759
Hedging derivatives	-	5,941	55,437	1,075	86,122	48,917	-	-	197,492
Accounts payable	593,770	450,000	62,466	100,000	1,016,391	-	-	-	2,222,627
Other liabilities	962,802	-	-	-	-	-	-	-	962,802
	11,396,598	**7,020,743**	**3,398,813**	**3,365,991**	**38,080,600**	**2,664,685**	**-**	**-**	**65,927,430**

Operational Risk
The BBVA Peru Group has an operational risk management model implemented at the corporate level based on identification, assessment, monitoring procedures and methodologies supported by tools that allow qualitative and quantitative management.

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

Regarding the qualitative management, the STORM tool (Support Tool for Operation Risk Management) enables the recording and quantification of identified operational risks, as well as the regular assessment of controls related to critical risks. In 2019, the risks and controls have been updated, maintaining the model validity.

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

The Bank is authorized to use the alternative standardized approach to calculate the regulatory capital requirement for operational risk, which allows it to optimize the regulatory capital.

As of December 31, 2019, the Bank's regulatory capital requirement for operational risk based on the alternative standardized approach amounts to S/ 502 million (S/ 451 million as of December 31, 2018).

Among the relevant initiatives implemented in 2019, are the implementation of an strengthening plan of the BBVA Peru Group through the provision of a greater structure and work methodologies.

30. Fair Value

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

In the cases where the quoted price is not available, the fair value shall be estimated based on the quoted price of a financial instrument with similar characteristics, the present value of expected cash flows, or other valuation techniques, which are significantly affected by the different assumptions used.

Although Management uses its best judgment to estimate the fair value of its financial instruments, there are weaknesses inherent to any valuation technique. As a result, the fair value may not be an approximate estimate of the net realizable value or the liquidation value.

The following considerations may be applied to the methodology and assumptions used in the fair value estimates of the BBVA Peru Group's financial instruments.

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

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

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

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

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

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

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

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

Carrying amount and fair value of financial assets and liabilities
Taking into account fair value considerations and the Official Letter 43078-2014-SBS, in which the SBS determined that fair value corresponds to the carrying amount in the case of loans and deposits, as of December 31, 2019 and 2018, the carrying amounts and fair values of the financial assets and liabilities are presented as follows:

	Carrying amount		**Fair value**	
In thousands of soles	**2019**	**2018**	**2019**	**2018**
Assets				
Cash and due from banks	14,816,709	12,934,941	14,816,709	12,934,941
Interbank funds	150,137	-	150,137	-
Investments at fair value through profit or loss and available-for-sale	6,639,844	6,540,074	6,639,844	6,540,074
Loan portfolio, net	56,398,279	52,015,135	56,398,279	52,015,135
Trading derivatives	567,686	457,876	567,686	457,876
Hedging derivatives	4,611	1,439	4,611	1,439
Accounts receivable	41,933	39,806	41,933	39,806
Other assets	1,209,497	1,087,038	1,209,497	1,087,038
	79,828,696	**73,076,309**	**79,828,696**	**73,076,309**
Liabilities				
Obligations to the public and deposits from financial system entities	56,159,283	51,007,523	56,159,283	51,007,523
Interbank funds	150,016	817,265	150,016	817,265
Borrowings and financial obligations	9,678,796	10,370,961	9,696,271	10,370,961
Trading derivatives	490,934	348,759	490,934	348,759
Hedging derivatives	19,777	197,492	19,777	197,492
Accounts payable	4,213,820	2,222,627	4,213,820	2,222,627
	70,712,626	**64,964,627**	**70,730,101**	**64,964,627**

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

Financial instruments recorded at fair value and hierarchy categorization

	2019				2018			
In thousands of soles	**Fair Value**	**Level 1**	**Level 2**	**Level 3**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets								
Investments at fair value through profit or loss								
Equity instruments	26,331	26,331	-	-	39,007	39,007	-	-
Debt instruments	2,669,123	182,149	2,486,974	-	2,962,321	-	2,962,321	-
Available-for-sale investments								
Equity instruments	26,947	26,947	-	-	27,226	27,226	-	-
Debt instruments	3,915,562	1,076,078	2,839,484	-	3,509,327	464,335	3,044,992	-
Trading derivatives	567,686	-	567,686	-	457,876	-	457,876	-
Hedging derivatives	4,611	-	4,611	-	1,439	-	1,439	-
	7,210,260	**1,311,505**	**5,898,755**	**-**	**6,997,196**	**530,568**	**6,466,628**	**-**
Liabilities								
Borrowings and financial obligations	3,882,575	-	3,882,575	-	4,062,651	-	4,062,651	-
Trading derivatives	490,934	-	490,934	-	348,759	-	348,759	-
Hedging derivatives	19,777	-	19,777	-	197,492	-	197,492	-
	4,393,286	**-**	**4,393,286**	**-**	**4,608,902**	**-**	**4,608,902**	**-**

Description of valuation techniques for instruments recorded at fair value

Level 2		Valuation technique / Hypothesis	Significant inputs used
Fixed and variable income		**Fixed income:** Present value of the flows generated by the bonds (coupons and face value): $$Price_{bond} = \sum_{n=1}^{N} \frac{Coupon}{(1+YTM)^n} + \frac{Face\ value}{(1+YTM)^N}$$ These flows are discounted at *Yield to Maturity (YTM)* **Variable income:** Closing price included in a public source of information (Price Vendors) is considered. No equity trading portfolio is offered.	▪ **Fixed income:** Bond information (coupon rate, coupon payment frequency, face value) *Yield to Maturity (YTM): Obtained from the transactions traded in Datatec so that the transaction is greater than or equal to PEN 2MM (internally defined condition)* ▪ **Variable income:** closing price of Bloomberg, Reuter or the Lima Stock Exchange website
Derivatives	(a) Forwards, IRS, and CCS	Calculation of the present value of each component of the derivative (fixed/variable) considering the market interest rates and translating into soles at the exchange rate ruling on that day (if necessary). It takes into account the variable flows (if any), flow projection, discount curves for each underlying asset, and current market interest rates.	▪ Forward points ▪ Fixed and variable quotes ▪ Closing exchange rates ▪ Market interest rate curves
	(b) Options	**For share, currency or raw material options:** The hypothesis derived from the use of the Black-Scholes model considers the possible adjustments to convexity.	**Share, currency or raw material derivatives:** ▪ Forward structure of underlying assets ▪ Volatility of options ▪ Observable correlations between different underlying assets
		For interest-rate derivatives: The hypothesis derived from the use of the Black-Scholes model assumes a lognormal process for forward types and considers the possible adjustments to convexity.	**Interest-rate derivatives:** ▪ Term structure of interest-rate curve ▪ Volatility of underlying asset

31. Subsequent Events

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

- Through SBS Resolution 5835-2019 and SBS Resolution 5856-2019, published on January 8, 2020, the SBS gave a favorable opinion considering that BBVA Peru can register the 'senior unsecured notes' of international securities framework, pursuant to Rule 144A and Regulation S - PEN for an amount of up to US$ 700 million equivalent in soles, and S - USD for an equivalent amount of up to US$ 700 million.

- On January 29, 2020, the Board of Directors agreed to increase the profit capitalization commitment approved by the Board of Directors meeting, held on October 30, 2019, from S/ 408 million to S/ 569 million, to be charged to profits or loss for the year 2019.