CREDICORP LTD
Form 6-K
March 01, 2019

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 under the

Securities Exchange Act of 1934

For the month of February 2019

Commission File Number: 001-14014

CREDICORP LTD.

(Translation of registrant's name into English)

Clarendon House

Church Street

Hamilton HM 11 Bermuda

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

February 28, 2019

Securities and Exchange Commission - SEC

Re.: MATERIAL EVENT

Dear Sirs:

Please find attached herewith a copy of the audited consolidated financial statements of Credicorp Ltd. (the "Company") and its subsidiaries, for the fiscal year ended December 31, 2018, including the report of the external independent auditors Gaveglio, Aparicio y Asociados Sociedad de Responsabilidad Limitada, members of PricewaterhouseCoopers in Peru, approved by the Company's Board of Directors in its session held on February 27, 2019, and which will be submitted for evaluation and approval of the Annual General Meeting of Shareholders on March 29, 2019.

The information in this Form 6-K (including any exhibit hereto) shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act.

Sincerely,

/s/ Miriam Böttger
Stock Market
Representative
Credicorp Ltd.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 28, 2019

CREDICORP LTD.

(Registrant)

By:/s/ Miriam Böttger
Miriam Böttger
Authorized Representative

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018 AND 2017

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018 AND 2017

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US$ = United States dollar
S/ = Sol

(A free translation of the original in Spanish)

Independent auditor's report

To The Shareholders

Credicorp Ltd.

Opinion on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Credicorp Ltd. and its subsidiaries (the Group)** as at December 31, 2018, their consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the Notes to the consolidated financial statements, which include a summary of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code of Ethics) and the ethical requirements of the Code of Professional Ethics issued by the Board of Deans of the Institutes of Peruvian Certified Public Accountants, which are relevant for our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code of Ethics and the ethical requirements of the Code of Professional Ethics issued by the Board of Deans of the Institutes of Peruvian Certified Accountants.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Errors may arise due to error or fraud. These are considered material if, individually or in total, they could reasonably influence the economic decisions that users make based on the consolidated financial statements.

The scope of our audit and the nature, timing and extent of our procedures was determined by our risk assessment that the consolidated financial statements may contain material errors, whether due to fraud or error. We carried out our audit procedures based on the legal entities considered financially significant in the context of the Group, with a combination of full scope audits and audits of specific accounts to achieve the desired level of evidence at a consolidated level.

Key Audit Matters (KAM) are those which, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period:

- Information technology environment;
- IFRS 9 Financial instruments; and
- Valuation of the mathematical life insurance reserves

As part of the design of our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered the cases where management has made subjective judgments; for example, in respect of significant accounting estimates that involve making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we designed the scope of our audit of the Group

We have designed the scope of our audit in order to be able to carry out sufficient work to permit us to issue an opinion regarding the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the economic sector in which the Group operates.

Our audit for the year ended December 31, 2018, except for the implementation and application of IFRS 9 – Financial instruments, does not represent significant changes in relation to the prior year audit, thus, in establishing the general approach of the Group, we determined the type of work that required to be done on the components, based mainly on individual legal entities. In that sense, we consider Banco de Crédito del Perú S.A. and Mibanco, Banco de la Microempresa S.A., as significant components based on their individual contributions to profit before tax, and Pacífico Compañía de Seguros y Reaseguros S.A. due to the significant risk related to the valuation of the mathematical life insurance reserves. Additionally, we have considered the individual work carried out in each subsidiary, for the purpose of the issue of the statutory audit opinion for each entity.

The audit of the subsidiaries includes work performed in other countries within the region, such as Panama, Chile, Colombia and Bolivia. For said components, we determined the level of audit work that would need to be performed in auditing those entities in order to conclude as to whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. This includes regular communications with the other PwC firms during the entire year, the issue of instructions, visits to the auditors of components by the key members of the engagement team and a review of the results of their audit procedures including the nature, timing and extent of the work that affect the audit opinion of the Group.

Key Audit Matters (KAM)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. The scope of our audit and the key audit matters have not changed significantly in relation to the prior year with the exception of a new matter arising related to the implementation of IFRS 9 – Financial instruments. The audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not express a separate opinion on these matters.

Key Audit Matters (KAM)	***How our audit addressed the key audit matter***
Information technology environment	
Credicorp Ltd. and subsidiaries are highly dependent on their technology structure, both for the processing of their transactions, as well as for the reasonable preparation and presentation of their consolidated financial statements, which leads us to consider the information technology environment as an important area of focus in our audit. Technology is critical for the evolution of the Group’s core businesses and significant investments have been made in systems and the IT environment, including cybersecurity. The Group has technological infrastructure for its business activities, as well as ongoing plans for the improvement and maintenance of the access	With the participation of specialists in systems audit, we evaluated and tested the design and operational effectiveness of the general controls of information technology. Although the purpose of our audit is not to give an opinion on the effectiveness of the Information Technology (IT) controls, we reviewed the Group’s framework of governance of IT and the controls on the management of access to programs and data, the development of and changes in programs, the IT operations and we evaluated the mechanisms implemented by the Group in response to possible cybersecurity events and the segregation of functions, including compensating controls, when necessary. The IT environment and the controls established by management, combined with the testing of controls, including compensating controls, which we have applied, provide us with a reasonable basis for placing reliance on the integrity and reliability of the information generated for the preparation

management and change in the pertinent systems and applications, the development of new programs, automated controls and automated components in the relevant business processes. The controls to authorize, control, restrict and cancel accesses to the technology environment and program changes are fundamental for mitigating the potential risk of fraud or error based on the misuse or improper change in the systems of the Group, thus ensuring the integrity of the financial information and accounting records.

The Group has an information technology structure, which comprises more than one technology environment with different processes and segregated controls; furthermore, it is currently implementing a digital transformation process, a situation that leads to an increase in the risks associated with information security and cybersecurity, which may eventually affect the operational continuity of the Group companies and/or their reputation.

The lack of a suitable general technology control environment and its dependent controls could trigger incorrect processing of critical information used for the preparation of the consolidated financial statements.

of the Group's consolidated financial statements. Furthermore, we have validated the existence of mechanisms for the mitigation of technology risks and cyber-attack as well as preventive measures to ensure the continuous operation of its security and access controls, personnel awareness-running campaigns in matters of security, identity and access management, among others, which contribute to the mitigation of cybersecurity risks.

Key Audit Matter (KAM)	*How our audit addressed the key audit matter*
NIIF 9 – Financial instruments (Notes 3 a (i); 3 f; 3 i; 3y; 6, 7; 12 (b); 32 and 33.1 to the consolidated financial statements	
As of 2018 IFRS 9 became effective replacing IAS 39 - 'Financial instruments"; major changes were introduced to the classification and measurement of financial instruments, impairment and hedge accounting.	We obtained an understanding of the process implemented by the Group in its analysis, implementation of the qualitative and quantitative disclosures required under IFRS 9; relying on the assistance of our specialists, we also performed audit procedures related to compliance with the requirements of such a standard.
Major changes in implementing this standard are: (i) introducing a new model of determining impairment based on the credit expected losses, which results in earlier recognition of losses; (ii) new financial instrument classification and measurement criteria based on an entity's business model to manage financial assets as well as the characteristics of the respective contractual cash flows.	Our work on the evaluation of the allowance for loan losses has focused on the evaluation and testing of the design and operational effectiveness of the controls over the data inputs, assumptions and calculation of the allowance for loan losses. These controls included, among others: i) the integrity of the data base and the auxiliary systems; ii) models and assumptions adopted by management to determine the value of the portfolio of recoverable loans; iii) the follow up and valuation of the guarantees; iv) the validation and approval of the model and the results of provisions calculation by management; and v) the preparation and disclosure in the Notes to the consolidated financial statements. Additionally, we tested information technology controls over the data extraction and calculation of the allowance.
Provisions for the expected credit losses are measured at each reporting date using a three-stage model of expected credit losses based on the deterioration of the credit quality of the instrument from inception.	We focused our audit on the following aspects, among others: · Review of the accounting policies and methodological framework implemented by the Group for adequacy with IFRS9
Measurement of the expected credit loss is based on the probability of default (PD), the loss-given default (LGD), and the exposure at default (EAD), discounted at the reporting date and considering the expected macroeconomic effects. For the determination of the allowance for loan losses, management has developed specific methodologies including a number of assumptions and judgments, among which are, the financial situation of the	

counterparty, the expected future cash flows, the estimated recoverable values of guarantees and adverse effects due to changes in the political and economic environments.

Key Audit Matter (KAM)	*How our audit addressed the key audit matter*
The expected credit loss model reflects the present value of all events of decline in the value resulting from events of default (i) during the first twelve months or (ii) during the expected life of the financial instrument based on its credit quality deterioration. The expected credit loss considers multiple scenarios based on reasonable and supportable forecasts.	· Evaluation of the reasonableness of the models and principal assumptions used for the calculation of impairment based on the expected credit losses; · Evaluation of whether the data used to estimate the provision is complete and accurate; and · Review and independent re-performance of the calculation based on a sample of allowance for credit losses at December 31, 2018.
The use of different techniques and assumptions of the model could result in significantly different provisions. Furthermore, credit risk management is complex and depends on the database being reliable and complete.	In respect of the classification and measurement of the financial instruments, our audit was focused on, among others, the following:
The classification and measurement of financial instruments is now made based on how the financial assets are managed to generate cash flows and does not depend on management's intention with regard to an individual instrument. As a result, this was an area of focus in our audit. .	· Review of the accounting policies and methodological framework developed by the Group to adequacy with IFRS 9; · Assessment and testing the design and effective operation of controls; · Obtaining an understanding and testing the business model validation process; · Obtaining and proving from a sample of operations, their adequate classification, recording and valuation based on the business models that are consistent with the collect contractual cash flows models (amortized cost) and the collect contractual cash flows models and selling financial assets (fair value through comprehensive income) based solely on payments of principal and interest (criterion of SPPI test);
	We consider that the criteria and assumptions adopted by management in implementing IFRS 9 for determining the allowance for loan losses, as well as the criteria and assumptions used in the classification and measurement of the financial instruments are reasonable and consistent with the disclosures included in the consolidated financial statements. This criteria and assumptions were considered in the relevant context of the

consolidated financial statements.

Key Audit Matter (KAM)	*How our audit addressed the key audit matter*
Valuation of the mathematical life insurance reserves	
The amount recognized as mathematical reserves for life insurances reserves is S/4,073 million at December 31, 2018. See Notes 3 (e) and 15(a) to the consolidated financial statements.	
The valuation of the Group's insurance contracts depends on some key subjective assumptions regarding future events. The valuation of the liabilities generated by insurance contracts is made based on the actuarial assumptions and data used in the calculation.	We obtained an understanding and applied tests to the key controls in the processes of mathematical reserves and the related processes, to analyze the actuarial and economic assumptions, as well as the data used in the calculations. We identified that the key controls related to the determination of the assumptions and the methodology of the calculation, were designed, implemented and operate effectively.
Some of the key actuarial economic assumptions used in the valuation of the insurance contracts are critical and include, among others, the discount rate, the life expectancy of the population and the future expenses to be incurred to maintain the existing policies.	We held meetings with financial, treasury and actuarial management in order to obtain an understanding of the judgments and criteria used to determine the key actuarial economic assumptions used in the calculation of the mathematical life insurance reserves.
Minor changes in each of these key assumptions could result in significant impacts in the valuation of the obligations for those insurance contracts and in the respective impacts reflected in the consolidated statement of income.	We have reviewed the adequacy of the actuarial and economic assumptions as a whole. With the participation of actuarial specialists, we evaluated the reasonableness and consistency of the actuarial assumptions in an independent manner and we consider that they are reasonable, including the questioning of management with regard to the main criteria and judgments applied. Our evaluation included reference to independent comparative data.
Considering the above, this accounting estimate was an important matter in our audit.	Based on the results of our audit work, we consider that the assumptions applied and criteria used to determine the estimates used by the Group's management, in relation to the amounts recognized as mathematical life insurance reserves, are reasonable in the context of the consolidated financial statements.

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Responsibilities of management and those charged with Corporate Governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, the matters related to the going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or cease operations, or has no realistic alternative but to do so.

Those charged with the Corporate Governance of Credicorp Ltd. and its subsidiaries are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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- Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credicorp Ltd. and its subsidiaries' internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, nothing has come to our attention regarding the existence of material uncertainty related to events or conditions that may cast significant doubt on the ability of Credicorp Ltd. and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credicorp Ltd. and its subsidiaries to cease to continue as a going concern.

Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicated with those charged with Corporate Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with Corporate Governance with a statement that we have complied with relevant ethical requirements regarding independence, and we have communicated to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, including the respective safeguards.

From the matters communicated with those charged with Corporate Governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lima, February 27, 2019

Countersigned by

————————————————-(partner)

/S/Fernando Gaveglio

Peruvian Certified Public Accountant

Registration No.01-019847

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2018 AND 2017

	Note	2018 S/(000)	2017 S/(000)
Assets (*)			
Cash and due from banks:	4		
Non-interest-bearing		7,435,807	6,019,776
Interest-bearing		14,732,709	17,202,211
		22,168,516	23,221,987
Cash collateral, reverse repurchase agreements and securities borrowing	5(a)	4,082,942	7,480,420
Investments:			
At fair value through profit or loss	6(a)	3,512,445	4,024,737
At fair value through other comprehensive income		23,056,954	-
At fair value through other comprehensive income pledged as collateral		2,138,881	-
	6(b)	25,195,835	-
Available-for-sale		-	21,732,107
Available-for-sale pledged as collateral		-	2,691,784
	6(c)	-	24,423,891
Amortized cost		1,292,203	-
Amortized cost pledged as collateral		2,862,635	-
	6(d)	4,154,838	-
Held-to-maturity		-	1,826,394
Held-to-maturity pledged as collateral		-	2,586,979
	6(e)	-	4,413,373
		32,863,118	32,862,001
Loans, net:	7		
Loans, net of unearned income		110,759,390	100,477,775
Allowance for loan losses		(4,952,392)	(4,500,498)
		105,806,998	95,977,277
Financial assets designated at fair value through profit or loss	8	521,186	537,685
Premiums and other policies receivable	9(a)	887,273	656,829
Accounts receivable from reinsurers and coinsurers	9(b)	842,043	715,695
Property, furniture and equipment, net	10	1,480,702	1,509,492
Due from customers on acceptances		967,968	532,034
Intangible assets and goodwill, net	11	2,055,702	1,978,865
Other assets	12	5,586,753	4,999,998

Total assets		177,263,201	170,472,283
Liabilities and Equity			
Deposits and obligations:	13		
Non-interest-bearing		32,249,606	29,382,909
Interest-bearing		72,301,704	67,787,502
		104,551,310	97,170,411
Payables from repurchase agreements and securities lending	5(b)	9,415,357	13,415,843
Due to banks and correspondents	14	8,448,140	7,996,889
Banker's acceptances outstanding		967,968	532,034
Accounts payable to reinsurers	9(b)	291,693	235,185
Financial liabilities at fair value through profit or loss	3(f)(viii)	362,310	168,089
Technical reserves for insurance claims and premiums	15	8,452,671	7,443,760
Bonds and notes issued	16	15,457,540	16,242,257
Other liabilities	12	5,050,136	5,014,112
Total liabilities		152,997,125	148,218,580
Equity	17		
Equity attributable to Credicorp´s equity holders			
Capital stock		1,318,993	1,318,993
Treasury stock		(207,994)	(208,937)
Capital surplus		246,194	271,948
Reserves		17,598,556	14,647,709
Other reserves		708,453	1,455,594
Retained earnings		4,175,041	4,271,260
		23,839,243	21,756,567
Non-controlling interest		426,833	497,136
Total equity		24,266,076	22,253,703
Total liabilities and equity		177,263,201	170,472,283

(*) The balances of financial instruments at December 31, 2018 have been prepared in accordance with IFRS 9; the balances of the previous period have not been restated, see Note 3(a)(i).

