Translation of independent auditors' report and financial statements originally issued in Spanish - Note 27

Banco de la Nación

Financial statements as of December 31, 2020 and 2019, together with the independent auditors' report

Building a better working world

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Content

Paredes, Burga & Asociados
Sociedad Civil de Responsabilidad Limitada

Building a better working world

Translation of independent auditors' report originally issued in Spanish - Note 27

Independent auditors' report

To the Board of Directors of Banco de la Nación

We have audited the accompanying financial statements of Banco de la Nación, which comprise the statements of financial position as of December 31, 2020 and 2019, as well as the related statements of comprehensive income, statements of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting standards prescribed by the Superintendencia de Banca, Seguros y AFP (Superintendence of Banking, Insurance and Private Pension Funds Administrators) for Peruvian financial entities, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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Translation of independent auditors' report originally issued in Spanish - Note 27

Independent auditors' report (continued

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Banco de la Nación, as of December 31, 2020 and 2019, as well as its financial performance and cash flows for the year then ended in accordance with accounting standards prescribed by the Superintendencia de Banca, Seguros y AFP (SBS) for Peruvian financial entities.

Lima, Peru
March 30, 2021

Paredes, Burga & Asoc.

Countersigned by

V. Tanaka

Víctor Tanaka
C.P.C.C. Register No.25613

Banco de la Nación

Statements of financial position

As of December 31, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Assets			
Cash and due from banks:	3		
Cash		2,477,069	1,825,432
Clearing		12,406	68,470
Deposits in the Peruvian Central Bank		23,153,111	13,240,326
Deposits in local banks		72,063	32,003
Deposits in foreign banks		158,506	157,019
Other due from banks		832	813
		25,873,987	15,324,063
Investments:			
Available-for-sale	4(a)	6,035,472	8,022,267
Held-to-maturity	4(l)	2,411,146	1,826,007
At fair value through profit or loss	4(a)	93,818	66,063
		8,540,436	9,914,337
Loans, net	5	8,045,308	6,319,692
Accounts receivable, net	6	357,227	356,364
Property, furniture and equipment, net	7	613,659	650,453
Net deferred income tax asset	13	120,729	126,460
Other assets, net	8	713,726	244,932
Total assets		44,265,072	32,936,301
Risks and commitments	16	3,276,333	2,786,953

	Note	2020 S/(000)	2019 S/(000)
Liabilities			
Deposits and obligations to the public	9	39,664,885	29,101,447
Deposits of financial entities and international financial entities	10	677,059	222,695
Securities, bonds and obligations outstanding	11	251,677	251,633
Accounts payable	12	432,769	320,544
Other liabilities	8	864,704	275,161
Total liabilities		41,891,094	30,171,480
Equity	14		
Capital stock		1,200,000	1,200,000
Additional capital		1,461	1,452
Legal reserve		420,000	420,000
Unrealized results		91,707	81,016
Retained earnings		660,810	1,062,353
Total net equity		2,373,978	2,764,821
Total net liabilities and equity		44,265,072	32,936,301
Risks and commitments	16	3,276,333	2,786,953

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

Banco de la Nación

Statements of comprehensive income

For the years ended December 31, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Interest income	17	1,363,619	1,634,010
Interest expenses	17	(66,707)	(65,165)
Gross financial margin		1,296,912	1,568,845
Provision for loan losses, net of recoveries	5(f)	(41,306)	(35,910)
Net financial margin		1,255,606	1,532,935
Income from financial services	18	545,664	726,676
Expenses from financial service	18	(307,974)	(223,139)
Financial margin, net of income and expenses for financial services		1,493,296	2,036,472
Gain on financial transactions	19	262,026	367,902
Operative margin		1,755,322	2,404,374
Administrative expenses	20	(925,386)	(976,532)
Depreciation and amortization	7(a) y 8(g)	(88,644)	(101,958)
Net operating margin		741,292	1,325,884
Valuation of assets and provisions	21	(36,479)	(27,301)
Operating income		704,813	1,298,583
Other income, net	22	72,302	23,858
Income before income tax		777,115	1,322,441
Income tax	13(b)	(118,823)	(232,901)
Net income		658,292	1,089,540
Other comprehensive income			
Net gain on available-for-sale investments	14(c)	10,036	235,597
Income tax	14(c)	655	(23,570)
Total comprehensive income for the year, net of income tax		10,691	212,027
Total comprehensive income		668,983	1,301,567

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

Banco de la Nación

Statements of changes in shareholders' equity

For the years ended December 31, 2020 and 2019

	Note	Capital stock S/(000)	Additional capital S/(000)	Legal Reserve S/(000)	Unrealized results S/(000)	Retained earnings S/(000)	Total S/(000)
Balances as of January 1, 2019		1,200,000	1,452	420,000	(131,011)	828,713	2,319,154
Changes in shareholders' equity for 2019 -							
Net income		-	-	-	-	1,089,540	1,089,540
Other comprehensive income	14(c)	-	-	-	212,027	-	212,027
Total comprehensive income		-	-	-	212,027	1,089,540	1,301,567
Prior years adjustments	14(d)	-	-	-	-	(27,717)	(27,717)
Offsetting debt with Public Treasury	14(d)	-	-	-	-	(259,183)	(259,183)
Distribution of income to Public Treasury	14(d)	-	-	-	-	(569,000)	(569,000)
Balances as of December 31, 2019		1,200,000	1,452	420,000	81,016	1,062,353	2,764,821
Changes in shareholders' equity for 2020 -							
Net income		-	-	-	-	658,292	658,292
Other comprehensive income	14(c)	-	-	-	10,691	-	10,691
Total comprehensive income		-	-	-	10,691	658,292	668,983
Prior years adjustments	14(d)	-	-	-	-	(5,216)	(5,216)
Offsetting debt with Public Treasury	14(d)	-	-	-	-	(10,889)	(10,889)
Distribution of income to Public Treasury	14(d)	-	-	-	-	(1,043,730)	(1,043,730)
Others		-	9	-	-	-	9
Balances as of December 31, 2020		1,200,000	1,461	420,000	91,707	660,810	2,373,978

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

Banco de la Nación

Statements of cash flows

For the years ended December 31, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Cash flows from operating activities			
Net income		658,292	1,089,540
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	7(a) y 8(g)	88,644	101,958
Provision for loan losses, net of recoveries	5(f)	41,306	35,910
Provision for accounts receivable losses	21(a)	9,981	(19,934)
Provision for indirect loans	21(a)	9,626	(234)
Provision for litigations and claims	21(a)	19,838	53,811
Deferred income tax	13(b)	6,386	(12,025)
Gain loss on available-for-sale investments	19	(206,461)	(342,722)
Unrealized (gain) loss on investments at fair value through profit or loss	19	(20,400)	24,483
Accrued interest on subordinated bonds	17(b)	20,044	19,986
Interest on investments at fair value through profit or loss	17(b)	(692)	-
Net profit from real estate sales	7(b)	-	(18,683)
Gain on sale of properties seized though legal actions	22(a)	(6,885)	-
Derecognition of property, furniture and equipment	22	-	8,322
Others		3,380	4,689
Changes in assets and liabilities accounts:			
(Increase) decrease in loan portfolio		(1,766,922)	154,988
Increase in accounts receivable		(863)	(45,803)
(Increase) decrease in other assets, net		(288,677)	145,784
Increase in obligations to the public		10,563,438	2,627,628
Increase in deposits from financial entities and international financial entities		454,364	4,841
Increase (decrease) in accounts payable		112,225	(33,737)
Increase (decrease) in other liabilities, net		560,078	(249,764)
Equity adjustments	14(d)	(5,216)	(27,717)
Profit for the period after net change in assets, liabilities and adjustments		10,251,486	3,521,321
Income tax paid		(189,163)	(199,420)
Net cash provided by operating activities		10,062,323	3,321,901

Statements of cash flows (continued)

	Note	2020 S/(000)	2019 S/(000)
Cash flows from investing activities			
Net increase in available-for-sale investments		1,591,126	4,022,133
Additions of property, furniture and equipment	7(a)	(27,265)	(13,764)
Additions of intangible assets	8(g)	(12,549)	(28,297)
Net cash used in investing activities		1,551,312	3,980,072
Cash flows from financing activities			
Distribution of income to Public Treasury	14(d)	(1,043,730)	(569,000)
Interest payment of subordinated bonds		(20,000)	(20,000)
Net cash used in financing activities		(1,063,730)	(589,000)
Net increase (decrease) in cash and cash equivalents		10,549,905	6,712,973
Cash and cash equivalents at the beginning of year		15,323,250	8,610,277
Cash and cash equivalents at the end of year		25,873,155	15,323,250
Non-cash flows transactions			
Debt management agreement, note 4(d)		-	2,419,806
Offsetting debt with the Public Treasury, note 14(d)		10,889	248,535
Reclassification of investments at fair value through profit or loss, note 4(b)		-	66,063

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

1. **Constitution, economic activity and approval of financial statements**

(a) Constitution

Banco de la Nación (hereinafter "the Bank") was incorporated through Law No.16000 dated January 27, 1966, as an entity of public law belonging to the Economy and Finance Sector that operates with economic, financial and administrative autonomy in the execution of its functions. The Bank has its own equity and indefinite duration.

Its incorporation Law was updated through Legislative Decree No.199 – Organic Law of the Bank- issued on June 12, 1981, through which the Bank gets exclusive rights concerning functions and powers; however, when issuing the Decree Law No.25907, dated November 27, 1992, the Bank's exclusivity concerning those functions and powers were no longer in effect.

Subsequently, Supreme Decree No.07-94-EF was issued on January 26, 1994, which: (i) repealed the Legislative Decree No.199, and (ii) approved the Bank's Statute, which has been successively modified by different legal regulations, the latest being Supreme Decree No.189-2016-EF dated July 4, 2016.

Currently, the Bank is governed by its Bylaw and amendments, by Legislative Decree No.1031, that promotes the efficiency of State Business Activity and, supplementary, the Law No.26702 "Ley General del Sistema Financiero y de Seguros y Orgánica de la Superintendencia de Banca, Seguros y AFP" –General Law of the Financial and Insurance System and Organic of the SBS y AFP- (hereinafter "SBS", the Spanish acronym).

The Bank's head office is located at Av. Javier Prado Este No.2499, San Borja, Lima, Peru. As of December 31, 2020, the Bank operates through a head office and a network of 578 offices in Peru (one head office and 648 offices as of December 31, 2019).

(b) Economic activity -

The Bank provides services to state entities, promotes banking and financial inclusion for the citizens' benefit complementing the private sector, and promotes the country's decentralized growth through efficient and self-sustaining management; also, the Bank is entitled to perform the following functions; none of them will be exclusively performed with respect to the entities of the Peruvian financial system:

(i) Provide banking services to the National Treasury System following instructions given by the General Treasury Directorate. Those services will be provided on an open market basis together with other entities in the Peruvian financial system.

(ii) Provide tax collection services on behalf of tax creditor, subject to the prior approval of the Bank and under a specific tax collection agreement.

(iii) Conduct, by delegation, transactions with bank subaccounts of the Public Treasury.

(iv) Receive resources and funds from Central, Regional and Local Government entities as well as other entities of the National Public Sector.

(v) Act as the Government's financial agent, when the Ministry of Economy and Finance requires and authorizes it, within the framework of the operations of the National Treasury System, attending to the external public debt and foreign trade operations.

(vi) Act on behalf of other banks or financial entities in funneling domestic or foreign resources to credit institutions.

(vii) Take part in the Government's foreign trade transactions as indicated in its Bylaw. In this case, the Bank will provide bank services and foreign exchange services, under the regulations enacted by the Central Reserve Bank of Peru (Banco Central de Reserva del Perú).

(viii) Receive, on a consignment and custody basis, administrative and judicial deposits.

(ix) Provide banking services as a correspondent of financial system entities where financial system entities request it.

(x) Receive demand deposits from individuals and legal corporations for payments, as suppliers, pensioners, as well as Government workers, perceived within the framework of the National Treasury System.

(xi) Receive savings and custody deposits from individuals and corporations in those areas of the Peruvian territory in which private banks do not have offices or operations, including the issuance of wire transfers, money orders and other cash transactions ordered or in favor of such parties.

(xii) Provide loans and financial facilities to National, Regional and Local Government entities and other public entities, except for granting loans to Government entities under private law; issuing, acquiring, maintaining and selling bonds and other securities, as set forth by law. The issuance of securities will be performed in accordance with an annual schedule approved by the Ministerio de Economía y Finanzas (Ministry of Economy and Finance of Peru, hereinafter "MEF" by its acronym in Spanish) that may be reviewed quarterly.

(xiii) Perform transactions and banking services with Public Sector entities, domestic and foreign banks and financial institutions in order to comply with the duties established in its Bylaw, as well as the profitability and risk hedging of the resources it manages. These transactions are performed in accordance with the annual schedule approved by the MEF and may be reviewed quarterly.

(xiv) Grant a single line of credit to workers and pensioners of the Public Sector that, due to their income, have savings accounts in the Bank. Such line of credit may be assigned to the beneficiary for use through loans and/or credit cards. These transactions will be made according with an annual schedule approved by the MEF that may be reviewed annually.

(xv) Issue electronic money, in accordance with Law No.29985, Law that regulates the basic characteristics of electronic money as instruments of financial inclusion; its Regulation and amendments.

(c) Approval of financial statements -

The financial statements as of December 31, 2019 and for the year then ended, were approved by the Board of Directors Meeting held on June 19, 2020. The financial statements as of December 31, 2020 and for the year ended, have been approved by Management on March 30, 2021, and will be submitted to the Board of Directors when Management considers it appropriate. In Management's opinion, the accompanying financial statements will be approved by the Board of Directors without amendments.

(d) COVID-19 pandemic –

Through Supreme Decree Nº044-2020-PCM, dated March 15, 2020, a State of National Emergency was declared in Peru for a period of fifteen (15) calendar days as a result of the outbreak of coronavirus (Covid-19), which was qualified as a pandemic by the World Health Organization. This Supreme Decree establishes several exceptional measures to protect the life and health of the population in Peru; such as:

- Guaranteeing access to public services and essential goods and services;
- Limitation to the exercise of the right to freedom of transit of persons;
- Restrictions in the field of commercial activity, cultural activities, establishments and recreational activities, hotels and restaurants; and
- Temporary closing of borders; among others

Subsequently, the Peruvian Government has established a series of extensions to the State of National Emergency and, to date, according to the provisions of Supreme Decree N° 036-2021-PCM dated February 27, 2021, the State of National Emergency is in effect until February 28, 2021. Likewise, through Supreme Decree 009-2021-SA, the sanitary emergency due to the presence of Covid-19 was extended until September 2021.

In this context, during 2020, the Peruvian Government implemented the plan to reactivate economic activities gradually and progressively. This plan consists in four (4) phases for its implementation and the beginning of each of them was in constant evaluation, following the recommendations of the Government's Health Sanitary Authority.

- Phase 1 – It began at the end of May 2020, it concentrated activities in Mining, Industrial, Construction (projects), Services and tourism (restaurants with delivery, services related to telecommunications, agriculture, notaries, recycling, maintenance and storage), and Commerce (agricultural products and electronic goods for home) sectors.

