

Translation of independent auditors' report and financial statements
originally issued in Spanish - Note 22

Diviso Grupo Financiero S.A.

Financial statements as of December 31, 2018 and 2017,
together with Independent Auditors' Report



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Independent Auditors' Report

To Shareholders and Board of Directors of Diviso Grupo Financiero S.A.

We have audited the accompanying financial statements of Diviso Grupo Financiero S.A., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended; and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. Our audits were conducted in accordance with International Standards on Auditing as adopted for use in Peru by the Board of Peruvian Associations of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

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



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Independent Auditors' Report (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Diviso Grupo Financiero S.A. as of December 31, 2018 and 2017, as well as its financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis on separate information

The financial statements of Diviso Grupo Financiero S.A. have been prepared pursuant legal requirements in force in Peru for the presentation of financial information. The accompanying financial statements reflect the value of investments in subsidiaries at fair value and not on a consolidated basis. These financial statements should be read together with the consolidated financial statements of Diviso Grupo Financiero S.A. and Subsidiaries that are presented separately. We issued an unmodified opinion dated March 19, 2019 over such consolidated financial statements.

Lima, Peru
March 19, 2019

Countersigned by:

Wilfredo Rubiños
C.P.C.C. Register No. 9943

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Diviso Grupo Financiero S.A.

Statements of financial position

As of December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)		Note	2018 S/(000)	2017 S/(000)
Assets				Liabilities and net equity			
Current assets				Current liabilities			
Cash and cash equivalents	4	9,881	2,309	Financial obligations	8	50,906	35,638
Investments at fair value through profit or loss	5	88,193	46,547	Trade payables		364	2,652
Trade receivables		-	28	Payables to related parties	15(a)	55	5
Receivables from related parties	15 (a)	2	2	Other payables		177	288
Other receivables	7	5,278	3,695	Total current liabilities		<u>51,502</u>	<u>38,583</u>
Taxes and expenses contracted in advance		654	1,002	Non-current liabilities			
Total current assets		<u>104,008</u>	<u>53,583</u>	Financial liabilities	8	15,484	-
				Deferred income tax liabilities, net	9(a)	5,798	5,792
				Total non-current liabilities		<u>21,282</u>	<u>5,792</u>
				Total liabilities		<u>72,784</u>	<u>44,375</u>
Non-current assets				Net equity			
Investments in subsidiaries and associates	6	326,806	315,969	Capital stock	10	181,807	181,807
Available-for-sale investments	5	-	59,781	Share premium		28,841	28,841
Furniture and equipment, net		771	5	Legal reserve		31,917	31,917
Intangible assets, net		34	35	Unrealized results		108,010	150,158
Total non-current assets		<u>327,611</u>	<u>375,790</u>	Retained earnings		8,260	(7,725)
				Total net equity		<u>358,835</u>	<u>384,998</u>
Total assets		<u>431,619</u>	<u>429,373</u>	Total liabilities and net equity		<u>431,619</u>	<u>429,373</u>

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

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Diviso Grupo Financiero S.A.

Statements of comprehensive income

For the years ended December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Income from sale of marketable securities		23,374	44,620
Income from sale of participation in subsidiaries	6(f)	-	2,400
Cost of sales of marketable securities		(25,227)	(45,590)
Cost of sales of participation in subsidiaries	6(f)	-	(1,294)
(Loss) gross profit		<u>(1,853)</u>	<u>136</u>
Dividends received	5(b) and 6(l)	1,441	3,754
Net loss on valuation of investments at fair value through profit or loss	5(d)	(4,754)	(1,137)
Administrative expenses	11	(4,210)	(4,844)
Selling expenses		(2)	(13)
Operating loss		<u>(9,378)</u>	<u>(2,104)</u>
Financial income	12	764	1,923
Financial expenses	12	(4,538)	(5,367)
Other income		33	1
Net exchange rate difference	17(a)(i)	1,669	406
Loss before income tax		<u>(11,450)</u>	<u>(5,141)</u>
Income tax benefit	9(b)	1,255	2,195
Net loss of year		<u>(10,195)</u>	<u>(2,946)</u>
Unrealized (net loss) net profit in subsidiaries and associates		(14,707)	8,810
Transfer of net profit in subsidiaries to results		-	(1,106)
Unrealized net loss in available-for-sale investments		-	(506)
Income tax		(1,261)	(398)
Other comprehensive (loss) income		<u>(15,968)</u>	<u>6,800</u>
Total comprehensive (loss) income of year		<u>(26,163)</u>	<u>3,854</u>
Basic and diluted loss (in soles)	13	<u>(0.022)</u>	<u>(0.007)</u>

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Diviso Grupo Financiero S.A.

Statements of changes in equity

For the years ended December 31, 2018 and 2017

	Number of common shares (thousands of units)	Capital stock S/(000)	Share premium S/(000)	Legal reserve S/(000)	Unrealized results S/(000)	Retained earnings S/(000)	Total S/(000)
Balances as of January 1, 2017	398,961	159,585	1,063	31,917	143,358	(4,779)	331,144
Net loss	-	-	-	-	-	(2,946)	(2,946)
Other comprehensive income:							
Fluctuation of available-for-sale investments	-	-	-	-	(404)	-	(404)
Fluctuation of investments in subsidiaries	-	-	-	-	8,589	-	8,589
Fluctuation of investments in associates	-	-	-	-	(279)	-	(279)
Transfer of net profit of investments in subsidiaries and associates	-	-	-	-	(1,106)	-	(1,106)
Total comprehensive income	-	-	-	-	6,800	(2,946)	3,854
Capital contributions 10(a) and 10(c)	55,556	22,222	27,778	-	-	-	50,000
Balances as of December 31, 2017	454,517	181,807	28,841	31,917	150,158	(7,725)	384,998
Changes due to first adoption of IFRS 9, note 3	-	-	-	-	(26,180)	26,180	-
Restated balances as of January 1, 2018	454,517	181,807	28,841	31,917	123,978	18,455	384,998
Net loss	-	-	-	-	-	(10,195)	(10,195)
Other comprehensive income:							
Fluctuation of investments in subsidiaries	-	-	-	-	(20,614)	-	(20,614)
Fluctuation of investments in associates	-	-	-	-	5,907	-	5,907
Deferred income tax for net profit of investments in subsidiaries	-	-	-	-	(1,261)	-	(1,261)
Total comprehensive income	-	-	-	-	(15,968)	(10,195)	(26,163)
Balances as of December 31, 2018	454,517	181,807	28,841	31,917	108,010	8,260	358,835

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

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Diviso Grupo Financiero S.A.

Statements of cash flows

For the years ended December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Cash flows from operating activities			
Net loss for year		(10,195)	(2,946)
Adjustments to reconcile the net loss with the net cash used in operating activities:			
Depreciation and amortization	11(a)	45	50
Deferred Income Tax	9(b)	(1,255)	(2,195)
Net loss on sale of marketable securities		1,853	970
Net profit on investments in subsidiaries	6(f)	-	(1,106)
Dividends received	5(b) and 6(l)	(1,441)	(3,754)
Accrued interest, exchange rate difference and others		(2,989)	(729)
Net loss on valuation of investments at fair value through profit or loss	5(d)	4,754	1,137
Net changes in assets and liabilities:			
Trade receivables		28	(28)
Receivables from related parties and other receivables		(1,235)	(2,303)
Trade payables and payables to related parties		(2,238)	2,324
Other payables		(111)	(295)
Net cash used in operating activities		<u>(12,784)</u>	<u>(8,875)</u>

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Statements of cash flows (continued)

	Note	2018 S/(000)	2017 S/(000)
Cash flows from investing activities			
Time deposit greater than 90 days	4(d)	(2)	16,758
Income from sale of participation in subsidiaries	6(f)	-	2,400
(Purchase) sale of investments at fair value	5	15,581	6,949
Dividends received	5(b) and 7(k)	1,441	3,754
Purchase of intangible assets		(766)	(16)
Capital contributions in subsidiaries	6(d)	(25,507)	(48,376)
Capital contributions	10(a)	-	50,000
Net cash (used in) provided by investing activities		<u>(9,253)</u>	<u>31,469</u>
Cash flows from financing activities			
Increase of financial liabilities	17(c)(ii)	48,450	3,655
Payments of financial liabilities	17(c)(ii)	(22,743)	(42,550)
Loans from related parties	17(c)(ii)	9,500	5,600
Payments loans from related parties	17(c)(ii)	(5,600)	(5,712)
Net cash provided by (used in) financing activities		<u>29,607</u>	<u>(39,007)</u>
Net decrease in cash and cash equivalents		7,570	(16,413)
Cash and cash equivalents at the beginning of year		<u>2,268</u>	<u>18,681</u>
Cash and cash equivalents at the end of year	4(a)	<u>9,838</u>	<u>2,268</u>

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

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Diviso Grupo Financiero S.A.

Notes to the financial statements

As of December 31, 2018 and 2017

1. Business activity

Diviso Grupo Financiero S.A. (henceforth "the Company") was incorporated in Peru on December 2, 2004 and is the holding company of the economic group Diviso Grupo Financiero.

The Company's headquarters are located at Rivera Navarrete Avenue 501, 19 th, San Isidro, Lima - Peru.

The Company negotiates investments in transferable securities issued by domestic and foreign entities; as well as to buy, sell, lease and perform any legal act on shares, participations, deposits, securities, equity or debt instruments, financial instruments, bonds, options, shares of mutual or investment funds, derivative instruments created or to be created, and participate in projects, either individually or in association, in the country or abroad.

Likewise, the Board of Directors meeting held on April 16, 2014, approved to modify the Company's bylaws, expanding its economic activity to make investments in all types of entities and securities of the real estate and construction sectors; organize and constitute all kind of businesses and acquire shares or participations of other entities, whatever their nature.

The accompanying financial statements reflect the individual activity of the Company, without including the effects of the consolidation of these financial statements with those of its subsidiaries. The main balances of the subsidiaries as of December 31, 2018 and 2017 are presented in note 6.

The financial statements of the Company as of December 31, 2017 and for the year then ended were approved by the General Shareholders' Meeting held on March 26, 2018. The financial statements as of December 31, 2018 and for the year then ended were approved by the Management on January 17, 2019, and will be submitted for approval by the Board of Directors and the Shareholders' Meeting within the terms established by law. In Management's opinion, the accompanying financial statements will be approved by the Board of Directors and the General Shareholders' Meeting without modifications.

2. Significant accounting policies

2.1 Basis of preparation -

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (henceforth "IFRS") as issued by the International Accounting Standards Board (henceforth "IASB"), in force as of December 31, 2018 and 2017.

The information contained in these financial statements is responsibility of the Company's Management, which expressly confirms that it has fully applied the principles and judgments included in IFRS as issued by the IASB and in force as of the dates of financial statements.

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Notes to the financial statements (continued)

The accompanying financial statements are prepared from the Company's accounting records based on the historical cost principle, except for investments at fair value through profit or loss, available-for-sale investments and investments in subsidiaries and associates which are measured at fair value. The financial statements are presented in soles and all values are rounded to thousands of soles (S/(000)), unless otherwise stated.

The accounting policies adopted are consistent with those applied in previous years, except for the new IFRS and revised IAS that are mandatory for periods beginning on or after January 1, 2018. However, the nature and effect of these modifications and improvements have not been significant for the Company and have not required the inclusion of new significant disclosures or revise the financial statements of previous years, as described below:

In these financial statements, the Company has adopted for the first time IFRS 9 and IFRS 15, effective for annual periods beginning on or after January 1, 2018.

- First adoption of IFRS 9 "Financial Instruments"
IFRS 9 replaces IAS 39 for annual periods starting on or after January 1, 2018.