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

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Note	2018 S/(000)	2017 S/(000)	2016 S/(000)
Interest and similar income	21	11,522,634	11,030,683	10,773,055
Interest and similar expenses	21	(3,033,529)	(2,959,196)	(2,914,714)
Net interest, similar income and expenses		8,489,105	8,071,487	7,858,341
Provision for credit losses on loan portfolio	7(d)	(1,814,898)	(2,057,478)	(2,063,209)
Recoveries of written-off loans		283,190	268,313	277,714
Provision for credit losses on loan portfolio, net of recoveries		(1,531,708)	(1,789,165)	(1,785,495)
Net interest, similar income and expenses, after provision for credit losses on loan portfolio		6,957,397	6,282,322	6,072,846
Other income				
Commissions and fees	22	3,126,857	2,911,408	2,771,561
Net gain on foreign exchange transactions		737,954	650,228	698,159
Net gain on securities	23	242,829	760,772	339,930
Net gain on derivatives held for trading		13,262	103,580	44,500
Net gain from exchange differences		16,022	17,394	-
Net gain on financial assets designated at fair value through profit or loss	8	-	67,633	51,667
Others	28	395,557	376,926	326,830
Total other income		4,532,481	4,887,941	4,232,647
Insurance premiums and claims				
Net premiums earned	24	2,100,788	1,808,340	1,799,115
Net claims incurred for life, general and health insurance contracts	25	(1,239,635)	(1,118,304)	(1,098,905)
Total premiums earned less claims		861,153	690,036	700,210
Other expenses				
Salaries and employee benefits	26	(3,219,875)	(3,071,020)	(2,942,743)
Administrative expenses	27	(2,330,044)	(2,158,823)	(2,094,678)
Depreciation and amortization	10(a) y 11(a)	(429,122)	(419,975)	(407,061)
Net loss from exchange differences		-	-	(60,624)

Impairment loss on goodwill	11(b)	(38,189)	-	(94)
Net loss on financial assets designated at fair value through profit or loss	8	(53,935)	-	-
Others	28	(687,652)	(635,547)	(609,075)
Total other expenses		(6,758,817)	(6,285,365)	(6,114,275)

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CONSOLIDATED STATEMENT OF INCOME (CONTINUED)

	Note	2018 S/(000)	2017 S/(000)	2016 S/(000)
Profit before income tax		5,592,214	5,574,934	4,891,428
Income tax	18(b)	(1,520,909)	(1,393,286)	(1,281,448)
Net profit		4,071,305	4,181,648	3,609,980
Attributable to:				
Credicorp's equity holders		3,983,865	4,091,753	3,514,582
Non-controlling interest		87,440	89,895	95,398
		4,071,305	4,181,648	3,609,980
Net basic and dilutive earnings per share attributable to Credicorp's equity holders (in Soles):				
Basic	29	50.13	51.49	44.23
Diluted	29	49.99	51.35	44.15

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

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

		2018 S/(000)	2017 S/(000)	2016 S/(000)
Net profit for the year		4,071,305	4,181,648	3,609,980
Other comprehensive income:				
To be reclassified to profit or loss in subsequent periods:				
Net loss on investments at fair value through other comprehensive income	17(d)	(642,505)	-	-
Income tax	17(d)	11,831	-	-
		(630,674)	-	-
Net gain on investments available for sale	17(d)	-	375,710	518,658
Income tax	17(d)	-	(13,962)	(22,975)
		-	361,748	495,683
Net movement on cash flow hedges	17(d)	41,241	(77,369)	(22,109)
Income tax	17(d)	(10,942)	18,719	2,294
		30,299	(58,650)	(19,815)
Exchange differences on translation of foreign operations	17(d)	45,655	(54,227)	(26,571)
		45,655	(54,227)	(26,571)
Total		(554,720)	248,871	449,297
Not to be reclassified to profit or loss in subsequent periods:				
Net gain in equity instruments designated at fair value through other comprehensive income	17(d)	20,971	-	-
Income tax	17(d)	(168)	-	-
		20,803	-	-
Total		20,803	-	-
Total comprehensive income for the year, net of income tax		3,537,388	4,430,519	4,059,277
Attributable to:				

Credicorp's equity holders	3,455,682	4,337,616	3,961,618
Non-controlling interest	81,706	92,903	97,659
	3,537,388	4,430,519	4,059,277

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

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Attributable to Credicorp's equity holders.								
						Other reserves			
	Capital stock	Treasury stock	Capital surplus	Reserves	Put options	Available-for-sale investment	**Investments in debt instruments (*)**	**Investments in equity instruments (*)**	Cash flow hedge reserve
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Balances at January 1, 2016	1,318,993	(208,978)	284,171	11,222,031	(340,353)	652,904	-	-	45,050
Changes in equity in 2016 -									
Net profit for the year	-	-	-	-	-	-	-	-	-
Other comprehensive income, Note 17(d)	-	-	-	-	-	493,884	-	-	(20,400)
Total comprehensive income	-	-	-	-	-	493,884	-	-	(20,400)
Transfer of retained earnings to reserves, Note 17(c)	-	-	-	2,316,370	-	-	-	-	-
Dividend distribution, Note 17(e)	-	-	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-
Purchase of treasury stock, Note 17(b)	-	(2,604)	(63,924)	-	-	-	-	-	-
	-	2,260	60,629	690	-	-	-	-	-

Share-based payment transactions									
Acquisition of non-controlling interest, Note 2(d)	-	-	-	-	340,353	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Balances at December 31, 2016	1,318,993	(209,322)	280,876	13,539,091	-	1,146,788	-	-	24,650
Changes in equity in 2017 - Net profit for the year	-	-	-	-	-	-	-	-	-
Other comprehensive income, Note 17(d)	-	-	-	-	-	357,628	-	-	(57,431)
Total comprehensive income	-	-	-	-	-	357,628	-	-	(57,431)
Transfer of retained earnings to reserves, Note 17(c)	-	-	-	2,354,954	-	-	-	-	-
Dividend distribution, Note 17(e)	-	-	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-
Additional dividends, Note 17(e)	-	-	-	(1,252,255)	-	-	-	-	-
Purchase of treasury stock, Note 17(b)	-	(2,141)	(68,867)	-	-	-	-	-	-
Share-based payment transactions	-	2,526	59,939	5,919	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Balances at December 31, 2017	1,318,993	(208,937)	271,948	14,647,709	-	1,504,416	-	-	(32,781)
Change in accounting policy, Note 3(a)(i)	-	-	-	-	-	(1,504,416)	853,747	431,711	-
	1,318,993	(208,937)	271,948	14,647,709	-	-	853,747	431,711	(32,781)

Balances at January 1, 2018 (restated)									
Changes in equity in 2018 - Net profit for the year	-	-	-	-	-	-	-	-	-
Other comprehensive income, Note 17(d)	-	-	-	-	-	-	(624,277)	20,840	29,620
Total comprehensive income	-	-	-	-	-	-	(624,277)	20,840	29,620
Transfer of retained earnings to reserves, Note 17(c)	-	-	-	2,933,617	-	-	-	-	-
Dividend distribution, Note 17(e)	-	-	-	-	-	-	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-
Purchase of treasury stock, Note 17(b)	-	(1,869)	(93,544)	-	-	-	-	-	-
Share-based payment transactions	-	2,812	67,790	17,230	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Balances at December 31, 2018	1,318,993	(207,994)	246,194	17,598,556	-	-	229,470	452,551	(3,161)

(*) These are classified as investments at fair value through other comprehensive income

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

CREDICORP LTD. AND SUBSIDIARIAS

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Note	2018 S/000	2017 S/000	2016 S/000
CASH AND CASH EQUIVALENTS FROM OPERATING ACTIVITIES				
Net profit for the year		4,071,305	4,181,648	3,609,980
Adjustment to reconcile net profit to net cash arising from operating activities:				
Provision for credit losses on loan portfolio	7(d)	1,814,898	2,057,478	2,063,209
Depreciation and amortization	10 and 11(a)	429,122	419,975	407,061
Depreciation of investment properties	12(e)	7,405	6,440	4,369
Deferred income tax	18(b)	91,101	(3,556)	28,228
Adjustment of technical reserves	24(a)	713,433	605,072	507,484
Net gain on securities	23	(242,829)	(760,772)	(339,930)
Impairment loss on goodwill	11(b)	38,189	-	94
Provision for sundry risks	12(f)	42,236	29,023	28,093
Net loss (gain) on financial assets designated at fair value through profit and loss	8	53,935	(67,633)	(51,667)
Net gain of trading derivatives		(13,262)	(103,580)	(44,500)
(Gain) loss on sales of property, furniture and equipment		(54,952)	(36,970)	45,076
Net loss (gain) from sale of seized and recovered assets	28	3,411	(2,494)	(1,377)
Expense for share-based payment transactions	26	65,547	62,043	73,930
Others		(16,022)	2,363	78,254
Net changes in assets and liabilities				
Net (increase) decrease in assets				
Loans		(10,236,155)	(8,387,767)	(6,636,536)
Investments at fair value through profit or loss		530,918	(16,400)	(1,694,949)
Investments at fair value through other comprehensive income		(837,699)	-	-
Investments available-for-sale		-	(5,380,789)	562,679
Cash collateral, reverse repurchase agreements and securities borrowings		3,604,105	3,134,530	(28,856)
Other assets		(1,078,163)	425,245	1,502,444
Net increase (decrease) in liabilities				
Deposits and obligations		5,583,328	12,779,204	(1,981,653)
Due to Banks and correspondents		267,383	661,747	(188,720)

Payables from repurchase agreements and securities lending	(4,069,121)	(1,661,576)	518,755
Bonds and notes issued	(1,264,573)	788,144	274,766
Other liabilities	1,481,198	1,584,847	1,004,803
Income tax paid	(1,106,700)	(1,014,907)	(1,108,641)
Net cash flow from operating activities	(121,962)	9,301,315	(1,367,604)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Note	2018 S/000	2017 S/000	2016 S/000
NET CASH FLOWS FROM INVESTING ACTIVITIES				
Revenue from sale of property, furniture and equipment		95,063	44,137	47,044
Revenue from sale of investment property		25,628	115,705	-
Purchase of property, furniture and equipment	10	(181,459)	(143,851)	(110,151)
Purchase of investment property	12(e)	(49,519)	(9,217)	(88,186)
Additions of intangible assets	11(a)	(419,789)	(271,722)	(277,346)
Amortized cost investments		295,990	-	-
Held-to-maturity investments		-	670,620	(1,550,332)
Net cash flows from investing activities		(234,086)	405,672	(1,978,971)
NET CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	17(e)	(1,130,427)	(979,989)	(653,326)
Additional dividends	17(e)	-	(1,252,255)	-
Subordinated bonds and notes issued		-	(40,049)	(401,257)
Purchase of treasury stock	17(b)	(95,413)	(71,008)	(66,528)
Acquisition of non-controlling interest		(174,472)	-	(489,866)
Net cash flows from financing activities		(1,400,312)	(2,343,301)	(1,610,977)
Net increase (decrease) of cash and cash equivalents before effect of changes in exchange rate		(1,756,360)	7,363,686	(4,957,552)
Effect of changes in exchange rate of cash and cash equivalents		704,966	(784,685)	(454,120)
Cash and cash equivalents at the beginning of the year		23,212,197	16,633,196	22,044,868
Cash and cash equivalents at the end of the year		22,160,803	23,212,197	16,633,196
Additional information from cash flows				
Interest received		11,469,209	10,935,640	10,640,157
Interest paid		(3,034,140)	(2,885,989)	(2,772,891)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Reconciliation of liabilities arising from financing activities:

2018	At January 1, 2018	Changes that generate cash flows: New issues	Changes that generate cash flows: Amortization of principal (*)	Changes that do not generate cash flows: Exchange difference	**Changes in fair value**	Discontinuing of hedge (*)	Others	**At December 31, 2018**
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Subordinated bonds:								
Amortized cost	2,257,516	-	-	183,791	164	2,951,813	31,117	5,424,401
Fair value	2,989,873	-	-	17,210	(55,270)	(2,951,813)	-	-
	5,247,389	-	-	201,001	(55,106)	-	31,117	5,424,401
Fair value hedge	(34,290)	-	(9,245)	(293)	31,185	-	12,643	-

2017	At January 1, 2017	Changes that generate cash flows: New issues	Changes that generate cash flows: Amortization of principal	Changes that do not generate cash flows: Exchange difference	**Changes in fair value**	Discontinuing of hedge	Others	**At December 31, 2017**
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
Subordinated bonds:								
Amortized cost	2,371,073	29,953	(70,002)	(70,522)	-	-	(2,986)	2,257,516
Fair value	3,189,921	-	-	(166,645)	(39,137)	-	5,734	2,989,873
	5,560,994	29,953	(70,002)	(237,167)	(39,137)	-	2,748	5,247,389
Fair value hedge	(77,508)	-	-	2,512	39,250	-	1,456	(34,290)

(*) During the first quarter of 2018, the Group discontinued the fair value hedge of certain liability bonds; as a result, these bonds were reclassified as financial liabilities at amortized cost. See explanation in Note 16(a).

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

CREDICORP LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018 AND 2017

1 OPERATIONS

Credicorp Ltd. (hereinafter "Credicorp" or "the Group") is a limited liability company incorporated in Bermuda in 1995 to act as a holding company and to coordinate the policies and administration of its subsidiaries. It is also engaged in investing activities.

Credicorp Ltd., through its banking and non-banking subsidiaries and its associate Entidad Prestadora de Salud, provides a wide range of financial, insurance and health services and products mainly throughout Peru and in certain other countries (See Note 3(b)). Its major subsidiary is Banco de Crédito del Perú (hereinafter "BCP" or the "Bank"), a Peruvian universal bank. Credicorp's address is Clarendon House 2 Church Street Hamilton, Bermuda; likewise, administration offices of its representative in Peru are located in Calle Centenario Nº156, La Molina, Lima, Peru.

Credicorp is listed on the Lima and New York stock exchanges.

The consolidated financial statements as of December 31, 2017 and for the year then ended were approved by the General Shareholders Meeting dated March 28, 2018. The consolidated financial statements as of December 31, 2018 and for the year then ended were approved by the Audit Committee and Management on February 26, 2019, and will be submitted for their final approval by the Board of Directors and the General Shareholders' Meeting within the period established by law; in Management's opinion, the consolidated financial statements will be approved without modifications.

2 MERGER AND ACQUISITIONS

a) Acquisition of non-controlling interest of Mibanco, Banco de la Microempresa S.A. (Mibanco) -

On April 18, 2018, Credicorp Ltd. through its subsidiaries Grupo Crédito S.A. and Banco de Crédito del Perú S.A. acquired 3.23 percent and 0.06 percent, respectively, of the share capital of Mibanco, which was held by minority shareholders for approximately S/129.0 million and S/2.4 million, respectively.

Additionally, on May 22 and 23, 2018, BCP acquired 1.22 percent and 0.05 percent, respectively, of the share capital of Mibanco, which was held by minority shareholders for approximately S/47.3 million and S/1.9 million, respectively.

These acquisitions of non-controlling interest were recorded as an equity transaction.

In view of said acquisitions, Credicorp Ltd. increased its interest in the share capital of Mibanco from 93.18 percent to 97.74 percent.

b) Merger by absorption between Credicorp Capital Holding Chile S.A. and Inversiones IMT S.A. -

On February 21, 2018, the Private Investment Fund Series B, administered by Credicorp Capital S.A., sold, ceded and transferred to Credicorp Capital Holding Chile S.A. the 11 shares of Inversiones IMT S.A. which it owned.

As a result of the sale, the entity Credicorp Capital Holding Chile S.A. became the holder of 100.0 percent of the share capital of Inversiones IMT S.A. for an uninterrupted period that exceeded 10 days, which is a cause for corporate dissolution, according to article 103 numeral 2 of the Law regarding Joint Stock Companies, in Chile.

Subsequently, on March 3, 2018, the merger by absorption between Inversiones IMT S.A. (absorbed entity) and Credicorp Capital Holding Chile S.A. (absorbing entity) was made effective; the latter acquiring all the assets, liabilities, rights and obligations of Inversiones IMT S.A., without needing to proceed with the liquidation of the dissolved company.

Said transaction has not generated a significant impact on the Group's consolidated financial statements.

c) Merger by absorption between El Pacífico Vida Compañía de Seguros y Reaseguros (Pacífico Vida) and El Pacífico Peruano-Suiza Compañía de Seguros y Reaseguros (PPS) -

At the Obligatory Annual Shareholders' Meeting of Pacífico Vida, held on February 23, 2017, the merger by absorption was approved between Pacífico Vida (absorbing entity) and PPS (absorbed entity), and the amendments to their corporate denomination and purpose. Furthermore, it was agreed that said merger would come into effect on the date of the approval of the Public Deed, subject to the prior authorization of the Superintendencia de Banca, Seguros y AFP (authority that regulates banking, insurance and pension fund management activities in Peru, hereinafter "SBS").

In this sense, the SBS through Resolution N° 2836-2017, dated July 19, 2017, authorized the following to Pacífico Vida:

- The merger by absorption.
- The increase in its share capital by the amount of S/571,009,670, thereby increasing its new share capital to the total of S/1,121,316,750.
- The amendment in its corporate denomination to Pacífico Compañía de Seguros y Reaseguros S.A., being able to use the abbreviated name "Pacífico Seguros"; and to change its corporate purpose in order to be able to operate in the branches of life and general insurance.

Subsequently, on August 1, 2017, the signing of the Public Deed of Fusion was formalized, with the merger by absorption becoming effective as from said date; consequently, Pacífico Vida absorbs the totality of the assets, liabilities, rights and obligations of PPS, with the latter becoming extinguished, without dissolution or liquidation.

This transaction has not generated a significant impact on the Group's consolidated financial statements.

d)

Acquisition of the non-controlling interest of Credicorp Capital Colombia S.A. (formerly Correval) and Inversiones IMT S.A. (absorbed in March 2018 by Credicorp Capital Holding Chile S.A.) -

In the Board Meetings of Credicorp held on February 24, and July 20 of 2016, capital contributions were approved in favor of Credicorp Capital Ltd. for an amount of US$15.4 million and US$106.3 million, respectively, for the purpose of acquiring all of the shares held by the minority shareholders of Credicorp Capital Colombia S.A. (49.0 percent) and Inversiones IMT S.A. (39.4 percent) at said date, exercising the sale option agreed with them amounting, at that time, to S/489.9 million (S/340.4 million at the time of the signing of the contract and S/149.5 million related to the appreciation of that option recorded in the period from 2013 until its execution date).

It should be mentioned that in said Board meetings, a capital contribution in favor of Credicorp Capital Ltd. was initially approved for a total amount of US$121.7 million; however, Management subsequently decided that the contribution would only be for US$120.1 million.

Credicorp Capital Ltd. made capital contributions in favor of Credicorp Capital Holding Chile S.A. and Credicorp Capital Holding Colombia S.A.S. for approximately US$49.2 million and US$44.2 million, respectively, to enable said entities to execute directly the purchase and sale options (PUT) of the minority shareholders.