- Phase 2 - Beginning of June 2020, it concentrated activities of Agriculture, Manufacturing, Commerce (sales, maintenance and repair of automobiles) and Services (professional services, accommodation, vehicle and machinery rental, telecommunications, interprovincial transport).

- Phase 3 - End of June 2020, it concentrated activities of Commerce (stores in general with a capacity of 50 percent, wholesale and retail), Tourism and Services (restaurants with a capacity of 40 percent, national air transport, accommodation services , accounting, auditing, consulting, among others).

- Phase 4 - End of September 2020, it concentrated activities of Commerce (stores in general with a capacity of 60 percent, wholesale and retail), Tourism and Services (restaurants with a capacity of 50 percent, national and international air transport, services of entertainment with capacity to 50 and 60 percent).

Although the measures implemented by the Peruvian Government managed to contain and partially mitigate the exponential spread of this disease, through quarantines, social distancing, promotion for the use of masks and the early detection of positive cases to achieve isolation; the danger of a new chain of infections is always present because there are no effective medicines and vaccines against the virus.

In this sense, to continue containing and mitigating the spread of Covid-19, the Peruvian Government has been issuing a series of Supreme Decrees, extending the State of Sanitary Emergency and State of National Emergency, defining alert levels: moderate, high, very high and extreme; that are granted to each of the regions of Peru, based on an evaluation carried out by the Ministry of Health, establishing a series of restrictions depending on the level of each region, and in very high and extreme cases move back the phases of economic reactivation mentioned above.

The sanitary emergency has caused economic damages to individuals and legal entities that hold direct and indirect loans in the Peruvian financial system. The Ministry of Economy and Finance (MEF), the Central Reserve Bank of Peru (BCRP) and the SBS established extraordinary measures to cushion the negative impact produced by Covid-19 and guarantee the continuity of the payment chain in the financial system.

Main measures in financial system are related to facilities for rescheduling of loans (deferred payments), suspension of past due days and granting loans programs guaranteed by the Peruvian Government. These measures have been described in more detail in note 2(a)(ii).

The Bank's Management closely monitors the current context and has been focusing on the following measures that it considers essential for the continuity of the Bank's operations:

(i) Due to the Bank being owned by the Peruvian Government, it has been operating as a channel for Government funds that are destined to grant monetary subsidies provided by the Government as part of its established policies to deal with the Covid-19 pandemic,
(ii) Increase in obligations with the public and deposits from financial institutions,
(iii) Monitoring of supplier operations, related to the supply of cash,
(iv) Implementation of apps and internet banking for customer service,
(v) Implementation of Covid-19 protocols and health surveillance,
(vi) Implementation of new protocols for business continuity under the current circumstances,
(vii) Development of technological tools and strengthening of IT and cybersecurity systems for remote work of some Bank employees,

In Management's opinion, these and other additional measures implemented by the Bank will allow the adequate management of the negative effects from the Covid-19 pandemic.

2. Accounting principles and practices

In the preparation and presentation of the attached financial statements, the Bank's Management has observed the compliance with the SBS regulations in force in Peru as of December 31, 2020 and 2019. Below are the main accounting principles used in the preparation of these financial statements.

(a) Basis of preparation, use of estimates and changes in accounting principles -

(i) Basis of preparation and use of estimates -

The accompanying financial statements have been prepared in Soles based on the Bank's accounting records, which are kept in nominal amounts as of the date of transactions, in accordance with SBS regulations effective in Peru as of December 31 2020 and 2019, and additionally, when there is no specific standard of the SBS, with International Financial Reporting Standards - IFRS made official in Peru through resolutions issued by the Consejo Normativo de Contabilidad (Peruvian Accounting Council, henceforth “CNC” for its Spanish acronym) and effective as of 31 December 2020 and 2019, see paragraph (r.1) below.

The preparation of the accompanying financial statements requires that Management perform estimates that affect the reported amounts of assets and liabilities, income and expenses and the disclosure of material events in Notes to the financial statements. The estimates are continually evaluated and based on historical experience and other factors. The final results could differ from these estimates.

As of December 31, 2020 and 2019, the most significant estimates in relation to the accompanying financial statements correspond to the provision for doubtful collection credits, the valuation and impairment of investments, the provision for bad debt of accounts receivable, the provision for retirement pensions, the estimation of the useful life and the recoverable value of real estate, furniture and equipment and intangibles, assets and deferred income tax liabilities, and provisions. The accounting criteria used for each estimate are described in this note.

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

(ii) Changes in accounting policies -
As mentioned in note 1(d), product of the State of Health Emergency and National Emergency due to the pandemic caused by the new strain of coronavirus SARS-CoV-2 that causes the Covid-19 disease, the Peruvian Government, the BCRP and the SBS issued the following new regulations with exceptional measures, as detailed below:

(a) Granting of monetary subsidies through Banco de la Nación -
During the year 2020, the Peruvian Government granted, through the Banco de la Nación, approximately S/8,909.05 million as miscellaneous bonds (Bonus “Yo me quedo en casa” Bonus “Independiente”, Bonus “Rural”, Bonus “Familiar Universal”, Bonus “Universal”) to people affected by the Covid-19 outbreak in Peru and different measures implemented by the Government to protect the life and health of Peruvians. Cash funds used for this operation were provided by the Ministerio de Desarrollo e Inclusión Social (Ministry of Development and Social Inclusion, MIDIS for its Spanish acronym), which were debited directly from the current account that MIDIS maintains in the Bank and granted to its beneficiaries under the following delivery modalities; (i) for Bank customers through deposits in the beneficiary's savings account, see note 9(a), and (ii) through face-to-face channels, ATMs, face-to-face cash delivery, etc., for beneficiaries who do not maintain savings accounts with the Bank. Balances pending delivery by this second method are recorded in the account "Peruvian Government Bonds payable" within the caption "Other liabilities" of the statement of financial position, see note 8(h).

(b) During the months from March to July 2020, the SBS issued a series of Official letters (N° 10997-2020-SBS, N° 11150-2020-SBS, N° 11170-2020-SBS, N° 12679- 2020-SBS, N° 13195-2020-SBS, N° 13805-2020-SBS and N° 14355-2020-SBS and N° 15944-2020-SBS) that established the following exceptional measures applicable to the loan portfolio, in order to facilitate the payment of the debt of clients of financial entities affected by the restrictive measures established by the Government of Peru due to the Covid-19 pandemic:

- Initially, financial system entities were able to modify the contractual conditions of the loans without reporting them as refinanced if the total term does not extend for more than twelve months with respect to the original term of the loan. In addition, debtors had to be a maximum of 15 past due days in their payments as of February 29, 2020; subsequently, as of May 29, 2020, and only for the purposes of the State of National Emergency, a debtor's loan was considered a maximum of 30 calendar past due days at the time of the modification, to meet the requirement of being up to date with payments.

- In case of retail loans with modification of contractual terms, the associated interest may continue to be recognized on an accrual basis. However, if the debtor changes its status to past due after establishing new credit terms, the financial institution must reverse the accrued interest on such loan proportionally over a six-month period.

- For non-retail loans with modification of the contractual terms, the associated interest should be recognized by the cash accounting method. Uncollected accrued interest related to these loans should be reversed from the date of modification of the contractual conditions.

- For debtors with more than 15 past due days as of February 29, 2020, the computation of past due days will be suspended as long as the State of National Emergency is maintained.

- Regarding the report of past due days of those loans that were subject to suspension of the past due days count, at the end of each month, the following must be reported: the lower number of past due days resulting from the comparison between: (i) the actual past due days that the loan presents at the closing of each reporting month and (ii) the frozen past due days to February 29, 2020 plus the calendar days that have passed since August 1, 2020 until the closing of the reporting month.

- If, as a result of the application of the provisions of the preceding paragraph, the debtor improves its classification and, therefore, reduces its provisioning requirement, the provisions released must be reallocated to the constitution of other mandatory provisions or, failing that, as voluntary provisions.

- If a debtor has overdue payments after the contractual modifications, such loan will be considered as a refinanced loan, following the criteria set by SBS Resolution N°11356-2008.

- According to SBS Official letter N°11150-2020, the scope of the mentioned facilities will be determined by each entity of the Financial System, after analyzing the level of impact on its loans.

- Financial institutions may record, preventively and responsibly, voluntary provisions as necessary to allow them to face increases in risk in their loans, at the time they materialize.

(c) Official letter N°13805-2020-SBS, issued on May 29, 2020: Modified the following official letters issued by the SBS: Official letters SBS N°10997-2020-SBS, N°11150-2020-SBS and N°11170-2020-SBS (see item (i)); and additionally amended Official letters N°12679-2020-SBS and N°13195-2020-SBS, issued on May 5, 2020 and May 19, 2020, respectively. The main amendments were as follows:

- Financial institutions may unilaterally reschedule loans until June 30, 2020, if certain criteria included in Official letters are met.

- The loan rescheduling period is extended from 6 to 12 months, with respect to the original term.

- For contractual modifications made starting the date hereof, and only for State of National Emergency purposes, a debtor's credit will be considered a maximum of 30 calendar past due days at the time of the modification. To meet this requirement debtor must be current on their payments.

- The suspension of the computation of overdue days, applicable to those loans that presented more than 15 calendar days overdue as of February 29, 2020, will be maintained for the duration of the State of National Emergency, as well as the accounting situation of such credits. In addition, in the case of loans that as of February 29, 2020 have been more than 15 and up to 60 past due days, such suspension will continue until the end of the month following the month in which the declaration of State of National Emergency is canceled.

(d) SBS Resolution No. 1264-2020, issued on March 26, 2020 -
This resolution establishes that the modifications to the contractual conditions indicated in the Official letters mentioned in item (i) above, will not increase the cash equity requirement for non-revolving consumer loans and mortgage loans. Likewise, said resolution authorizes financial institutions to use the additional regulatory equity for the economic cycle component.

(e) Official letter N°15944-2020-SBS, issued on July 2, 2020. Through this official letter, the SBS communicated some clarifications regarding the measures established by Official letters N°10997-2020-SBS, N°11150-2020-SBS, N°11170-2020-SBS, N°12679-2020-SBS, N°13195-2020-SBS, N°13805-2020-SBS and N°14355-2020-SBS, issued on March 13, 2020, March 16, 2020, March 20, 2020, May 5, 2020, May 19, 2020, May 29, 2020 and June 9, 2020, respectively. The main clarifications were as follows:

- Suspending calculation of past due days, applicable to those loans that were more than 15 calendar past due days as of February 29, 2020, as well as the accounting status of such credits, should be maintained only until July 31, 2020.

- Regarding the report of past due days for those loans that were subject to suspension of the past due days count, at the end of each month, the following must be reported: the lower number of past due days resulting from the comparison between: (a) the actual past due days that the loan presents at the closing of each the reporting month and (b) the frozen past due days as of February 29, 2020 plus the calendar days that have passed since August 1, 2020 until the closing of the reporting month.

- If, as a result of the application of the provisions of the preceding paragraph, the debtor improves its classification and, therefore, reduces its provisioning requirement, the provisions released must be reallocated to the constitution of other mandatory provisions or, failing that, as voluntary provisions.

(f) Official letter N°19109-2020, issued on August 7, 2020. Through this communication, the SBS communicated some complementary provisions related to the operations subject to the measures established through Official letters N°10997-2020-SBS, N°11150-2020-SBS, N°11170-2020-SBS, N°12679-2020-SBS, N°13195-2020-SBS, N°13805-2020-SBS, N°14355-2020-SBS and N°15944-2020-SBS, issued on March 13, 2020, March 16, 2020, March 20, 2020, May 5, 2020, May 19, 2020, May 29, 2020, June 9, 2020 and July 2, 2020, respectively. The main provisions were as follows:

- Credit operations that have been subject to contractual modifications by the aforementioned official letters must be recorded in sub-account 8109.37 "Reprogrammed Credits - State of Health Emergency", for the periods indicated below, as applicable:

a) For all types of credit (except revolving consumer credit by credit card):

   i. If the schedule modification did not imply a reduction in the amount of the installments, the credit operation will cease to be recorded in the off-balance account after 6 consecutive months of punctual payment of its installments, counted from the resumption of the payment obligation (after the grace period).

   ii. If the modification implied the reduction of the amount of the installments, the operation shall remain registered in the off-balance account until the debtor has paid at least twenty percent (20%) of the principal of the operation subject to modification, and has demonstrated payment capacity with respect to the new credit schedule through the timely payment of the last 6 months.

   iii. For those loans with a payment periodicity more than monthly, the operation will cease to be recorded in the off-balance account after 6 consecutive timely payments of its installments, counted from the resumption of the payment obligation (after the grace period); or when the debtor has paid at least twenty percent (20%) of the principal of the operation subject to modification; whichever occurs first.

b) For revolving consumer credit card loans, all credit card debt must be recorded in the off-balance account:

   i. If the modification was made only for minimum payments, the entire credit card debt will cease to be recorded in the off-balance account after 6 consecutive months of timely payment of its installments, counted from the resumption of the payment obligation (after the grace period).

   ii. If the modification was made for the full amount owed, the entire credit card debt will cease to be recorded in the off-balance account after 12 consecutive months of on-time payment, counted from the resumption of the payment obligation (after the grace period).

For these purposes, the payment made up to 8 past due days should be considered as timely payment. Additionally, once the loan ceases to be reported in subaccount 8109.37, it should no longer be considered for purposes of Report 35 - "Rescheduled Loans: Covid-19 National Emergency".

As of December 31, 2020, the Bank maintains a balance of S/1,599.61 million in subaccount 8109.37 "Rescheduled Credits - Health Emergency Status".

- The migration of rescheduled operations under the unilateral modality from retail to non-retail credits, or from non-retail to retail, as a result of changes in the credit classification established in the Regulation for the Evaluation and Classification of the Debtor and the Requirement of Provisions, approved by SBS Resolution N°11356-2008, may retain the treatment of interest registration (by the accrued or received method) corresponding to the initial type of credit in which the operation was subject to modification, in compliance with Official letters.

- Regarding the suspension of the counting of past due days applicable to loans with more than 15 calendar past due days as of February 29, 2020, it was maintained until August 31, 2020, modifying Multiple Official Letter No. 15944-2020- SBS, see literal (b). Likewise, the companies of the financial system may maintain the accounting status of such loans until that said date.

(g) SBS Resolution N°3155-2020, issued on December 17, 2020 -
This resolution establishes that for rescheduled loans due to Covid-19, accounted as such, the following must be applied:

- Rescheduled loans of debtors with a Normal classification are deemed debtors with credit risk higher than Normal, thus corresponding to them the credit risk level "With Potential Problems ("CPP" by its Spanish acronym)". Specific provisions corresponding to this category (CPP) are applied to these loans, which are applicable to consumer, micro-business and small business loans.

- The SBS granted an adaptation period for the constitution of these provisions and, as part of said period, as of December 31, 2020, entities must constitute at least provisions for those loans whose debtors have not had made payments of at least one entire installment including capital in the last six months. As of December 31, 2021, the entirety of provisions must be constituted and to do so, entities of the financial system must define a schedule allowing to know promptly the provisions during the year 2021.