(a) Changes to classification and measurement -

To determine the classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on the business model test and the financial assets contractual cash flow characteristics test.

The IAS 39 measurement categories of financial assets (fair value through profit or loss, available-for-sale, held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income
- Equity instruments at fair value through other comprehensive income
- Financial assets at fair value through profit or loss

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss. Such movements are presented in other comprehensive income with no subsequent reclassification to the income statements. As of December 31, 2018, the Company has no liabilities designated at fair value through profit or loss.

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Due to aforementioned, the Company changed the classification of its debt instruments maintained in Costa Mar Pacifico and Miraflores NFC that were classified as available for sale investments under IAS 39, to Debt instruments at fair value through other comprehensive income, in accordance with IFRS 9 since the adoption date of this Standard, see note 3.

- (b) Changes to the impairment calculation -
The adoption of IFRS 9 has fundamentally changed the accounting for loan loss impairments by replacing the incurred loss approach under IAS 39 with a forward-looking expected credit loss approach under IFRS 9. IFRS 9 requires the Company to record an allowance for expected credit loss for all loans and other debt financial assets not held at fair value through profit or loss. The allowance is based on the expected credit loss associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the expected credit loss (ECL) over the life of the asset.

This change has not had a significant impact on the financial statements of the Company, mainly because the other receivables mainly correspond to accounts receivables for the incorporation of a subsidiary.

- (c) Disclosures in accordance with IFRS 7 -
To reflect the differences between IFRS 9 and IAS 39, IFRS 7 "Financial Instruments: Disclosures" was updated for the year beginning January 1, 2018. Changes include transition disclosures, detailed qualitative and quantitative information about the expected credit loss calculations, such as the assumptions and inputs used, the reconciliations of the expected credit loss from the date of transition until the closing date of the financial statements.

The changes in IFRS 7 disclosures have not had a material effect on the Company because the implementation of IFRS 9 did not have significant effects on the financial statements as detailed in the preceding paragraphs.

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- IFRS 15 "Revenue from contracts with customers"
IFRS 15, which replaced IAS 18 "Revenue" and IAS 11 "Construction contracts", was adopted by the Company as of January 1, 2018, regarding all contracts with customers.

The standard establishes a more systematic approach to the measurement and recognition of income through the introduction of a five-step model that governs the recognition of income. This model requires the Group (i) to identify the contract with the client, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of the consideration in the contract, (iv) assign the consideration for each of the performance obligations identified; and (v) recognize income as each performance obligation is met.

Due to the nature of the Company's operations, as a result of the adoption of IFRS 15, there have been no significant impacts, in relation to the date when the Company recognizes income.

- IFRIC 22 "Foreign currency transactions and advance consideration"
This interpretation clarifies that in determining the exchange rate to be used in the initial recognition of the asset, expense or income (or part thereof), related to the derecognition of a non-monetary asset or liability related to an advance consideration, the date of the transaction is the date at which the entity initially recognizes the non-monetary asset or liability resulting from the advance consideration. If there are several payments or receipts in advance, the entity must determine a transaction date for each payment or receipt of the advance consideration. Management concluded that this interpretation had no effect on its financial statements.
- Application of IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts" - Amendments to IFRS 4
The amendments address the concerns that arise from the implementation of the new financial instruments standard, IFRS 9, before implementing IFRS 17, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from the application of IFRS 9 and an overlay approach. Due to the nature of the Company's operations, these modifications are not applicable for the preparation of its financial statements.

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Notes to the financial statements (continued)

- Amendments to IAS 28 "Investments in Associates and Joint Ventures"
These modifications clarify that measuring investments at fair value through profit or loss is an investment for investment decision. Due to the nature of the Company's operations, these modifications are not applicable.

On the other hand, the Company has not early adopted other standards, interpretations or modifications that have been issued by the IASB but that are not effective as of December 31, 2018, see note 2.3 (r).

2.2 Significant judgments, estimates and accounting assumptions -

The preparation of the financial statements in accordance with IFRS requires that Management perform judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of material events in notes to the financial statements.

The most significant estimates included in the accompanying financial statements are related to the valuation of investments at fair value through profit or loss, available-for-sale investments and investments in subsidiaries and associates; likewise, Management performs other estimates such as the useful life of furniture and equipment and intangibles assets and the assets and liabilities from deferred and current income tax, whose accounting criteria are described below, see note 2.3.

In Management's opinion, these estimates were made based on their better knowledge of the relevant facts and circumstances at the date of preparation of financial statements; however, final results may differ from estimates. The Company's management expects that variations, if any, will not have a significant effect on the financial statements.

2.3 Summary of significant accounting policies -

The main accounting policies used in the preparation of the accompanying financial statements are detailed below:

(a) Classification of current and non-current balances -

The Company presents assets and liabilities in the statement of financial position classified as current and non-current.

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Notes to the financial statements (continued)

An asset is classified as current when the entity:

- Expects to realize an asset or intends to sell it or consume it in its normal operating cycle.
- Maintains the asset mainly for negotiation purposes.
- Expects to realize the asset within twelve months after the reporting period; or
- The asset is cash or cash equivalents unless it is restricted and cannot be exchanged or used to settle a liability for a minimum period of twelve months after the close of reporting period.

All other assets are classified as non-current.

A liability is classified as current when the entity:

- Expect to settle the liability in its normal operating cycle.
- Maintains the liability mainly for negotiation purposes.
- The liability must be settled within twelve months after the close of reporting period; or
- Does not have an unconditional right to postpone the settlement of the liability during, at least, the twelve months after the close of reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

- (b) Business combination between entities under common control -
Business combinations between entities under common control are registered by the pooling-of-interest method. According to this method, the balances of the financial statements of the merging companies, as of the date in which the merger occurs and in the other periods presented for comparison purposes since the date on which common control is given, are included in the financial statements of the Company which is the one that continues as if they had been merged from the date on which common control is given.

Due to the pooling-of-interest originates a single merged entity, it must adopt uniform accounting policies. Therefore, the merged entity recognizes the assets, liabilities and equity of the merged companies at their book values, adjusted to standardize the accounting policies and apply them to all the periods presented. In this process no goodwill or other type of assets is recognized. Likewise, the effects of all transactions between merging companies are eliminated when preparing the financial statements of the merged entity.

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Notes to the financial statements (continued)

(c) Financial instruments: Initial and subsequent recognition -
Before January 1, 2018, the Company classified its financial assets within the scope of IAS 39 as follows:

- Financial assets at fair value through profit or loss
- Loans and receivables (amortized cost)
- Held-to-maturity financial investments (amortized cost)
- Available-for-sale financial investments

From January 1, 2018, financial assets within the scope of IFRS 9 are classified based on the business model and the contractual cash flow characteristics, measured at either:

- Amortized cost
- Fair value through other comprehensive income
- Fair value through profit or loss

The Company determines the classification of financial assets at the time of initial recognition.

Financial assets that are not recorded at fair value through profit or loss are initially measured at their fair value plus the transaction costs directly attributable to the acquisition of the asset.

Purchases or sales of financial assets that require the delivery of the assets within a period of time established by a standard or condition of the market (conventional trade) are recognized on the date of trade; that is, the date on which the Company agrees to buy or sell the asset.

As of December 31, 2018 and 2017, the Company only maintains financial instruments classified in the following categories:

- (i) Financial assets at fair value through profit or loss -
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss, whose designation is from initial recognition and on an instrument-by-instrument basis.

As of December 31, 2018, the Company only maintains investments at fair value through profit or loss.

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Interest income of these financial instruments are recognized on an accrual basis and the dividends when they are declared, and are recorded in the statement of comprehensive income.

Changes in fair value of financial assets at fair value through profit or loss are recognized in the statements of comprehensive income.

The income and cost of the sale of investments at fair value through profit or loss are recorded in the statement of comprehensive income.

(ii) Loans and receivables -

The Company maintains in this category: cash and cash equivalents, trade receivables, receivables from related parties and other receivables.

Before January 1, 2018, the Company classified such instruments as "Loans and receivables" that are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. After the initial measurement, these financial assets are measured at amortized cost using the effective interest rate method (EIR), less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

From January 1, 2018, the Company measure cash and cash equivalents, trade receivables, receivables from related parties and other receivables at amortized cost if the following two conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

(iii) Other financial liabilities -

After initial measurement, other financial liabilities are measured subsequently at amortized cost using the effective interest rate method. Amortized cost is calculated considering any discount or premium on issuance and costs that are an integral part of the effective interest rate.

Other financial liabilities of the Company are: financial obligations, trade payables, payables to related parties and other payables.

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Notes to the financial statements (continued)

(d) Derecognition of financial assets and liabilities -

Financial assets -

- The contractual rights to receive cash flows from the assets have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and (i) either the Company has transferred substantially all the risk and rewards of the asset, or (ii) the Company has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset.

Financial liabilities -

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the statement of comprehensive income.

(e) Offsetting of financial instruments -

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset them and Management has the intention to settle them on a net basis, or realize the assets and settle the liability simultaneously.

As of December 31, 2018 and 2017, Management does not present any financial asset or liability for a net amount; nor present gross amounts subject to compensation rights.

(f) Impairment of financial assets -

Until January 1, 2018, with IAS 39, the Company evaluated at each reporting date, whether there was any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets were considered impaired, if and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event", among which we have, the ageing analysis of accounts receivable, credit risk assessment and evaluation of the commercial relationship with the client) and that event that caused the loss has an impact on the estimated future cash flows of the financial asset or group of financial assets, which can be estimated reliably. Evidence of impairment could include indications of significant financial difficulties of the borrowers or group of borrowers, default or delays in interest or principal payments, probability of restructuring or bankruptcy of the company or other legal financial reorganization process in which it is demonstrated that there will be a reduction in estimated future cash flows, as changes in circumstances or economic conditions that are related with defaults.

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From January 1, 2018, the adoption of IFRS 9 has fundamentally changed the impairment loss calculation method by replacing IAS 39's incurred loss approach with an expected credit loss approach. However, as indicated in note 2.1(b), as of December 31, 2018, the adoption of IFRS 9, in this respect, has not had a significant impact on the Company.

The allocation of expected loss is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case, the estimate is based on the expected credit loss at 12 months.

The credit losses expected at 12 months, is the part of the credit losses expected during the life of the asset that result from default events on a financial instrument that are possible within 12 months after the report date.

Both the expected credit losses at 12 months and the expected credit losses during the life of the asset are calculated individually or collectively, depending on the nature of the portfolio.

The Company has established a policy to perform an assessment, at the end of each reporting period, to identify whether the asset has suffered a significant increase in credit risk since the initial date.

(g) Foreign currency -

Functional and reporting currency -

The Company considers the Sol as its functional and reporting currency, because it reflects the nature of its transactions and the primary economic environment where the entity operates.

Transactions and balances in foreign currency -

Those are transactions carried out in a currency other than the functional currency.

Monetary assets and liabilities in foreign currency are initially recorded at the exchange rate prevailing at the date of the transaction and are subsequently translated into functional currency using the exchange rate at the date of the statements of financial position, see note 17(a)(i). Differences between the closing exchange rate at the date of each statements of financial position presented and the exchange rate initially used to record the transactions in foreign currency are recognized in the caption "Net exchange rate difference" of the statements of comprehensive income.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are recorded at the exchange rate at the date of the initial transaction and are not subsequently adjusted.

Translation of financial statements originally issued in Spanish - Note 22

Notes to the financial statements (continued)

(g) Investments in subsidiaries and associates -

Investments in subsidiaries -

A subsidiary is an entity that is controlled by another (known as a parent or controller).