Accordingly, on May 20 and August 1 of 2016, Credicorp Capital Holding Chile S.A. executed the purchase option of Inversiones IMT S.A shares, acquiring the 39.4 percent share held by the minority shareholders, for approximately US$73.7 million (equivalent to S/241.4 million), through which, Credicorp Capital Holding Chile S.A. became the owner, directly and indirectly, of 100 percent of the capital stock of Inversiones IMT S.A (11 shares of the capital stock of Inversiones IMT S.A. are held by Fondo de Inversión Privado Serie B, an indirect subsidiary of Credicorp Capital Holding Chile S.A.).

The amount paid by Credicorp Capital Holding Chile was made up of: (i) US$49.2 million originating from the capital contribution of Credicorp Capital Ltd., (ii) US$20.0 million obtained through a financing from a local Chilean bank and (iii) own funds of approximately US$4.5 million.

Furthermore, on May 20, June 1 and August 1, of 2016, Credicorp Capital Holding Colombia S.A.S. executed the purchase option of Credicorp Capital Colombia S.A., purchasing the 30.32 percent share held by the minority shareholders for approximately US$45.2 million (equivalent to S/152.4 million), through which, Credicorp Capital Holding Colombia S.A.S. became the owner of 81.32 percent of the share capital of Credicorp Capital Colombia S.A.

The amount paid by Credicorp Capital Holding Colombia S.A.S. is made up of US$44.2 million originating from the capital contribution of Credicorp Capital Ltd. and US$1.0 million of own funds.

Finally, on September 30, 2016, Credicorp Capital Ltd. executed the remaining purchase option of Credicorp Capital Colombia S.A., purchasing the 18.68 percent share held by the minority shareholders, by means of the purchase of the entities Coby Business Inc. and Artigas Global Corp, both Panamanian companies whose only assets are their shares of Credicorp Capital Colombia S.A. The total amount of the purchase was US$28.3 million (equivalent to S/96.1 million), of which Credicorp Capital Ltd. paid US$26.7 million in cash (which originated from Credicorp´s capital contribution).

The total contribution of Credicorp Ltd. in Credicorp Capital Ltd. was US$120.1 million and with the financing taken by Credicorp Capital Holding Chile S.A., all of the purchase options were exercised, resulting in the achievement of a 100 percent share in Inversiones IMT S.A. and in Credicorp Capital Colombia S.A. With this operation, the process was concluded of establishing a regional investment bank which operates in the Integrated Latin American Market (MILA), involving the stock exchanges of Peru, Colombia and Chile.

The impacts of the operation on the financial statements of the Group are summarized below:

	Companies acquired			
	Inversiones IMT S.A.	Credicorp Capital Colombia S.A.	Coby Business Inc. y Artigas Global Corp.	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Assets and liabilities acquired / Non controlling interest	103,630	69,482	43,261	216,373
Payment made / execution of sale option	(241,420)	(152,379)	(96,067)	(489,866)
Higher value paid	(137,790)	(82,897)	(52,806)	(273,493)

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3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting principles applied in the preparation of Credicorp's consolidated financial statements are set out below:

a) Basis of presentation and use of estimates -

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements as of December 31, 2018, have been prepared following the historical cost criteria, except for investments at fair value through profit or loss, investments at fair value through other comprehensive income, financial assets designated at fair value through profit or loss, derivative financial instruments, and financial liabilities at fair value through profit or loss (investments at fair value through profit or loss, investments available for sale, financial assets designated at fair value through profit or loss, derivative financial instruments, bonds and notes associated with fair value hedges, and financial liabilities at fair value through profit or loss; as of December 31, 2017); which have been measured at fair value.

The consolidated financial statements are presented in Soles (S/), see paragraph (c) below, and values are rounded to the nearest S/thousands, except when otherwise indicated.

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of significant events in notes to the consolidated financial statements.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The final results could differ from said estimates; however, management expects that the variations, if any, will not have a material impact on the consolidated financial statements.

As of December 31, 2018, the most significant estimates included in the accompanying consolidated financial statements are related to the calculation of the expected loss on loans, the valuation of investments, the technical reserves for insurance claims and premiums, the impairment of goodwill , the expected loss for investments at fair value through other comprehensive income and investments at amortized cost, the valuation of share-based payment plans and the valuation of derivative financial instruments.

As of December 31, 2017, the most significant estimates included in the accompanying consolidated financial statements were related to allowance for loan losses, the valuation of investments, the technical reserves for insurance claims and premiums, goodwill impairment, the impairment of available-for-sale investments and investments held to maturity, the valuation of share-based payment transactions and the valuation of derivative financial instruments. Furthermore, other estimates exist, such as the estimated useful life of intangible assets, property, furniture and equipment and the deferred income tax assets and liabilities. The accounting criteria used for said estimates are described below.

The accounting policies adopted are consistent with those of the previous years, except that the Group has adopted the new revised IFRS and IAS which are mandatory for the periods beginning on or after January 1, 2018, as described below:

(i) IFRS 9 “Financial Instruments” -

In July 2014, the IASB issued the complete version of IFRS 9, which combines the phases of classification and measurement, impairment and hedging accounting to replace IAS 39 “Financial instruments: Measurement and Recognition”.

IFRS 9 establishes three categories of classification and measurement for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. This classification is used by the entity's business model to manage the financial assets and the characteristics of the contractual cash flows of the financial assets.

With respect to financial liabilities, the majority of classification and measurement requirements included in IFRS 9 are similar to those in IAS 39.

IFRS 9 introduces a new impairment model based on expected credit losses involving three stages approach whereby financial assets go through these stages when their credit quality changes. This model differs significantly from the model under IAS 39 related to credit losses incurred, which results in the early recognition of credit losses.

In addition, the current model of hedge accounting according to IFRS 9 simplifies hedge accounting, aligns the accounting of the hedging relationships more closely with the risk management activities of an entity and permits hedge accounting to be applied more widely to a greater variety of hedging instruments and risks suitable for hedge accounting.

The new classification, measurement and impairment requirements were applied adjusting our consolidated statement of financial position at January 1, 2018, date of initial application, without restating the financial information for the comparative period, as permitted by the aforementioned accounting standard.

The initial recognition and subsequent measurement are explained in Note 3(f) and the determination of impairment is explained in Note 3(i).

- Classification and measurement of the financial instruments

The following table presents the measurement categories and the carrying value of the financial instruments under IAS 39 and IFRS 9 as of January 1, 2018:

	IAS 39		IFRS 9	
Financial assets	Category	Carrying amount S/(000)	Category	Carrying amount S/(000)
Cash and due from banks	Loans and receivables	23,221,987	Amortized cost	23,221,987
Cash collateral, reverse repurchase agreements and securities borrowings	Loans and receivables	7,480,420	Amortized cost	7,480,420
Investments	At fair value through profit or loss	4,024,737	At fair value through profit or loss	5,613,356
	Available-for-sale	24,423,891	At fair value through other comprehensive income (Debt instruments)	22,181,733
			At fair value through other comprehensive income (Designated equity instruments)	653,539
	Held-to-maturity	4,413,373	Amortized cost	4,411,637
Loans, net	Loans and receivables	95,977,277	Amortized cost	95,770,509
Financial assets designated at fair value through profit or loss	At fair value through profit or loss (Designated upon initial recognition)	537,685	At fair value through profit or loss (Designated upon initial recognition)	537,685
Premiums and other policies receivable	Loans and receivables	656,829	Amortized cost	649,135
Accounts receivable from reinsurers and coinsurers	Loans and receivables	715,695	Amortized cost	715,553
Due from customers on acceptances	Loans and receivables	532,034	Amortized cost	532,034

Derivatives receivable	At fair value for trading or for hedging purposes	701,826	At fair value for trading or for hedging purposes	701,826
Other assets	Loans and receivables	1,759,125	Amortized cost	1,759,125
	Total financial assets	164,444,879		164,228,539
Financial liabilities				
Liabilities	Amortized cost	130,842,331	Amortized cost	130,956,515
Liabilities	At fair value	8,791,390	At fair value	8,791,390
	Total financial liabilities	139,633,721		139,747,905

- Reconciliation of balances of the statement of financial position from IAS 39 to IFRS 9 at January 1, 2018

The following table presents the detail of the reconciliation of balances of financial assets under IAS 39 to IFRS 9, distinguishing between the impacts due to category change and impairment remeasurement:

Financial assets	IAS 39	Change of category	**Impairment remeasurement**	IFRS 9
	S/(000)	S/(000)	S/(000)	S/(000)
Cash and due from banks	23,221,987	-	-	23,221,987
Cash collateral, reverse repurchase agreements and securities borrowings	7,480,420	-	-	7,480,420
Investments:				
At fair value through profit or loss :				
Opening balance under IAS 39	4,024,737			
Addition: From investments available for sale (*)		1,588,619		
Closing balance under IFRS 9				5,613,356
At fair value through other comprehensive income (debt):				
Opening balance under IAS 39	-			
Addition: From investments available for sale		22,181,733		
Closing balance under IFRS 9				22,181,733
At fair value through other comprehensive income (Designated equity instruments)	-	653,539	-	653,539
Available for sale:				
Opening balance under IAS 39	24,423,891			
Subtraction: Reclassification to investments at fair value through profit or loss (*)		(1,588,619)		
Subtraction: Reclassification to investments at fair value through other comprehensive income (debt)		(22,181,733)		
Subtraction: Reclassification to investments at fair value through other comprehensive income (Designated - equity)		(653,539)		
Closing balance under IFRS 9				-
Amortized cost:				
Opening balance under IAS 39	-			
Addition: From investments held-to-maturity (IAS 39)		4,413,373		

Remeasurement: Expected loss (IFRS 9)			(1,736)	
Closing balance under IFRS 9				4,411,637
Held-to-maturity:				
Opening balance under IAS 39	4,413,373			
Subtraction: Reclassification to investments at amortized cost		(4,413,373)		
Closing balance under IFRS 9				-
Loans, net	95,977,277	-	(206,768)	95,770,509
Financial assets designated at fair value through profit or loss	537,685	-	-	537,685
Premiums and other policies receivable	656,829	-	(7,694)	649,135
Accounts receivable from reinsurers and coinsurers	715,695	-	(142)	715,553
Due from customers on acceptances	532,034	-	-	532,034
Derivative receivables	701,826	-	-	701,826
Other assets	1,759,125	-	-	1,759,125
Total	164,444,879	-	(216,340)	164,228,539

(*) The combined application of the tests regarding the characteristics of the contractual cash flows and business models at January 1, 2018, resulted in certain investments classified as “Available for sale” under IAS 39, having to be reclassified in the category “At fair value through profit of loss” under IFRS 9. These financial assets maintained unrealized gains in the statement of changes in equity, net of income tax, of approximately S/314.4 million in the item “Net unrealized gains (losses)”, which were reclassified to the item “Retained earnings”.

The classification and measurement of the financial liabilities have not had changes due to the application of IFRS 9, except for the provision of credit loss for indirect loans which required an additional provision of S/114.2 million.

- Reconciliation of the balances of the provision for impairment under IAS 39 and IFRS 9 as of January 1, 2018:

	IAS 39	**Impairment remeasurement**	IFRS 9
	S/(000)	S/(000)	S/(000)
Financial asset:			
Investment at amortized cost	-	1,736	1,736
Loans	4,500,498	206,768	4,707,266
Premiums and other policies receivable	12,255	7,694	19,949
Accounts receivable from reinsurers and coinsurers	8,715	142	8,857
Total financial assets	4,521,468	216,340	4,737,808
Financial liabilities:			
Provision for credit losses on indirect loans	442,510	114,184	556,694
Total financial liabilities	442,510	114,184	556,694

Also, a provision for investments at fair value through other comprehensive income for approximately S/48.8 million was recorded in the account “Net unrealized gains (losses)” in consolidated statement of changes in equity.

(ii) IFRS 15 “Revenue from contracts with customers” -

IFRS 15, which was published in May 2014 and amended in April 2016, replaced IAS 18 “Revenue”, and IAS 11 “Construction Contracts”.

The new standard is based on the principle that revenue is recognized when the control of a good or service is transferred to a customer, so that the notion of control replaces the existing notion of risks and benefits.

The standard establishes a new five-step model that applies to the recording of revenue from contracts with customers:

- Identify the contracts with customer.
- Identify the distinct performance obligation in the contract.
- Determine the transaction price.
- Allocate the transaction price to each performance obligations, and
- Recognize revenue when or as a performance obligation is satisfied.

Key changes to the practice followed previously:

- All the grouped goods and services which are different must be recognized separately and, in general, the discounts or rebates in the contract price must be assigned to the separate elements.
- Revenue can be recognized earlier than previously if the consideration varies for any reason (for example, incentives, rebates, management commissions, royalties, success fee, etc.). If they are not at significant risk of reversal, the minimum amounts must be recognized.
- The point at which revenue may be recognized can change: some revenue that is currently recognized at a given moment at the end of a contract may have to be recognized during the term of the contract and vice versa.
- There are new specific standards regarding licenses, guarantees, non-reimbursable fee advances and consignment agreements, to name a few.
- There are also greater disclosure requirements.

(iii) Amendments to IFRS 2: Classification and measurement of share-based payment -

The amendments made by the IASB in July 2016 clarify the basis of measurement of the share-based payments in cash and the recording of the amendments which change benefits liquidated in cash into equity instruments.

Moreover, an exception is introduced to the principle of classification. When an employer is obliged to retain a certain amount for a tax obligation of the employee associated with a share-based payment, and they pay that amount to the tax authority, the total benefit will be treated as though it were liquidated in equity instruments, as long as it was liquidated in shares without the benefit of a net liquidation.

Entities with the following agreements may find themselves affected by these changes:

- Benefits liquidated in equity instruments which include net liquidations related to tax obligations.
- Share-based payments which include performance conditions, and
- Cash liquidation agreements which are amended to share-based payments liquidated in equity instruments.

(iv) Annual improvements to the IFRS (2014 - 2016 Cycle)

In December 2016, the following improvements were completed:

- IFRS 1 "First Time Adoption of IFRS", which eliminates the short-term exemptions which cover the provisions for transition of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.

- IAS 28 "Investments in Associates and Joint Ventures". This clarifies that the choice by investment funds, mutual funds, investment trusts and similar entities to measure the investments in associates or joint ventures at fair value through profit or loss must be made separately for each associate or joint venture at initial recognition.

(v) Amendments to IAS 40: "Transfers of Investment Property" –

The amendments clarify that transfers to or from, investment properties can only be made if there has been a change in the use of the property that is supported with evidence. A change in use occurs when the property complies with, or ceases to comply with, the definition of investment property.

A change of intention by itself is not sufficient to support a transfer from or to investment properties.

The list of tests for a change of use in the standard is characterized as a non-exhaustive list of examples to help to illustrate the principal.

The IASB provided two examples for the transition:

- Prospectively, with any impact from the reclassification recognized as an adjustment to the initial retained earnings at the date of initial recognition, or
- Retrospectively, only permitted without taking advantage of retrospective information.

Additional disclosures are required if an entity adopts the requirements prospectively.

b) Basis of consolidation -

Investment in subsidiaries -

The consolidated financial statements comprise the financial statements of Credicorp and its Subsidiaries for all the years presented.

Under IFRS 10 all entities over which the Group has control are subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group assesses whether or not it controls an investee if the facts and circumstances indicate that there are changes in any of the elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The consolidated financial statements include assets, liabilities, income and expenses of Credicorp and its subsidiaries.

Profit or loss for the period and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interest, even if this results in the non-controlling interest with a negative balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Assets in custody or managed by the Group, such as investment funds and private pension funds (AFP funds), are not part of the Group's consolidated financial statements, Note 3(ab).

Transactions with non-controlling interest -

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction and any resulting difference between the price paid and the amount corresponding to non-controlling shareholders is recognized directly in the consolidated statement of changes in net equity.

Loss of control -

If the Group loses control over a subsidiary, it derecognizes the carrying amount of the related assets (including goodwill) and liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any residual investment retained is recognized at fair value.

Investments in associates -

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but without exercising control over said policies.

The Group's investments in its associates are recognized initially at cost and are subsequently accounted for using the equity method. They are included in "Other assets" in the consolidated statement of financial position; gains resulting from the use of the equity method of accounting are included in "Other income" of the consolidated statement of income.

At December 31, 2018 and 2017, the following entities comprise the Group (the individual or consolidated figures of their financial statements are presented in accordance with IFRS and before eliminations for consolidation purposes, except for the elimination of Credicorp's treasury shares and its related dividends):

Entity	Activity and country of incorporation	Percentage of interest (direct and indirect)		Assets		Liabilities		Equity
		2018 %	2017 %	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)	2018 S/(000)
Banco de Crédito del Perú and Subsidiaries (i)	Banking, Peru	97.71	97.69	144,768,951	139,658,667	127,683,654	124,107,841	17,085,
Pacífico Compañía de Seguros y Reaseguros S.A. and Subsidiaries (ii), Note 2(c)	Insurance, Peru	98.79	98.79	12,222,763	11,402,998	9,590,768	8,558,149	2,631,9
Credicorp Capital Ltd. and Subsidiaries (iii)	Capital markets, Bermuda	100.00	100.00	3,393,325	3,731,930	2,695,499	2,943,210	697,82
Inversiones Credicorp Bolivia S.A. and Subsidiaries (iv)	Banking, Bolivia	99.96	99.96	10,020,148	9,153,381	9,239,568	8,458,813	780,58
Atlantic Security Holding Corporation and Subsidiaries (v)	Capital Markets, Cayman islands	100.00	100.00	6,607,494	7,034,717	5,395,262	6,206,861	1,212,2
CCR Inc. (vi)	Special purpose Entity, Bahamas	100.00	100.00	543,113	667,170	543,896	670,132	(783
Prima AFP S.A. (vii)	Private pension fund administrator, Peru	100.00	100.00	874,649	882,917	241,307	263,717	633,34

Grupo Crédito S.A (viii)	Holding, Peru	100.00	100.00	424,738	208,049	41,648	241,237	383,090

(i) BCP was established in 1889 and its activities are regulated by the SBS.