- Regarding accrued interest of rescheduled loans, in accounting situation of outstanding, corresponding to consumer, micro and small business loans, for which the client has not made the payment of at least one entire installment including capital in the last six months at the closing of the accounting information, a provision requirement shall be applied corresponding to the Substandard risk category. In accordance with the SBS rules, the deadline for the recording of these provisions was December 31, 2020.

- From the effective date of SBS Resolution No. 3155-2020, the accrued interest not collected at the rescheduling date, recognized as income capitalized as a result of the rescheduling, must be rebated and recorded as deferred income, thus recorded as income based on the new loan term and upon the respective payments of installments.

- The entities of the financial system shall under no circumstances be able to generate profits or better results due to the reversion of provisions, which must be reassigned for the constitution of specific mandatory provisions.

As of December 31, 2020, the Bank determined provisions for rescheduled loans of debtors with Normal classification for S/14.93 million and for accrued interest on rescheduled loans, in current accounting status for S/12.03 million.

(h) "Reactiva Perú" Program –
The "Reactiva Perú" program was created by Legislative Decree N°1455-2020 to grant loans to companies, through financial institutions, guaranteed by the Peruvian Government, with the purpose of maintaining the continuity of the payments chain. The program is aimed at micro, small, medium and large companies.

In connection with this program, on April 22, 2020, the SBS issued Official letter N°11999-2020. In this official communication, the SBS provided specifications for the accounting of such operations and mentions that interest is recorded on an accrual basis. In addition, on April 27, 2020, the SBS issued Resolution N°1314-2020 which establishes that the credit risk provision of loans covered by the guarantee of the "Reactiva Perú" program shall be zero percent.

As of December 31, 2020, the Bank does not maintain credits considered within the "Reactiva Perú" Program.

(i) Business Support Fund for MYPE - "FAE MYPE" -
It was created through Emergency Decree N°029-2020 and amendment. It is a government fund created to guarantee working capital loans, debt restructuring and refinancing of micro and small enterprises ("MYPE" by its Spanish acronym). See note 6(c). Likewise, the mentioned Emergency Decree authorizes the Bank to grant a line of credit to Corporación Financiera de Desarrollo (Development Finance Corporation, "COFIDE" by its Spanish acronym) to facilitate liquidity in the short term to the FAE-MYPE, see note 5(b).

On April 27 and May 19, 2020, the SBS, through Resolution N°1315-2020-SBS and Official letter N°13206-2020-SBS, respectively, established that the provision for credit risk for loans covered by the FAE MYPE guarantee will be zero percent. For the portion of the loan that does not have the coverage provided by the Fund, it is covered by the provision of the original type of credit according to the classification of the debtor of the loan.

As of December 31, 2020, the Bank does not maintain loans granted directly to Peruvian financial entities ("IFIS" by its Spanish acronym) considered within the business support program for MYPE. However, the Bank granted credits to COFIDE for S/1,766 million to facilitate the liquidity of the FAE-MYPE, see note 5(b).

(j) Repo transactions of loan portfolio represented by securities -
On April 3, 2020, the BCRP issued the Circular Letter N°0014-2020-BCRP. In this Letter, the BCRP establishes the characteristics and procedures for repo transactions of loan portfolio guaranteed by the Peruvian Government. At the sale date, the Bank receives the local currency (sale amount) and, in the same act, is obliged to repurchase such portfolio (repurchase amount). The BCRP will disburse 80 percent of the funds in the Bank's current account held at the BCRP and the remaining portion in a restricted account also held by the Bank at the BCRP.

In relation to repo transactions of loan portfolio, the SBS issued Official letters N°11518-2020 and N°12791-2020, on April 7, 2020 and May 8, 2020, respectively. Through these Official letters, the SBS provides the accounting treatment for such transactions as well as certain requirements to the SBS reporting purposes. In accordance with these Official letters, the loan portfolio will not be derecognized, and the requirement of provisions for loan portfolio subject to the repo operation remains.

As of December 31, 2020, the Bank did not present balances of repurchase agreements of loan portfolio.

(k) Business Support Fund for MYPE of the Tourism Sector ("FAE TURISMO" by its Spanish acronym) and Business Support Fund for MYPE of the Agricultural Sector ("FAE AGRO" by its Spanish acronym) –
FAE-TURISMO was created through Emergency Decree N°76-2020 with the purpose of promoting the financing of micro and small enterprises of the Tourism Sector through working capital loans. Likewise, the Emergency Decree N°082-2020, the FAE-AGRO program, whose purpose is to guarantee working capital loans for family farming activities as defined by Law N°30355, in order to secure the agricultural season 2020-2021 and food supply nationwide. Likewise, the mentioned Emergency Decree authorizes the Bank to grant a line of credit to COFIDE to facilitate liquidity in the short term to the FAE-TURISMO, see note 5(b)

In relation to these programs, on September 4, 2020, the SBS issued Resolution N°2154-2020, which establishes that the same treatments and Resolutions as for the FAE-MYPE program are applicable to loans covered by the FAE-TOURISM program, see numeral (k) above. Likewise, loans covered by the FAE-AGRO program are subject to the same treatments and resolutions as those provided for the "REACTIVA PERU" program, see numeral (h) above.

As of December 31, 2020, the Bank did not present loans granted directly to Peruvian financial entities (IFIS) considered within the FAE TURISMO and FAE AGRO programs, however, the Bank granted credits to COFIDE for S/47 million to facilitate the FAE-TURISMO liquidity, see note 5(b).

(l) Covid-19 Guarantees Program –
Act N°31050 established the extraordinary provisions for the rescheduling and freezing of debts in order to alleviate the economy of natural persons and MYPEs as a consequence of Covid-19, and dispose the creation of Covid-19 Guarantees Program, whose purpose is to grant guarantees for the rescheduling of consumer, personal, housing mortgage, vehicle and MYPEs loans, from 6 to 36 months. The granting of the guarantee is conditioned to the reduction of the cost of the credit and as an alternative and exclusive option of the above mentioned, dispose that the companies of the financial system may establish a freezing period of 90 days for consumer, personal, vehicular and MYPEs.

On November 10, 2020, through Resolution 2793-2020, the SBS established that, exceptionally, a provision rate for credit risk of 0 percent is applicable to the portion of loans covered by the Covid19 Guarantees Program when the substitution of credit counterpart is applicable, as of the activation of the guarantee.

As of December 31, 2020, the Bank did not present credits from the Covid-19 Guarantee Program.

(m) Official Letter Nº 42138-2020 issued on December 23, 2020 -
Through this Official Letter, entities of the Peruvian financial system were informed that, exceptionally and subject to prior authorization from the SBS, they may reduce their capital stock, legal reserve and/or other equity accounts, with the aim of setting up new specific and/or generic provisions (including voluntary provisions) for its loan portfolio. This is due to the impact generated by Covid-19. As of December 31, 2020, the Bank's Management did not consider the application of this Official Letter No. 42138-2020.

(b) Foreign currency -
Functional and presentation currency -
The Bank considers the Sol as its functional and presentation currency, since it reflects the nature of economic events and relevant circumstances of the bank, given that its main operations and / or transactions such as: loans granted, investments, financing obtained, financial income and expenses, payroll and purchases are established and settled in soles.

Transactions and balances in foreign currency -
Transactions in foreign currency are those which are made in a currency other than the functional currency.

Monetary assets and liabilities in foreign currency are initially recorded at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currency are converted to soles at the end of each month using the exchange rate set by the SBS. Gains or losses resulting from the translation of monetary assets and liabilities in foreign currency at the exchange rates prevailing at the date of the statements of financial position are recorded in the Income statements of the period as “Gain on exchange difference and exchange operations, net” in the “Gain on financial transactions” caption, see note 19.

Non-monetary assets and liabilities acquired in foreign currency are recorded at the exchange rate for the date of the initial transaction and are not subsequently adjusted.

(c) Financial instruments -
Financial instruments are classified as assets, liabilities or equity according to the substance of their respective contractual arrangements that originated them. Interests, dividends, gains and losses generated from financial instruments classified as assets or liabilities are recorded as income or expense, respectively. Financial instruments are offset when the Bank has a legally enforceable right to offset and Management has the intention to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities reported in the statements of financial position include cash and due from banks, investments available-for-sale, held-to-maturity investments, Investments at fair value through profit or loss, loan portfolio, accounts receivable, other assets, except for the assets identified as non-financial instruments presented in the caption "Other assets", and liabilities in general (except for the liabilities identified as non-financial instruments presented in "Other liabilities"), see Note 8(a). Also, all indirect loans are considered financial instruments.

The accounting policies on the recognition and valuation of these items are described in the respective accounting policies described in this note.

(d) Recognition of revenue and expenses -

Financial revenues and expenses are recorded in the income statement of the period in which they are incurred, based on the effective term of the underlying transactions and the interest rates freely agreed upon with customers; except for interest accrued on past due loans, refinanced, restructured or in legal collection as well as loans classified as doubtful or loss, which are recognized as collected. When Management determines that the debtor's financial condition has been improved and the loan is reclassified as current or in the category of normal, potential problem or substandard, such interests are recognized on an accrual basis.

Revenue includes interest on fixed income investments classified as available-for-sale, at maturity and at fair value through profit or loss as well as the recognition of the discount and the premium on such financial instruments.

Commissions and expenses for loans structuration, as well as loans assessment of direct and indirect loans are recorded as income on an accrual basis over the agreement period.

Commissions for financial services related to the maintenance of credits granted and remuneration for operations or additional and / or complementary services to such credits, other than those indicated in the previous paragraph, are recognized as income when collected.

Other revenues and expenses are recognized as earned or incurred in the period in which they accrue.

(e) Loans and provision for loan losses –

Direct loans are recorded when the funds are disbursed in favor of the customers. In the case of credit cards operations, these are recorded as loans for the amount consumed and/or cash withdrawals made. Indirect loans (contingent loans) are recorded when documents supporting such facilities are issued.

Direct loans are considered as refinanced when there are variations of term and/or the amount of the original contract to difficulties in the payment capacity of the debtor; and restructured loans are considered as those credits that are subject to reprogramming of payments approved by a restructuring process according to the General Law of the Bankruptcy System, Law No.27809.

In case of financial leases, the Bank recognizes the present value of lease payments as credit granted. The difference between the total amount of installments receivable and their present value is recorded as unrealized interest and is recognized over the term of the lease agreement using the effective interest rate method that reflects a consistent rate of return. The Bank does not maintain operating leases.

Financial income is based on a pattern that reflects a fixed internal rate of return on net credit.

The Bank's Management determines the type of credit, the risk classification categories and the provisions according to the guidelines established by the SBS in Resolution No.11356-2008 "Regulation for the evaluation and classification of the debtor and the requirement of provisions" and amendments.

Types of loans –
The Bank classifies its loans as follows: Non- retail (corporate loans, loans to large-business and loans to medium-business) and Retail (loans to small-business, loans to micro-business, revolving consumer loans, non-revolving consumer loans and mortgage loans). These classifications take into consideration the nature of the customer (corporate, government or individuals), the purpose of the loan and business size as measured by income, debt, among other indicators according to SBS Resolution No.11356-2008.

Requirement of provisions –
The provision for loan losses is determined following guidelines established by SBS Resolutions No.11356-2008 “Regulation for the evaluation and classification of the debtor and the requirement of provisions” and SBS Resolutions No.6941-2008 “Regulation for the Managing of the Risk of the Retail Debtors with High Leverage Levels”. In general, these guidelines include the following three components: (i) the provision for loan losses resulting from the risk rating of the loan portfolio, (ii) the pro-cyclical rule activated by the SBS based on the behavior of specific domestic macro-economic variables, and (iii) the over-indebtedness provisions of the retail portfolio.

The provision for the risk rating of the portfolio is determined based on the assessment that Management periodically performs over the loan portfolio, classifying it into one of the following categories: normal, with potential problems, substandard, doubtful or loss, depending on the non-payment risk grade of each debtor.

For non-retail loans, the classification into one of each categories mentioned above considers, among others, the following factors: the debtor's payment experience, the payment history of the specific loan, the Bank's dealings history with the debtor's management, the debtor's operating history, repayment capability and availability of funds, the status of any collateral or guarantee received, the analysis of the debtor's financial statements, the risk classification given by other local financial institutions; plus other relevant factors. For retail loans, the classification is based, mainly, on how long payments are overdue.

The provision is computed considering the risk classifications assigned and using specific percentages, which vary depending upon whether the customer's debts are backed by preferred self-liquidating guarantees – LWPSLG (cash deposits and rights over credit letters) or by preferred guarantees that may be readily liquidated – LWRLPG (treasury bonds issued by the Peruvian National Government; marketable securities listed within the Selective Index of the Lima Stock Exchange, among others) or by other preferred guarantees – LWPG (primary pledge on financial instruments and property, primary pledge on agricultural or mining concessions, insurance on export credits, among others). The guarantees received are considered at their net realizable value as determined by independent appraisers. Likewise, computing of the provision must consider the credit classification of the guarantor or guaranteeing party for credits subject to counterparty substitution by a financial or insurance entity (CAC).

The provision of customers classified in the categories of doubtful or loss for more than 36 and 24 months, respectively, is computed without considering the value of the guarantees. This criterion does not apply to debtors whose credit rating is due to the application of alignment procedures.

For credits more than 90 days past due, their expected loss is estimated and, if it is greater than the provision registered, additional provisions are recorded.

The provision for indirect loans is determined based on the "Exposure equivalent to credit risk", according to the credit conversion factor.

The pro-cyclical provision was calculated for loans classified as normal, based on the percentages established by the SBS. However, as of December 31, 2020 and 2019, the pro-cyclical component of the provision is suspended by the SBS according to Circular SBS N°B-2224-2014; likewise, as of such dates, the Bank do not maintain pro-cyclical provisions.

The management of the risk for over-indebtedness of retail debtors is required by SBS Resolution No.6941-2008, dated August 25, 2008, "Regulation for Managing the Risk of Retail Debtors with High Leverage Levels". This rule requires that the entities of the Peruvian financial system establish a risk management system of over-indebtedness that allows to reduce the risk before and after the granting of credit; carry out permanent monitoring of the portfolio in order to identify over-indebted debtors that includes periodic evaluations of the control mechanisms used, as well as the corrective actions or improvements required, according to the particular case. Entities that do not comply with these guidelines must calculate the exposure equivalent to credit risk by applying a factor of 20 percent to the unused amount of revolving credit lines of micro-business and consumer loans, and on that amount to calculate the provision according to the classification of the debtor for provision purposes.

In Management's opinion, as of December 31, 2020 and 2019, the Bank has complied with the requirements established in SBS Resolution No.6941-2008; in this sense, it has not been necessary to record additional generic provisions related to inadequate administration of the risk of over-indebtedness.

Provision for loan losses for direct loans is presented as an asset deduction, while the provision for indirect loans is presented as a liability.