The control is obtained when the Company is exposed, or has the right, to receive variable returns from its participation in the investee and can influence such returns through its power over the investee. The Company controls an entity if and only if it has:

- Power over the entity (rights that grant to the Company the present capacity to direct the relevant activities of the entity),
- Exposure, or rights, to variable returns from the Company's participation in the entity, and
- Ability to use its power over the entity to affect entity's returns.

In general, it is presumed that a majority of voting rights gives rise to control. To support this presumption and when the Company has less than the majority of votes or similar rights in the entity, the Company considers all relevant facts and circumstances to assess whether it has the power over said entity, among them:

- Contractual agreement with other voting holders of the entity.
- Rights derived from other contractual agreements.
- Voting rights of the Company and potential voting rights.

The Company assesses whether or not it has control over an entity when the facts and circumstances indicate that there are changes in some of the control elements.

Investments in associates -

An associate is an entity in which the Company exercises significant influence. Significant influence is the power to participate in decisions on financial and operating policies of the entity, but without exercising control over such policies.

The considerations made to determine significant influence are similar to those used to determine control over subsidiaries.

Translation of financial statements originally issued in Spanish - Note 22

Notes to the financial statements (continued)

Accounting record -

The Company accounts for its investments in subsidiaries and associates in accordance with IFRS 9 for equity instruments at fair value through other comprehensive income using valuation techniques due to such investments are not listed in an active market. According to this method, investments are initially recorded at cost and subsequently their book value increases or decreases according to valuations.

The Company has used the discounted net cash flow method for financial assets that are not traded in active markets (level 3). The Company makes valuation on an annual basis, also when there is an increase or decrease in the capital stock of the subsidiary or associate, or when it is established by the Board of Directors.

Impairment -

Before January 1, 2018, the Company determined whether it is necessary to recognize an impairment loss of investments in its subsidiaries and associates. At each closing date of the reporting period, the Company determined whether there was objective evidence that the investment in its subsidiaries and associates had been impaired. If such evidence exists, the Company determined the amount of the impairment as the difference between the recoverable amounts of subsidiary or associates and their carrying amounts, and then recognizes the loss in the statement of comprehensive income.

Equity instruments at fair value through other comprehensive income (Policy applicable from January 1, 2018) -

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at fair value through other comprehensive income when not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit even when the asset is sold. Dividends are recognized in the consolidated income statements as income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

(h) Financial obligations -

Financial obligations are initially recognized at fair value, net of costs incurred in the transaction. These obligations are subsequently recorded at amortized cost; any difference between funds received (net of transaction costs) and redemption value are recognized in the statement of comprehensive income during the loan period using the effective interest rate method.

Translation of financial statements originally issued in Spanish - Note 22

Notes to the financial statements (continued)

Financial obligations are classified as current liabilities unless the Company has an unconditional right to defer payment of the obligation for at least 12 months from the date of the statement of financial position.

(i) Provisions -

Provisions are recognized only when the Company has a present obligation (legal or implicit) as result of past events, it is probable that an outflow of resources will be required to settle such obligation, and the amount has been reliably estimated. Provisions are reviewed in each period and are adjusted to reflect their best estimate as of the statements of financial position date.

When the effect of the time value of money is significant, the amount recorded as a provision is the present value of future payments required to settle the obligation.

(j) Contingencies -

Contingent liabilities are not recorded in the financial statements. They are disclosed in notes to the financial statements, unless the possibility of an outflow of economic benefits is remote.

Contingent assets are not recognized in the financial statements; however, they are disclosed when their contingency degree is probable.

(k) Severance indemnity -

Severance indemnity ("CTS", by its Spanish acronym) of Company's workers corresponds to their compensation rights calculated in accordance with current legislation. It must be deposited in bank accounts designated by workers in the months of May and November of each year. Severance indemnity of workers is equivalent to half compensation in effect on deposit's date. The Company has no additional payment obligations once it makes the annual deposits of funds to workers that are entitled to such funds.

(l) Income Tax -

Current Income Tax -

Current Income Tax is computed based on the taxable income determined for tax purposes, which is determined using criteria that differ from the accounting principles used by the Company. The legal rules and rates used to calculate the amounts payable are those that are in force on the date of the statement of financial position.

Deferred Income Tax -

The deferred Income Tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes; and it is recognized using the liability method over these temporary differences.

Translation of financial statements originally issued in Spanish - Note 22

Notes to the financial statements (continued)

Deferred tax liabilities are recognized for taxable temporary differences; while deferred tax assets are recognized for all deductible temporary differences if it is probable that there will be sufficient future benefits to apply the deferred asset.

Deferred assets and liabilities are measured using the tax rates that are expected to apply to the taxable income in the years in which the asset will be realized or the liability will be canceled, based on the tax rates that were approved as of the date of the statements of financial position.

The measurement of deferred tax assets and liabilities reflects the tax consequences which arise from the way in which the Company expects to recover or to settle the carrying amount of its assets and liabilities as of the date of the statements of financial position.

The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of temporary differences, due to a change in the rate of income tax. The effect of change in deferred tax due to a change in the rate of income tax will be recognized in the statements of comprehensive income, except for items previously recognized outside statements of comprehensive income (either in other comprehensive income or directly in equity).

Income tax deferred assets and liabilities are offset if there is legal right to offset and are related to the same taxable entity and the same tax authority.

(m) Fair value measurement -

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- On the principal market for the asset or liability; or
- In the absence of a principal market, on the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Translation of financial statements originally issued in Spanish - Note 22

Notes to the financial statements (continued)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value, maximizing the use of relevant and observable data and variables, and minimizing the use of unobservable data and variables.

All assets and liabilities for which the fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described below, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level variable that is significant for the calculation of fair value as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of hierarchy of the fair value, as explained above.

(n) Revenue recognition -

Revenues from sale of marketable securities and participation in subsidiaries are recognized when all the risks and benefits, it is probable that the economic benefits associated to the transaction will flow to the Company and the amount of the income can be reliably measured.

Interest income is recognized based on the proportion of time elapsed, using the effective interest rate method. Dividend income is recognized when there is a right to receive payment of dividends.

Financial income is recorded in the statement of comprehensive income when it accrues, regardless the time when they are received or disbursed.

Translation of financial statements originally issued in Spanish - Note 22

Notes to the financial statements (continued)

(o) Recognition of costs and expenses -

Cost of sales of marketable securities and participation in subsidiaries are recognized when the transaction take place.

Costs and expenses are recognized on accrual basis, regardless the time when they are paid.

Financial costs are recorded as an expense when accrued and include interest charges and other costs incurred related to loans.

(p) Dividend distribution -

Dividends are recognized as a liability in the period in which their distribution is approved by the shareholders of the Company.

(q) Cash and cash equivalents -

Cash and cash equivalents presented in the statements of cash flows correspond to balances of cash, checking accounts, savings accounts and term deposits, registered in the statements of financial position. Cash equivalents have less than a three-month maturity, are highly liquid, easily convertible of cash and are not subject to a significant risk of changes in their value.

(r) Standards issued but not yet effective -

Standards issued but not yet effective as of the date of the financial statements are detailed below. The following standards and interpretations issued include those that the Company plans to apply in the future. The Company intends to adopt these standards when they become effective with no intention of early adoption.

Below, we present a summary of improvements and/or amendments to IFRS that are not yet effective, but would be applicable to the Company:

- IFRS 16 "Leases", effective for annual periods beginning on or after January 1, 2019.
- Interpretation of IFRIC 23 "Uncertainty over income tax treatments", effective for annual periods beginning on or after January 1, 2019.
- Amendments to IFRS 9 "financial instruments", effective for annual periods beginning on or after January 1, 2019.
- Amendments to IFRS 9, Prepayment features with negative compensation. These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2019.

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Notes to the financial statements (continued)

- Amendments to IAS 28: Long-term interests in associates and joint ventures. These amendments are effective for annual periods beginning on or after January 1, 2019.
- Modifications to the Financial Reporting Framework, effective for annual periods beginning on or after January 1, 2020.
- Improvements to the IFRS (2015 - 2017 cycle) to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income taxes", IAS 23 "Borrowing costs", effective for annual periods beginning on or after January 1, 2019 and early adoption is allowed.
- IFRS 17 "Insurance contracts", effective for annual periods beginning on or after January 1, 2021. Adoption must be retrospectively. Early adoption is allowed, if the entity applies IFRS 9 and IFRS 15 as of the date of first adoption of IFRS 17.
- Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in Associates and Joint Ventures". Sale or contribution of assets between an investor and its associate or joint venture. On December 2015 the International Accounting Standards Board has deferred the effective date of these amendments indefinitely.
- Amendments to IAS 19: Plan amendment, curtailment or settlement: Amendments to IAS 19 "Employee benefits" effective for curtailment or settlement of plans that occurs beginning on or after January 1, 2019.

In Management's opinion, these standards will not have a significant impact on the Company's financial statements.

Translation of financial statements originally issued in Spanish - Note 22

Notes to the financial statements (continued)

3. Transition to IFRS 9 disclosures

This table presents the impact of the adoption of IFRS 9 in the statements of financial position and in the retained earnings. Also, it presents the reconciliation between the book values according to IAS 39 and the balances reported according to IFRS 9, as of January 1, 2018:

	IAS 39		Reclassifications of first adoption of IFRS 9	IFRS 9	
	Category	Balance S/(000)	S/(000)	Balance S/(000)	Category
Assets					
Cash and cash equivalents	Loans and receivables	2,309	-	2,309	Amortized cost
Investments at fair value through profit or loss	Fair value through profit or loss	46,547	59,781	106,328	Fair value through profit or loss
Trade receivables	Loans and receivables	28	-	28	Amortized cost
Receivables from related parties	Loans and receivables	2	-	2	Amortized cost
Other receivables	Loans and receivables	3,695	-	3,695	Amortized cost
Taxes and expenses contracted in advance	-	1,002	-	1,002	-
Investments in subsidiaries and associates	-	315,969	-	315,969	-
Available-for-sale investments	Available-for-sale	59,781	(59,781)	-	Fair value through profit or loss
Furniture and equipment, net	-	5	-	5	-
Intangible assets, net	-	35	-	35	-
Total assets		<u>429,373</u>	<u>-</u>	<u>429,373</u>	

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Notes to the financial statements (continued)

	IAS 39		Reclassifications of first adoption of IFRS 9	IFRS 9	
	Category	Balance S/(000)	S/(000)	Balance S/(000)	Category
Liabilities					
Financial obligations	Amortized cost	35,638	-	35,638	Amortized cost
Trade payables	Amortized cost	2,652	-	2,652	Amortized cost
Payables to related parties	Amortized cost	5	-	5	Amortized cost
Other payables	Amortized cost	288	-	288	Amortized cost
Deferred income tax liabilities, net	Amortized cost	5,792	-	5,792	Amortized cost
Total liabilities		<u>44,375</u>	<u>-</u>	<u>44,375</u>	
Net equity					
Capital stock	-	181,807	-	181,807	-
Share premium	-	28,841	-	28,841	-
Legal reserve	-	31,917	-	31,917	-
Unrealized results	-	150,158	(26,180)	123,978	-
Retained earnings	-	(7,725)	26,180	18,455	-
Total net equity		<u>384,998</u>	<u>-</u>	<u>384,998</u>	
Total liabilities and net equity		<u>429,373</u>	<u>-</u>	<u>429,373</u>	

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Notes to the financial statements (continued)

As of January 1, 2018, the Company changed the classification of its investments held in Costa Mar Pacifico and Miraflores NFC investment funds for a total amount of approximately S/59,781,000 from investments available for sale according to IAS 39 to "Investments at fair value through profit or loss", in accordance with IFRS 9, starting the adoption of such Standard.