Its main Subsidiary is Mibanco, Banco de la Microempresa S.A. (hereinafter “Mibanco”), a banking entity in Peru oriented towards the micro and small business sector. At December 31, 2018, the assets, liabilities, equity and net income of Mibanco amount to approximately S/13,220.3 million, S/11,321.8 million, S/1,898.5 million and S/462.1million, respectively (S//12,363.0 million, S/10,666.5 million, S/1,696.5 million, and S/399.1 million, respectively at December 31, 2017).

(ii) Pacífico Seguros is an entity regulated by the SBS and its activities comprise the contracting and management of all types of general risk and life insurance, reinsurance and property investment and financial operations. Its Subsidiaries are Crediseguro Seguros Personales and Crediseguro Seguros Generales, and it has Pacífico EPS as an associate, which are dynamic participants in the business of multiple and health insurance, respectively.

(iii) Credicorp Capital Ltd. was formed in 2012, and its main subsidiaries are Credicorp Capital Holding Peru (owner of Credicorp Capital Perú S.A.A.), Credicorp Capital Holding Colombia (owner of Credicorp Capital Colombia), and Credicorp Capital Holding Chile (owner of Credicorp Capital Chile), which carry out their activities in Peru, Colombia and Chile, respectively. We present below the individual or consolidated financial statements in accordance with IFRS and before eliminations for consolidation purposes:

Entity	Percentage of interest (direct and indirect)		Assets		Liabilities		Equity		Net income (loss)	
	2018 %	2017 %	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)	2018 S/(000)	2017 S/(000)
Credicorp Capital Holding Perú S.A. and Subsidiaries	100.00	100.00	339,220	303,121	141,943	121,302	197,277	181,819	42,684	28,604
Credicorp Capital Colombia	100.00	100.00	1,882,183	1,667,003	1,749,472	1,522,222	132,711	144,781	15,407	18,795
Credicorp Capital Chile	100.00	100.00	324,907	213,165	196,715	71,108	128,192	142,057	12,504	21,420

Credicorp Capital Perú has the principal function of a holding company of shares, participations, and securities in general, provision of financial and corporate advisory services, and property investment. At December 31, 2018 and 2017, Credicorp Capital Peru holds as Subsidiaries, Credicorp Capital Sociedad Agente de Bolsa S.A., Credicorp Capital S.A. Sociedad Administradora de Fondos, Credicorp Capital Servicios Financieros S.A. and Credicorp Capital Sociedad Titulizadora S.A., member companies of the Investment Banking Group in Peru.

(iv) Inversiones Credicorp Bolivia S.A. (hereinafter ICBSA) was established in February 2013 and its objective is to make capital investments for its own account or for the account of third parties in companies and other entities providing financial services, exercising or determining the management, administration, control and representation thereof, both nationally and abroad, for which it can invest in capital markets, insurance, asset management, pension funds and other related financial and/or stock exchange products.

Its principal Subsidiary is Banco de Crédito de Bolivia (hereinafter BCB), a commercial bank which operates in Bolivia. At December 31, 2018, the assets, liabilities, equity and net profit of BCB were approximately S/9,956.9 million, S/9,265.8 million, S/691.1 million and S/78.3 million, respectively (S/9,118.4 million, S/8,481.7 million, S/636.7 million and S/75.4 million, respectively at December 31, 2017).

(v) Its most important Subsidiary is Atlantic Security Bank (ASB), which is incorporated in the Cayman Islands and operates through branches and offices in Grand Cayman and the Republic of Panama; its main activities are private and institutional banking services and trustee administration, mainly for BCP's Peruvian customers.

(vi) CCR Inc. was incorporated in 2000, its main activity is to manage loans granted to BCP by foreign financial entities, See Note 16(a)(iii). These loans are collateralized by transactions performed by BCP.

(vii) Prima AFP is a private pension fund and its activities are regulated by the SBS.

(viii) The main activity of Grupo Crédito is to invest in shares listed in the Peruvian- Stock Exchange and in unlisted shares of Peruvian companies. It also holds the Group's shares in BCP, and Inversiones Credicorp Bolivia, Prima AFP and Pacífico Seguros. Grupo Crédito's balances are presented net of its investments in said entities.

c) Functional, presentation and foreign currency -

(i) Functional and presentation currency -

Credicorp and its Subsidiaries which operate in Peru consider the sol as their functional and presentation currency since it reflects the nature of the economic events and relevant circumstances given the fact their major transactions and/operations, such as: lending, borrowing, finance income, finance costs and a significant percentage of their purchases are agreed in soles.

(ii) Transactions and balances in foreign currency -

Foreign currency transactions are those entered into in currencies other than the functional currency. These transactions are initially recorded by Group entities at the exchange rates of their functional currencies at the transaction dates. Monetary assets and liabilities denominated in foreign currency are adjusted at the exchange rate of the functional currency prevailing at the date of the statement of financial position.

The differences arising from the exchange rate prevailing at the date of each consolidated statement of financial position presented and the exchange rate initially used in recording transactions are recognized in the consolidated statement of income in the period in which they occur, in “Net gain from exchange differences”. Non-monetary assets and liabilities acquired in foreign currency are stated at the exchange rate prevailing at the initial transaction date and are not subsequently adjusted.

(iii) Group entities with functional currency other than the presentation currency -

Given that the Group's entities in Colombia, Chile, Cayman, Panama and Bolivia have a functional currency different from Soles, the balances were translated into Soles for consolidation purposes in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates" as follows:

- Assets and liabilities, at the closing rate prevailing at the date of each consolidated statement of financial position.
- Income and expense, at the average exchange rate for each month of the year.

All resulting exchange differences were recognized within "Exchange differences" in the consolidated statement of comprehensive income.

d) Recognition of income and expenses from banking activities -

Interest income and expense for all interest-bearing financial instruments, including those related to financial instruments classified as held for trading or measured at fair value through profit or loss, are recognized within "Interest and similar income" and "Interest and similar expenses" in the consolidated statement of income using the Effective Interest Rate (EIR) method, which is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Interest income includes coupons earned on fixed income investment and the discount and premium on financial instruments. Dividends are recognized as income when they are declared.

Fees and commission income are recognized on an accrual basis. Contingent credit fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any direct incremental cost) and recognized as an adjustment to the effective interest rate on the loan.

All other revenues and expenses are recognized on an accrual basis.

e) Insurance activities -

Product classification:

Insurance contracts are those contracts when the Group (the insurer) has accepted a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. This definition also includes reinsurance contracts that the Group holds.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Life insurance contracts offered by the Group include retirement, disability and survival insurance, annuities and individual life which includes Investment Link insurance contracts. The non-life insurance contracts issued by the Group mainly include automobile, fire and allied lines, technical branches and healthcare.

Reinsurance:

The Group cedes insurance risk in the normal course of its operations for most of its businesses. Reinsurance assets represent balances due from reinsurance companies. Reinsurance ceded is placed on both a proportional and non-proportional basis.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims reserve or settled claims and ceded premiums, associated with the ceded policies and in accordance with the related reinsurance contracts.

Reinsurance assets are reviewed for impairment at each reporting date of the consolidated statement of financial position or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the consolidated statement of income.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for non-life insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the classification of the reinsured insurance contract.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance, see Notes 24 and 25. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are not material to the insurance segment.

Insurance receivables:

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost.

As of December 31, 2018 and 2017 the carrying amount of the insurance receivables is similar to their fair value due to their short term. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment loss is recorded in the consolidated statement of income. Insurance receivables are derecognized when the de-recognition criteria for financial assets, as described in Note 3(g), have been met.

“Investment Link” assets:

“Investment Link” assets represent financial instruments held for purposes of funding a group of life insurance contracts and for which investment gains and losses are allocated directly to the policyholders who bear the investment and reinvestment risk. Each account has specific characteristics and the assets are carried at fair value. The balances of each account are legally segregated and are not subject to claims that arise out of any other business of the Group. The liabilities linked to these contracts are equal in amount to the assets that support them, net of the commissions that the Group charges for the management of these contracts.

Deferred acquisition costs (DAC):

These comprise the direct costs that originate with and are related to traditional life and Investment Link insurance contracts, which are deferred; all other acquisition costs are recognized as an expense when incurred. The direct acquisition costs comprise primarily agent commissions corresponding to the underwriting and policy issuance costs.

Subsequent to initial recognition, these costs are amortized on a straight line basis based on the average expiration period of the related insurance contracts. Amortization is recorded in the consolidated statement of income.

DAC for general insurance and health products are amortized over the period in which the related revenues are earned.

DAC are derecognized when the related contracts are either settled or disposed of.

An impairment review is performed at the date of the consolidated statement of financial position or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value an impairment loss is recognized in the consolidated statement of income. DAC is also considered in the liability adequacy test for each reporting period.

Reinsurance commissions:

Commissions on reinsurance contracts for ceded premiums are amortized on a straight line basis over the term of the coverage of the related insurance contract.

Insurance contract liabilities:

(i) Life insurance contract liabilities -

Life insurance liabilities are recognized when contracts are entered into.

The technical reserves maintained by the Group include the reserves of all of the business lines, comprising both the mathematical reserves and those of ongoing risk, as well as the reserves for outstanding claims, settled claims, claim settlement costs, claims incurred but not reported, as applicable to each line.

Due to the nature of the business, the mathematical reserves of the pension lines represent the main part of the Group's reserves, with the line of Life Annuities as the major source of reserves due to the important volume of premiums and as a result of having only single premiums. In order to determine the reserves of this business, the discounted present value of the expected future pensions, to be paid in a guaranteed and non-guaranteed period is taken into account, calculated on the basis of mortality tables and interest rates. Those are based on the asset portfolio which supports the liabilities. Additionally, the constituted reserves include the amount required to cover the maintenance expenses related to the administration of the payment of future pensions.

On the other hand, in the Individual Life business the Group offers some products which are only risk related and others of risk and savings, the latter being those which comprise the highest percentage of reserves of the line. Risk and savings products can be differentiated between those with a guaranteed interest rate and others without guaranteed interest, the reserve for the first group being equal to the balance of the policy accounts plus the unaccredited surplus interest, and for the second group it is equal to the balance of the policy accounts. Said accounts are established with the premiums collected, tax deductions, expenses and costs of insurance and the accreditation of interest based on the yield of the portfolio which supports said reserves.

Life insurance claims reserves include reserves for reported claims and the estimates of the incurred claims that have not been reported to the Group. At December 31, 2018 and 2017, reserves for claims occurred and not reported were determined on the basis of the Chain Ladder methodology (a generally accepted actuarial method), whereby the weighted average of past claim development is projected into the future; this projection is based on the ratios of occurrence of accumulated past claims. Adjustments to the liabilities at each reporting date of the consolidated statement of financial position are recorded in the consolidated statement of income. The liability is derecognized when the contract expires, is discharged or is cancelled.

At each reporting date, an evaluation is carried out as to whether the life insurance liabilities are adequate, net of the related DAC, by means of a liability adequacy test as established by IFRS 4. At December 31, of 2018 and 2017, the Group’s Management concluded that the liabilities are sufficient and, therefore, they have not recognized any additional liability for life insurance contracts.

(ii) Non-life insurance contract liabilities (which comprise general and healthcare insurance) -

Non-life insurance contract liabilities are recognized when contracts are entered into.

Claims reserves are based on the last estimated cost of all claims incurred but not settled at the date of the consolidated statement of financial position, whether reported or not, together with related claim handling costs and the expected reduction in value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore their ultimate cost cannot be known with certainty at the date of the consolidated statement of financial position.

Claims occurred but not reported are estimated and included in the provision (liabilities). IBNR reserves are determined on the basis of the Bornhuetter - Ferguson methodology - BF (a generally accepted actuarial method), which considers a statistical analysis of the recorded loss history, the use of projection methods and, when appropriate, qualitative factors that reflect present conditions or trends that could affect the historical data. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the contract expires, is discharged or is cancelled.

Technical reserves for non-life insurance contracts comprise the provision for unearned premiums which represents premiums received for risks that have not yet expired. Generally, the reserve is liberated during the term of the contract and is recognized as premium income.

At each reporting date the Group reviews the risk from outstanding claims and an existing liability adequacy test as laid out under IFRS 4, to determine whether there is any overall excess of expected claims over unearned premiums. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognized in the consolidated statement of income by setting up a provision for liability adequacy. As of December 31, 2018 and 2017, Management determined that the liabilities were adequate; therefore, it has not recorded any additional liabilities for non-life insurance contracts.

Income recognition:

(i) Gross premiums -

Life insurance contracts -

Gross premiums on life contracts are recognized as revenue when due from the policyholder. For single premium business, revenue is recognized on the date on which the policy is effective.

Non-life insurance contracts -

Gross non-life insurance direct and assumed premiums comprise the total premiums written and are recognized on the date of issue of the policy as a receivable. At the same time, a reserve is recorded for unearned premiums which represent premiums for risks that have not yet expired. Unearned premiums are recognized as income over the contract period which is also the coverage and risk period.

(ii) Fees and commission income -

Investment Link insurance contract policyholders remunerate the Group for policy administration services, investment management services, surrenders and other contract fees. These fees are recognized as revenue in the consolidated statement of income in the period in which the services are provided.

Recognition of benefits, claims and expenses:

(i) Benefits and claims -

The benefits and claims for life insurance contracts include the cost of all claims arising during the year including internal and external claim handling costs that are directly related to the processing and settlement of claims. Death, survival and disability claims are recorded on the basis of notifications received. Pension payments are recorded when they accrue.

General and health insurance claims include all claims occurring during the year, whether reported or not, internal and external claim handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustment to claims outstanding from previous years.

(ii) Reinsurance premiums -

Comprise the total premiums payable for the coverage of the insurance contracts and are recognized on the date on which the validity of the insurance policy commences. Unearned ceded premiums are deferred over the term of the underlying insurance contract.

(iii) Reinsurance claims -

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

f) Financial instruments: Initial recognition and subsequent measurement -

A financial instrument is any agreement that originates a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group determined the classification of its financial instruments at initial recognition.

All the financial instruments are initially recognized at fair value plus the incremental costs related to the transaction that are directly attributable to the purchase or issue of the instrument, except in the case of financial assets or liabilities carried at fair value through profit or loss.

The purchases or sales of financial assets that require the delivery of the assets within a term established according to market regulations or conventions (regular market terms) are recognized on the negotiation date, in other words, the date in which the Group commits to purchase or sell the asset. The derivatives are recognized on the trading date.

Policy applicable from January 1, 2018 -

At December 31, 2018, the Group classified the financial assets in one of the categories defined by IFRS 9: financial assets at fair value through profit or loss, at fair value though other comprehensive income and at amortized cost, based on:

- The business model for managing the financial assets and
- The characteristics of the contractual cash flows of the financial asset.

Business model -

Represents how the financial assets are managed to generate cash flows and it does not depend on the Management's intention with regard to an individual instrument. Financial assets can be managed for the purpose of: i) obtaining contractual cash flows; ii) obtaining contractual cash flows and sale; or iii) others. In order to evaluate the business models, the Group considers the risks that affect the performance of the business model, and how the performance of the business model is evaluated and informed to Management. If the cash flows are carried out in a manner other than what is expected by the Group, the classification of the remaining financial assets maintained in this business model is not modified.

When the financial asset is maintained in the business models i) and ii), it requires the application of the "Solely Payments of Principal and Interest" test - "SPPI".

SPPI Test -

This test consists in the evaluation of the cash flows generated by a financial instrument in order to verify if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest. In order to conform to this concept, the cash flows must solely include the consideration of the time value of money and the credit risk. If the contractual terms introduce risk exposure or cash flow volatility, such as the exposure to changes in the prices of capital instruments or the prices of raw materials, the financial asset is classified at fair value through profit or loss. Hybrid contracts must be evaluated as a whole, including all the integrated characteristics. The accounting of a hybrid contract that contains an embedded derivative is carried out jointly, in other words, the entire instrument is measured at fair value through profit or loss.

(i) Financial assets at amortized cost -

A financial asset is classified at amortized cost if: a) it is held within a business model the objective of which is to maintain the financial asset to obtain the contractual cash flows, and b) the contractual conditions give rise, on specified dates, to cash flows that are solely payments of the principal and interest.

After their initial recognition, the financial assets of this category are valued at amortized cost, using the effective interest rate method, minus any credit loss provision. The amortized cost is calculated considering any discount or premium incurred in the acquisition and professional fees that constitute an integral part of the effective interest rate. The amortization of the effective interest rate is included in the item “Interest and similar income” of the consolidated income statement. The effective interest rate is the rate that discounts the future estimated cash payments or collections throughout the expected useful life of the financial asset using the gross carrying amount.

Financial assets at amortized cost include direct credits that are recorded when the disbursement of the funds in favor of the clients is carried out, and indirect (contingent) credits that are recorded when the documents that support said credit facilities are issued. Furthermore, the Group considers as refinanced or restructured those credits that, due to difficulties in payment on the part of the debtor, change their payment schedule.