(f) Investments -

The criteria for the initial recognition and valuation of investments is based on SBS Resolution No.7033-2012 “Regulation for Classification and Valuation of Investments in Entities of the Financial System" and its amendment SBS Resolution No.2610-2018; in this sense, the Bank classifies its investments in the categories defined by said Resolution: (i) investments at fair value through profit or loss, (ii) available-for-sale investments, (iii) held-to-maturity investments, and (iv) investments in subsidiaries, associates and interest in joint ventures.

As of December 31, 2020 and 2019, the Bank maintains investments classified as Investments at fair value through profit or loss, held-to-maturity investments and available-for-sale investments.

Classification -

(i) Investments at fair value through profit or loss

This category has two sub-categories:

a) Investments maintained for negotiation, which are acquired with the purpose of selling or repurchasing in the short term.

b) Investment instruments at fair value through profit or loss, since their inception, which are part of an identified portfolio of financial instruments that are jointly managed and for which there is evidence of a recent pattern of taking gains in the short time. As of December 31, 2020 and 2019, the Bank did not maintain instruments classified in this sub-category.

(ii) Investments available for sale

Investments designated into this category are held for an indefinite period and may be sold for purposes of liquidity, changes in interest rates, exchange rates or cost of capital; or do not qualify to be registered as at fair value through profit or loss or held-to-maturity.

(iii) Held-to-maturity investments
The financial instruments that are classified in this category must comply with the following requirements:

a) Be acquired or reclassified for the purpose of holding them until their maturity date; except for the cases when their sale, assignment or reclassification are allowed by the SBS.
b) They must have risk ratings as required by the SBS.

Likewise, in order to classify their investments in this category, financial entities must assess whether they have the financial capability to hold them until their maturity. This capability must be evaluated at the closing date of each annual period.

During 2019, the Bank made a change in the classification of some debt instruments classified as of December 31, 2018 as available-for-sale investment, to the category of investments at fair value through profit or loss. This reclassification has been carried out as required by the SBS in its inspection visit report No. 106-VIG / 2019-DSB "E". The accumulated balance of the net unrealized loss of these investments that was included in the “Unrealized results” caption of the net equity was reclassified to the income statement at the reclassification date.

Initial recognition date –
Transactions must be recorded using the trading date; that is, the date at which the reciprocal obligations that must be performed within the term established by regulations and the usual practice on the market at which the operation takes place.

Initial recognition and measurement –
(i) Investments at fair value through profit or loss
Their initial accounting is carried out at fair value, recording the transactions costs as expenses. Their valuation corresponds to the fair value and the gain or loss originated from the change between their initial recognition and the fair value is directly recorded in the Income statements.

(ii) Available-for-sale investments -
Their initial accounting record is performed at fair value, including the transaction cost that are directly attributable to their acquisition. Their valuation corresponds to fair value and the gain or loss originated from the change between their initial recognition and fair value is recorded directly in equity, unless an impairment loss is recorded. When the financial instrument is sold, the gain or loss, previously recorded as part of the equity, is transferred to the Income statements of the period.

In the case of debt securities, previously to the valuation at fair value, the amortized cost is updated in the accounts applying the effective interest rate method, and the resulting variation of the amortized cost is used for the recognition of the gains and losses due to the variation of the fair value.

(iii) Held-to-maturity investments -
Their initial accounting is at fair value, including the transaction costs that are directly attributable to their acquisition. Their valuation corresponds to the amortized cost by applying the effective interest rate method.

Their initial accounting is at fair value, including the transaction costs that are directly attributable to their acquisition. Their valuation corresponds to the amortized cost by applying the effective interest rate method.

The difference between the revenues received from the sale of these investments and their book value is recognized in the income statements.

Impairment assessment –
SBS Resolution No. 7033-2012 and amendments, as well as SBS Resolution No.2610-2018, establish a standard methodology for the identification of the impairment on available-for-sale and held-to-maturity investments. This methodology consists of evaluating the fulfillment of seven general criteria and four specific criteria, for each of the instruments of the investment portfolio. In this sense, in the scenario in which an instrument meets two general criteria or one specific criterion, it will be considered as an instrument that shows impairment.

This methodology is applied quarterly to all debt-representing and equity instruments classified into the following categories:

(i) Debt Instruments:
At the end of each quarter, the following occurrences must be assessed for the entire debt-representing portfolio:

1) Weakening of issuer's financial situation or financial ratios and their economic group.
2) Decrease in the credit rating of instruments or the issuer, by at least two (2) "notches", since the instrument was acquired. A "notch" corresponds to the minimal difference between two credit ratings within a same rating scale of impairment.
3) Interruption of an active market or transactions for the financial asset due to financial difficulties of the issuer.
4) Observable data indicates that upon initial recognition of a group of financial assets with similar characteristics as the instrument under assessment; there is a measurable decrease in its estimated future cash flows, even though this could not be identified with individual financial assets of the total portfolio.
5) Decrease in value due to regulatory changes (tax, regulatory or other governmental changes).
6) Significant decrease of fair value below its amortized cost. A significant decrease will be considered if the fair value at the closing date has decreased at least 40% below its amortized cost at that date.

7) Prolonged decrease of fair value. A prolonged decrease will be considered if the fair value at the closing date has decreased at least 20% compared with the amortized cost of 12 months prior, and the fair value at the closing date of each month during the previous twelve (12) month period has always been kept below the amortized cost corresponding to the closing date of each month.

The fair value to be used for assessing criteria 6 and 7 is the one considered for the valuation of available-for-sale debt instruments, according to the criteria established by the mentioned Resolution, regardless of the accounting classification of the debt instrument. However, if the decrease in the fair value of the debt instrument is the result of an increase in the risk-free interest rate, this decrease should not be considered as a sign of impairment.

If at least two (2) of the above situations are met, consequently, there is an impairment. If at least two (2) of the situations described above have not been met , it shall be sufficient to present some of the following specific situations to consider an impairment:

a) A breach of contract, such as default or delinquency in interest or principal payments.
b) Reassessment of financial instrument terms because of legal matters or financial difficulties related to the issuer.
c) Evidence that the issuer is undergoing a process of forced restructuring or bankruptcy.
d) There is a reduction in the risk rating of an instrument that was classified as investment grade, toward a classification that is below investment grade.

(ii) Equity instruments:
At the end of each quarter, the following occurrences must be assessed for the entire portfolio of equity instruments:

1) There is a reduction in the risk rating of an instrument that was classified as investment grade, toward a classification that is below investment grade.
2) If there has been a significant change in the technological, market, economic or legal environment in which the issuer operates and may have adverse effects of the investment recovery.
3) Weakening of issuer’s financial situation or its financial ratios and its economic group.
4) Disruption of an active market or transactions for the financial asset due to financial difficulties of the issuer.
5) Observable data indicating that upon initial recognition from a group of financial assets with similar characteristics as the instruments under assessment; there is a measurable decrease in the estimated future cash flow of a loan portfolio before the decrease could be identified with an individual loan in that portfolio.
6) Decrease in value due to regulatory changes (Tax, regulatory or other governmental changes).

If at least two (2) of the above situations are met, it will be deemed that impairment exists. If at least two (2) of the situations described above have not been met, it is sufficient that one of the following specific situations occur to consider the presence of impairment:

a) Significant decrease of fair value below its acquisition cost. A significant decrease will be considered if the fair value at the closing date has decreased at least 40% below its amortized cost at that date. As a cost or acquisition cost, the initial cost shall always be referenced, regardless whether an impairment has been previously recognized in the equity instrument analyzed.
b) Prolonged decrease of fair value. A prolonged decrease will be considered if the fair value at the closing date has decreased at least 20% compared with the amortized cost of 12 months prior, and the fair value at the closing date of each month during the previous twelve (12) month period has always been kept below the amortized cost corresponding to the closing date of each month.
c) A breach of the statutory provision by the issuers, related to the payment of dividends.
d) Evidence that the issuer is undergoing a process of forced restructuring or bankruptcy.

The fair value to be used for assessing the situations indicated in paragraphs a) and b), is the fair value considered for the purposes of the valuation of the available-for-sale equity instruments, in accordance with the guidelines established in the mentioned Resolution. The mentioned paragraphs a) and b) are not applicable to equity instruments classified in the category available-for-sale and valued at cost due to the absence of a reliable fair value.

On the other hand, if the SBS considers it necessary to establish any additional provision for any type of investment, such provision must be determined based on each individual instrument and must be recorded in the income statements of the period in which the SBS requires such provision.

The impairment loss corresponding to debt instruments classified as available-for-sale investments shall be reversed in the Income statements of the period, provided that the increase in the fair value of such instrument can be ascertained and objectively associated with a favorable event that occurred after the loss. The impairment loss for capital instruments will be reversed through the "other comprehensive income".

The risk loss of the held-to-maturity investments will be reversed on the result for the year if it is related to an event subsequent to the recognition of the impairment (such as an improvement in the risk classification of the instrument or the issuer). The reversal will not result in a carrying amount of the debt instrument that exceeds the amortized cost that would have been determined had the impairment loss not been accounted for on the reversal date.

Recognition of exchange differences –
Gains or losses from currency exchange differences related to the amortized cost of debt instruments are recorded in the income statements, while those related to the difference between the amortized cost and the fair value are recorded in the statements of shareholders' equity as part of the unrealized results. In the case of equity instruments, they are considered non-monetary items and, consequently, they remain at their historical cost in local currency, which means that any exchange differences are part of their valuation and are recognized as part of the unrealized results in the statements of changes in shareholders' equity.

Derecognition of financial assets and liabilities –
Financial assets
A financial asset (or, when 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 Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and (iii) either the Company has transferred substantially all the risks and rewards of the asset, or the Company has not transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

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

(g) Property, furniture and equipment -
Property, furniture and equipment are recorded at acquisition cost, less accumulated depreciation and accumulated amount of impairment, if applicable, see paragraph (k) below. Maintenance and repair costs are charged to the statements of income and significant renewals and improvements are capitalized when: i) it is probable that future economic benefits will flow from the renewal or improvement; and ii) cost can be measured reliably. The cost and its corresponding accumulated depreciation and any impairment loss of an asset sold or retired are eliminated from the corresponding accounts and the related gain or loss is included in the statements of income.

Units to be received and works in progress are recorded at cost and represent facilities, furniture and equipment to be received or under construction. This includes the cost of acquisition or construction and other direct costs. These assets are not depreciated until the relevant assets are received or terminated and are operational.

Land is not depreciated. Depreciation is calculated using the straight-line method considering the following estimated useful lives:

	Years
Buildings and other constructions	33
Improvements in rented property and installations	5
Furniture and equipment	10
Computer equipment	4
Vehicles	5

The residual values, the useful lives assigned, and the selected depreciation method are periodically reviewed to ensure that they are consistent with the economic benefit and useful life expectations of property, furniture and equipment items.

(h) Finite useful life intangible assets –
The intangible assets are included in the caption "Other assets, net" of the statements of financial position and are stated at historical acquisition cost less accumulated amortization and accumulated impairment losses, if applicable, see paragraph (k). These assets are composed principally of acquisition and development of software used by the Bank in its operations.

Amortization of assets with finite useful lives is calculated following the straight-line method over a 4–year period. According to SBS Resolution N°1967-2010, finite useful life intangible assets are amortized in no more than five years.

As of December 31, 2020 and 2019, the Bank does not have indefinite useful life intangible assets.

(i) Securities, bonds and obligations outstanding -
Liabilities for debts and the issuance of securities, bonds and obligations outstanding included are recorded at their nominal value, recognizing accrued interest in the Income statements of the period. The discounts granted or profits generated for its placement are deferred and presented net of its issue value and are amortized over the life of the securities, bonds and obligations outstanding by applying the effective interest method.

(j) Income tax -
Current Income Tax is computed based on the taxable income determined for tax purposes, which is determined using criteria that differ from the accounting principles used by the Bank.

Therefore, the Bank recorded deferred income taxes, considering the guidelines of IAS 12 "Income Tax". The deferred Income Tax reflects the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes; and is recognized using the liability method on such temporary differences.

Deferred tax liabilities are recognized for all taxable temporary differences; while deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future profits for the deferred tax assets can be applied.

Deferred tax 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 settled, on the basis of the tax rates which were approved at the date of the statements of financial position.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences which arise from the way in which it is expected to recover or eliminate the carrying amount of its assets and liabilities at the date of the statements of financial position.

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

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

In accordance with IAS 12, the Bank determines its income tax based on the income tax rate applicable to its undistributed profits, recognizing any additional tax for the distribution of dividends on the date the liability is recognized.

(k) Impairment of non-financial assets -

When there are economic events or changes that indicate that the value of an asset may not be recoverable, the Bank's Management reviews the value of its property, furniture and equipment and intangibles to verify that there is no permanent impairment in its value. When the book value of the asset exceeds its recoverable value, an impairment loss for the items of property, furniture and equipment and intangibles is recognized in the Income statements. The recoverable value is the greater between the net sale price and its value in use. The net sale price is the amount that can be obtained in the sale of an asset in a free market, while the value in use is the present value of the estimated future flows of the continuous use of an asset and of its disposal at the end of its useful life.

(l) Fiduciary activities -

Assets and revenues from fiduciary operations in which there is a commitment to return such assets to a customer and in which the Bank participates as a fiduciary, have been not included in the accompanying financial statements due to the Bank not being owner of such assets. They have been recorded under off-balance sheet accounts for fiduciary control purposes.

(m) Retirement pensions -

The provision for retirement pensions includes mainly the provisional obligations of the Pension Regime under Decree Law 20530. Under IAS 19, "Employee benefits", the provision for retirement pensions is part of a Government Plan of Defined Benefit, and the Bank is obliged to provide benefits according to Decree Law No.20530 and complementary standards. Within the defined benefit scheme, actuarial risk is assumed by the Bank and supported by its assets and operations. Based on the life expectations of the beneficiaries of this scheme, Management considers that the amount of this obligation will be decreased progressively in the long-term.

The provision for the retirement reserve fund of active and retired personnel is recorded in accordance with the provisions of Supreme Decree No. 043-2003-EF published on March 28, 2003, which indicates that the Peruvian State companies will be governed by the rules contained in Supreme Decree No. 026-2013-EF and, where applicable, by Accounting Resolution No. 159-2003-EF / 93.01 published on March 12, 2003, which approved Instruction No. 20-2003 -EF / 93.01; which was repealed by Directorial Resolution No. 014-2016-EF / 51.01 of the General Directorate of Public Accounting. Also, by Communiqué No. 002-2017-EF / 51.01 of the General Directorate of Public Accounting of the MEF, which establishes the accounting procedure for the registration and control of pension reserves, non-pension reserves and reserves for contingencies.

The Bank fully records the results of actuarial calculations for pension reserves as a liability. The total amount of provisional obligations is adjusted based on the amounts obtained from future actuarial calculations in relation to the previous actuarial calculation and the variation is applied directly to the results of the corresponding period.