Also, as part of the adoption of IFRS 9, the balance of the unrealized net gain on these investments accumulated in net equity as of January 1, 2018 in the "Unrealized results" caption of approximately S/37,135,000, net of deferred income tax for approximately S/10,955,000 was transferred to the caption "Retained earnings".

The impact of the transition to IFRS 9 on unrealized results and retained earnings is as follows:

	Unrealized results and retained earnings S/(000)
Unrealized results	
Balance according to IAS 39 (as of December 31, 2017)	<u>150,158</u>
Impact of the transition -	
Effect of reclassification of available-for-sale investments to investments at fair value through profit or loss	<u>(26,180)</u>
Total effects on unrealized results (i)	<u>(26,180)</u>
Initial balance restated under IFRS 9 (as of January 1, 2018)	<u>123,978</u>
Retained earnings	
Balance according to IAS 39 (as of December 31, 2017)	<u>(7,725)</u>
Impact of the transition -	
Effect of reclassification of available-for-sale investments to investments at fair value through profit or loss	<u>26,180</u>
Total effects on retained earnings (ii)	<u>26,180</u>
Initial balance restated under IFRS 9 (as of January 1, 2018)	<u>18,455</u>
Changes for the first adoption of IFRS 9 (i) + (ii)	<u>-</u>

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Notes to the financial statements (continued)

4. Cash and cash equivalents

(a) Below is the composition of the caption:

	2018 S/(000)	2017 S/(000)
Petty cash	2	2
Checking and savings accounts (b)	234	566
Time deposits (c)	9,602	1,700
Cash balances considered in the statement of cash flows	<u>9,838</u>	<u>2,268</u>
Time deposit with original maturity greater than 90 days (d)	<u>43</u>	<u>41</u>
Total	<u>9,881</u>	<u>2,309</u>

(b) The Company maintains its checking and savings accounts in local financial entities, are denominated in soles and US dollars, are freely available and accrues interest at market rates.

(c) As of December 31, 2018, the Company maintains a time deposit in US dollars with an original maturity of less than three months in a local financial entity, which is freely available and bears interest at an effective annual rate of 1.50 percent. This deposit was settled in January 2019.

As of December 31, 2017, the Company held time deposits in soles with original maturities of less than three months in local financial entities, which were freely available and accrued interest at an effective annual rate of 3.20 percent. These deposits were settled between January and March 2018.

(d) As of December 31, 2018 and 2017, corresponds to a freely available time deposit held in a local financial entity for US\$12,800 (equivalent to approximately S/43,000 and S/41,000, respectively) with a maturity of 412 days, and accrues interest at an annual effective rate of 0.75 percent.

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Notes to the financial statements (continued)

5. Investments at fair value through profit or loss and available-for-sale

(a) Below is the composition of the caption:

Description	2018		2017	
	Quantity	Fair value S/(000)	Quantity	Fair value S/(000)
Investments at fair value through profit or loss (d) (e)				
Shares (b)				
Volcán Sociedad Minera S.A.A.	3,978,050	2,824	4,500,000	5,942
Bolsa de Valores de Lima S.A.	8,347,079	24,874	10,197,079	36,200
Mutual funds (c)				
Fondo de Inversiones de Acreencias Soles - FIA Soles	52,043	5,245	-	-
Inversiones en Rentas de Inmuebles Fondo de Inversión	2,755	1,101	-	-
Fondo de Inversiones de Acreencias Dólares (FIA Dólares)	-	-	13,147	4,405
Investment funds (f)				
Miraflores NCF Fondo de inversión	898	17,203	-	-
Costa Mar Pacífico	1,701,662	36,946	-	-
Total		<u>88,193</u>		<u>46,547</u>
Available-for-sale investments (before January 1, 2018)				
Investment funds (f) (g)				
Miraflores NCF Fondo de inversión	-	-	1,229	25,311
Costa Mar Pacífico	-	-	1,701,662	34,470
Total		<u>-</u>		<u>59,781</u>

(b) During year 2018, dividends received by the Company from local shares amounted to approximately S/1,441,000 and are recorded in the "Dividends received" account of the statements of comprehensive income (S/1,868,000 during year 2017).

Translation of financial statements originally issued in Spanish - Note 22

Notes to the financial statements (continued)

- (c) Includes 52,043 participations in the investment fund Diviso Fondo de Inversión en Acreencias en Soles (FIA Soles), and the value of each participation as of December 31, 2018 is S/100.77, also includes 2,755 participations in the investment fund Rentas de Inmuebles Fondo de Inversión and the value of each participation as of December 31, 2018 is US\$118.58 (S/399.51).

Includes 13,147 participations in the investment fund Diviso Fondo de Inversión en Acreencias en Dólares (FIA Dólares) and the value of each participation as of December 31, 2017 is US\$103.53.

- (d) For years ended December 31, 2018 and 2017, the change in fair value of investments at fair value through profit or loss generated a net loss of approximately S/4,754,000 and S/1,137,000, respectively, that is recorded in the caption "Net loss on valuation of investments at fair value through profit or loss" in the statements of comprehensive income.

- (e) As of December 31, 2018, the Company has recorded a deferred income tax asset of approximately S/1,873,000 (note 9(a)), generated by the fluctuation of investments at fair value through profit or loss that amounts to approximately S/6,438,000 (deferred income tax asset of approximately S/630,000 and fluctuation of approximately S/2,135,000 as of December 31, 2017).

- (f) As of December 31, 2018, the Company maintains 1,701,662 and 898 participations in the investment funds named "Costa Mar Pacífico" and "Miraflores NCF", respectively, that represent 26.78 percent and 48.96 percent, respectively, of the equity of such funds as of such date.

These funds were recorded as part of a simple merger by absorption of NCF Inmobiliaria S.A. (related entity of the Company), made on March 20, 2014.

Starting January 1, 2018, the Company changed the classification of its investments in "Costa Mar Pacífico" and "Miraflores NCF", classified according to IAS 39 as Available for sale investments to Investments at fair value through profit or loss, in accordance with IFRS 9, starting the adoption of this Standard, see note 3.

- (g) As of December 31, 2017, available for sale investments generated an unrealized gain of approximately S/37,135,000 that as of such date was recorded in the caption "-Unrealized results-" net of the deferred income tax for S/10,955,000.

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Notes to the financial statements (continued)

6. Investments in subsidiaries and associates

(a) Below is the composition of the caption:

	Percentage of participation		Total fair value		Fair value of participation	
	2018 %	2017 %	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)
Subsidiaries (c)						
Financiera Credinka S.A.	82.34	81.92	319,695	316,904	263,237	259,616
Diviso Fondos SAF S.A.	99.99	99.99	16,743	26,683	16,743	26,683
Diviso Bolsa SAB S.A.	99.99	99.99	16,635	20,422	16,636	20,422
NCF Servicios Compartidos S.A.	99.93	99.30	15,274	1,715	15,263	1,703
Associates (b)						
Edpyme Alternativa S.A.	27.66	26.61	48,666	22,440	13,462	5,971
Bolsa de Productos de Chile S.A.	10.03	10.03	14,600	15,695	1,465	1,574
			<u>431,613</u>	<u>403,859</u>	<u>326,806</u>	<u>315,969</u>

(b) As of December 31, 2018, the Company maintains a deferred income tax liability of approximately S/1,455,000 (S/146,000 as of December 31, 2017), see note 9(a), generated by the unrealized gain of the investments in associates for approximately S/4,929,000 (unrealized loss for approximately S/978,000 as of December 31, 2017), recorded in the caption "Unrealized results" of the statements of changes in equity.

(c) Also, as of December 31, 2018 and 2017, the Company maintains an unrealized gain on investments in subsidiaries for approximately S/104,536,000 and S/125,150,000, respectively, recorded in the "Unrealized results" caption of the statements of changes in equity. According with IAS 12 "Income tax", an entity recognizes a deferred income tax liability in all cases of taxable temporary differences related to investments in subsidiaries; except, when the controlling entity can control the moment of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed soon. In this regard, considering IAS 12 and the business strategy for the subsidiaries, the Company does not calculate the deferred income tax liability of the fluctuation of investments in its subsidiaries.

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Notes to the financial statements (continued)

- (d) The movement of investments in subsidiaries and associates for years ended December 31, 2018 and 2017, is as follows:

	2018 S/(000)	2017 S/(000)
Opening balance	315,969	261,182
Purchases (e)	37	1
Sales (f)	-	(1,294)
Capital contribution in cash (g) y (h)	25,507	48,376
Changes in fair value net of transfers to results (i)	<u>(14,707)</u>	<u>7,704</u>
Final balance	<u>326,806</u>	<u>315,969</u>

- (e) On February 22, 2017, the Company acquired 1,370 shares of Financiera Credinka S.A. at a nominal value of S/1.00 per share, for a total amount of approximately S/1,370.

On April 4, 2018, June 21, 2018 and August 14, 2018, the Company acquired 13,018, 22,610 and 1,370 shares, respectively, of Financiera Credinka S.A. at a nominal value of S/1.00 per share for a total amount of approximately S/37,000.

- (f) On February 9, 2017, the Company sold 1,200,165 shares of Financiera Credinka S.A. for an approximate amount of S/2,400,000; while a cost amounted to S/1,294,000.

- (g) The General Shareholders' Meeting of Financiera Credinka S.A. held on December 4, 2017, agreed to increase the capital stock of such subsidiary through cash contributions; in this sense, on December 26, 2017, the Company paid and subscribed 15,951,741 new shares for a value of S/2.00 per share; consequently, the capital contribution paid by the Company amounted to S/31,903,482.

The General Shareholders' Meeting of Financiera Credinka S.A. held on July 10, 2017, agreed to increase the capital stock of such subsidiary through cash contributions up to S/7.5 million. In this sense, the Board of Directors' Meeting held on September 11, 2017, agreed to increase the capital stock by issuing 7.5 million of shares at a nominal value of S/1.00 per share and a share premium of S/1.00 per share. After the share subscription process, 7,500,000 new shares were subscribed on September 13, 2017, for a subscription value of S/2.00 per share; consequently, the capital contribution paid by the Company amounted to S/15,000,000.

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Notes to the financial statements (continued)

The General Shareholders' Meeting of Edpyme Alternativa S.A. held on August 11, 2017, agreed to increase the capital stock through cash contributions. In this sense, on August 31, 2017 and December 25, 2017, the Company subscribed 348 and 1,125 new shares, respectively, for a value of S/1,000.00 per share; consequently, the capital contribution paid by the Company amounted to S/1,473,000.

- (h) In relation to the increase in capital stock agreed at the General Shareholders' Meeting of Financiera Credinka S.A. held on December 4, 2017, on January 25, 2018, the Company paid and subscribed 3,316,446 shares of such subsidiary for a value of S/2.00 per share; consequently, the capital contribution paid by the Company amounted to S/6,632,892. This capital increase has been formalized by subscription and registration in Cavali on February 26, 2018.

On June 15, 2018, June 25, 2018, October 9, 2018 and October 15, 2018 the Company made capital stock increases in Edpyme Alternativa S.A. through cash contributions for 155, 665, 544 and 111 shares, respectively, at a nominal value of S/1,000.00 per share for a total amount of S/1,474,000.

The General Shareholders' Meeting of NCF Servicios Compartidos S.A. held on December 26, 2018, agreed to increase the capital stock of said subsidiary through cash contributions up to S/20,000,000; in this regard, 9,423,003 and 7,975,518 shares were issued in the Company's favor on December 28, 2018 and December 31, 2018, respectively, at a nominal value of S/1.00 per share for a total amount of S/17,398,521. Such capital contributions were subscribed on January 24, 2019.