The impairment loss is calculated using the expected credit loss approach, and recognized in the consolidated income statement in the item “Net gain on securities” for investments and in the item “Provision for credit losses on loan portfolio” for loans.

The balance of the financial assets, measured at amortized cost, is presented net of the provision for credit losses in the consolidated statement of financial position.

The accounting treatment of repurchase and reverse repurchase agreements and securities lending and borrowing is explained in Note 3(f)(viii).

(ii) Financial assets at fair value through other comprehensive income -

A financial asset is classified and measured at fair value through other comprehensive income if: a) the financial asset is maintained within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and b) the contractual conditions give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The financial assets that the Group maintains in this category are: a) investments in debt instruments, and b) investments in equity instruments, not for trading, irrevocably designated at initial recognition.

Investments in debt instruments -

After their initial recognition, investments in debt instruments are measured at fair value, recording the unrealized gains and losses in the consolidated statement of comprehensive income, net of their corresponding income tax and non-controlling interest, until the investment is sold; upon which the accumulated profit or loss is recognized in the item “Net gain on securities” of the consolidated statement of income.

Interest is recognized in the consolidated statement of income in the item “Interest and similar income” and it is reported as interest income using the effective interest rate method.

When a debt instrument is designated in a fair value hedging relationship, any change in the fair value due to changes in the hedged risk is recognized in the item “Interest and similar income” of the consolidated statement of income.

The gains or losses due to exchange differences related to the amortized cost of the debt instrument are recognized in the consolidated statement of income, and those related to the difference between the amortized cost and the fair value are recognized as part of the unrealized gain or loss in the consolidated statement of comprehensive income.

The estimated fair value of the investments in debt instruments is mainly determined based on quotations or, in their absence, based on the discounted cash flows using market rates in accordance with the credit quality and the maturity term of the investment.

The impairment loss of investments in debt instruments is calculated using the expected loss approach and is recognized in the consolidated statement of comprehensive income, charged to the item “Net gain on securities” of the consolidated statement of income; in this sense, it does not reduce the carrying amount of the financial asset in the consolidated statement of financial position, which is maintained at fair value. The impairment loss recognized in the consolidated statement of comprehensive income is reclassified to the consolidated statement of income when the debt instrument is derecognized.

Investments in equity instruments, not for trading, designated upon initial recognition -

At the moment of their initial recognition, the Group can make an irrevocable choice to present the equity instruments, which are not for trading, but for strategic purposes, in the category “At fair value through other comprehensive income”.

After their initial recognition, the equity investments are measured at fair value, recording the unrealized gains and losses in the consolidated statement of comprehensive income, net of their corresponding income tax and non-controlling interest, until the investment is sold, whereupon the accumulated gain or loss is transferred to the item “Retained earnings” of the consolidated statement of changes in equity; in other words, they are not subsequently reclassified to the consolidated statement of income.

As a result, the equity instruments classified in this category do not require a loss impairment evaluation.

Dividends are recognized when the collection right has been established and they are recorded in the item “Interest and similar income” of the consolidated statement of income.

(iii) Financial assets at fair value through profit or loss -

Financial assets must be classified and measured at fair value through profit or loss, unless they are classified and measured at “Amortized cost” or “At fair value through other comprehensive income”.

The financial assets that the Group maintains in this category are: a) Investments in debt instruments, b) investments in equity instruments for trading purposes, c) financial assets designated at fair value through profit or loss from their initial recognition, and d) derivative financial instruments for trading purposes.

Debt instruments -

Said instruments are classified in this category since: a) they are maintained for trading purposes, or b) their cash flows are not solely payments of principal and interest.

After their initial recognition they are measured at fair value, recording the changes in the item “Net gain on securities” of the consolidated statement of income. The interest earned is accrued in the item “Interest and similar income” of the consolidated statement of income.

Equity instruments -

Equity instruments are classified and measured at fair value through profit or loss, unless an irrevocable choice is made, at the time of initial recognition, to designate them at fair value through other comprehensive income.

After their initial recognition, they are measured at fair value, recording the changes in the item “Net gains on securities” of the consolidated statement of income. The profit from dividends is recorded in the consolidated statement of income when the right to payment has been recognized.

Financial assets designated at fair value through profit or loss from initial recognition -

Upon initial recognition, Management can irrevocably designate financial assets as measured at fair value through profit or loss, if doing so eliminates or significantly reduces an incongruence of measurement or recognition that would otherwise arise from the measurement of the assets or liabilities or from the recognition of the profit and losses thereof on different bases.

After initial recognition they are measured at fair value, recording the changes in the item “Net gain (loss) on financial assets designated at fair value through profit or loss” of the consolidated statement of income.

At December 31, 2018, the Group classified the financial liabilities upon initial recognition as measured at amortized cost, except in the case of the financial liabilities at fair value through profit or loss. These liabilities include the derivatives measured at fair value.

The interest incurred is accrued in the item "Interest and similar income" of the consolidated statement of income.

Furthermore, upon initial recognition, Management can irrevocably designate financial liabilities as measured at fair value through profit or loss when one of the following criteria is complied with:

- An incongruence in the measurement is eliminated or significantly reduced, which would otherwise arise from using different criteria to measure assets or liabilities; or
- They are part of a group of financial liabilities, which are managed and their yield is evaluated based on fair value, according to a documented investment strategy or risk management; or
- The financial liability contains one or more embedded derivatives that otherwise significantly modify the required cash flows.

Policy applicable up to December 31, 2017 -

As of December 31, 2017, the Group classified its financial instruments in one of the categories defined by IAS 39: financial assets and financial liabilities at fair value through profit or loss; loans and receivables; available-for-sale financial investments; held-to-maturity financial investments and other financial liabilities.

The classification of the financial instruments upon their initial recognition depended on the purpose and intention of the Management for which the financial instruments were acquired and their characteristics.

(iv) Financial assets and liabilities at fair value through profit or loss -

Financial assets and liabilities at fair value through profit or loss included financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss, the designation of which was upon initial recognition and on an instrument by instrument basis. Derivative financial instruments were also categorized as held for trading unless they had been designated as hedging instruments.

A financial asset or liability was classified as held for trading if it was acquired for the purpose of selling or repurchasing in the short term, and is presented in “Investments at fair value through profit or loss” or “Financial liabilities at fair value through profit or loss” in the consolidated statement of financial position.

Interest earned or incurred was accrued in the consolidated statement of income in “Interest and similar income” or “interest and similar expenses”, according to the terms of the contract. Dividend income was recorded when the right to payment was established.

Management could designate an instrument at fair value through profit or loss upon initial recognition if the following criteria were met:

- The designation eliminated or significantly reduced the inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognizing gains or losses generated by them on a different basis; or

- The assets and liabilities were part of a group of financial assets, financial liabilities or both which were managed and evaluated based on the yield on their fair value, in accordance with a documented risk management or investment strategy; or

- A contract contained one or more embedded derivatives which significantly modified the cash flows that might otherwise be required by the contract and their separation was not prohibited by IAS 39. In this case, the entire contract was designated at fair value through profit or loss.

Changes in fair value of a financial asset designated through profit or loss were recorded in “Net gain (loss) on financial assets designated at fair value through profit or loss” of the consolidated statement of income.

(v) Loans and receivables -

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market.

After initial recognition, loans and receivables were measured at amortized cost using the effective interest rate method, less any provision for impairment. Amortized cost was calculated by taking into account any discount or premium on acquisition and fees or costs that were an integral part of the effective interest rate. The effective interest rate amortization was recognized in the consolidated statement of income in “Interest and similar income”. Losses from impairment were recognized in the consolidated statement of income in “Provision for credit losses on loan portfolio”.

Direct loans were recorded when disbursement of funds to the costumers were made. Indirect (off-balance sheet) loans were recorded when documents supporting such facilities were issued. In the same way, the Group considered as refinanced or restructured those loans that changed their payment schedules due to difficulties in the debtor’s ability to repay the loan.

A provision for loan losses was established if there was objective evidence that the Group would not be able to collect all amounts due according to the original contractual terms of the loans. The provision for loan losses was established based on an internal risk classification and considering any guarantees and collaterals received, Note 3(i) and 33.1.

(vi) Available-for-sale investments -

Available-for-sale investments included equity investments and debt securities. Equity investments classified as available-for-sale were those that were neither classified as held for trading nor designated at fair value through profit or loss. Debt instruments in this category were those that were intended to be held for an indefinite period of time and that could be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investments were subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve, net of the corresponding deferred income tax and non-controlling interest, until the investment was sold, at which time the cumulative gain or loss was recognized in the consolidated statement of income in “Net gain on securities”, or was determined to be impaired, at which time the impaired amount was recognized in the consolidated statement of income in “Net gain on securities”, and removed from the reserve of investments available-for-sale.

Interest and similar income earned were recognized in the consolidated statement of income in “Interest and similar income”. Interest earned was reported as interest income using the effective interest rate method and similar income earned were recognized when collection rights were established.

Estimated fair values were based primarily on quoted prices or, if quoted market prices were not available, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment.

The Group evaluated whether its ability and intention to sell its available-for-sale financial assets in the near term were still appropriate. When, in rare circumstances, the Group was unable to trade these financial assets due to inactive markets, the Group could elect to reclassify these financial assets if Management had the ability and intention to hold such assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification became its new amortized cost and any previous gain or loss on the asset that had been recognized in other comprehensive income was amortized to consolidated statement of income over the remaining life of the investment using the effective interest rate.

(vii) Held-to-maturity investments -

Held-to-maturity investments were non–derivative financial assets with fixed or variable payments and fixed maturities, which Credicorp had the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments were subsequently measured at amortized cost using the effective interest rate less impairment. Amortized cost was calculated by taking into account any discount or premium on acquisition and fees that were an integral part of the effective interest rate. The amortization was included in "Interest and similar income" of the consolidated statement of income. The losses arising from impairment of these investments were recognized in the consolidated statement of income in "Net gain on securities".

At December 31, 2017, the Group had not recognized any impairment loss on held-to-maturity investments. See policy of impairment of financial assets carried at amortized cost in Note 3(i)(i).

If the Group sold or reclassified a more than insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two (2) years.

At December 31, 2017, the Group did not plan to sell or reclassify any of its held-to-maturity investments.

(viii) Repurchase and reverse repurchase agreements and securities lending and borrowing -

Securities sold under repurchase agreements at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership. The cash received is recorded as an asset in “Cash and due from banks” and the corresponding obligation to return it is recognized too, including accrued interest, as a liability in “Payables from repurchase agreements and securities lending”, reflecting the transaction’s economic substance as a loan to the Group. The difference between the sale and repurchase price was treated as interest expense and accrued over the life of the agreement using the effective interest rate and was recognized in “Interest and similar expenses” of the consolidated statement of income.

As part of this transaction the Group grants assets as collateral. When the counterparty receives securities and has the right to sell or re-pledge, the Group reclassifies those securities in “Available-for-sale investments pledged as collateral” or “Held-to-maturity investments pledged as collateral”, as appropriate, of the consolidated statement of financial position. Also, when the counterparty receives cash as collateral that will be restricted until the maturity of the contract, the Group reclassifies the cash in “Cash collateral, reverse repurchase agreements and securities borrowings” in the consolidated statement of financial position, which includes accrued interest that is calculated according to the effective interest rate method.

Conversely, securities purchased under reverse repurchase agreements at a specified future date are not recognized in the consolidated statement of financial position. The cash granted is recorded as an outgoing asset in “Cash and due from banks” account and the corresponding right to payment, including accrued interest, is recorded in “Cash collateral from reverse repurchase agreements and securities borrowing”, reflecting the transaction’s economic substance as a loan granted by the Group. The difference between the purchase and resale price is recorded in “Interest and similar income” of the consolidated statement of income and is accrued over the life of the agreement using the effective interest rate method.

If securities purchased under reverse repurchase agreement are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale in the consolidated statement of financial position as “Financial liabilities at fair value through profit or loss” and measured at fair value, with any gains or losses included in the consolidated statement of income as “Net gain on securities”.

Securities lending and borrowing transactions are usually collateralized by securities. The transfer of the securities to counterparties is only reflected in the consolidated statement of financial position if the risks and rewards of ownership are also transferred.

(ix) Other financial liabilities -

After initial measurement other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost includes any issuance discount or premium and directly attributable transaction costs that are an integral part of the effective interest rate.

g) De-recognition of financial assets and liabilities -

Financial assets:

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when: (i) the rights to receive cash flows from the asset have expired; or (ii) the Group 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 either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of (i) the original carrying amount of the asset, and (ii) the maximum amount of consideration that the Group could be required to repay.

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 de-recognition of the original liability and the recognition of a new liability; the difference between the carrying amount of the original financial liability and the consideration paid is recognized in the consolidated statement of income.

h) Offsetting financial instruments -

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

i) Impairment of financial assets -

Policy applicable from January 1, 2018 -

As of December 31, 2018, the Group applies a three-stage approach to measure the provision for credit loss, using an impairment model based on the expected credit losses as established in IFRS 9, for the following categories:

- Financial assets at amortized cost,
- Debt instruments classified as investments at fair value through other comprehensive income, and
- Indirect loans that are presented in off-balance accounts.

The financial assets classified or designated at fair value through profit of loss and the equity instruments designated at fair value through other comprehensive income, are not subject to impairment evaluation.

Financial assets migrate through three stages according to the change in the credit risk from the initial recognition.

Impairment model of expected credit losses -

The calculations of credit losses are products of models with a series of underlying assumptions with regard to the choice of the variable inputs and their interdependencies. The impairment model for expected credit loss reflects the present value of all the cash deficit events related to the events of default, whether (i) during the following twelve months or (ii) during the expected useful life of a financial instrument depending on the impairment of the credit from the beginning. The expected credit loss reflects an unbiased result weighted by probability that considers a range of multiple outcomes based on reasonable and supportable forecasts.

The provisions for credit losses will be measured on each reporting date following a three-stage model of expected credit losses based on the degree of credit impairment from its origin:

- Stage 1: Financial assets whose credit risk has not increased significantly since its initial recognition, a reserve will be recognized for losses equivalent to the credit losses expected to occur from defaults in the following 12 months. For those instruments with a maturity less than 12 months, a probability of default corresponding to the remaining term until maturity is used.

- Stage 2: Financial assets that have presented a significant increase in credit risk compared with initial recognition, but are not considered impaired, a reserve will be recognized for losses equivalent to the credit losses expected to occur during the remaining life of the asset.

- Stage 3: Financial assets with evidence of impairment on the reporting date, a reserve will be recognized for losses equivalent to the expected credit losses during the entire life of the asset. The interest income will be recognized based on the carrying amount of the asset, net of the loss reserve.

Measurement of the expected loss –

The measurement of the expected credit loss is mainly based on the product of probability of default (PD), loss given default (LGD), and exposure at default (EAD), discounted at the reporting date and considering the expected macroeconomic effects and all in accordance with the new regulation.

The details of these statistical parameters are the following:

- PD: is an estimate of the probability of default in a determined time horizon. A default can only occur at a determined moment during the remaining estimated life, if the provision has not been previously derecognized and it is still in the loan portfolio.

- LGD: is an estimate of the loss produced in the case a predetermined value is produced at a given time. It is based on the difference between the contractual cash flows owed and those that the lender would expect to receive, even after the liquidation of any guarantee. Generally, it is expressed as a percentage of the EAD.

- EAD: is an estimate of the exposure on a future default date, which considers the changes expected in the exposure after the reporting date, including the reimbursements of principal and interest, whether programmed by contract or otherwise, and the interest accrued due to default payments.

The fundamental difference between the credit loss considered as Stage 1 and Stage 2 is the PD horizon. The estimates of Stage 1 use a 12-month horizon, while those situated in Stage 2 use an expected loss calculated with the remaining term of the asset and considers the effect of the significant increase in credit risk. Finally, Stage 3 will estimate the expected loss based on the best estimate (“ELBE”), according to the situation of the collection process of each asset.

Changes from one stage to another –

The classification of an instrument as stage 1 or stage 2 depends on the concept of “significant increase in credit risk” on the reporting date compared with the origination date; in this sense, the definition used considers the following criteria:

- An account is classified in stage 2 if it has more than 30 days in arrears.

- Risk thresholds have been established based on the internal models and based on relative difference thresholds (by portfolio and risk level) in which the instrument was originated.

- The follow-up systems, alerts and monitoring of risk portfolios are integrated, as established by the current risk policy in Wholesale and Retail Banking.

Additionally, all the accounts that are classified as default on the reporting date are considered as stage 3. The significant risk increase evaluations from their initial recognition and of credit impairment are carried out independently on each reporting date. The assets can move in both directions, from one stage to another.

Prospective information -

The measurement of expected credit losses for each stage and the evaluation of significant increases in credit risk must consider information regarding previous events and current conditions, as well as the projections of future events and economic conditions. The estimate of the risk parameters (PD, LGD, EAD), used in the calculation of the provision in stages 1 and 2, included macroeconomic variables that differ between portfolios. These projections have a 3-year period and, additionally, a long-term projection.

The estimate of expected losses for stages 1, 2 and 3 will be a weighted estimate that considers three future macroeconomic scenarios. The base, optimist and pessimist scenarios are based on macroeconomic projections provided by the internal team of economic studies and approved by Senior Management. This same team also provides the probabilities of occurrence of each scenario. It should be stated, that the design of the scenario is adjusted at least once a year, with the possibility of a greater frequency if required by the surrounding conditions.