The actuarial calculation of the provisional obligations is made on an annual basis by a qualified actuary of the Planning, Statistics and Rationalization Division of the "Oficina de Normalización Previsional" (Pension Standardization Office, hereinafter "ONP"), using the technical guidelines of the ONP approved by Resolution No.002-2018-Headquarters/ONP. The carrying amount of the pension, determined in accordance with the actuarial calculation, is measured at the present value of all future pension payments using a discount rate of 4.67 percent as of December 31, 2020 and 2019, or annual technical interest rate (TITA, for the Spanish acronym) in soles, applied to the actuarial commutation mortality tables for a horizon in the medium and long term; which was set in the Technical Guide and is based on a supporting study in the report N° 021/2020-OPG.EE/ONP (report N°031-2019-OPG.EE/ONP as of December 31, 2019), in which the Technical Guide is presented. The rate is determined based on long-term liabilities and not on asset return methods; according to this, the interest rate is equivalent to the long-term rate of the relevant yield curve for Peru.

(n) Provisions -

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

(o) Contingencies -

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

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

(p) Cash and cash equivalents -

Cash and cash equivalents presented in the statements of cash flows correspond to "Cash and due from banks" of the statements of financial position, which includes deposits with less than a three-month maturity as of the acquisition date, BCRP term deposits, funds deposited in the central bank and "overnight" deposits, excluding the interest accrued and restricted funds recorded in "Other due from banks".

(q) Comparative Financial statements -

When it is necessary, comparative figures have been reclassified to conform to the current year presentation. In Management's opinion, those reclassifications made in the Bank's financial statements are not significant considering the financial statements as a whole.

(r) New accounting pronouncements -

(r.1) IFRS issued and effective in Peru as of December 31, 2020 –

During the year 2020, the CNC issued the following resolutions in order to formalize the following standards:

- Resolution N° 001-2020-EF/30 published on July 17, 2020, which formalized Amendments to IAS 1 - Presentation of Financial Statements and the Complete Set of International Financial Reporting Standards version 2020 that includes the Conceptual Framework for Financial Reporting and the Amendment to IFRS 16 - Leases (Rent Reductions related to Covid-19).

- Resolution N° 002-2020-EF/30 published on September 10, 2020, which formalized amendments to IAS 16 - Property, Plant and Equipment, IFRS 3 - Business Combinations, IFRS 4 - Insurance Contracts, IAS 37 - Provisions for Contingent Liabilities and Contingent Assets, IFRS 1 - First-time Adoption of International Financial Reporting Standards, IFRS 9 - Financial Instruments and IAS 41 - Agriculture.

- Resolution N° 003-2020-EF/30 issued on September 11, 2020, which formalized the International Financial Reporting Standard for Small and Medium Business Entities (IFRS for PYMEs), modified in 2015.

The application of these standards is effective as of day after the issuance of the Resolution or later, according to the effective date set in each specific standard.

(r.2) IFRS issued internationally but not yet effective as of December 31, 2020-

- IFRS 17 - Insurance Contracts, effective for periods beginning on or after January 1, 2021, requiring comparative figures to be included. Earlier application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 at the date on which it first applies IFRS 17.

- Amendments to IAS 1: Classification of liabilities as current or non-current. Amendments are effective for annual periods beginning on or after January 1, 2023 and must be applied retroactively.

- Amendments to IFRS 3: Reference to the Conceptual Framework. The amendments are effective for annual periods beginning on or after January 1, 2022 and are applied prospectively.

- Amendments to IAS 16: Property, plant and equipment: Income from sale of items produced before intended use. Modifications are effective for annual periods beginning on or after January 1, 2022 and must be applied retroactively to property, plant and equipment available for use on or after the beginning of the first period presented when the entity first applies the modification.

- Amendments to IAS 37: Onerous contracts - costs of fulfilling a contract. Modifications are effective for annual periods beginning on or after January 1, 2022. The entity will apply these amendments to contracts for which it has not yet fulfilled all its obligations, at the beginning of the annual period in which it first applies the modifications.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as first-time adopter. The amendment is effective for annual periods beginning on or after January 1, 2022 and early adoption is permitted.

- Amendments to IFRS 9 Financial Instruments: Commissions in the "10 percent" test for derecognition of financial liabilities. The amendment is effective for annual periods beginning on or after January 1, 2022, and early adoption is permitted. The entity applies modifications to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which the entity first applies the modification.

- Amendments to IAS 41 Agriculture: Taxation in fair value measurements. The entity will apply the amendment prospectively to fair value measurements on or after the beginning of the first annual period beginning on or after January 1, 2022, early adoption is allowed.

Given that the standards detailed in (r.1) and (r.2) solely apply in a supplementary manner to the accounting regulation established by the SBS, they will not have any significant effect on the preparation of the accompanying financial statements, unless the SBS adopts them in the future through the modification of its Accounting Manual for Financial Entities or the issuance of specific rules thereon. The Bank has not estimated the effect on its financial statements if such rules were adopted by the SBS.

3. Cash and due from banks

(a) This item is made up as follows:

	2020 S/(000)	2019 S/(000)
Cash (b)	2,489,474	1,893,902
Deposits in Central Reserve Bank of Peru – BCRP (b)	23,039,525	13,177,851
Deposits in domestic and foreign banks (c)	230,569	189,022
Accrued income from Central Reserve Bank of Peru (BCRP) deposits	113,587	62,475
Other due from banks	832	813
Total	25,873,987	15,324,063

(b) Includes the legal reserve that the Bank must maintain for its obligations with the public and remains within the limits set by the current provisions. The composition of the legal reserve is presented below:

	2020 S/(000)	2019 S/(000)
Mandatory reserve		
Deposits in the Central Reserve Bank of Peru	20,823,472	11,414,803
Cash in the vaults of the bank	2,477,068	1,825,432
Mandatory reserve subtotal (*)	23,300,540	13,240,235
Overnight deposits in the Central Reserve Bank of Peru (BCRP) (**)	2,216,053	1,763,048
Clearing	12,406	68,470
Non-mandatory reserve subtotal	2,228,459	1,831,518
Total	25,528,999	15,071,753

(*) The legal reserve corresponds to funds deposited in the vaults of the Bank and in the BCRP, and they remain within the limits established by the current legal regulations. The reserve funds held in BCRP do not earn interest.

(**) As of December 31, 2020, the Bank maintains overnight deposits in the BCRP in foreign currency, accruing interest at an average annual effective rate of 0.08 percent and maturing in January 2021. As of December 31, 2019, the Bank maintained Overnight deposits in the BCRP in foreign currency, generated interest at an average annual effective rate of 1.57 percent and matured in January 2020.

(c) Deposits in local and foreign banks correspond mainly to balances in soles and in US dollars, are freely available and earn interest at market rates.

4. Investments

(a) This item is made up as follows:

Type of instrument	2020				2019			
	Quantity Und.	Amortized cost S/(000)	Unrealized results S/(000)	Estimated fair value S/(000)	Quantity Und.	Amortized cost S/(000)	Unrealized results S/(000)	Estimated fair value S/(000)
Investments at fair value through profit or loss (b) -								
Corporate bonds	25,500	-	-	87,417	25,500	-	-	61,304
Supranational bonds	2,000	-	-	6,401	2,000	-	-	4,759
Total investments at fair value through profit or loss	27,500	-	-	93,818	27,500	-	-	66,063
Available-for-sale investments -								
Equity instruments (c)								
Bladex	446,558	12,674	12,923	25,597	446,558	11,599	20,085	31,684
Debt Instruments								
BCRP Certificate of Deposits (e)	3,000,000	2,987,628	8,615	2,996,243	2,750,000	2,712,708	4,986	2,717,694
Republic of Peru's Sovereign Bonds (d)	2,326,167	2,783,144	78,193	2,861,337	4,235,155	4,230,453	72,051	4,302,504
Global Bonds - MEF (d)	22,000	111,636	1,523	113,159	50,000	174,721	(3,657)	171,064
Corporate bonds (d)	12,146	37,459	1,677	39,136	19,995	65,536	1,522	67,058
Treasury bills (f)	-	-	-	-	6,843,371	679,292	556	679,848
US Global bonds	-	-	-	-	100,000	34,099	(1,491)	32,608
Chilean Government Global Bonds	-	-	-	-	5,000	16,808	(144)	16,664
Supranational bonds	-	-	-	-	880	3,275	(132)	3,143
Total available-for- sale investments	5,806,871	5,932,541	102,931	6,035,472	14,450,959	7,928,491	93,776	8,022,267

(b) As of December 31, 2020 and 2019, the fair value of corporate and supranational bonds amounted to S/93.82 million and S/66.06 million, respectively. During the years 2020 and 2019, the Bank records the unrealized gain (loss) on investments at fair value through profit or loss in the caption "Gain on financial transactions" of the statement of comprehensive income, see note 19.

During 2019, the Bank made a change in the classification of ten corporate bonds and one supranational bond, classified as of December 31, 2018 as available-for-sale investments, to the category of investments at fair value through profit or loss. The fair value of these corporate bonds as of December 31, 2019 amounted to S/66.06 million. The accumulated balance of the unrealized net loss of these investments included in the "Unrealized results" caption of the net equity at the reclassification date for S/24.36 million was transferred to the caption "Gain on financial transactions" in the statement of comprehensive income. This reclassification has been carried out as required by the SBS in its inspection visit report No. 106-VIG / 2019-DSB "E", considering the speculative characteristics of such instruments and the complexity of its recovery.

As of December 31, 2020 and 2019, Bank's Management has estimated the market value of the investments at fair value through profit or loss based on the available market prices or, if them do not exist, discounting the expected cash flows at an interest rate that reflects the risk rating of the security.

(c) As of December 31, 2020 and 2019, it corresponds to common class shares "A" issued by Banco Latinoamericano de Comercio Exterior S.A. - Bladex representing 1.1 percent of its share capital. At those dates, the fair value per share was US$15.83 and US$21.41, respectively.

(d) Debts instruments –
Republic of Peru's Sovereign Bonds –
Corresponds to sovereign bonds issued by the Peruvian Government in soles. They are acquired at rates and prices offered in the market at the trade date.

During 2019, the Bank exchanged Peruvian Sovereign loans for Sovereign Bonds maturing between 2029 and 2037 for a fair value of S/2,420 millions. This transaction took place between January and July 2019, in accordance to the "Debt Settlement Agreement" that the Bank maintains with the Ministry of Economy and Finance of Peru, hereinafter "MEF", see note 5(b). Such bonds were acquired through a public auction by MEF.

Peruvian Government Global Bonds –
Global bonds are debt instruments issued by the Peruvian Government in foreign currency. Mainly in US dollars.

Corporate bonds –
The detail of corporate bonds is made up as follows:

	2020 S/(000)	2019 S/(000)
Edelnor	11,541	21,511
Red de Energía del Perú	18,770	18,061
Luz del Sur S.A.A.	7,521	15,000
Other minor to S/10.0 million	1,304	12,486
	39,136	67,058

(e) The BCRP Certificate of Deposits, are titles in national currency, freely negotiable.

(f) The Treasury notes are debt instruments issued by the treasury on behalf of the Republic of Peru which are acquired at a discount and a nominal unit value of S/100. The gain obtained comes from the difference between the discounted price paid to acquire them and the nominal value that was redeemed at its maturity.

(g) As of December 31, 2020 and 2019, Management has estimated the market value of the available-for-sale investments on the basis of available prices on the market or, in their absence, by discounting expected cash flows at an interest rate that reflects the risk classification of the title.

(h) The Bank's Management has determined that the unrealized losses of its available-for-sale investments as of December 31, 2019 are of a temporary nature. In Management opinion, the Bank has the intention and the ability to hold each one of the available-for-sale investments that have unrealized loss for a period of time sufficient that allows an anticipated recovery in fair value or until the maturity thereof in the case of debt instruments.

(i) As of December 31, 2020, the Bank has a net deferred income tax liability for S/5.90 million, see note 13(a), generated by the unrealized net income on certain available-for-sale investments that are affected to the income tax by S/20.02 million (net deferred income tax liability for approximately S/6.56 million, generated by the unrealized net income on certain available-for-sale investments that are subject to income tax of S/22.24 million as of December 31, 2019), see note 13.

(j) As of December 31, 2020 and 2019, the maturities and the internal rates of return of the available-for-sale investments and at fair value through profit or loss are as follows:

	Maturity		2020				2019			
			S/		US$		S/		US$	
	2020	2019	Min	Max	Min	Max	Min	Max	Min	Max
Investments at fair value through profit or loss (b) -			%	%	%	%	%	%	%	%
Corporate bonds	Jan-34 / Sep-34	Jan-29 / Sep-34	-	-	0.01	3.79	-	-	0.01	0.43
Supranational bonds	Nov-34	Nov -34	-	-	0.07	0.07	-	-	0.07	0.07
Available-for-sale Investments-										
BCRP Certificate of Deposits (e)	Jan-21 / Mar-23	Jan-21/Jul- 21	0.28	2.38	-	-	2.23	2.92	-	-
Republic of Peru's Sovereign Bonds (d)	Jan-26 / Feb-29	Jan-26 / Aug-40	1.84	3.85	-	-	3.85	5.41	-	-
Peruvian Government Global Bonds (d)	Jan-26	Jun -30	-	-	0.33	0.33	-	-	2.28	2.28
Corporate bonds (d)	Apr-21 / Apr-23	Mar-20 / Apr-23	4.47	6.89	-	-	4.00	6.89	6.30	6.30
Treasury bills (f)	-	Jan-20/Nov- 20	-	-	-	-	2.23	2.61	-	-
US Global bonds	-	Aug-49	-	-	-	-	2.17	2.17	-	-
Chilean Government Global Bonds	-	Oct-22	-	-	-	-	1.48	1.48	-	-
Supranational bonds	-	Feb-45	-	-	-	-	-	-	-	-

During 2020, the Bank recorded accrued interest of approximately S/125.79 million (approximately S/331.57 million during 2019) and is included in "Interest income" in the statements of comprehensive income. See note 17.

(k) The balance of investments available-for-sales and at fair value through profit or loss as of December 31, 2020 and 2019, classified by maturity is made up as follows:

	2020 S/(000)	2019 S/(000)
Up to 3 months	2,464,235	1,115,276
From 3 months to 1 year	246,852	1,919,901
From 1 to 3 years	324,292	436,426
From 3 to 5 years	-	9,660
More than 5 years	3,068,313	4,575,382
Without maturity (shares)	25,598	31,685
Total	6,129,290	8,088,330

(l) The detail of the investments held to maturity are presented below:

	2020 S/(000)	2019 S/(000)
Bonds D.S. N°002-2007 (i)	296,721	298,602
Subordinated bonds BS12FEB2029 (ii)	2,071,355	1,488,708
Accrued interest (ii)	43,070	38,697
	2,411,146	1,826,007

The accrued interest during 2020 of investment held-to- maturity portfolio amounted to approximately S/110.04 million (approximately S/107.18 million during 2019) and is included in the caption "Interest income" of the statement of comprehensive income, note 17.

(i) Through Supreme Decree No.002-2007-EF dated January 11, 2007, the MEF repealed the Supreme Decree No.210-2006-EF dated December 27, 2006, which established, among other matters, the reconciliation of the reciprocal obligations held by the MEF and the Bank as of September 30, 2006, signing a reciprocal borrowing reconciliation Certificate (hereinafter "Reconciliation Certificate") on December 28, 2006.