- (i) The revenues and costs related to these sales were recorded by the Company in the accounts of "Income from sale of participation in subsidiaries" and "Cost of sales of participation in subsidiaries", respectively, of the statement of comprehensive income.
- (j) The measurement of fair value is annual or when the Board of Directors determines its early measurement or because of the capitalization of credits, capital increases or reductions of capital stock in subsidiaries; in this case, the measurement of fair value would be adjusted in proportion to the amount in which the capital stock increased or decreased.

The main considerations for the valuation of the subsidiaries and associates are described below:

- For Financiera Credinka S.A., fair value has been calculated considering the flow of dividends discounted method, based on projections prepared by Financiera Credinka S.A. considering the cash flows that such entity will generate.

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Notes to the financial statements (continued)

- For Diviso Fondos SAF S.A., fair value has been calculated considering the flow of dividends discounted method, taking as a reference, the financial statements projected by the management for the period 2017-2021 and the results at the end of the fourth quarter and the goals proposed for that period.
- For Diviso Bolsa SAB S.A., fair value has been calculated considering the flow of dividends discounted method, taking as a reference, the financial statements projected by the management for the period 2017-2021 and the results at the end of the fourth quarter and the goals proposed for that period.
- For NCF Servicios Compartidos S.A., fair value has been calculated considering the net value resulting from assets less liabilities at book value that is aligned to market value as of December 31, 2018 and 2017.
- For its associate Bolsa de Productos de Chile S.A., fair value has been calculated considering the net value resulting from assets less liabilities at book value that is aligned to market value.
- For its associate Edpyme Alternativa S.A., fair value has been calculated considering market transactions performed close to the valuation date.

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Notes to the financial statements (continued)

- (k) The following is a summary of the main data of the financial statements of the subsidiaries and the principal associate of the Company as of December 31, 2018 and 2017 and for the years ended on such dates:

	Assets		Liabilities		Net equity		Net profit (loss)	
	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)
Subsidiaries								
Financiera Credinka S.A.	1,013,284	1,029,633	869,305	870,610	143,979	159,023	(17,952)	(17,851)
Diviso Fondos SAF S.A.	15,221	14,464	925	830	14,296	13,634	662	711
Diviso Bolsa SAB S.A.	16,476	17,218	600	633	15,876	16,585	(595)	1,163
NCF Servicios Compartidos S.A.	15,832	2,358	558	643	15,274	1,715	(3,840)	(207)
Associates								
Edpyme Alternativa S.A.	168,160	149,895	139,980	127,445	28,180	22,450	1,233	378
Bolsa de Productos de Chile S.A.	15,347	16,195	662	500	14,685	15,695	180	494

- (l) During 2017, dividends received by the Company from investments in subsidiaries and associates amounted to approximately S/1,886,000 and are recorded in the "Dividends received" account of the statements of comprehensive income.

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Notes to the financial statements (continued)

7. Other receivables

(a) Below is the composition of the caption:

	2018 S/(000)	2017 S/(000)
Accounts receivable (b)	4,159	3,501
Redemption of quotes in investment funds (c)	422	-
Loans without guarantee	77	75
Claims to collect	6	6
Others	614	113
	<u>5,278</u>	<u>3,695</u>

- (b) As of December 31, 2018 and 2017, corresponds to disbursements made by the Company related to the incorporation of the subsidiary Trevia Compañía de Seguros S.A. In Management's opinion, these amounts will be considered as a capital contribution when the aforementioned subsidiary has the authorization for the operation and functioning of the Peru's Superintendence of Banking, Insurance and Private Pension Funds Administrators. As of December 31, 2018 and 2017, in Management's opinion, it is not necessary to establish an estimate for impairment of this asset that after the approval described above, will reclassify from other accounts receivable to the caption investments in subsidiaries.
- (c) As of December 31, 2018, corresponds to redemption of 53,043 quotes valued in S/421,617 of the investment fund Fondo de Inversiones de Acreencias Soles - FIA Soles, pending to collect.

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Notes to the financial statements (continued)

8. Financial obligations

(a) Below is the composition of the caption:

	Weighted annual interest rate	Payment of interest	Maturity	Original amount issued (000)	2018 S/(000)	2017 S/(000)
	%					
Financial obligations						
Short-term debt instruments (STDI)						
Nineteenth program - Series C	8.25	At maturity	February 2018	S/ 1,000	-	998
Nineteenth program - Series D	5.25	At maturity	March 2018	S/ 1,655	-	1,651
Nineteenth program - Series E	8.25	At maturity	March 2018	S/ 1,000	-	998
Nineteenth program - Series F	6.50	At maturity	January 2019	S/ 2,000	2,000	-
Nineteenth program - Series H	7.00	At maturity	March 2019	S/ 8,000	8,000	-
Nineteenth program - Series I	7.23	At maturity	March 2019	S/ 1,000	1,000	-
Nineteenth program - Series J	7.00	At maturity	April 2019	S/ 600	600	-
Nineteenth program - Series K	7.00	At maturity	April 2019	US\$ 1,000	3,379	-
Nineteenth program - Series Ñ	7.00	At maturity	April 2019	US\$ 161	544	-
Nineteenth program - Series O	6.80	At maturity	May 2019	US\$ 500	1,690	-
Nineteenth program - Series Q	6.00	At maturity	May 2019	US\$ 300	1,014	-
Nineteenth program - Series S	7.23	At maturity	August 2019	S/ 1,000	1,000	-
Nineteenth program - Series T	6.25	At maturity	February 2019	S/ 1,000	1,000	-
Nineteenth program - Series U	5.00	At maturity	February 2019	US\$ 282	953	-
Nineteenth program - Series V	6.25	At maturity	March 2019	S/ 1,500	1,500	-
Nineteenth program - Series W	6.00	At maturity	April 2019	S/ 1,000	1,000	-
Nineteenth program - Series X	7.15	At maturity	October 2019	S/ 600	600	-
Nineteenth program - Series Y	7.25	At maturity	October 2019	S/ 2,000	2,000	-
Nineteenth program - Series Z	5.00	At maturity	November 2019	S/ 2,400	2,400	-
Nineteenth program - Series AB	5.00	At maturity	November 2019	S/ 320	320	-
Nineteenth program - Series AC	5.00	At maturity	November 2019	S/ 1,300	1,300	-
Nineteenth program - Series AD	5.00	At maturity	May 2019	S/ 1,166	1,166	-
Nineteenth program - Series AE	5.00	At maturity	May 2019	S/ 1,500	1,500	-
					<u>32,966</u>	<u>3,647</u>
Bonds issued (c)						
Third issue	8.00	Biannual	May 2018	US\$1,000	-	3,238
Fourth issue	7.75	Biannual	September 2018	US\$1,050	-	3,889
Fifth issue	8.10	Biannual	April 2018	S/12,000	-	11,969
Seventh issuance series A	8.00	Biannual	March 2020	S/1,800	1,800	-
Seventh issuance series B	7.50	Biannual	March 2020	S/500	500	-
Seventh issuance series C	7.50	Biannual	March 2020	S/2,000	2,000	-
Seventh issuance series D	7.50	Biannual	May 2020	S/1,076	1,076	-
Seventh issuance series E	6.70	Biannual	May 2020	US\$ 300	1,014	-
Seventh issuance series F	7.00	Biannual	June 2021	US\$ 275	929	-
Seventh issuance series G	9.00	Biannual	May 2020	S/1,400	1,400	-
Seventh issuance series H	9.10	Biannual	August 2021	S/2,130	2,130	-

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Notes to the financial statements (continued)

	Weighted annual interest rate	Payment of interest	Maturity	Original amount issued (000)	2018 S/(000)	2017 S/(000)
	%					
Seventh issuance series K	9.30	Biannual	October 2023	S/500	500	-
Seventh issuance series I	7.50	Biannual	October 2021	US\$ 600	2,027	-
Seventh issuance series J	7.50	Biannual	October 2021	US\$ 150	508	-
Seventh issuance series L	8.00	Biannual	May 2021	S/500	500	-
Seventh issuance series M	8.25	Biannual	November 2021	S/600	600	-
Seventh issuance series N	8.00	Biannual	May 2021	S/500	500	-
					<u>15,484</u>	<u>19,096</u>
Financial institutions of the country						
Loan Financiera Credinka	12.00	At maturity	January 2019	S/6,000	6,000	6,000
Loan Financiera Credinka	12.00	At maturity	November 2018	S/5,600	-	5,600
Loan Financiera Credinka	12.00	At maturity	April de 2019	S/2,500	2,500	-
Loan Financiera Credinka	12.00	At maturity	April de 2019	S/1,000	1,000	-
Loan Financiera Credinka	12.00	At maturity	January 2020	S/6,000	6,000	-
					<u>15,500</u>	<u>11,600</u>
Interest payable for STDI					1,137	250
Interest payable for corporate bonds					290	240
Interest payable for loans					1,013	805
Total financial obligations					<u>66,390</u>	<u>35,638</u>
Short term					50,906	35,638
Long term					15,484	-
Total					<u>66,390</u>	<u>35,638</u>

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Notes to the financial statements (continued)

- (b) Below is the balance of outstanding financial obligations classified by maturity (accrued interest is not included):

	2018 S/(000)	2017 S/(000)
From 3 months to 1 year	48,466	34,343
From 1 to 3 years	<u>15,484</u>	<u>-</u>
Total	<u>63,950</u>	<u>34,343</u>

- (c) As of December 31, 2018 and 2017, corporate bonds were guaranteed by a generic guarantee on the Company's equity, without specific guarantees.
- (d) As of December 31, 2018, the short-term debt instruments (STDI) were guaranteed by a generic guarantee on the Company's equity and without specific guarantees. As of December 31, 2017, these instruments were guaranteed with shares of the Lima Stock Exchange that the Company maintained, see note 5.
- (e) The interest expense accrued in year 2018, related to financial obligations, amounts to approximately S/4,114,000 (S/4,890,000 in 2017) and is presented in the caption "Financial income and expenses" in the statements of comprehensive income, see note 12.

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Notes to the financial statements (continued)

9. Deferred income tax liabilities, net

(a) Below is the detail and movement of this caption:

	Balances as of January 1, 2017 S/(000)	(Debit) credit to income S/(000)	Debit to equity S/(000)	Balances as of December 31, 2017 S/(000)	Reclassification for adoption of IFRS 9, note 3 S/(000)	(Debit) credit to income S/(000)	Debit to equity S/(000)	Balances as of December 31, 2018 S/(000)
Deferred assets								
Tax loss	2,804	1,857	-	4,661	-	22	-	4,683
Vacations not taken	29	1	-	30	-	(10)	-	20
Fluctuation of investments in associates	354	-	(354)	-	-	-	-	-
Others	(13)	1	-	(12)	-	-	48	36
	<u>3,174</u>	<u>1,859</u>	<u>(354)</u>	<u>4,679</u>	<u>-</u>	<u>12</u>	<u>48</u>	<u>4,739</u>
Deferred liabilities								
Fluctuation of investments at fair value through profit or loss, note 5(e)	294	336	-	630	(10,955)	1,243	-	(9,082)
Fluctuation of investments in associates, note 6(b)	-	-	(146)	(146)	-	-	(1,309)	(1,455)
Fluctuation of available for sale investments, note 5(g)	(11,057)	-	102	(10,955)	10,955	-	-	-
Total deferred income tax liabilities, net	<u>(7,589)</u>	<u>2,195</u>	<u>(398)</u>	<u>(5,792)</u>	<u>-</u>	<u>1,255</u>	<u>(1,261)</u>	<u>(5,798)</u>

(b) The composition of the balances presented in the statements of comprehensive income for years ended December 31, 2018 and 2017, are as follows

	2018 S/(000)	2017 S/(000)
Current - expense	-	-
Deferred - income	<u>1,255</u>	<u>2,195</u>
Income tax benefit	<u>1,255</u>	<u>2,195</u>

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Notes to the financial statements (continued)

- (c) The table below presents the reconciliation of the effective Income Tax rate to the statutory tax rate for years 2018 and 2017:

	2018		2017	
	S/(000)	%	S/(000)	%
Loss before Income Tax	<u>(11,450)</u>	<u>100.0</u>	<u>(5,141)</u>	<u>100.0</u>
Theoretical benefit - current rate	(3,378)	29.5	(1,517)	29.5
Effect of non-taxable income				
Non-taxable income	(2,723)	23.8	(1,107)	21.5
Effect of non-deductible expenses				
Non-deductible expenses	4,810	(42.0)	245	(4.7)
Other non-deductible	<u>36</u>	<u>(0.3)</u>	<u>184</u>	<u>(3.6)</u>
Income tax benefit	<u>(1,255)</u>	<u>11.0</u>	<u>(2,195)</u>	<u>42.7</u>

10. Net equity

- (a) Capital stock -

As of December 31, 2018 and 2017, Company's capital stock is represented by 454,516,911 common shares subscribed and paid in with nominal value of S/0.40 per share.