Macroeconomic factors -

In its models, the Group bases itself on an wide variety of prospective information such as economic inputs, including: the growth of the gross domestic product (GDP), unemployment rates, the base rates of the central bank, among others. It is possible that the inputs and models used to calculate the expected credit losses do not always capture all the market characteristics on the date of the financial statements. To reflect this, qualitative adjustments or overlays such as temporary adjustments can be carried out using the opinion of experts.

Expected life -

For the instruments in Stage 2 or 3, the reserves for losses will cover the lifetime expected credit losses of the instrument. For the majority of the instruments, the expected life is limited to the remaining term of the product, adjusted by expected advance payments. In the case of revolving products, an analysis was carried out in order to determine the expected life period.

Presentation of allowance for loan losses in the consolidated statement of financial position -

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: it does not recognize any provision in the statement of financial position because the carrying amount of these assets is their fair value; however, the expected credit loss is presented in other comprehensive income;
- Indirect loans: the credit loss provision is presented in the item “Other liabilities” of the statement of financial position.

Policy applicable up to December 31, 2017 -

The Group assessed at the end of each period whether there was any objective evidence that a financial asset or a group of financial assets was impaired. An impairment existed if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), had had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. Evidence of impairment could have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability of bankruptcy or other legal financial reorganization process and where observable data indicate that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The criterion used for each category of financial assets was follows:

(i) Financial assets carried at amortized cost -

For loans, receivables and held-to-maturity investments that were carried at amortized cost, the Group first assessed whether impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant. If the Group determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, it included that asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was, or continues to be, recognized were not included in a collective assessment of impairment.

The amount of any impairment loss identified was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not yet been incurred).

The carrying amount of the asset was reduced through the use of a provision account and the amount of the loss was recognized in the consolidated statement of income. A loan, together with the respective associated provision, was written off when classified as a loss and was fully provisioned and there was real and verifiable evidence that the loan was irrecoverable and collection efforts had been concluded without success, the impossibility of foreclosures or all collateral had been realized or had been transferred to the Group.

If in any subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognized, the previously recognized impairment loss was increased or reduced by adjusting the provision account. If in the future a written-off loan was later recovered, the recovery was recognized in the consolidated statement of income, as a credit to "Recovery of written off loans".

The present value of the estimated future cash flows was discounted at the financial asset's original effective interest rate. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflected the cash flows that could have resulted from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

For collective assessment of impairment, financial assets were grouped considering the Group's internal credit rating system, which considered credit risk characteristics; for example: asset type, industry, geographical location, collateral type and past-due status and other relevant factors.

Future cash flows from a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with similar credit risk characteristics to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist. The methodology and assumptions used were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale investments -

For available-for-sale financial investments, the Group assessed at each date of the consolidated statement of financial position whether there was objective evidence that an investment or a group of investments was impaired.

In the case of equity investments, objective evidence could have included a significant or prolonged decline in their fair value below cost. "Significant" was to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value had been below its original cost. The determination of what was "significant" or "prolonged" required judgment. In making this judgment, the Group evaluated, among other factors, the duration or extent to which the fair value of an investment was less than its cost.

When there was evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any previously recognized impairment loss) was removed from the available-for-sale investments reserve of the consolidated statement of changes in equity and recognized in the consolidated statement of income. Impairment losses on equity investments were not reversed through the consolidated statement of income; increases in their fair value after impairment were recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments, impairment was assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment was the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income. Future interest income was based on the reduced carrying amount and was accrued using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income was recorded as part of "Interest and similar income" of the consolidated statement of income. If in a subsequent year, the fair value of a debt instrument increases and the increase could be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss was reversed through the consolidated statement of income.

Renegotiated loans -

When a loan is modified, it is not considered as past due but maintained its previous classification as impaired or not impaired. If the debtor complied with the new agreement over the following six months, and an analysis of its payment capacity supported a new improved risk classification, the loan is classified as not impaired. If, subsequent to the loan modification, the debtor failed to comply with the new agreement, it is considered as impaired and past due.

j) Leases -

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and on whether the arrangement conveys a right to use the asset even if that right is not explicitly specified in an arrangement.

Operating leases:

Leases in which a significant portion of the risks and benefits of the asset are held by the lessor are classified as operating leases. Under this concept the Group has mainly leased premises used as offices and agencies of the Group's subsidiaries.

When an operating lease is terminated before the lease period has expired, any penalty payment to the lessor is recognized as an expense in the period in which termination takes place.

Finance leases:

Finance leases are recognized as granted loans at the present value of the future lease collections. The difference between the gross receivable amount and the present value of the loan is recognized as unearned interest. Lease income is recognized over the term of the lease agreement using the effective interest rate method, which reflects a constant periodic rate of return.

k) Property, furniture and equipment -

Property, furniture and equipment are recorded at historical acquisition cost less accumulated depreciation and impairment losses, if applicable. Historical acquisition costs include expenditures that are directly attributable to the acquired property, furniture or equipment. Maintenance and repair costs are charged to the consolidated statement of income; significant renewals and improvements are capitalized when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow from the use of the acquired property, furniture or equipment.

Land is not depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives, which are as follows:

	Years
Buildings and other construction	33
Installations	10
Furniture and fixtures	10
Vehicles and equipment	5
Computer hardware	4

An item of property, furniture and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income.

Assets' residual value and the selected useful life are periodically reviewed to ensure that they are consistent with current economic benefits and life expectancy.

l) Investment properties -

Investment properties are held to earn rentals or for capital appreciation or both rather than for: (a) use in the production or supply or goods or services or for administrative purposes; or (b) sale in the ordinary course of business. Property that is being constructed or developed for future use as investment property is recognized at cost before completion.

Investment properties are initially measured at fair value, which is the purchase transaction price, unless otherwise indicated. Transaction costs are included in the initial measurement, which includes the purchase price and any other cost directly attributable to the transaction.

For subsequent recognition, an entity shall choose as its accounting policy either the fair value model or the cost model and shall apply that policy to all its investment property. At the date of the consolidated financial statements, the Group has opted for keeping the cost model. Accordingly, investment properties are accounted for at their acquisition cost less accumulated depreciation and the accumulated impairment losses, if any.

An entity can opt for recognizing and depreciating separately the components of an investment property or as a single unit for recording and depreciation purposes. The Group recognizes as a single unit each of its investment properties and has estimated a useful life of 33 years for purposes of determining depreciation under the straight-line method.

Rental income is recognized as rents that are accrued under the related rental agreement; depreciation expenses as well as maintenance expenses and other related expenses are accounted for as maintenance of the rented assets, net within “Other income” in the consolidated statement of income.

m) Seized assets -

Seized assets are recorded at the lower of cost or estimated market value, which is obtained from valuations made by independent appraisers. Reductions in book values are recorded in the consolidated statement of income.

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n) Business combination -

Business combinations made are accounted for using the acquisition method in accordance with IFRS 3 “Business Combination”, regardless of whether they are equity instruments or other acquired assets.

The acquisition cost is the sum of the consideration paid for the acquisition measured at fair value at the acquisition date and the amount of the share in the non-controlling interest acquired. For each business combination the Group decides whether to measure the non-controlling interest in the acquiree at fair value or at the proportional share in the identifiable net assets of the acquired. Acquisition-related costs are recognized as expense and are included within “Administrative expenses” in the consolidated statement of income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for its own classification and denomination according to the contractual terms, economic circumstances and prevailing conditions at the date of acquisition. This includes the separation of embedded derivative contracts signed by the acquiree.

Any contingency transferred by the acquirer is recognized at fair value at the acquisition date. The contingency classified as an asset or liability that is a financial instrument and is within the scope of IFRS 9 “Financial instruments”, as of December 31, 2018 (IAS 39 “Financial instruments: Recognition and measurement”, as of December 31, 2017) is measured at fair value with changes recognized in the consolidated statement of income or consolidated statement of comprehensive income. If the contingency is not within the scope of IFRS 9, it is measured in accordance with the applicable IFRS. A contingency that is classified as equity should not be measured again and its subsequent settlement is accounted for within equity.

The acquisition of a non-controlling interest is recorded directly in net equity, any difference between the amount paid and the acquired net assets is recorded as an equity transaction. Accordingly, the Group recognizes no additional goodwill after the acquisition of the non-controlling interest, nor does it recognize any profit or loss from the disposal of the non-controlling interest.

Equity attributable to the non-controlling interest is shown separately in the consolidated statement of financial position. Profit attributable to the non-controlling interest is shown separately in the consolidated statement of income and consolidated statement of comprehensive income.

In a business combination achieved in stages, the acquirer shall re-measure its ´previously held equity interest in the acquiree at fair value at the acquisition-date. The resulting gain or loss is recognized in profit or loss.

o) Intangible assets -

Comprise internally developed and acquired software licenses used by the Group. Acquired software licenses are measured upon initial recognition at cost and are amortized using the straight-line method over their estimated useful life (between 3 and 5 years).

Intangible assets identified as a consequence of the acquisition of subsidiaries are recognized in the consolidated statement of financial position at their fair values determined on the acquisition date and are amortized using the straight line method over their estimated useful life as follows:

	Estimated useful life in years
Client relationship - Prima AFP (AFP Unión Vida)	20
Client relationship – Credicorp Capital Holding Chile (Inversiones IMT)	16
Client relationship cash, fixed and variable income - Credicorp Capital Colombia	5
Client relationship APT - Credicorp Capital Colombia	5
Client relationship - Edyficar Peru	10
Client relationship – Mibanco	7
Brand - Mibanco	25
Brand - Credicorp Capital Colombia	5
Fund manager contract - Credicorp Capital Colombia	28
Fund manager contract - Credicorp Capital Holding Chile (Inversiones IMT)	5
Core deposits - Mibanco	6
Others	5

The period and the amortization method, for intangible assets are reviewed at the end of each period. If the expected useful life differs from previous estimates, the amortization period will be changed accordingly. If there has been a change in the expected pattern of conduct of the future economic benefits embodied in the asset, the amortization method shall be amended to reflect these changes.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

p) Goodwill -

Goodwill is the excess of the aggregate of the consideration transferred and the fair value recognized for the acquisition of the net value of the identifiable net assets acquired and liabilities assumed. If the fair value of the net assets acquired exceeds the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to these units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill and the assets disposed of are included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

q) Impairment of non-financial assets -

The Group assesses, at each reporting date, whether there is an indicator that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the value of the asset or the CGU less costs to sell and its value in use and is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are considered, if any. If this kind of transactions cannot be identified, an appropriate valuation model is used. These calculations are verified against valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For non-financial assets, excluding goodwill, an assessment is made at each reporting date of whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

r) Due from customers on acceptances -

Due from customers on acceptances corresponds to accounts payable from customers for import and export transactions, whose obligations have been accepted by the Group. The obligations that must be assumed by the Group for such transactions are recorded as liabilities.

s) Financial guarantees -

In the ordinary course of business, the Group issues financial guarantees, such as letters of credit, guarantees and banker's acceptances. Financial guarantees are initially recognized at fair value, which is equivalent to the commission initially received, also, letters of credit and guarantees are recorded in caption "Other liabilities" of the consolidated statement of financial position and banker's acceptances are presented in the consolidated statement of financial position. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated statement of income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the financial guarantee.

Any increase in the liability relating to a financial guarantee is included in the consolidated statement of income. The commission received is recognized in “Commissions and fees” of the consolidated statement of income on a straight line basis over the life of the granted financial guarantee.

t) Provisions -

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow or resources embodying economic benefits will be required to settle said obligation and a reliable estimate of the amount can be made.

The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the specific risks of the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

u) Contingencies -

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the Notes, unless the probability of an outflow of resources is remote. Contingent assets are not recorded in the financial statements; they are disclosed if it is probable that an inflow of economic benefits will be realized.

v) Income tax -

Income tax is computed based on the individual financial statements of each of the Group's members.

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. Deferred assets and liabilities are measured using the tax rates expected to be applied to taxable income in the years in which temporary differences are expected to be recovered or eliminated. The measurement of deferred assets and deferred liabilities reflects the tax consequences that arise from the manner in which Credicorp and its Subsidiaries expect, at the date of the consolidated statement of financial position, to recover or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets and liabilities may change, even though there is no change in the amount of the related temporary differences, due to a change in the income tax rate. In this case, the resulting change in deferred tax, corresponding to the change in rate, will be recognized in profit or loss, except to the extent that it relates to items previously recognized outside of the consolidated income statement (either in other comprehensive income or directly in equity).

Deferred tax assets and liabilities are recognized regardless of when the timing differences are likely to reverse. Deferred tax assets are recognized when it is more likely than not, that future taxable profit will be available against which the temporary difference can be utilized. At the date of the consolidated statement of financial position, Credicorp and its Subsidiaries assess unrecognized deferred assets and the carrying amount of recognized deferred assets.

Credicorp and its Subsidiaries determine their deferred income tax based on the tax rate applicable to their undistributed earnings; any additional tax on dividend distribution is recorded on the date a liability is recognized.

Deferred tax assets and liabilities are offset if there is a legal right of offset and the deferred taxes are related to the same taxpaying entity and the same tax authority.

w) Earnings per share -

Basic earnings per share is calculated by dividing the net profit for the year attributable to Credicorp's equity holders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased and held as treasury stock.

Diluted earnings per share is calculated by dividing the net profit attributable to Credicorp's equity holders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased and held as treasury stock, plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

x) Share-based payment transactions -

The cost of the Group's remuneration plan is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date").

The cumulative expense recognized for equity-settled liquidations at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense is recorded in "Salaries and employee benefits" of the consolidated statement of income.

When the terms of a share-based liquidation are modified, the minimum expense recognized is maintained as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or which is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of the shares granted under this plan is reflected as a share dilution in the computation of diluted earnings per share, see paragraph (w) above.

y) Derivative financial instruments and hedge accounting -

Trading -

The Group negotiates derivative financial instruments in order to meet its costumers' needs. The Group may also take positions with the expectation of profiting from favorable movements in prices, rates or indexes.

Part of the transactions with derivatives, which provide effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IFRS 9 as of December 31, 2018 (IAS 39, as of December 31, 2017) and are, therefore, treated as trading derivatives.

Derivative financial instruments are initially recognized at fair value in the consolidated statement of financial position and subsequently are remeasured at fair value. Fair values are estimated based on the market exchange and interest rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gain and losses for changes in their fair value are recorded in the consolidated statement of income.

Hedging -

The Group uses derivative instruments to manage exposures to interest rate and foreign currency. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

Criteria required for hedge accounting

Policy applicable from January 1, 2018 –

At inception, the Group formally designates and documents the hedge relationship, the risk management objective and strategy for using the hedge. This documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk being hedged and a description of how the Group assesses whether the hedging relationship meets the hedge effectiveness requirements.

The hedge relationship meets all of the following hedge effectiveness requirements:

- An economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from the economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The accounting treatment is established based on the nature of the hedged item and compliance with hedging criteria.

Policy applicable up to December 31, 2017 –

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at each reporting date.

A hedge is considered highly effective if the following conditions are met:

- At the inception of a hedge and in following years, the hedge is expected to be highly effective to offset changes in the fair value or cash flows attributable to the hedged risk over the designated period of the hedge; and
- The actual effectiveness of the hedge is within the range of 80-125 percent.

The accounting treatment is established based on the nature of the hedged item and compliance with hedging criteria.

i) Cash flow hedges -

The effective portion of the accumulated gain or loss on the hedging instrument is recognized directly as part of other comprehensive income in “Cash flow hedge reserve” in the consolidated statement of financial position, while any ineffective portion is recognized immediately in the consolidated statement of income.

Amounts recognized as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects profit or loss; that is, when the hedge-related finance income or finance cost is recognized or when an expected sale occurs.

If the forecasted transaction or firm commitment is no longer expected to occur, the accumulated gain or loss previously recognized in the cash flow hedge reserve is transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any unrealized accumulated gain or loss previously in the cash flow hedge reserve remains in said reserve until the planned transaction or firm commitment affects profit or loss. At the same time, the derivative is recorded as a trading derivative.

ii) Fair value hedges -

The change in the fair value of a fair value hedge and the change in the fair value of the hedged item attributable to the risk hedged are recorded as a part of the carrying value of the hedged item and recognized in the consolidated statement of income.

For fair value hedges relating to items carried at amortized cost, any adjustment to the carrying amount of these items, as a result of discontinuation of the hedge, will be amortized through the consolidated statement of income over the remaining life of the hedge. Amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the consolidated statement of income.

The hedge relationship is terminated when the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated statement of income. At the same time, the derivative is recorded as a trading derivative.

iii) Embedded derivatives -

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and said host contract is not held for trading or designated at fair value through profit or loss.

The Group has investments indexed to certain life insurance contracts liabilities, denominated “Investment Link”. These instruments have been classified at inception by the Group as “Financial instruments at fair value though profit or loss”, See Note 3(f)(iii), Note 3(f)(iv) and Note 8.

z) Fair value measurement -

Fair value is the price that would be received to sell an asset or paid to transfer 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:

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

The principal or the most advantageous market must be accessible by the Group. Also, the fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input used 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Group 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 the fair value hierarchy as explained above.

Also, fair values of financial instruments measured at amortized cost are disclosed in Note 33.7(b).

aa) Segment reporting -

The Group reports financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria.