The aforementioned Supreme Decree ratified the Reconciliation Certificate, stating that the reconciled obligations as of September 30, 2006 are updated as of January 1, 2007, according to the criteria established in the Reconciliation Certificate. In this regard, it stated that compensation and total cancellation of MEF's obligations in favor of the Bank would be on January 2, 2007.

Reciprocal debts reconciled as of September 30, 2006 resulting from the Reconciliation Certificate, signed on December 28, 2006, resulted in debts of the MEF in favor of the Bank for US$31.3 million, and Bank debts in favor of the MEF for US$72.4 million, obtaining a net debt in favor of the MEF for US$41.1 million.

Likewise, in the Reconciliation Certificate signed between the MEF and the Bank updated as of January 1, 2007, determined additional borrowings of the MEF in favor of the Bank for S/64.3 million and US$849.2 million for various borrowing operations approved by explicit legal norms.

As a result of the reciprocal borrowing reconciliation Certificate signed between the MEF and the Bank on December 28, 2006 and January 1, 2007, all compensated reciprocal debt is as follows:

	S/(000)	US$(000)
Debt of the MEF in favor of the Bank (i):		
Certificate - December 28, 2006	-	31,335
Certificate - January 1, 2007	64,338	849,171
Debt of the Bank in favor of the MEF (ii):		
Certificate - December 28, 2006	-	(72,414)
Debt of the MEF in favor of the Bank (i) – (ii)	64,338	808,092

Through Supreme Decree No.002-2007 -EF, amended by the Consolidate, Offset and Debt Settlement Agreement ("Convenio de Consolidación, Compensación y Cancelación de Obligaciones") signed between the MEF and the Bank on March 26, 2007; the following conditions were established arising from the offsetting of the reciprocal borrowings between the MEF and the Bank:

- MEF compensated the debt in favor of the Bank providing on March 30, 2007 a bond for S/2,644.6 million; therefore, the debt in US dollars was translated using the selling exchange rate published by the SBS at closing of transactions on January 2, 2007 for S/3.193 per US$1.

  - The bond was issued under the following characteristics:
    - Denominated in Soles
    - Non-negotiable
    - Maturity date: 30 years
    - Amortizable annually
    - Yearly interest rate 6.3824 percent, payable quarterly
    - Book-entry in CAVALI SA I.C.L.V.

- Bond annual amortization will be charged to the net profits of the Bank for an amount equivalent to no less than 30.0 percent of the profits which corresponds to the Public Treasury. In any case, the amortization cannot be less than S/60.0 million. If profits corresponding to the Public Treasury are not sufficient to cover this amount, the MEF will provide the difference charging it to budget items allocated to the public debt service.

  - If there are outstanding balances when the bond reaches maturity, the MEF will settle them.
  - Interest accrued on the bond will be settled by the MEF.

Because bonds holding issued by the MEF was made under a law (by Supreme Decree No. 002-2007-EF), where interests are canceled with monetary resources of the MEF and amortization could be made with resources from the MEF itself (if the Bank does not generate profits), the Bank's Management defined it as an investment to be held until maturity, taking into account both the Bank's intent and its ability to hold these bonds to maturity.

The balance of this bond as of December 31, 2020 and 2019 amounted to S/296.72 million and S/298.60 million, respectively.

It should be noted that through Emergency Decree N° 033-2020, Article 20, the suspension of the amortization of the bond with charge to the net profits of the Banco de la Nación corresponding to fiscal year 2019, referred in numeral 5.2 of article 5 of Supreme Decree N° 002-2007-EF, modified by article 1 of Supreme Decree No. 081-2009-EF, is exceptionally provided for fiscal year 2020.

In Board of Directors Meeting No. 2250 held on May 23, 2019, the Bank approved the distribution of net profits for the year 2018 in favor of the Public Treasury. Consequently, an annual amortization of the Bond was made for approximately S/248.45 million, as a result of said distribution, see note 14(d).

(ii) During the years 2013 and 2014, the Bank and the MEF entered into various loan agreements and debt management agreements in order to establish Debt Management operations under the modality of refinancing of the obligations arising from the Loans granted to the MEF for financing: (ii) The first stage of seven (7) projects executed by the Ministerio de Defensa (Ministry of Defense) (DS No. 267-2013), (ii) a set of additional requirements of the Ministry of Defense (DS No. 358-2013-EF), (iii) part of the components of eight (8) investment projects to be implemented by the Ministry of Defense (DS No. 359-2013), (iv) investment portfolios projects of the Municipalidad Provincial de Chincheros (Provincial Municipality of Chincheros) (DS No. 331-2014-EF) and (v) The project of recovery of the basic flight instruction service with fixed wing aircraft in Fuerza Aérea del Perú (Peru's Air Force) - Division N°51" (DS No. 211 -2012-EF); whose maturity period was agreed for July 2017. Under this modality, the MEF would deliver, at the end of the payment period, in Bank’s property sovereign bonds for a total amount of

S/2,073.1 million, within the framework of the Reconciliation Certificate of disbursements of the aforementioned Supreme Decrees.

Accordingly, in July 2017, the Bank classified the bonds received in payment from the Debt Management agreement between the Bank and the MEF, as follows:

- Available-for-sale investments. Bonds delivered on July 4, 2017 – BS12AGO2026 for S/606.8 million; and

- Held-to-maturity investments. Bonds delivered on July 6, 2017 BS 12FEB2029 for S/1,466.3 million (which included accrued interest to date of approximately S/33.6 million).

Regarding 12FEB2029 sovereign bond, the Bank's Management defined it as an investment to be held until maturity, considering both the Bank's intent and its ability to hold these bonds to maturity. Such bond was issued under the following characteristics:

- Denominated in Soles.
- Freely negotiable.
- Sovereign bond with a maturity on February12, 2029.
- Coupon rate of 6.0 percent per year with semi-annual interest payment
- Bookkeeping in CAVALI SA I.C.L.V.

As of December 31, 2020, the balance of this bond amounted to S/2,071.36 million (S/1,488.71 million as of December 31, 2019). During year 2020, as part of its strategy to increase its portfolio of bonds held to maturity, the Bank acquired 487,068 units of sovereign bonds BS 12FEB2029 at total cost of approximately S/487.07 million.

5. Loan portfolio, net

(a) As of December 31, 2020 and 2019, this item is made up as follows:

	2020 S/(000)	2019 S/(000)
Direct loans		
Current		
Consumer loans	4,859,916	5,479,795
Sovereign loan – MEF (b)	404,366	516,508
Mortgage loans	322,301	323,191
Loans to financial system (b)	2,061,356	109,081
Loans to public sector entities	582,917	77,251
Refinanced	17,036	13,988
Past due	142,884	108,182
Legal collection	23,765	41,750
Total	8,414,541	6,669,746

	2020 S/(000)	2019 S/(000)
More (less)		
Accrued interest from current loans	46,200	42,895
Deferred interest income on refinanced loans	(4,032)	(3,192)
Provision for loan losses (f)	(411,401)	(389,757)
Total Direct loans	8,045,308	6,319,692
Indirect loans, and Note 16(a)	587,658	192,487

(b) Sovereign loans - MEF and credits to companies of the financial system –

Sovereign loans - MEF –

Corresponds to credits granted to public sector entities that possess items allocated by the public treasury to pay specifically for such exposures; which are requested exclusively by the MEF through Supreme Decrees.

During 2019, the Bank exchanged Peruvian Sovereign loans for Sovereign Bonds maturing between 2029 and 2037 for a fair value of S/2,420 millions. This transaction took place between January and July 2019, in accordance to the "Debt Settlement Agreement" that the Bank maintains with the Ministry of Economy and Finance of Peru, hereinafter "the MEF", see note 4(d). Such bonds were acquired through a public auction of the MEF.

Loans to companies in the financial system –

Corresponds to loans granted to companies included in subparagraphs A and B of article 16 of the General Law of the Financial System and similar ones abroad, also includes loans granted to FOGAPI, COFIDE, Banco Agropecuario and Fondo MIVIVIENDA.

Through Supreme Decree N° 134-2006-EF dated August 9, 2006, the "Financial Support for Micro and Small Businesses – PROMYPE Special Program" was created. According to this, the Bank was authorized to arrange financing agreements with entities that grant credits to Micro and Small Businesses through lines of credit to facilitate the access of such businesses to financial resources.

During the year 2020, Emergency Decrees N° 029-2020 and Emergency Decree N° 049-2020 amendments were issued. According to this, the Bank was authorized to grant credit lines to COFIDE in order to facilitate liquidity in the short term to the FAE-MYPE fund, see note 2(a)(ii)(i). Credit lines granted for a total amount of S/1,940.00 million to COFIDE was approved by the Bank through Board of Directors sessions N° 2289 -2020 of March 23, 2020, N° 2296-2020 of May 11, 2020 and N° 2300-2020 of June 12, 2020.

Likewise, during year 2020 and within the framework of the aforementioned Decrees, the Bank granted loans to COFIDE for a total of approximately S/1,963 million to support Micro and Small Businesses affected by the Covid-19 outbreak. S/1,043 million of such loans are guaranteed by series "B" shares of Corporación Andina de Fomento (CAF), owned by COFIDE.

Furthermore, during the year 2020, Emergency Decree N° 076-2020 was issued. According to this, the Bank was authorized to grant credit lines to COFIDE in order to facilitate liquidity in the short term to the FAE-TURISMO fund, see note 2(a)(ii)(k). Within the framework of this decree, the Bank granted loans to COFIDE for a total of S/47.00 million to support Micro and Small Businesses in the tourism sector affected by the Covid-19 outbreak.

(c) As of December 31, 2020 and 2019, the direct loan portfolio, segmented by type of credit, is as follows:

	2020 S/(000)	2019 S/(000)
Non-retail loans		
Corporate	3,048,689	702,898
Medium-business	6,497	6,311
	3,055,186	709,209
Retail loans		
Revolving and non-revolving consumer loans	5,032,806	5,634,748
Mortgage	325,885	325,151
Small-business	626	600
Micro-business	38	38
	5,359,355	5,960,537
Total	8,414,541	6,669,746

A part of the loan's portfolio is supported with guarantees received from customers, which are mainly employees and pensioners of the State and government agencies. Such guarantees consist mainly of mortgages, bonds, deposits and securities.

(d) According to SBS regulations, as of December 31, 2020 and 2019, the Bank's loan portfolio risk classification is as follows

	2020					
Risk category	Direct loans		Indirect loans		Total	
	S/(000)	%	S/(000)	%	S/(000)	%
Normal	8,023,867	95.36	556,269	94.66	8,580,136	95.31
With potential problems	63,074	0.75	7,291	1.24	70,365	0.78
Substandard	54,873	0.65	-	-	54,873	0.61
Doubtful	111,708	1.33	24,098	4.10	135,806	1.51
Loss	161,019	1.91	-	-	161,019	1.79
Total	8,414,541	100.00	587,658	100.00	9,002,199	100.00

	2019					
Risk category	Direct loans		Indirect loans		Total	
	S/(000)	%	S/(000)	%	S/(000)	%
Normal	6,310,765	94.62	159,947	83.09	6,470,712	94.29
With potential problems	52,057	0.78	-	-	52,057	0.76
Substandard	50,621	0.76	-	-	50,621	0.74
Doubtful	110,985	1.66	32,540	16.91	143,525	2.09
Loss	145,318	2.18	-	-	145,318	2.12
Total	6,669,746	100.00	192,487	100.00	6,862,233	100.00

(e) As of December 31, 2020 and 2019, financial entities in Peru must constitute provisions for doubtful accounts considering the aforementioned risk classification and using the percentages established by SBS Resolutions No.11356-2008 and No.6941-2008, as detailed below:

(i) For debtors classified as "Normal"

Loan Type	**Fixed rate** %	**Pro-cyclical component (*)** %
Non-retail loans -		
Corporate	0.7	0.40
Large-business	0.7	0.45
Medium-business	1.00	0.30
Small and micro-business loans -		
Small-business	1.00	0.50
Micro-business	1.00	0.50
Mortgage loans	0.70	0.40
Consumer loans -		
Revolving consumer loans	1.00	1.50
Non-revolving consumer loans	1.00	1.00

(*) In case the loan granted has highly liquid preferred guarantees (LWHLPG), the pro-cyclical component shall be 0, 0.25 or 0.30 percent, depending on the loan type. The pro-cyclical component was deactivated by the SBS as of November 2014.

(ii) For debtors classified as "with potential problems", "Substandard", "Doubtful" or "Loss" depending on whether the loans are: Loans Without Guarantees (LWG), Loans With Preferred Guarantees (LWPG) Loans With Readily Preferred Guarantees (LWRPG) or Loans With Highly Liquid Preferred Guarantees (LWHLPG), as of December 31, 2020 and 2019, the following percentages are applied:

Risk category	**LWG** %	**LWPG** %	**LWRPG** %	**LWHLPG** %
With potential problems	5.00	2.50	1.25	1.00
Substandard	25.00	12.50	6.25	1.00
Doubtful	60.00	30.00	15.00	1.00
Loss	100.00	60.00	30.00	1.00

According to SBS Resolution No. 11356-2008, for Loans with Highly Liquid Preferred Guarantees (LWHLPG), specific provisions are constituted for the covered portion, considering a percentage of not less than 1 percent.

For loans subject to substitution of credit counterparty, note 2(e), the provision requirement depends on the classification of the respective counterparty, for the amount covered, regardless of the debtor's credit risk classification, applying the percentages indicated above.

(f) The movement of the provision for loan losses (direct loans) is as follows:

	2020 S/(000)	2019 S/(000)
Balance as of January 1	389,757	356,394
Provision, net of recoveries (*)	41,306	35,910
Loan portfolio written-off	(19,875)	(2,510)
Exchange difference and other	213	(37)
Balance as of December 31	411,401	389,757

(*) Includes the provision for loan losses of Covid-19 rescheduled loans, see note 2(a)(ii)(g).

As of December 31, 2020 and 2019, the provision for direct doubtful loans includes a voluntary generic provision amounting to S/56.44 million corresponding to the provision that was determined under the procyclical rule.

As of December 31, 2020 and 2019, the provision for indirect loans is approximately S/18.14 million and S/7.70 million, respectively, which are presented in the caption "Other liabilities" of the statements of financial position, note 8(a).

In Management's opinion, the provision for loan losses recorded as of December 31, 2020 and 2019 is in accordance with SBS regulations in force on those dates.

(g) The interests generated by the loan are agreed freely considering the interest rates in force in the markets where the Bank operates. As of December 31, 2020 and 2019, the annual effective rates for the main products were:

	2020		2019	
	National currency	Foreign currency	National currency	Foreign currency
Overdrafts	9.00 -17.00	12.00	9.00 - 17.00	12.00
Corporate loans	5.00 – 11.00	8.00	7.10 – 13.10	8.00
Consumer loans	10.00 - 15.5	-	10.0 - 19.0	-
Credit card	19.0 - 32.0	-	19.0 – 32.0	-
Mortgage loans	5.50 - 7.25	-	7.00 – 9.25	-

Interests, commissions and expenses over loans or installments that are refinanced, past due, under legal collection, or classified in the "Doubtful" or "Loss" categories, are recorded as "Suspended interest income" and are recognized in the Income statements when those are effectively collected. Amounts not recognized as income for this concept amounted to S/62,353.52 million and S/38,9640.44 million in 2020 and 2019, respectively.