As of December 31, 2018 and 2017, the shareholding structure in the Company's capital stock is as follows:

Individual percentage of participation in the capital	2018		2017	
	Number of shareholders	Total percentage of participation	Number of shareholders	Total percentage of participation
Up to 1.00	78	3.65	78	3.65
From 1.01 to 5	1	3.13	1	3.13
From 5.01 to 10	1	6.50	1	6.50
Higher than 10	<u>4</u>	<u>86.72</u>	<u>4</u>	<u>86.72</u>
Total	<u>84</u>	<u>100.00</u>	<u>84</u>	<u>100.00</u>

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Notes to the financial statements (continued)

On April 27, 2017, an increase in share capital was agreed through cash contributions up to S/22.2 million. In this regard, the Board of Directors' Meeting held on April 27, 2017, agreed to increase the capital stock by issuing 55.5 million of shares at a nominal value of S/0.40 per share and a share premium of S/0.50 per share. After the subscription of shares process, on June 28, 2017, 55,555,555 new shares were subscribed for a value of S/0.90 per share; consequently, the capital contribution of the Shareholders amounted to S/50.0 million.

(b) Treasury stock -

As of December 31, 2015, the Company held 68,582,647 treasury stock through its subsidiary NCF Consultores S.A. through indirect control in accordance with article 105 of the Peruvian General Corporation Law - Law 26887. During 2016, the Company sold these shares, as detailed in paragraph (c) below.

(c) Share premium and discount of emission -

On June 28, 2017, after the subscription of 55,555,555 new shares for a value of S/0.90 per share, see paragraph (a) above, the share premium recognized by the Company amounted to approximately S/27,778,000.

As of January 1, 2016, the Company maintained approximately S/15,968,000 as a discount of emission from treasury stock held by the Company at such date that was generated by the accounting effects arising from the acquisitions of Company' shares made by Company' subsidiaries in previous years.

On March 10 and June 2, 2016, the Company sold 22,102,063 and 33,951,611 treasury stock, respectively, to MAJ Invest Financial Inclusion Found II. Also, on May 6, 2016, the Company sold 12,528,973 treasury stock to Andean Equity Financial LTD and Bleauvelt Enterprises S.A. As a consequence of such transactions, all treasury stock held by the Company were sold, resulting a share premium of approximately S/1,063,000 as of December 31, 2016.

(d) Legal reserve -

In accordance with the Peruvian General Corporation Law, it is required to establish a legal reserve with the transfer of not less than 10.0 percent of the annual net profit until reaching 20.0 percent of the capital stock. In the absence of retained earnings or freely available reserves, the legal reserve may be applied to the compensation of losses.

(e) Unrealized results -

As of December 31, 2018, the caption "Unrealized results" includes the unrealized loss and gain on investments in subsidiaries and associates, net of their tax effect.

As of December 31, 2017, the caption "Unrealized results" included the unrealized loss and gain of available for sale investments and investments in subsidiaries and associates, net of their tax effect.

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Notes to the financial statements (continued)

11. Administrative expenses

(a) As of December 31, 2018 and 2017, this caption includes:

	2018 S/(000)	2017 S/(000)
Salaries and employee benefits		
Salaries	1,063	1,101
Board of Directors' compensations	281	299
Gratifications	224	204
Social contributions	145	129
Severance indemnities	114	107
Expenses for termination of staff	-	100
Vacations	102	95
Other benefits	67	50
Subtotal	<u>1,996</u>	<u>2,085</u>
Services received from third parties (b)		
Advisory services	923	1,300
Other services	198	384
Leases and public services	327	340
Commissions	51	101
Subtotal	<u>1,499</u>	<u>2,125</u>
Other expenses		
Taxes	322	331
Miscellaneous management charges	348	253
Depreciation and amortization	45	50
Subtotal	<u>715</u>	<u>634</u>
Total	<u>4,210</u>	<u>4,844</u>
Average number of employees	<u>7</u>	<u>8</u>

(b) Services provided by third parties mainly include advisory services (advisory and accounting, legal, tax, organization and other methods, systems, administration, treasury and human resources consulting), as well as leases and other minor services provided by NCF Servicios Compartidos S.A.

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Notes to the financial statements (continued)

12. Financial income and expenses

As of December 31, 2018 and 2017, this caption includes:

	2018 S/(000)	2017 S/(000)
Financial income		
Interest on bank deposits held in financial institutions	695	1,919
Interest on loans granted	69	4
	<u>764</u>	<u>1,923</u>
Financial expenses		
Interest on bonds issued	1,271	2,823
Interest on loans from financial institutions	1,167	1,313
Interest on short-term debt instruments (STDI)	1,676	754
Expenses related to the issuance of short-term debt instruments (STDI) and bonds issued	370	415
Others	54	62
	<u>4,538</u>	<u>5,367</u>

13. Loss per share

Below is the calculation of the weighted average number of shares and the earnings per share:

	Outstanding shares (in thousands)	Shares considered in computation (in thousands)	Effective days in the year	Weighted average number of shares (in thousands)
Year 2017				
Balance as of January 1, 2017	398,961	398,961	365	398,961
Capital contribution, note 10(a)	<u>55,556</u>	<u>55,556</u>	249	<u>37,900</u>
Balance as of December 31, 2017	<u>454,517</u>	<u>454,517</u>		<u>436,861</u>
Net loss of year 2017				<u>(2,946)</u>
Basic and diluted loss per share				<u>(0.007)</u>

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Notes to the financial statements (continued)

	Outstanding shares (in thousands)	Shares considered in computation (in thousands)	Effective days in the year	Weighted average number of shares (in thousands)
Year 2018				
Balance as of January 1, 2018	454,517	454,517	365	454,517
Balance as of December 31, 2018	<u>454,517</u>	<u>454,517</u>		<u>454,517</u>
Net loss of year 2018				<u>(10,195)</u>
Basic and diluted loss per share				<u>(0.022)</u>

The Company does not have shares with dilutive effect as of December 31, 2018 and 2017.

14. Tax situation

- (a) The Company is subject to the current Peruvian tax legislation. The income tax rate as of December 31, 2018 and 2017 is 29.5 percent, on taxable income, after deducting the workers' profit sharing.

Legal persons non-domiciled in Peru and natural persons are subject to an additional tax on dividends received from entities domiciled in Peru. In this regard, the additional tax on dividends for profits generated starting of January 1, 2017 and distributed from such date, will be 5.0 percent.

- (b) Since 2011, with the amendment introduced by Act No.29645 on the Income Tax Act, interest and other income generated by foreign loans granted to the Peruvian National Public Sector must also be included as an item exempted from the Income Tax.

Likewise, there are considered income from Peruvian sources those obtained from the indirect disposal of shares or ownership interests of the capital stock of legal entities domiciled in Peru. For such purposes, an indirect disposal shall be considered to occur upon the sale of shares or ownership interests of the capital stock of a legal entity not domiciled in the country that, in turn, is the owner - whether directly or through one or more other legal entities - of shares or ownership interests of the capital stock of one or more legal entities domiciled in the country, provided certain conditions established by law are met. This situation also occurs in those cases where the issuer is jointly and severally liable.

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Currently, the Income Tax Act states that a case of indirect transfer of shares is configured when in any of the 12 months prior to the sale, the market value of the shares or participations of the domiciled legal person equals to 50 percent or more of the market value of shares or participations of the non-domiciled legal person. Additionally, as a concurrent condition, it is established to sell shares or participations that represents 10 percent or more of the capital of a non-domiciled legal person in any period of 12 months.

- (c) Through Legislative Decree N ° 30341, Law that promotes liquidity and integration of the securities market, until December 31, 2019 the term of the exemption has been extended to income from the sale of certain securities. Included in said exoneration is income derived from the sale of: i) Securities representing debt, (ii) Certificates of participation in mutual funds for investment in securities, iii) Certificates of participation in Investment Fund in Real Estate Income (FIRBI) and certificates of participation in the Securitization Trust for Investment in Real Estate Income (FIBRA); and, iv) Negotiable invoices.

In order to apply the exemption in the case of income arising by the transfer of shares, investment shares, ADR and GDR, and bonds convertible into shares, the following must be fulfilled:

- The disposal must be done through a centralized negotiation mechanism located in the country and supervised by the Regulatory entity of the capital market in Peru ("SMV" for its acronym in Spanish) (Lima Stock Exchange, "BVL" for its acronym in Spanish).
- For a period of 12 months, ownership of 10 percent or more of the total shares issued by the company shall not be transferred. In the case of ADRs and GDRs, the underlying shares are taken into account. Personal transfers and those of related parties are considered.
- Having a stock market listing.

For the other securities included it is required that the sale is settled through the BVL and that it be seen with a stock market listing. In the case of negotiable invoices, only the disposal is required to be carried out through the BVL.

Finally, it is established as cause of loss of the exemption that the issuer delisting the values of the Securities Registry of the Stock Exchange, in whole or in part, in one act or progressively, within the following 12 months after the sale is made. Exceptions will be laid down in the Regulation.

- (d) Regarding the Value Added Tax, said tax is not levied on the interest accrued on securities issued by public or private offering by legal entities incorporated or established in Peru; as well as the interest accrued on securities not placed by public offering, when such securities have been acquired through any of the centralized trading mechanisms referred to in the Stock Exchange Act.

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Notes to the financial statements (continued)

- (e) For the purpose of determining the Income Tax, the transfer prices agreed for transactions between related entities, or for transactions conducted with or through entities domiciled in non-cooperating or low or zero tax countries or territories, must be supported by documented information on the valuation methods applied and criteria used in the determination of such prices.

Through Legislative Decree No.1312, published on December 31, 2016, the formal obligations for entities included within the scope of application of Transfer Pricing are modified, thus incorporating three new informative affidavits: Local Report; Master Report; and Country Report. The first validity is as of 2017 for the operations that occurred during 2016 and the last two as of 2018 for the operations that have occurred since the fiscal year 2017.

According to the fifth final complementary legal provision of Legislative Decree No. 1261, for purposes of determining the payment on account of the third category income tax for 2017 as well as those corresponding to the months of January and February of the fiscal year 2018, the coefficient must be multiplied by the factor 1.0536.