Operating segments are a component of an entity for which separate financial information is available that is evaluated regularly by the entity's Chief Operating Decision Maker ("CODM") in making decisions about how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as it is used internally for evaluating operating segments' performance and deciding how to allocate resources to segments, Note 30.

ab) Fiduciary activities, management of funds and pension funds –

The Group provides custody, trustee, investment management and advisory services to third parties that result in the holding of assets on their behalf. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group, Note 33.8.

Commissions generated for these activities are included as "Commissions and fees" of the consolidated statement of income.

ac) Cash and cash equivalents -

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise balances of cash and non-restricted balances with central banks, overnight deposits, interbank funds, time deposits and amounts due from banks with maturities of three months or less from the date of acquisition, excluding restricted cash, see Note 4.

Cash collateral pledged as a part of a repurchase agreement is presented in “Cash collateral, reverse repurchase agreement and securities borrowings” in the consolidated statement of financial position, see Note 5(a).

Cash collateral pledged in the negotiation of derivative financial instrument and others are presented in “Other assets” in the consolidated statement of financial position, See Note 12.

ad) International Financial Reporting Standards issued but not yet effective -

The Group decided not to early adopt the following standards and interpretations that were issued but are not effective as of December 31, 2018:

(i) IFRS 16, “Leases” -

IFRS 16, ‘Leases’ will replace the current standards related to the treatment of leases (IAS 17, ‘Leases’ and IFRIC 4, ‘Determining whether an arrangement contains a lease” and other related interpretations).

IFRS 16 will mainly affect the accounting treatment for lessees, and will result in the recognition of almost all lease contracts in the statement of financial position, since the standard eliminates the distinction between finance and operating leases. Pursuant to the new standard, recognition of an asset (right of use of the leased asset) and of a financial liability is required to make the lease payments. The only exemptions are for short term and low value leases.

The statement of income will also be affected, since the total expense is normally higher in the initial years of the lease contract and lower in the final years. Furthermore, the operating costs will be replaced with interest and depreciation, therefore key metrics such as earnings before interest, taxes, depreciation and amortization (EBITDA).

Operating cash flows will be greater since cash payments for the principal portion of the lease debt are classified in financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flow.

The accounting by the lessors will not change significantly. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 applies to annual periods beginning on or after January 1, 2019, with earlier application permitted, if IFRS 15, Revenue from Contracts with Customers, is adopted at the same time.

The new requirements of IFRS 16 will be applied by adjusting our consolidated statement of financial position at January 1, 2019, the date of its initial application.

Short term and low value leases will be recognized in a straight line as an expense in the consolidated statement of income.

For the rest of the operating leases, the Group expects to recognize assets for right-of-use for approximately S/1,581.9 million, lease liabilities for approximately S/1,579.2 million and deferred charges for prepayments for approximately S/2.7 million.

The Group will continue monitoring and perfecting certain elements of our lease contract review process, considering the new lease accounting guidelines in IFRS 16.

The accounting treatment for lessors continues with a model similar to IAS 17; therefore, the lessors will continue to perform a classification test to distinguish between financial and operating leases.

(ii) IFRS 17 “Insurance Contracts” -

IFRS 17 was issued in May 2017 in replacement of IFRS 4 “Insurance Contracts”. This standard requires a current measurement model, where estimate are remeasured in each reporting period. The contracts are measured using the building blocks of:

- Discounted probability-weighted cash flows.
- An explicit risk adjustment, and
- A contractual service margin which represents the unearned profit of the contract recognized as income over the coverage.

The standard permits a choice between recognizing the changes in discount rates, either in the statement of income or directly in other comprehensive income. The choice probably reflects how insurers record their financial assets according to IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model denominated “Variable commissions method” for certain contracts of insurers with life insurance in which the insured share the yields from the underlying elements. Upon applying the variable commissions’ method, the entity’s participation in changes in fair value of the underlying elements is included in the contractual service margin. Therefore, it is probable that the results of the insurers that use this model will be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Initially, IFRS 17 would apply to annual periods beginning on or after January 1, 2021; however, on November 14, 2018, the IASB agreed to defer the effective date of application to annual periods beginning on or after January 1, 2022.

Early adoption is permitted, as long as the Group also applies IFRS 9 and IFRS 15 on the date on which IFRS 17 is applied for the first time.

(iii) IFRIC 23 “Uncertainty over income tax treatments” -

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- How to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty.
- That the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, that is, that detection risk should be ignored.
- That the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment.
- That the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- That the judgments and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgments.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgments and estimates made in preparing the financial statements.

IFRIC 23 applies to financial statement for annual periods beginning on or after January 1, 2019.

(iv) Annual improvements to the IFRS (2015 - 2017 Cycle) -

In December 2017, the following improvements were completed:

- IFRS 3 “Business Combinations” - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 “Joint Arragements” - clarified that the party obtaining joint control of a business that is a joint operation should not measure its previously held interest in the joint operation.

- IAS 12 “Income taxes” - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits were recognized.
- IAS 23 “Borrowing costs” - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

Said improvements are applicable for financial periods from January 1, 2019.

(v) 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 the related associate or joint venture.

The IASB made limited scope amendments to IFRS 10 and IAS 28.

The amendments clarify the accounting treatment of the sales or contribution of assets between an investor and his associates or joint venture. These amendments confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitutes “a business” (as defined in IFRS 3 “Business combinations”).

If the non-monetary assets constitute a business, the investor will recognize the total gain or loss on the sale or contribution of assets. If the assets do not comply with the definition of “business”, the investor will recognize the gain or loss only in proportion to the investor’s investment in the associate or joint venture. The amendments will apply prospectively.

The IASB decided to defer the application date of this amendment until it has completed its research project on the equity method. The Group will apply these modifications when they become effective.

(vi) Change in Conceptual Framework –

In March, 2018, the IASB issued a review of the Conceptual Framework and the main changes refer to: definitions of assets and liabilities, recognition criteria, write-off, measurement, presentation and disclosure of equity elements and income.

These changes are effective for financial statements for annual periods beginning on or after January 1, 2020.

(vii) Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 –

The amendments to IAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- Calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change.
- Any reduction in a surplus should be recognized immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling.
- Separately recognize any changes in the asset ceiling through other comprehensive income.

Said improvements are applicable for financial statements of financial periods beginning on or after January 1, 2019.

There are no other standards or amendments to standards which have not yet become effective and are expected to have a significant impact on the Group, either in the current or future periods, as well as on expected future transactions.

4 CASH AND DUE FROM BANKS

This item consists of the following:

	2018 S/(000)	2017 S/(000)
Cash and clearing (a)	6,169,795	5,034,569
Deposits with Central Reserve Bank of Peru - BCRP (a)	13,206,885	15,136,245
Deposits with local and foreign banks (b)	2,509,520	2,828,830
Interbank funds	253,970	207,559
Accrued interest	20,633	4,994
Total cash and cash equivalents	22,160,803	23,212,197
Restricted funds	7,713	9,790
Total cash	22,168,516	23,221,987

Cash and cash equivalents presented in the consolidated statement of cash flows excludes restricted funds, see Note 3(ac).

a) Cash and clearing and deposits with Central Reserve Bank of Peru -

These accounts mainly include the legal cash requirements that Credicorp and its Subsidiaries must keep to be able to honor their obligations with the public, which are within the limits established by current legislation. The composition of these funds is as follows:

	2018 S/(000)	2017 S/(000)
Legal cash requirements (i)		
Deposits with Central Reserve Bank of Peru	11,769,043	11,768,476
Cash in vaults of Bank	5,591,168	4,425,384
Total legal cash requirements	17,360,211	16,193,860

Additional funds		
Overnight deposits (ii)	1,437,842	3,367,769
Cash in vaults of Bank and others	578,627	609,185
Total additional funds	2,016,469	3,976,954
Total	19,376,680	20,170,814

(i) At December 31, 2018 cash and deposits subject to legal cash requirements in local and foreign currency are subject to an implicit rate of 5.01 percent and 35.12 percent, respectively, on the total balance of obligations subject to legal cash requirements, as required by the BCRP (5.00 percent and 32.40 percent, respectively, at December 31, 2017).

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(ii) At December 31, 2018, the Group maintains two "overnight" deposits with the BCRP, which are denominated in U.S Dollars for US$426.3 million, equivalent to S/1,437.8 million. At said date, deposits in dollars accrue interest at annual rates of 2.43 percent and have maturities at 2 days.

At December 31, 2017, the Group maintains two "overnight" deposits with the BCRP, which are denominated in U.S Dollars for US$946.6 million, equivalent to S/3,067.8 million and a deposit in soles for S/300.0 million. At said date, deposits in dollars and soles accrue interest at annual rates of 1.41 percent and 2.00 percent, respectively, and have maturities at 5 days.

b) Deposits with local and foreign banks -

Deposits with local and foreign banks mainly consist of balances in soles and U.S. dollars; these are cash in hand and earn interest at market rates. At December 31, 2018 and 2017 Credicorp and its Subsidiaries do not maintain significant deposits with any bank in particular.

5 CASH COLLATERAL, REVERSE REPURCHASE AGREEMENTS AND SECURITIES BORROWING AND PAYABLES FROM REPURCHASE AGREEMENTS AND SECURITIES LENDING

a) We present below the composition of cash collateral, reverse repurchase agreements and securities borrowing:

	2018 S/(000)	2017 S/(000)
Cash collateral on repurchase agreements and security lendings (i)	3,409,890	6,962,421
Cash collateral for short sales	-	17,688
Reverse repurchase agreement and security borrowings (ii)	659,380	456,145
Receivables for short sales	13,672	44,166
Total	4,082,942	7,480,420

(i) At December 31, 2018, the balance mainly comprises cash collateral for approximately US$919.2 million, equivalent to S/3,100.5 million, delivered to BCRP to secure a borrowing in soles of approximately S/2,948.5 million obtained from the same entity (cash collateral for approximately US$2,061.5 million, equivalent to S/6,681.2 million, and borrowing of approximately S/6,575.8 million, at December 31, 2017).

Cash collateral bears interest at an average annual effective interest rate according to market rates. The related liability is presented in "Payables from repurchase agreements and securities lending" of the consolidated statement of financial position, see paragraph (c) below.

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(ii) Credicorp, mainly through its subsidiaries, provides financing to its customers through reverse repurchase agreements and securities borrowing, in which a financial instrument serves as collateral. Details of said transactions are as follows:

		At December 31, 2018						At December 31, 2017				
	Currency	Average interest rate	Up to 3 days	From 3 to 30 days	More than 30 days	Carrying amount	Fair value of underlying assets	Average interest rate	Up to 3 days	From 3 to 30 days	More than 30 days	Car am
		%	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	%	S/(000)	S/(000)	S/(000)	S/(
Instruments issued by the Colombian Government	Colombian pesos	6.60	-	401,580	47,872	449,452	443,386	6.79	-	138,552	170,106	30
Instruments issued by the Chilean Government	Chilean pesos	0.27	24,624	-	-	24,624	24,628	0.35	8,920	256	-	9,
Other instruments		3.76	12,013	157,871	15,420	185,304	186,774	2.62	23,337	70,809	44,165	13
			36,637	559,451	63,292	659,380	654,788		32,257	209,617	214,271	45

b) Credicorp, through its subsidiaries, obtains financing through "Payables on repurchase agreements and securities lending" by selling financial instruments and committing to repurchase them at future dates, including interest at a fixed rate. The details of said transactions are as follows:

		At December 31, 2018						At December 31, 2017		
	Currency	Average interest rate	Up to 3 days	From 3 to 30 days	More than 30 days	Carrying amount	Fair value of underlying assets	Average interest rate	Up to 3 days	From 3 to 30 days
		%	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	%	S/(000)	S/(000)
Instruments issued by the Colombian Government	Colombian pesos	5.97	-	1,231,639	3,124	1,234,763	1,235,472	6.62	-	1,291,621
Instruments issued by the Chilean Government	Chilean pesos	0.26	24,912	-	-	24,912	27,529	0.25	103,040	-
Other instruments		1.88	144,668	66,224	-	210,892	214,051	0.23	146,146	-
Debt instruments			159,570	365,201	7,420,019	7,944,790	8,572,837		8,921	47,946

(c)

	329,150	1,663,064	7,423,143	9,415,357	10,049,889		258,107	1,339,567

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c) At December 31, 2018, and 2017, the Group has repurchase agreements secured with: (i) cash, see Note 5(a), and (ii) investments, see Note 6(b). This item consists of the following:

		At December 31, 2018			At December 31, 2017		
Counterparties	Currency	Maturity	Carrying amount **S/(000)**	Collateral	Maturity	Carrying amount **S/(000)**	Collateral
BCRP, Note 5(a)(i)	Soles	January 2019 / November 2019	2,948,500	Cash with BCRP	January 2018 / October 2020	6,575,800	Cash with BCRP
BCRP	Soles	January 2019 / November 2020	2,220,265	FVOCI investments (*) and amortized cost investments	January 2018 / July 2020	2,710,232	Available-for-sale investments and held-to-maturity investments
Natixis S.A.	Soles	August 2020 / August 2028	570,000	Amortized cost investments	August 2020 / August 2028	570,000	Held-to-maturity investments
Nomura International PLC (i)	U.S. Dollar	March 2019 / December 2019	505,950	Amortized cost investments and cash	March 2019 / December 2019	486,150	Held-to-maturity investments and cash
Natixis	U.S. Dollar	January 2019 / March 2019	566,962	FVOCI investments (*), amortized cost investments and FVPL investments	January 2018 / July 2018	293,944	Available-for-sale investments and held-to-maturity investments
Nomura International PLC (ii)	U.S. Dollar	August 2020	269,840	Amortized cost investments and cash	August 2020	259,280	Held-to-maturity investments and cash
Nomura International PLC (iii)	U.S. Dollar	August 2020	236,110	Amortized cost investments and cash	August 2020	226,870	Held-to-maturity investments and cash
Citigroup Global Markets Limited (iv)	U.S. Dollar	August 2026	151,785	FVOCI investments (*)	August 2026	145,845	Available-for-sale investments
Citigroup Global Markets Limited	Soles	August 2020	100,000	Amortized cost investments	August 2020	100,000	Held-to-maturity investments
	Bolivianos	May 2019	89,941	Cash		90,134	Cash

Banco Central de Bolivia					January 2018		
Banco Económico S.A.	Bolivianos	October 2033	15,437	Amortized cost investments	-	-	-
Banco de la República	Colombian Pesos	January 2019	42,607	FVPL investments	-	-	-
UBS	U.S. Dollar	February 2019	33,255	FVOCI investments (*)	January 2018 / March 2018	83,921	Held-to-maturity investments
Natixis S.A. (v)	U.S. Dollar	August 2026	84,325	FVOCI investments (*)	August 2026	81,025	Available-for-sale investments
Other below S/22 million	-	January 2019	21,606	FVPL investments	January 2018 / December 2032	46,069	Investments
Accrued interest			88,207			205,530	
			7,944,790			11,874,800	

(*) This item includes investments at fair value through other comprehensive income

At December 31, 2018, said operations accrue interest at fixed and variable rates between 0.09 percent and 7.20 percent and between Libor 3M + 0.35 percent and Libor 6M + 1.90 percent, respectively, (between 1.00 percent and 7.20 percent and between Libor 3M + 0.35 percent and Libor 6M + 1.90 percent, respectively, at December 31, 2017).

Certain repurchase agreements were hedged using interest rate swaps (IRS) and cross-currency swaps (CCS), as detailed below:

(i) At December 31, 2018, the Group holds five IRS which were designated as cash flow hedges of certain repurchase agreements at variable rate for a notional amount of US$150.0 million, equivalent to S/506.0 million (US$150.0 million, equivalent to S/486.2 million, at December 31, 2017). By using these IRS, those repurchase agreements were economically converted to fixed interest rate; see Note 12(b).

(ii) At December 31, 2018, the Group maintains an IRS and a CCS, which were together designated as a cash flow hedge of a repurchase agreement in U.S. dollars at variable interest rate for a notional amount of US$80.0 million, equivalent to S/269.8 million (US$80.0 million, equivalent to S/259.3 million, at December 31, 2017). By means of the IRS and the CCS, said repurchase agreement was economically converted to soles at a fixed interest rate, See Note 12(b).

(iii) At December 31, 2018, the Group maintains a CCS which were designated as a cash flow hedge for a repurchase agreement in U.S. dollars at variable rate for a notional amount of US$70.0 million, equivalent to S/236.1million (approximately US$70.0 million, equivalent to S/226.9 million, at December 31, 2017). By means of the CCS, this repurchase agreement was economically converted to soles at a fixed interest rate. See Note 12(b).

(iv) December 31, 2018, the Group maintains two CCS which were designated as a cash flow hedge of two repurchase agreements in U.S. dollars at variable rate for a total notional amount of US$45.0 million, equivalent to S/151.8 million (approximately US$45.0 million, equivalent to S/145.8 million, at December 31, 2017). By means of the CCS, said repurchase agreements were economically converted to soles; see Note 12(b).

(v) At December 31, 2018, the Group maintains a CCS which were designated as a cash flow hedge of a repurchase agreement in U.S. dollars at variable rate for a notional amount of US$25.0 million, equivalent to S/84.3 million (approximately US$25.0 million, equivalent to S/81.0 million, at December 31, 2017). By means of the CCS, said repurchase agreement was economically converted to soles at a fixed interest rate; see Note 12(b).