(h) Set out below is the direct loan portfolio as of December 31, 2020 and 2019, according to their contractual maturities:

	2020 S/(000)	2019 S/(000)
Outstanding loans -		
Up to 1 month	305,032	187,357
From 1 to 3 months	610,692	406,154
From 3 months to 1 year	2,224,397	1,642,104
From 1 to 3 years	3,926,736	3,195,581
From 3 to 5 years	928,672	850,183
More than 5 years	235,327	224,447
Refinanced	17,036	13,988
Past due and under legal collection loans	166,649	149,932
Total	8,414,541	6,669,746

6. Accounts receivables, net

(a) As of December 31, 2020 and 2019, this item is made up as follows:

	2020 S/(000)	2019 S/(000)
Receivables to COFIDE – CRECER (b)	135,167	251,674
Receivables to COFIDE - FAE -MYPE (c)	106,562	-
Receivable for sale of securities (d)	-	36,800
Claims to third parties (e)	58,274	32,153
Advances to staff (g)	28,991	1,430
Commission (f)	20,698	20,425
Other receivables	11,663	18,296
Advances to suppliers	1,425	850
Receivables to MEF	106	106
	362,886	361,734
Provision for claims to third parties	(4,919)	(4,685)
Provision for other receivables	(740)	(685)
Total	357,227	356,364

(b) According to Legislative Decree No.1399 published on September 9, 2018, the CRECER fund was created and was constituted by the following funds: (i) The MIPYME Fund, created by Law No.30230, that establishes tax measures, simplification of procedures and allows for the promotion and revitalization of the country's investment. (ii) The Support Fund for Small and Medium Enterprises constituted by Emergency Decree No.050-2002. (iii) The Fondo de Garantía Empresarial- FOGEM (Business Guarantee Fund, hereinafter "FOGEM" by its acronym in Spanish) created by Emergency Decree No.024-2009. (iv) The Fondo para el Fortalecimiento Productivo de las MYPE-FORPRO (Fund to Develop Micro- Business, hereinafter "FORPRO" by its acronym in Spanish), created by Emergency Decree No.008-2017, which issues complementary measures for the attention of emergencies generated by the phenomenon of the Coastal El Niño and for the reactivation and productive strengthening of micro and small companies. The aforementioned Legislative Decree provides for the liquidation of the FOGEM and FORPRO funds and authorizes the MEF and the Banco de la Nación to terminate the trust contracts and trust commission agreements, as appropriate, signed with COFIDE.

The objective of the CRECER Fund is to promote the productive and business development of micro, small and medium businesses and exporting businesses due to their high impact on the national economy, through financing, granting of guarantees and the like, and other financial products. The term of the CRECER Fund is 30 years.

According to Ministerial Resolution No.276-2019-EF/52, published on July 12, 2019, the CRECER Fund Administration Trust agreement is approved, which was signed by the MEF, Banco de la Nación and COFIDE.

During 2019, all the cash resources of the FOGEM and FORPRO funds were assigned to the CRECER Fund for a total of S/251.67 million.

Profit of the CRECER, FORPRO and FOGEM funds, amounting to S/2.64 million and S/20.38 million for the years 2020 and 2019, respectively, are recorded in the "Valuation of assets and provisions" account of the statement of comprehensive income, see note 21(c). During 2020, CRECER fund has transferred S/117.35 million to the FAE-MYPE fund, see literal c) below.

(c) Through Emergency Decree No. 029-2020, published on March 20, 2020, the FAE-MYPE fund was created for the purpose of guaranteeing working capital loans granted to MYPE (micro and small businesses), as well as to restructure and refinance their debts. Complementarily, through Ministerial Resolution No. 124-2020-EF 15, published on March 25, 2020, the Operating Regulation of the Fondo de Apoyo Empresarial a la MYPE (Business Support Fund, hereinafter FAE-MYPE by its acronym in Spanish) was approved. Likewise, through Emergency Decree No. 049-2020, published on April 27, 2020, COFIDE was authorized to transfer from the CRECER fund to the FAE-MYPE fund up to S/500 million. The amount transferred at the closing of 2020, amounted to approximately S/117.35 million.

Loss of FAE-MYPE fund for the year 2020 for S/12.42 million is recorded in the account "Valuation of assets and provisions" of the statement of comprehensive income, see note 21(c).

(d) As of December 31, 2019, it corresponds to accounts receivable for the sale of four (4) sovereign bonds issued by the MEF that matures in August 2040 and amounted to S/36.80 million. This account was collected on January 2, 2020.

(e) As of December 31, 2020, the balance corresponds mainly to: (i) S/21.02 million for deposits under guarantee that the Bank carried out in the collection account of the Poder Judicial (Judiciary) for those trials declared as remote, (ii) accounts receivable for "Pension 65" program amounting to S/17.47 million and "Juntos" program S/5.13 million (these amounts correspond to reimbursement by the executing units of social programs - MIDIS), (iii) claims of ex-workers for S/2.39 million, (iv) claims to banks in liquidation for S/2.12 million and (v) various claims for S/10.14 million.

As of December 31, 2019, the balance corresponds mainly to: (i) S/16.01 million for the deposits under guarantee that the Bank carried out in the collection account of the Poder Judicial (Judiciary) for those trials declared as remote, (ii) accounts receivable for "Pension 65" program amounting to S/2.38 million (these amounts correspond to reimbursement by the executing units of social programs), (iii) claims of ex-workers for S/2.28 million, (iv) claims to banks in liquidation for S/2.12 million and (v) various claims for S / 9.36 million.

(f) As of December 31, 2020, the balance corresponds mainly to: (i) S/9.50 million of commission receivable for judicial and administrative deposits that the Poder Judicial (Judiciary) keeps in the Bank, (ii) S/4.52 million of commissions to insurance companies, (iii) S/3.64 million of commission receivable for the loss of judicial and administrative deposits, (iv) trust for S/2.79 million, (v) S/181 thousand in fees receivable to executive units of "Pension 65" and "Juntos" Social Programs for distribution of money services to its beneficiaries around the country.

As of December 31, 2019, the balance corresponds mainly to: (i) S/9.85 million of commission receivable for judicial and administrative deposits that the Poder Judicial (Judiciary) keeps in the Bank, (ii) S/4.91 million of commissions to insurance companies, (iii) S/3.64 million of commission receivable for the loss of judicial and administrative deposits, (iv) trust for S/1.83 million, (v) S/181 thousand in fees receivable to executive units of "Pension 65" and "Juntos" Social Programs for distribution of money services to its beneficiaries around the country and (vi) S/7 thousand for other minor items.

(g) During 2020, the Bank granted advances to various workers in order to mitigate the adverse effects of the Covid-19 pandemic, for amounts that fluctuate between S/2,000 and S/4,000.

7. **Property, furniture and equipment, net**

(a) During 2020 and 2019, the movement of this item is as follows:

	Land S/(000)	Buildings and other constructions S/(000)	Improvements in rented property and Installations S/(000)	Furniture and equipment S/(000)	Computer equipment S/(000)	Vehicles S/(000)	Work in progress and in transit units S/(000)	Total S/(000)
Cost								
Balance as of January 1, 2019 (i)	69,995	692,770	16,561	194,046	373,535	8,465	39,366	1,394,738
Additions (b)	-	-	-	1,587	5,099	-	7,078	13,764
Transfers	-	11,487	3,064	1,549	4,888	-	(20,988)	-
Disposals (c)	(530)	(1,712)	-	(2,464)	(16,680)	(1,535)	(4,653)	(27,574)
Balance as of December 31, 2019 (iv)	69,465	702,545	19,625	194,718	366,842	6,930	20,803	1,380,928
Additions (b)	175	-	-	1,082	13,189	-	12,819	27,265
Transfers	-	8,621	4,576	1,780	398	-	(15,375)	-
Disposals	-	(1)	-	(3,899)	(607)	-	-	(4,507)
Balance as of December 31, 2020 (i)	69,640	711,165	24,201	193,681	379,822	6,930	18,247	1,403,686
Depreciation								
As of January 1, 2019 (ii)	-	247,774	15,958	103,002	276,668	7,333	-	650,735
Depreciation for the year	-	17,767	1,033	14,000	42,373	627	-	75,800
Disposals (c)	-	(481)	-	(2,464)	(13,011)	(1,535)	-	(17,491)
Balance as of December 31, 2019 (v)	-	265,060	16,991	114,538	306,030	6,425	-	709,044
Depreciation for the year	-	18,235	1,470	13,459	33,441	443	-	67,048
Disposals (c)	-	(1)	-	(3,899)	(607)	-	-	(4,507)
Balance as of December 31, 2020 (ii)	-	283,294	18,461	124,098	338,864	6,868	-	771,585
Impairment as of December 31, 2019 (g)	7,316	12,112	-	2,003	-	-	-	21,431
Impairment as of December 31, 2020 (g)	5,761	10,678	-	2,003	-	-	-	18,442
Net book value								
As of December 31, 2019 (i)-(ii)-(iii)	62,149	425,373	2,634	78,177	60,812	505	20,803	650,453
As of December 31, 2020 (iv)-(v)-(vi)	63,879	417,193	5,740	67,580	40,958	62	18,247	613,659

(b) Additions in 2020 correspond mainly to purchase of computer equipment that the Bank acquired for use in its agencies, main office and expansion of the physical capacity of the server to support remote work for approximately S/12.38 million and works in progress for S / 12.82 million related mainly to the central platform of the ATM network, expansion of storage capacity for Mainframe and central IT infrastructure.

The additions in 2019 correspond mainly to the acquisition of computer equipment for its agencies around the country for S/4.00 million and works in progress for S/4.27 million for construction work carried out mainly in the agencies from Huánuco and Arequipa.

(c) During 2019, the Bank sold the Palacio Building, located at Jr. De la Unión 246-264 (Cercado de Lima district), to the Ministerio de Economía y Finanzas (Ministry of Economy and Finance) for US$6.10 million (equivalent to S/20.44 million) presented in the caption "Other income, net" of the statement of comprehensive income, see note 22. In accordance to legal regulation-Law No.30879 - "Public Sector Budget Law for the 2019 fiscal year". As indicated in the sale and purchase contract, in 2019 the MEF canceled an amount of US$3.08 (equivalent to S/10.64 million) which corresponds to 50 percent of the total sale value of the asset and the difference for S/10.89 million will be applied against the transfer of profits generated for the period 2019, carried out during 2020, see note 14 (d). The net cost of the sale of this property amounted to S/1.76 million and is presented as "Cost of sale of goods" in the caption "Other income, net" of the statement of comprehensive income, see note 22.

Furthermore, during 2019, the Bank derecognized computer equipment due to its obsolescence at net cost of S/3.67 million. Likewise, during 2019 the Bank reviewed the balance of the item Work in progress and in transit units and based on such review made an adjustment of S/4.65 million. These effects were recorded as "Derecognition of goods" in the caption "Other income, net" of the statement of comprehensive income, see note 22.

(d) Financial entities in Peru are prohibited from pledging their fixed assets.

(e) The Bank maintains insurance on its main assets in accordance with the policies established by Management.

(f) Management periodically reviews the assets' residual value, the useful life and the depreciation method used; in order to ensure they are consistent with the economic benefits and life expectancy.

(g) In 2010, the Bank performed the appraisal of its lands and properties; due to these appraisals, the Bank recorded impairment in lands and buildings for approximately S/8.6 million and S/31.6 million, respectively.

The movement of the impairment of the Property, furniture and equipment for the years ended as of December 31, 2020 and 2019 is as follows:

	2020 S/(000)	2019 S/(000)
Balance as of January 1	21,431	27,811
net reversion of additions, note 21(a)	(2,989)	(6,380)
Balance as of December 31	18,442	21,431

8. Other assets, net and other liabilities

(a) As of December 31, 2020 and 2019, this item is made up as follows:

	2020 S/(000)	2019 S/(000)
Other assets, net		
Financial instruments		
Head office and branches (b)	269,037	24,943
Operations in process (c)	171,505	135,821
Tax receivable (d)	117,230	-
	557,772	160,764
Non-financial instruments		
Recoverable income tax (e)	96,211	21,677
Intangibles, net (f)	39,315	48,362
Advance payments and deferred charges	18,492	12,241
Diverse assets	1,936	1,888
	155,954	84,168
Total	713,726	244,932
Other liabilities		
Financial instruments		
Transfers pending of payment (g)	317,510	1
Peruvian Government Bonds payable (h)	317,380	-
Operations in process (b)	97,953	143,211
Cash surplus	14,246	13,069
	747,089	156,281

	2020 S/(000)	2019 S/(000)
Non-financial instruments		
Provision for litigations and claims (i)	98,165	109,489
Provision for indirect loan losses, note 5(f)	18,141	7,698
Deferred income for interests and fees of indirect loans	881	1,228
Provision for sundry risks	-	3
Other	428	462
	117,615	118,880
Total	864,704	275,161

(b) As of December 31, 2020, the balances of main office and branches correspond mainly to pending operations at branches and agencies in Lima for S/25.80 million and in provinces for S/217.40 million (branches and agencies in Lima for S/1.50 million and in provinces for S/23.44 as of December 31, 2019). The main type of operation corresponds to remittances of money transferred from the main office to agencies and offices in the interior of the country through the services of securities transporting companies that due to logistics situations related to the Covid-19 pandemic were regularized during the first days of January 2020.

(c) Transactions in process are transactions carried out during the last days of the month, which are reclassified to their definitive accounts in the statement of financial position in the following month, these transactions do not affect the income statements of the Bank.

As of December 31, 2020, the balance of asset operations in process mainly includes: (i) out of business hours operations for approximately S/102.62 million, this amount is due to the closing of operations carried out at the end of the year that were settled in the first days of January 2021, (ii) transactions to be settled (iii) purchases transactions made with credit cards for approximately S/22.37 million and (iv) withdrawal of cash with credit cards for approximately S/4.55 million; that were settled in the computer system of the Bank during first days of January 2021.

Furthermore, the balance of liability operations in process mainly includes: (i) out of business hours operations of approximately S/74.38 million, this amount is due to the closing of operations carried out at the end of the year that were settled in the first week of January 2021, (ii) credits to current accounts of suppliers for S/7.51 million (iii) cash surplus in ATMs of provincial agencies for S/6.11 million and (iv) pending creditors accounts for S/2.3 million, which were transferred the first days of January 2021.

As of December 31, 2019, the balance of asset operations in process mainly includes: (i) out of business hours operations for approximately S/107.75 million, this amount is due to the closing of operations carried out at the end of the year that were settled in the first days of January 2020, (ii) purchase transactions made with credit cards for approximately S/16.76 million, and (iii) withdrawal of cash with credit cards for approximately S/4.24 million, that were settled in the computer system of the Bank during the first days of January 2020.