- (f) The Tax Authority is legally entitled to review and, if necessary, adjust the Income Tax computed by the Company during a term of four years following the year in which a tax return was filed. The Company's Income Tax and IGV returns for years 2015 to 2018 are subject to review by the Tax Authority.

Likewise, in relation to NCF Consultores S.A., merged during 2016, Income Tax and IGV returns for year 2016 of such entity are subject to review by the Tax Authority.

Due to the possible interpretations that the Tax Authority may give to the legislation in effect, up to date it is not possible to determine whether or not any review to be conducted would result in liabilities for the Bank; any increased tax or surcharge that could arise from possible tax reviews would be applied to the results of the period in which such tax increase or surcharge may be determined. However, in the opinion of Management and its internal legal advisors, any eventual additional tax settlement would not be significant for the Company's financial statements as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, the Company maintains a carryforward tax loss of approximately S/15,876,000 and S/15,800,000, respectively. According to the recovery system chosen by the Company's Management, the tax loss could be compensated up to a maximum of four years from the date on which it was generated.

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Notes to the financial statements (continued)

- (g) In July 2018, through Act No. 30823 Congress delegated into the Executive Branch the power to legislate on various issues, including tax and financial matters. In this sense, the main tax regulations issued are the following:
- (i) Beginning on January 1, 2019, the treatment applicable to royalties and remuneration for services rendered by non-domiciled persons was modified, eliminating the obligation to pay the amount equivalent to the withholding due to the accounting record of the cost or expense. Now the income tax is withheld because of the payment or accreditation of the compensation. (Legislative Decree No. 1369).
 - (ii) The rules that regulate the obligation of legal persons and / or legal entities to inform the identification of their final beneficiaries (Legislative Decree No. 1372) were established. These rules are applicable to legal entities domiciled in the country, in accordance with the provisions of Article 7 of the Income Tax Act, and legal entities established in the country. The obligation covers non-domiciled legal entities and legal entities established abroad, provided that: a) they have a branch, agency or other permanent establishment in the country; b) the natural or juridical person who manages the autonomous patrimony or the investment funds from abroad, or the natural or juridical person who has the status of protector or administrator, is domiciled in the country; c) any of the parts of a consortium is domiciled in the country. This obligation will be fulfilled through the presentation to the Tax Authority of an informative Sworn Statement, which must contain the information of the final beneficiary and be submitted, in accordance with the regulations and within the deadlines established by Superintendence Resolution issued by the Tax Authority ("SUNAT", by its Spanish acronym).
 - (iii) The Tax Code was amended regarding the application of the general anti-avoidance rule (Rule XVI of the Preliminary Title of the Tax Code); as well as to provide the Tax Administration with the legal tools for its effective implementation (Legislative Decree No. 1422).

As part of this amended, a new assumption of joint and several liability is envisaged, when the tax debtor is subject to the application of the measures provided by Rule XVI in the event that tax evasion cases are detected; in such case, the joint and several liability shall be attributed to the legal representatives provided that they have collaborated with the design or approval or execution of acts or situations or economic relations foreseen as elusive in Rule XVI. In the case of companies that have a Board of Directors, it is up to this corporate body to define the tax strategy of the entity, having to decide on the approval or not of acts, situations or economic relations to be carried out within the framework of tax planning, this power being non-delegable. The acts, situations and economic relations carried out within the framework of fiscal planning and implemented on the date of entry into force of Legislative Decree No. 1422 (September 14, 2018) and which continue to have effect, must be evaluated by the Board of Directors of the legal entity for the

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Notes to the financial statements (continued)

purpose of ratification or modification until March 29, 2019, without prejudice to the fact that the management or other administrators of the company have approved the aforementioned acts, situations and economic relations.

Likewise, it has been established that the application of Rule XVI, regarding the re-characterization of tax evasion cases, will take place in the final inspection procedures in which acts, facts or situations produced since 19 July 2012 are reviewed.

- (iv) Amendments to the Income Tax Act were included, effective as of January 1, 2019, to improve the tax treatment applicable to (Legislative Decree No. 1424):
- Income obtained from indirect alienation of shares or shares representing the capital of legal persons domiciled in the country. Among the most relevant changes is the inclusion of a new indirect alienation assumption, which is configured when the total amount of the shares of the domiciled legal entity whose indirect disposal is made is equal to or greater than 40,000 UIT.
 - The deduction of interest expenses for the determination of business Income Tax. For this purpose, limits were established both for loans with related parties, as well as for loans with third parties contracted starting September 14, 2018 based on equity and EBITDA.
- (v) Rules have been established for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree No. 1425). Until 2018 there was no normative definition of this concept, so in many cases accounting rules were used for its interpretation. In general terms, with the new criterion, for purposes of the determination of Income Tax, it will now matter if the substantial facts for the generation of income or expense agreed by the parties have occurred, which are not subject to a condition precedent, in whose case the recognition will be given when it is fulfilled and the opportunity for collection or payment established will not be taken into account.

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Notes to the financial statements (continued)

15. Transactions with related parties

(a) Below is the composition of the item:

	2018 S/(000)	2017 S/(000)
Statements of financial position -		
Assets -		
Cash and cash equivalents, note 4 -		
Financiera Credinka S.A.	9,645	2,016
Receivables from related parties -		
Financiera Credinka S.A.	2	2
Liabilities -		
Financial obligations, note 8(a) -		
Financiera Credinka S.A.	16,513	12,405
Payables to related parties -		
NCF Servicios Compartidos S.A.	42	5
Diviso Bolsa SAB S.A.	12	-
Financiera Credinka S.A.	1	-
	<u>55</u>	<u>5</u>

(b) The main transactions between the Company and its related entities for years ended December 31, 2018 and 2017, were as follows:

	2018 S/(000)	2017 S/(000)
Administrative expenses		
Subsidiaries		
NCF Servicios Compartidos S.A.	(1,009)	(1,043)
Diviso Bolsa SAB S.A.	(7)	(101)
Financiera Credinka S.A.	(122)	(351)
	<u>(1,138)</u>	<u>(1,495)</u>
Financial expenses		
Subsidiaries		
Diviso Bolsa SAB S.A.	(130)	(574)
Financiera Credinka S.A.	(1,169)	(1,305)
	<u>(1,299)</u>	<u>(1,879)</u>

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	2018 S/(000)	2017 S/(000)
Dividends received		
Subsidiaries		
Diviso Bolsa SAB S.A.	-	992
Diviso Fondos SAF S.A.	-	894
	<u>-</u>	<u>1,886</u>
Financial income		
Subsidiaries		
Financiera Credinka S.A.	167	276
NCF Servicios Compartidos S.A.	65	3
	<u>232</u>	<u>279</u>
Other income		
Subsidiary		
NCF Servicios Compartidos S.A.	15	-
	<u>15</u>	<u>-</u>

- (c) In Management's opinion, transactions between the Company and the related entities have been made in the normal course of operations and under similar conditions as if they had been carried out with third parties. Taxes that these transactions generated, as well as the calculation bases for the determination of these, are the usual ones in the industry and are settled in accordance with the current tax regulations.
- (d) Key personnel include the personnel that have responsibility over the business decisions of the Company. Key personnel compensations for years ended December 31, 2018 and 2017, were as follows:

	2018 S/(000)	2017 S/(000)
Salaries and short-term benefits	879	903
Board of Directors' compensations	275	299
	<u>1,154</u>	<u>1,202</u>

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Notes to the financial statements (continued)

16. Financial instruments classification

The financial assets and liabilities of the statement of financial position as of December 31, 2018 and 2017 are presented below. As detailed in Note 3, the Company did not reformulate the comparative information for year 2017, for those financial instruments within the scope of IFRS 9. Therefore, the comparative information for year 2017 is presented according to IAS 39 and is not comparable with the information presented in year 2018.

	At fair value through profit or loss S/(000)	Amortized cost S/(000)	Total S/(000)		
As of December 31, 2018					
Assets -					
Cash and cash equivalents	-	9,881	9,881		
Receivables from related parties	-	2	2		
Investments at fair value through profit or loss	88,193	-	88,193		
Other receivables	-	5,278	5,278		
	<u>88,193</u>	<u>15,161</u>	<u>103,354</u>		
Liabilities -					
Financial obligations	-	66,390	66,390		
Trade payables	-	364	364		
Other payables and payables to related parties	-	232	232		
	<u>-</u>	<u>66,986</u>	<u>66,986</u>		
	Loans and accounts receivable S/(000)	At fair value through profit or loss S/(000)	Available-for-sale investments S/(000)	Other liabilities S/(000)	Total S/(000)
As of December 31, 2017					
Assets -					
Cash and cash equivalents	2,309	-	-	-	2,309
Trade receivables	28	-	-	-	28
Investments at fair value through profit or loss	-	46,547	-	-	46,547
Receivables from related parties	2	-	-	-	2
Other receivables	3,695	-	-	-	3,695
Available-for-sale investments	-	-	59,781	-	59,781
	<u>6,034</u>	<u>46,547</u>	<u>59,781</u>	<u>-</u>	<u>112,362</u>
Liabilities -					
Financial obligations	-	-	-	35,638	35,638
Trade payables	-	-	-	2,652	2,652
Other payables and payables to related parties	-	-	-	293	293
	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,583</u>	<u>38,583</u>

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Notes to the financial statements (continued)

17. Financial risk management

The Company's activities expose it to a variety of financial risks such as market risk (exchange rate, prices and interest rate), credit risk and liquidity risk that are managed through a process of identification, measurement and continuous monitoring, subject to risk limits and other controls.

Structure of risk management -

The structure of risk management is based on the Board of Directors and the Company's Management, which is responsible for identifying and controlling risks in coordination with other areas as explained below:

- (i) Board of Directors -
The Board of Directors is responsible for the general approach to risk management and the approval of policies and strategies currently employed by the Company. The Board of Directors provides the principles for risk management in general, as well as policies prepared by specific areas, such as exchange rate risk, interest rate risk and credit risk.
- (ii) Chief Executive Officer
The Chief Executive Officer has the responsibility to implement an adequate integral risk management in the Company. It directs and coordinates the efforts of the various commercial and support areas, ensuring an adequate balance between risk and profitability.
- (iii) Investment and Risk Management -
The Investment and Risks Management is responsible for leading the management and monitoring of the portfolio of assets, liabilities and investments of the Company and those of equity impact in the subsidiaries. Also, it leads the Integral Risk Management at the corporate level of the Company and of the subsidiaries that require it.

Company's Management is aware of the existing conditions in the market and, based on its knowledge and experience, it controls the risks indicated above following the policies approved by the Board of Directors. The most important aspects for the management of these risks are:

- (a) Market risk -
Market risk is the probability of losses in positions in the statement of financial position arising from movements in market prices.

These market prices comprise three types: (i) exchange rate, (ii) prices and (iii) interest rates.

All Company's financial instruments are affected by these risks.

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Notes to the financial statements (continued)

(i) Exchange rate risk -

The exchange rate risk corresponds to the probability that changes in the exchange rate affect the fair value of financial instruments held in foreign currency.

As of December 31, 2018, the weighted average exchange rate of free market published by the SBS for transactions in US Dollars was S/3.369 per US\$1 bid and S/3.379 per US\$1 ask (S/3.238 and S/3.245 as of December 31, 2017, respectively).

As of December 31, 2018 and 2017, the Company maintained the following assets and liabilities in US Dollars:

	2018 US\$(000)	2017 US\$(000)
Assets		
Cash and cash equivalents	2,916	38
Investments at fair value through profit or loss	3,949	-
Other receivables	50	30
Total assets	<u>6,915</u>	<u>68</u>
Liabilities		
Financial obligations - short-term	(2,353)	(2,224)
Financial obligations - long-term	(1,325)	-
Trade payables	(7)	(2)
Other payables	(2)	-
Total liabilities	<u>(3,687)</u>	<u>(2,226)</u>
Net monetary position - asset (liability)	<u>3,228</u>	<u>(2,158)</u>

Company's Management has decided to assume the exchange risk generated by this monetary position, so it has not carried out hedging transactions with derivative financial instruments.