6 INVESTMENTS

a) Investment at fair value through profit or loss consist of the following:

	2018 S/(000)	2017 S/(000)
Government treasury bonds	1,318,311	1,174,613
Participation in RAL Fund (i)	445,039	-
Restricted mutual funds (ii)	407,350	-
Investment funds	323,455	-
Participation in mutual funds	310,265	52,380
Multilateral organization bonds	223,777	260,342
Corporate and leasing bonds	160,006	205,819
Listed shares	101,068	122,398
Subordinated bonds	94,413	27,789
Hedge funds	44,335	-
Negotiable certificates of deposit	29,496	74,086
Certificates of deposit BCRP	-	2,102,331
Others	50,061	1,053
Balance before accrued interest	3,507,576	4,020,811
Accrued interest	4,869	3,926
Total	3,512,445	4,024,737

The balances as of December 31, 2018 have been prepared in accordance with IFRS 9; and are not comparable to the balances as of December 31, 2017, which were prepared in accordance with IAS 39, see Note 3(f).

(i) At December 31, 2018, these funds total approximately S/174.3 million in bolivianos and S/270.7 million in U.S. dollars and comprise the investments made by the Group in the Central Bank of Bolivia as collateral for deposits received from the public. These funds have restrictions for their use and are required from all banks in Bolivia.

(ii) The restricted mutual funds comprise the participation quotas in the private pension funds managed by the Group, and are maintained in compliance with the legal regulations in Peru. Their availability is restricted and the yield received is the same as that received by the private pension funds managed.

b) Investments at fair value through other comprehensive income consist of the following:

	2018			
		Unrealized gross amount		
	Amortized cost	Profits	Losses	Estimated fair value
	S/(000)	S/(000)	S/(000)	S/(000)
Debts instruments:				
Corporate, leasing and subordinated bonds (i)	8,478,834	212,549	(185,603)	8,505,780
Certificates of deposit BCRP (ii)	9,833,776	189	(4,381)	9,829,584
Government treasury bonds (iii)	4,977,422	260,939	(47,613)	5,190,748
Securitization instruments (iv)	505,976	22,492	(9,980)	518,488
Negotiable certificates of deposit	280,828	2,981	(250)	283,559
Others	3,384	-	-	3,384
	24,080,220	499,150	(247,827)	24,331,543
Equity instruments designated at the initial recognition				
Shares issued by:				
Alicorp S.A.A.	12,198	218,994	-	231,192
Inversiones Centenario	112,647	236,063	-	348,710
Bolsa de Valores de Lima	19,698	9,363	-	29,061
Bolsa de Comercio de Santiago	8,808	5,360	-	14,168
Compañía Universal Textil S.A.	9,597	248	(3,397)	6,448
Bolsa de Valores de Colombia	4,585	-	(211)	4,374
Others	12,099	3,418	-	15,517
	179,632	473,446	(3,608)	649,470
Balance before accrued interest	24,259,852	972,596	(251,435)	24,981,013
Accrued interest				214,822
Total				25,195,835

The Management of Credicorp has determined that the unrealized losses on investment at fair value through other comprehensive income at December 31, 2018 are of a temporary nature, considering factors such as intended strategy in relation to the identified security or portfolio, its underlying collateral and credit rating of the issuers. During 2018, as a result of the impairment of its investments at fair value through other comprehensive income, the Group recorded an expected loss of S/2.4 million, which is shown in "Net gain on securities" in the consolidated statement of income. Also, Management has decided and has the ability to hold each investment for a period of time sufficient to allow for an anticipated recovery in fair value, until the earlier of its anticipated recovery or maturity.

The movement of the "Reserve for investments at fair value through other comprehensive income, net of deferred income tax and non-controlling interest, is shown in Note 17(c).

During 2018, the Group has not reclassified instruments from the portfolio of investments at fair value through other comprehensive income to investments at amortized cost.

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At December 31, 2018, the Group maintains IRS, which have been designated as fair value hedges of certain bonds at a fixed rate in US dollars, issued by Government, corporate and international financial entities, for a nominal amount of S/923.9 million, see Note 12(b); through these IRS these bonds were economically converted to a variable rate.

Likewise, at the end of the same year, the Group entered into repurchase agreement transactions for corporate bonds, multilateral organization bonds and foreign government bonds classified as investments at fair value through other comprehensive income, for an estimated fair value of S/2,138.9 million, of which the related liability is presented in "Payables from repurchase agreements and securities lending" of the consolidated statement of financial position, see Note 5(c).

The maturities and annual market rates of investments at fair value through other comprehensive income are as follows:

	Maturities	Annual effective interest rate					
		S/		US$		Other currencies	
		Min	Max	Min	Max	Min	Max
		%	%	%	%	%	%
Corporate, leasing and subordinated bonds	Jan-2019 / Feb-2065	1.49	11.90	1.16	11.39	0.94	8.39
Certificates of deposit BCRP	Jan-2019 / Jun-2020	2.59	3.04	-	-	-	-
Government treasury bonds	Jan-2019 / Feb-2055	2.37	6.50	1.22	7.07	0.60	0.60
Securitization instruments	Jun-2019 / Sep-2045	3.40	14.81	4.56	6.85	1.68	6.00
Negotiable certificates of deposits	Jan-2019 / Dec-2026	4.54	4.54	-	-	1.40	4.98

(i) At December 31, 2018 the most significant individual unrealized loss amounted to approximately S/8.2 million.

Likewise, the Group maintains CCS, which were designated as cash flow hedges of certain corporate bonds for a nominal amount of S/136.1million, see Note 12(b); by means of said CCS, the bonds were economically converted to soles at a fixed rate.

In December 2018, according to the foreign exchange exposure strategy, the Group discontinued the cash flow hedge of a certain corporate bond through the liquidation of the CCS whose notional amount at that date amounted to US$13.0 million, equivalent to S/43.8 million.

(ii) The Group maintains 99,587 BCRP certificates of deposit of the Central Reserve Bank of Peru, which are instruments issued at a discount through public auction, traded on the Peruvian secondary market and payable in soles.

(iii) At December 31, 2018, the balance includes the following Government Treasury Bonds:

	2018
	S/(000)
Peruvian sovereign bonds	4,706,121
Colombian sovereign bonds	137,936
Chilean sovereign bonds	119,517
Bolivian sovereign bonds	90,370
Others	136,804
Total	5,190,748

The Group maintains CCS, which were designated as cash flow hedges of certain government treasury bonds for a nominal amount of S/77.8 million, see Note 12(b); by means of said CCS, the bonds were economically converted to soles at a fixed rate.

(iv) At December 31, 2018, the balance of securitization instruments includes the following:

	2018
	S/(000)
Inmuebles Panamericana	153,953
Abengoa Transmisión del Norte	80,948
Industrias de Aceite S.A.	48,231
Homecenters Peruanos S.A.	32,520
Others	202,836
Total	518,488

The bonds have semiannual payments until 2045.The pool of underlying assets consists mainly of accounts receivable from income, revenues for services and from maintenance and marketing contributions (Inmuebles Panamericana), accounts receivable for electrical transmission services from the Carhuamayo - Cajamarca line (Abengoa Transmisión Norte), accounts receivable for the transformation and commercialization of agribusiness products (Industrias de Aceite S.A.) and accounts receivable for commercialization of construction products (Homecenters Peruanos S.A.).

c) Investments available-for-sale consist of the following:

	2017			
		Unrealized gross amount		
	Amortized cost	Profits	Losses	Estimated fair value
	S/(000)	S/(000)	S/(000)	S/(000)
Corporate, leasing and subordinated bonds (i)	7,919,202	460,826	(22,838)	8,357,190
Certificates of deposit BCRP (ii)	7,906,747	16,960	-	7,923,707
Government treasury bonds (iii)	4,308,507	336,561	(4,520)	4,640,548
Participation in RAL Fund (iv)	527,405	-	-	527,405
Securitization instruments (v)	478,921	35,747	(6,565)	508,103
Restricted mutual funds (vi)	186,407	230,289	-	416,696
Participation in mutual funds	398,308	11,458	(200)	409,566
Negotiable certificates of deposit	285,493	5,036	(346)	290,183
Multilateral organization bonds	165,830	13,897	(224)	179,503
Certificates of Central Bank of Bolivia (vii)	94,692	33	-	94,725
Investment funds	34,703	25,013	(95)	59,621
Collateralized mortgage obligation	17,116	7,048	(6)	24,158
Commercial paper	5,185	-	-	5,185
Hedge funds	48	1,014	-	1,062
U.S. Federal agency bonds	799	80	-	879
	22,329,363	1,143,962	(34,794)	23,438,531
Shares -				
Listed (viii)	254,931	496,737	(1,937)	749,731
Non-listed	14,770	1,093	-	15,863
	269,701	497,830	(1,937)	765,594
Balance before accrued interest	22,599,064	1,641,792	(36,731)	24,204,125
Accrued interest				219,766
Total				24,423,891

The Management of Credicorp has determined that the unrealized losses of available-for-sale investments at December 31, 2017 were of a temporary nature, considering factors such as intended strategy in relation to the identified security or portfolio, its underlying collateral and credit rating of the issuers. During 2017, as a result of the impairment assessment of its available-for-sale investments, the Group recorded an impairment loss of S/0.8 million, which is shown in “Net gain on securities” in the consolidated statement of income.

The movement of available-for-sale investment reserves, net of deferred income tax and non-controlling interest, is shown in Note 17(c).

During 2017, the Group had not reclassified instruments from the portfolio of available-for-sale investments to investments held to maturity. During the year 2017, S/2.1 million was amortized from unrealized results which were recorded in equity, and were transferred to caption “Net gain on securities” of the consolidated statement of income. At December 31, 2017, an unrealized gain amounting to S/0.02 million was held in equity, corresponding to the investments that were reclassified.

At December 31, 2017, the Group maintains IRS, which were designated as fair value hedges of certain bonds at a fixed rate in US dollars, issued by Government, corporate and international financial entities, for a nominal amount of S/659.5 million, see Note 12(b); through these IRS these bonds were economically converted to a variable rate.

Similarly, at the end of the same year, the Group entered into repurchase agreement transactions for corporate bonds, multilateral organization bonds and foreign government bonds classified as investments at fair value through other comprehensive for an estimated fair value of S/2,691.8 million, of which the related liability is presented in "Payables from repurchase agreements and securities lending" of the consolidated statement of financial position, see Note 5(c).

The maturities and annual market rates of investments at fair value through other comprehensive income during 2017 were as follows:

	Maturities	Annual effective interest rate					
		S/		US$		Other currencies	
		Min %	Max %	Min %	Max %	Min %	Max %
Corporate, leasing and subordinated bonds	Jan-2018 / Feb-2065	1.37	9.20	0.24	7.55	0.17	7.83
Certificates of deposit BCRP	Jan-2018 / Apr-2019	3.08	3.17	-	-	-	-
Government treasury bonds	Feb-2018 / Feb-2055	1.32	6.25	1.27	6.25	-	-
Securitization instruments	Jan-2018 / Sep-2045	4.09	11.75	3.06	6.16	1.68	6.00
Certificates deposits of Central Bank of Bolivia	Jan-2018 / Sep-2018	-	-	-	-	0.50	1.15
Negotiable certificates of deposits	Jan-2018 / Mar-2033	0.49	4.33	-	-	1.18	4.90
Multilateral organization bonds	Mar-2018 / Feb-2044	2.13	7.04	1.83	2.44	-	-
Collateralized mortgage obligations	Aug-2020 / Dec-2036	-	-	2.23	9.40	-	-
U.S. Federal agency bonds	Aug-2035	-	-	1.66	1.66	-	-

(i) At December 31, 2017 the most significant individual unrealized loss amounted to approximately S/2.2 million.

Likewise, the Group maintains CCS, which were designated as cash flow hedges of certain corporate bonds for a nominal amount of S/228.8 million, see Note 12(b); by means of said CCS, the bonds were economically converted to soles at a fixed rate.

(ii) The Group maintains 79,901 certificates of deposits of the Central Reserve Bank of Peru, which are instruments issued at a discount through public auction, traded on the Peruvian secondary market and payable in soles.

(iii) At December 31, 2017, the balance includes the following Government Treasury Bonds:

	2017
	S/(000)
Peruvian sovereign bonds	4,364,172
Bolivian sovereign bonds	106,461
Colombian sovereign bonds	58,381
U.S. Federal agency bonds	55,875
Others	55,659
Total	4,640,548

At December 31, 2017, the Group maintains CCS, which were designated as cash flow hedges of certain government treasury bonds for a nominal amount of S/55.1 million, see Note 12(b); by means of said CCS, the bonds were economically converted to soles at a fixed rate.

(iv) Comprise the investments made by the Group in the Central Bank of Bolivia as collateral for deposits received from the public. These funds have restrictions for their use and are required from all banks in Bolivia.

(v) At December 31, 2017, the balance of securitization instruments includes the following:

	2017
	S/(000)
Inmuebles Panamericana	156,186
Abengoa Transmisión del Norte	82,492
Concesionaria La Chira S.A.	30,182
Hunt Oil Company	23,244
Others	215,999
Total	508,103

The bonds have semiannual payments until 2045.The pool of underlying assets mainly consists of accounts receivable from income, revenues for services and from maintenance and marketing contributions (Inmuebles Panamericana), accounts receivable for electrical transmission services from the Carhuamayo - Cajamarca line (Abengoa Transmisión Norte), accounts receivable for collection via banking channels of water and sanitation service bills (Concesionaria La Chira) and accounts receivable for the sale of hydrocarbons in Peru (Hunt Oil Company).

(vi) The restricted mutual funds comprise the participation quotas in the private pension funds managed by the Group, and are maintained in compliance with the legal regulations in Peru. Their availability is restricted and the yield received is the same as that received by the private pension funds managed.

(vii) At December 31, 2017, certificates of deposit issued by the Central Bank of Bolivia are mainly denominated in Bolivianos.

(viii) Between the years 2016 and 2017, the Group sold through Credicorp Capital Corredores de Bolsa, 100.0 percent of the shares that it held of Banco de Crédito e Inversiones de Chile (hereinafter "BCI Chile") and 100.0 percent of the shares that it held of Enel Distribución Perú S.A.A. (formerly Edelnor S.A.A.) We present below the sales made:

- On March 7, 2016, Credicorp signed a Memorandum of Understanding (MOU) with BCI Chile, in which, as a minority shareholder with a 4.06 percent participation in BCI Chile, it stated its intention to sell up to 50.0 percent of said shares.

Credicorp undertook not to sell the remaining 50.0 percent of its shares in BCI Chile during the period of 180 calendar days subsequent to the expiry date of the preferred option of BCI Chile which forms part of the applicable regulations in Chile. The preferred subscription period began on March 21, 2016.

Accordingly, on April 22, 2016, Credicorp sold 50.0 percent of the shares which it held in BCI Chile (2,248,593 shares), at a price of CLP 27,500 (US$41.6) per share, generating cash for approximately US$94.0 million, equivalent to S/302 million. Said sale generated a profit, net of commissions, of approximately S/124.7 million.

- On September 15, 2017, Credicorp sold the remaining 50.0 percent of shares which it held in BCI Chile (2,286,328 shares), at a price of CLP 39,000 (US$62.3) per share, generating cash for approximately US$142.4 million, equivalent to S/462.8 million. Said sale generated a profit, net of commissions, of approximately S/281.1 million.

- On October 4, 2017, Credicorp sold in the Lima Stock Exchange all of its position in the shares of Enel Distribución Perú S.A.A. (43,554,445 shares), at a price of S/5.5 per share, generating cash for approximately S/239.5 million. The operation generated a profit, net of commissions, of approximately S/163.7 million.

At December 31, 2017, the Group recorded the gain on the sale of these investments in the caption "Net gain on securities" in the consolidated statement of income.

At December 31, 2017 the unrealized gain on listed shares arises mainly from investment in Alicorp S.A.A. and Inversiones Centenario S.A.A. and totaled S/234.1 million, and S/226.5 million, respectively.

d) Amortized cost investments consist of the following:

	2018	
	Carrying amount S/(000)	Fair value S/(000)
Peruvian sovereign bonds	3,166,639	3,168,202

Foreign government bonds	347,749	347,427
Peruvian treasury bonds	215,751	215,769
Corporate bonds	220,203	217,993
Certificates of payment on work progress (CRPAO) (*)	117,139	117,175
	4,067,481	4,066,566
Accrued interest	87,357	87,357
Total investments at amortized cost	4,154,838	4,153,923

At December 31, 2018, the expected credit loss of investments at amortized cost amounts to S/1.5 million.

At December 31, 2018, said bonds have maturities between January 2019 and February 2042, accruing interest at an annual effective interest rate between 3.15 percent and 6.24 percent on bonds denominated in soles and between 1.22 percent and 5.56 percent on bonds in U.S. dollar.

Likewise, Credicorp Management has determined that the difference between amortized cost and the fair value of these investments is temporary in nature and Credicorp has the intention and ability to hold each of these investments until its maturity.

At December 31, 2018, the Group has repurchase agreement transactions for investments at amortized cost for an estimated fair value of S/2,953.3 million, the related liability for which is presented in the caption "Payables from repurchase agreements and securities lending" of the consolidated statement of financial position, see Note 5(c).

(*) At December 31, there are 185 certificates of Annual Recognition of Payment for Work Progress (CRPAO from Spanish acronym), respectively, issued by the Peruvian Government to finance projects and concessions. Said issuance is a mechanism established in the concession agreement signed between the State and the concessionaire, which allows the latter to obtain financing to continue with the work undertaken. Said investment matures between January 2019 and April 2026, accruing interest at an annual effective rate between 4.72 percent and 6.02 percent.