During year 2018, the net exchange rate difference originated by monetary assets and liabilities generated a net gain of approximately S/1,669,000 (net gain of approximately S/406,000 during year 2017).

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Notes to the financial statements (continued)

The following table shows the sensitivity analysis of US Dollars, the foreign currency in which the Company has exposure as of December 31, 2018 and 2017, in its monetary assets and liabilities and its estimated cash flows. The analysis determines the effect of a reasonably possible change in the exchange rate against the soles, considering constant the other variables in the statement of comprehensive income, before the income tax. A negative amount shows a net potential reduction in the statement of comprehensive income, while a positive amount reflects a net potential increase.

Sensitivity analysis	Change in exchange rates %	Effect on pre-tax results	
		2018 S/(000)	2017 S/(000)
Devaluation			
US Dollar	5	545	350
US Dollar	10	1,089	700
Revaluation			
US Dollar	5	(545)	(350)
US Dollar	10	(1,089)	(700)

(ii) Price risk -

As of December 31, 2018 and 2017, the Company is exposed to the risk of fluctuation in prices of its investments at fair value through profit or loss and other comprehensive income.

The Company performs sensitivity tests of variation of 5, 10 and 15 percent in market prices of its investments. Sensitivity in the price and the gains or losses that affect the income statement, before the income tax, and other comprehensive income, are presented below:

	2018 S/(000)	2017 S/(000)
Changes in market prices %		
Statements of comprehensive income		
+ / - 5	1,702	2,327
+ / - 10	3,404	4,654
+ / - 15	5,107	6,981

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Notes to the financial statements (continued)

	2018 S/(000)	2017 S/(000)
Changes in market prices %		
Other comprehensive income		
+ / - 5	2,707	2,989
+ / - 10	5,415	5,978
+ / - 15	8,122	8,967

(iii) Interest rate risk -

It corresponds to the risk caused by variation in interest rates and its effect on the payment of Company's obligations.

Loans accrue fixed interest rates, not exposing the Company to the interest rate risk over the fair value of the instrument. Based on the maturities of the obligations held by the Company, Management considers that fluctuations in interest rates will not affect the Company's operations.

The Company held assets placed in top-tier financial institutions that bear interest at prevailing rates in the market. The Company does not act as a speculative investor to manage its surplus liquidity investments.

The Company's debt policy contemplates obtaining resources mainly through reporting operations, short-term instruments and corporate bonds at fixed rates. Company's Management has decided to accept the interest rate risk for these operations, so it has not carried out operations with derivative products for its coverage.

(b) Credit risk -

Credit risk or third-party default risk is controlled through the implementation of credit approvals, limits and monitoring procedures. When necessary, the Company obtains guarantees to secure its investments or agreements.

The assets of the Company that are potentially exposed to significant concentrations of credit risk correspond to cash and cash equivalents, trade receivables, investments at fair value through profit or loss, receivables from related parties, other receivables and available-for-sale investments. The maximum exposure to the Company's credit risk is the accounting balance of such accounts as of the date of the statement of financial position.

As of December 31, 2018 and 2017, 100 percent of cash and cash equivalents are in local financial entities of recognized prestige.

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Notes to the financial statements (continued)

Accounts receivable are settled in the short term and are usually guaranteed with instruments that are traded.

As of December 31, 2018 and 2017, investments at fair value through profit or loss are comprised of shares that are traded principally on the Lima Stock Exchange and participations in investment funds managed by a related entity.

Consequently, based on securities held by the Company, in Management's opinion, the credit risk is mitigated in the financial statements as of December 31, 2018 and 2017.

(c) Liquidity risk -

The Company is exposed to the fulfillment of payments of financial obligations, mainly for disbursements of short-term instruments.

Liquidity risk is the risk that the cash may not be available to pay obligations at its maturity and with a reasonable cost. The Company controls its liquidity through an adequate management of the maturity of assets and liabilities, in order to achieve a match between the flow of income and future payments.

The Company maintains a structural liquidity position (available assets) that allows it to adequately address possible unexpected liquidity requirements. Additionally, Company's investments are concentrated in financial instruments (marketable securities) of high quality and liquidity that can be realized (sold) in the very short term. The Company permanently monitors liquidity reserves based on cash flow projections.

One of the main sources of liquidity is the collection of cash dividends from the Company's investment portfolio, which gives priority in the selection of its investment alternatives to shares of companies with an adequate dividend policy.

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Notes to the financial statements (continued)

- (i) The following table presents the cash flows payable by the Company in accordance with the agreed contractual terms without including payments of future interest on the dates of the statements of financial position. The amounts disclosed are cash flows in accordance with the undiscounted contractual terms:

	Maturity								Total S/(000)
	0-30 days S/(000)	31-60 days S/(000)	61-90 days S/(000)	91-120 days S/(000)	121-240 days S/(000)	241-300 days S/(000)	301-360 days S/(000)	Greater than 360 days S/(000)	
As of December 31, 2018									
Financial obligations	8,840	1,993	11,035	9,460	6,601	2,631	10,346	15,484	66,390
Trade payables	43	-	-	-	-	321	-	-	364
Payables to related parties and other payables	131	8	8	8	26	36	16	-	233
	<u>9,014</u>	<u>2,001</u>	<u>11,043</u>	<u>9,468</u>	<u>6,627</u>	<u>2,988</u>	<u>10,362</u>	<u>15,484</u>	<u>66,987</u>
As of December 31, 2017									
Financial obligations	7,295	998	2,649	11,969	3,238	3,889	5,600	-	35,638
Trade payables	2,317	-	4	131	-	-	200	-	2,652
Payables to related parties and other payables	172	-	121	-	-	-	-	-	293
	<u>9,784</u>	<u>998</u>	<u>2,774</u>	<u>12,100</u>	<u>3,238</u>	<u>3,889</u>	<u>5,800</u>	<u>-</u>	<u>38,583</u>

- (ii) Below we present the cash flows from liabilities for financing as of December 31, 2018 and 2017:

	January 1, 2018 S/(000)	Cash income S/(000)	Cash outflows S/(000)	Others (*) S/(000)	December 31, 2018 S/(000)
Loans from financial institutions in the country	12,405	9,500	(5,600)	208	16,513
Short-term debt instruments	3,897	32,966	(3,647)	887	34,103
Corporate bonds issued	19,336	15,484	(19,096)	50	15,774
Total	<u>35,638</u>	<u>57,950</u>	<u>(28,343)</u>	<u>1,145</u>	<u>66,390</u>
	January 1, 2017 S/(000)	Cash income S/(000)	Cash outflows S/(000)	Others (*) S/(000)	December 31, 2017 S/(000)
Loans from financial institutions in the country	11,825	5,600	(5,712)	692	12,405
Short-term debt instruments	15,095	3,655	(15,632)	779	3,897
Corporate bonds issued	46,346	-	(26,918)	(92)	19,336
Total	<u>73,266</u>	<u>9,255</u>	<u>(48,262)</u>	<u>1,379</u>	<u>35,638</u>

(*) It corresponds to interest accrued and to the effects of exchange differences.

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Notes to the financial statements (continued)

18. Capital risk management

The Company actively manages a capital base to cover the risks inherent in its activities. The capital adequacy of the Company is monitored using, among other measures, the ratios established by the Management.

The Company's objective when managing the Equity, which is a broader concept than the "Capital stock" of the statements of financial position, are: (i) safeguard the ability of the Company to continue operating in order to continue providing returns to shareholders and benefits to other participants; and (ii) maintain a strong capital base to support the development of its activities. Based on these points, maximum debt limits on equity are established.

As of December 31, 2018 and 2017, there have been no changes in activities and policies of capital risk management in the Company.

19. Fair value

The Company uses valuation techniques that are appropriate for the circumstances and with enough information available to measure fair value, maximizing the use of relevant observable data and minimizing the use of unobservable data.

The Company's Management determines the recurrent and non-recurring policies and procedures to measure fair value. At each reporting date, Management analyzes movements in values of assets and liabilities that must be valued in accordance with Company's accounting policies.

(a) Financial instruments measured at fair value and fair value hierarchy -

As of December 31, 2018 and 2017, the Company maintains the following assets at fair value in the statements of financial position:

	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
As of December 31, 2018				
Investments at fair value through profit or loss	34,044	-	54,149	88,193
Investments in subsidiaries and associates	-	-	326,806	326,806
	<u>34,044</u>	<u>-</u>	<u>380,955</u>	<u>414,999</u>
As of December 31, 2017				
Investments at fair value through profit or loss	46,547	-	-	46,547
Available-for-sale investments	-	-	59,781	59,781
Investments in subsidiaries and associates	-	-	315,969	315,969
	<u>46,547</u>	<u>-</u>	<u>375,750</u>	<u>422,297</u>

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As of December 31, 2018, financial instruments classified as level 3 of the fair value hierarchy represent 91.8 percent of total investments, while those classified as level 1 represent 8.2 percent (89.0 percent of total investments were classified as level 3 and 11.0 percent as level 1 as of December 31, 2017). At the closing date of these financial statements, the Company did not have financial instruments considered in the level 2 classification.

Financial assets that are included in level 1, mainly comprise equity instruments classified as negotiable investments according to the last quote in the centralized trading mechanisms of the Lima Stock Exchange at the monthly close.

The value of financial instruments traded in active markets is based on the quoted prices of the markets at the date of the statements of financial position. A market is understood as an active market if quoted prices are mainly regularly available in a stock exchange, negotiator, broker, group of industries, price services, or a regulatory agency, and those prices represent real and regular market transactions based on free competition. The market price quoted used for financial assets held by the Company is the current bid price.

If one or more significant variables are not based on observable market information, the instrument is included in level 3. The most frequently applied valuation technique includes the projections of flows through models and the calculation of present value, see note 6 (j).

During years 2018 and 2017, there have been no transfers from level 3 to level 1 and 2 or vice versa. On the other hand, changes in the value of level 3 financial instruments are shown in notes 5 and 6.

(b) Financial instruments not measured at fair value -

The methodologies and assumptions used by the Company to determine fair values depend on the terms and risk characteristics of various financial instruments indicated above and are as follows:

- (i) Instruments whose fair value is similar to their book value - For the financial assets and liabilities that are liquid or have short-term maturities (less than three months), it is considered that the book value is similar to the fair value. This assumption is also applicable to term deposits, savings accounts without a specific maturity and variable-rate financial instruments.

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Notes to the financial statements (continued)

- (ii) Financial instruments at fixed rate - The fair value of financial assets and liabilities at fixed rate and at amortized cost is determined by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. When quotations are not available, a discounted cash flow model is used based on the yield curve of the appropriate interest rate for the remaining term to maturity. Within this assumption are financial obligations held by the Company as of December 31, 2018 and 2017. The estimated fair value of financial obligations as of such dates does not differ significantly from their carrying amount.

20. Contingencies

In Management's opinion, there are no lawsuits nor claims pending to resolve or other contingencies against the Company as of December 31, 2018 and 2017.

21. Subsequent events

No significant events occurred between the closing date of these financial statements and March 19, 2019, date of issuance of the financial statements that may significantly affect these financial statements.

22. Prevailing applicable language

The accompanying translated financial statements were originally issued in Spanish and are presented based on IFRS. In the event of a discrepancy, the Spanish language version prevails.

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