Furthermore, the balance of liability operations in process mainly includes: (i) out of business hours operations of approximately S/121.61 million, this amount is due to the closing of operations carried out at the end of the year that were settled in the first week of January 2020, (ii) outstanding credit accounts for S/7.98 million that have a transitory nature and were transferred in the first days of January 2020 and (iii) checks received from other banks pending exchange for approximately S/0.6 million, which were transferred through the BCRP computer system in the first days of January 2020.

(d) As of December 31, 2020, tax receivable correspond to accounts receivable from SUNAT for the return of income tax plus interest for S/117.23 million, note 22 (b), which was collected on January 30, 2021.

(e) As of December 31, 2020, corresponds to advance income tax payments and other income tax credits for S/208.65 million, which are presented net of income tax for the year for S/112.44 million, note 13(b). As of December 31, 2019, corresponds to advance income tax payments and other income tax credits for S/266.61 million, which are presented net of income tax for the year for S/244.93 million note 13(b).

(f) During the year 2020, additions were made in the item of intangibles mainly related to development and acquisition of software licenses used for the Bank's own operations for S/9.09 million and software for S/3.46 million.

During the years 2020 and 2019, the Bank recorded an amortization of S/21.60 million and S/26.16 million, respectively, presented in the caption "Depreciation and amortization" of the statement of comprehensive income.

(g) As of December 31, 2020, transfers pending of payment correspond to payments made after businesses hours, ordered by the MEF and with funds charged to its current accounts to Government suppliers for S/317.51 million (S/0.63 million as of December 31, 2019) that were mainly regularized in the first days of January 2021.

(h) As of December 31, 2020, corresponds to various bonds granted by the Peruvian Government due to the COVID 19 pandemic, pending of payment to beneficiaries for S/317.38 million, see note 2(a)(ii)(a) that were regularized mainly in the first days of January 2021.

(i) Corresponds to the provisions for labor and pension claims, as well as by civil and arbitral proceedings filed against the Bank that have been registered on the basis of the estimates made by the Management and its internal legal advisers. In the opinion of the Management and its internal legal advisers, there will be no significant additional liabilities to those already registered by the bank.

9. Deposits and obligations to the public

(a) As of December 31, 2020 and 2019 the balance of obligations by product is as follows:

	2020 S/(000)	2019 S/(000)
Current accounts (b)	17,784,618	13,980,445
Saving deposits	15,657,540	9,885,718
Restricted obligations with the public (c)	4,029,478	3,070,733
Social benefits of workers and pensioners (d)	1,535,882	1,616,813
Term deposits (g)	205,879	179,679
Severance indemnity deposits	104,881	90,219
Other obligations with the public (e)	247,625	182,922
	39,565,903	29,006,529
Accrued interest payable (f)	98,982	94,918
Total	39,664,885	29,101,447

The policy of the Bank is to remunerate the current accounts, savings deposits, term deposits, bank certificates and judicial and administrative deposits according to a growing scale of interest rates, depending on the term and average balance maintained in such accounts. Additionally, as part of this policy, it was established that balances under a certain amount determined by each type of account do not generate any interest.

Interest rates applied to deposits and obligations are determined by the Bank based on interest rates prevailing in the Peruvian market.

(b) Deposits in current account are made up mainly as follows:

	2020 S/(000)	2019 S/(000)
Private Sector	6,643,850	5,137,416
Public institutions	3,322,205	1,359,377
Ministerio de Economía y Finanzas	2,083,802	2,400,188
Central government	1,307,673	2,752,552
Local government	1,280,404	1,258,899
Essalud	1,122,988	91,198
Public companies	387,495	410,675
Regional government	520,918	481,337
International organizations and other	1,115,283	88,803
Total	17,784,618	13,980,445

(c) This balance corresponds to judicial and administrative deposits, guarantee deposits, judicial withholdings for approximately S/2,792.94 million, S/1,152.19 million and S/84.30 million, respectively (approximately S/2,438.97 million, S/552.35 million and S/79.38 million, respectively, as of December 31, 2019).

(d) The provision for social benefits represents the obligations assumed for severance rights for active employees, as well as the retirement provision of the Bank's former workers and active workers. As of December 31, 2020 and 2019, it comprises:

	2020 S/(000)	2019 S/(000)
Retirement pensions - Decree Law No.20530	1,531,979	1,612,963
Labor Regime - Law No.4916	3,850	3,790
Labor Regime - Decree Law No.11377	53	60
	1,535,882	1,616,813

Retirement pensions provision mainly correspond to the present value of future payments of retirement pensions of the Bank's workers and former workers, subject to Decree Law No.20530. These are life annuities received by pensioners for severance, disability, widowhood, orphanhood and ancestry. Pension operations have traditionally been considered within actuarial life operations. However, they have a distinct objective and designation, due to the economic importance and the actuarial specialization they require. Considering the particularities of the pension-plan operations, they are defined as operations in which the probable risk coverage period is the whole life of the plan participant.

On March 28, 2003 Supreme Decree No.043-2003-EF was published, in which provisions are established for the registration of government pension-plan obligations of the Pension Regime of the Decree Law No.20530 and amendments, for which funding does not come from resources of the Public Treasury. This Decree modifies Supreme Decree No.106-2002-EF, incorporating in the actuarial calculation of pensions the standards contained in Supreme Decree No.026-2003-EF dated February 27, 2003 and, where applicable, those of Accounting Resolution No.159-2003-EF/93.01 dated March 6, 2003 and other provisions issued by the General Public Accounting Directorate, for the purpose of registration and control of the pension-plan obligations. In this sense, on January 30, 2017, Statement N° 002-2017-EF/51.01 of the Dirección General de Contabilidad Pública (General Directorate of Public Accounting) of MEF is issued, which establishes the accounting treatment of its pension obligations.

The movement in the present value of the retirement provision for pensioners and workers under Decree Law No. 20530 is as follows:

	2020 S/(000)	2019 S/(000)
Balance at the beginning of the year	1,612,963	1,668,429
Additions debited to personnel expenses, note 20(b)	84,122	114,559
Provisions, rates and charitable fund	2,262	2,474
Payments to pensioners	(167,368)	(172,499)
Balance at the end of the year	1,531,979	1,612,963

The obligation for retirement pensions decreased as compared to 2019, mainly due to the reduction in the number of pensioners from 5,085 as of December 31, 2019 to 4,904 pensioners as of December 31, 2020.

The main actuarial assumptions at the date of the statements of financial position are as follows:

	2020 S/(000)	2019 S/(000)
Discount rate	4.67%	4.67%
Average life expectancy	16.80 years	17.21 years
Active service period	0 years	0 years
Pensioners with statutory bonuses	584	607
Pensioners with reward	4,180	4,342
Pensioners with no bonus	140	136
Assets with statutory bonuses	6	13

As of December 31, 2020 and 2019, the discount rated used is 4.67 percent, according to the technical guide and the basis for it is in a supporting study of the report No.021/2020-OPG.EE/ONP (Report N°031-2019-OPG.EE/ONP as of December 31, 2019). The rate is determined based on long-term liabilities and not on asset return methods; according to this, the interest rate is equivalent to the rate of long-term yield curve relevant for Peru.

Mortality tables used in actuarial calculations are those defined as "Mortality tables - SP 2005 (Peruvian)" for own right and right to healthy living condition and mortality tables denominated MI-85- H and MI-85-M in the case of a disabled person, either man or woman, respectively, approved by the MEF through Ministerial Resolution No.757-2006-EF/15 and incorporated in its annex by Ministerial Resolution No.146-2007-EF/15 dated March 23, 2007.

In article 3 ° "Maximum amount of pensions" of the law that establishes the new rules of the pension scheme of Legislative Decree N°20530 - Law N°28449 issued on December 30, 2014, it mentions that the maximum monthly amount of retirement pensions regulated by the Law N°20530 is two (2) Tax Units – ("UIT", by its Spanish acronyms). In this regard, as of December 31, 2020,
the calculation of pension reserves for pensioners has been made with a maximum pension amount equivalent to S/8,600 (S/8,400, as of December 31, 2019).

(e) The other obligations with the public are made up of cashier checks, transfers payable and bank certificates for S/130.60 million, S/110.10 million and S/5.00 million, respectively (S/90.00 million, S/88.00 million and S/4.70 million, respectively, as of December 31, 2019).

(f) Accrued interest payable corresponds to administrative and judicial deposits for approximately S/95.5 million y S/3.5 million, respectively (approximately S/91.6 million and S/3.3 million, respectively, as of December 31, 2019).

(g) The balance of the term deposits classified by maturity is as follows:

	2020 S/(000)	2019 S/(000)
Up to 3 months	-	72,279
From 3 months to 1 year	205,879	107,400
	205,879	179,679
Accrued interests for term deposits	28	26
Total	205,907	179,705

10. Deposits of financial entities and international financial entities

As of December 31, 2020, it includes demand deposits for S/666.51 million and saving deposits for S/10.55 million (S/220.48 million and S/2.22 million, respectively, as of December 31, 2019).

The demand deposits grouped by type of financial entity are made up as follows:

	2020 S/(000)	2019 S/(000)
Banks	400,746	106,075
Mi Vivienda Fund	183,375	60,452
Municipal credit and saving institutions	38,794	23,228
Financial entities	21,304	10,690
COFIDE	15,604	15,560
Rural credit and saving institutions	11,745	4,701
Edpymes	5,481	1,989
Trust company	10	-
Total	677,059	222,695

The saving deposits are made of deposits constituted by municipal savings and loans banks.

11. Bonds, securities and obligations outstanding

(a) In the year 2016, the Bank realized its first issuance of the First Subordinated Bonds Program for S/250 million, which had a date of placement on November 29, 2016. The composition of this item is as follow:

	2020 S/(000)	2019 S/(000)
Subordinate bond (b)	250,007	249,963
Interests payable	1,670	1,670
	251,677	251,633

(b) These bonds are only supported by the Bank's equity (issuer), have a term of 15 years and maturity on November 30, 2031. The bonds accrued an annual and fixed interest rate of 8 percent, the period of payment of such interest is 6 months. The principal payment of the bond will be amortized in a single payment, at the maturity date of the respective series. Subordinated bonds do not have specific guarantees and qualify as second tier equity ("Tier 2") in the determination of the regulatory capital according to the rules established by the SBS. During the years 2020 and 2019, the accrued interest of the subordinated bonds amounted to S/20.04 million and S/19.99, respectively, see note 17. The payment of the principal and corresponding interests will be made through CAVALI.

12. Accounts payable

(a) As of December 31, 2020 and 2019, this item is made up as follows:

	2020 S/(000)	2019 S/(000)
Suppliers	142,292	83,120
Collected and withheld taxes (b)	146,580	76,164
Other accounts payable (c)	49,117	41,272
Group performance bonus	42,058	37,000
Vacations payable	21,848	20,517
Workers' profit sharing payable – legal	20,060	43,698
Other accounts payable to staff	8,656	16,679
Other contributions	2,006	1,955
Others	152	139
	432,769	320,544

(b) As of December 31, 2020, corresponds to the taxes collected nationally by the Bank at the request of the Tax Administration – SUNAT, which amounted to S/142.89 million and withheld taxes by the Bank as withholding agent which amounted to S/3.69 million; which were transferred to SUNAT in January 2021 (S/72.11 million and S/4.05 million, respectively, as of December 31, 2019; which were transferred to SUNAT in January 2020).

(c) Other accounts payable mainly includes obligations payable derived from transactions made through other banks' ATMs and establishments, pending confirmation for S/22.02 million and S/4.24 million, respectively (S/16.76 million and S/4.24 million as of December 31, 2019, respectively), protection insurance for Multired loans for S/1.01 million (S/4.56 million as of December 31, 2019), various accounts payable for S/3.18 million (S/4.43 million as of December 31, 2019), pending devolutions for S/7.79 million (S/3.39 million as of December 31, 2019), accounts payable to AFP for S/2.23 million (S/2.15 million as of December 31, 2019), transference FEBAN wellness program for S/0.89 million (S/1.05 million as of December 31, 2019), and among other minor items for S/7.76 million (S/4.69 million in 2019)

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13. Deferred income tax asset, net

(a) As of December 31, 2020 and 2019, this item is made up as follows:

	Balances as of January 01, 2019 S/(000)	(Debit) credit to equity S/(000)	(Debit) credit to income S/(000)	Balances as of December 31,2019 S/(000)	(Debit) credit to equity S/(000)	(Debit) credit to income S/(000)	Balances as of December 31, 2020 S/(000)
Deferred assets							
General provision for direct loans	53,889	-	(5,925)	47,964	-	1,146	49,110
Provision for litigations and claims	28,905	-	3,394	32,299	-	(3,340)	28,959
Intangible amortization	18,048	-	1,204	19,252	-	(5,698)	13,554
Provision for group performance bonus	546	-	10,936	11,482	-	393	11,875
Investments at fair value through profit or loss	-	-	7,188	7,188	-	880	8,068
Provision for vacations	6,104	-	(52)	6,052	-	925	6,977
Property depreciation	17,433	-	(11,209)	6,224	-	19	6,243
General provision for direct loans	2,348	-	(173)	2,175	-	975	3,150
Specific provision for contingent loans	28	-	68	96	-	(3)	93
Provision for fixed asset's devaluation	2,787	-	(628)	2,159	-	(460)	1,699
Unrealized results from available-for-sale investments	17,008	(17,008)	-	-	-	-	-
Other	3,378	-	(166)	3,212		(265)	2,947
Total deferred asset	150,474	(17,008)	4,637	138,103	-	(5,428)	132,675
Deferred liabilities							
Unrealized results from available-for-sale investments	-	(6,562)	-	(6,562)	655	-	(5,907)
Property depreciation	(2,075)	-	(1,741)	(3,816)	-	(813)	(4,629)
Exchange rate	(420)	-	(845)	(1,265)	-	(145)	(1,410)
Total deferred liabilities	(2,495)	(6,562)	(2,586)	(11,643)	655	(958)	(11,946)
Total deferred asset, net	147,979	(23,570)	2,051	126,460	655	(6,386)	120,729

(b) The composition of the balances presented in the statements of comprehensive income for the years ended December 31, 2020 and 2019 are as follows:

	2020 S/(000)	2019 S/(000)
Current income tax - Expense	112,437	244,926
Deferred income tax – Expense (income)	6,386	(2,051)
Adjustment of current income tax from 2018 year	-	(9,974)
	118,823	232,901

(c) The table below presents the reconciliation of the effective Income Tax rate with the statutory Income Tax rate for the years 2020 and 2019:

	2020		2019	
	S/(000)	%	S/(000)	%
Income before income tax	777,115	100.0	1,322,441	100.0
Theoretical expense	229,249	29.5	390,120	29.5
Effect of non-deductible expenses–				
Common expenses linked to untaxed and exempt income	62,880	8.2	70,716	5.4
Other non-deductible expenses	38,084	4.9	51,484	3.9
Effect of non-taxable income-				
Unaffected interests	(130,316)	(16.8)	(169,358)	(12.8)
Sale of non-taxable securities	(61,087)	(7.9)	(97,894)	(7.4)
Other non-taxable income	(19,987)	(2.6)	(12,167)	(1)
Income tax, current and deferred	118,823	15.3	232,901	17.6

14. Shareholders' Equity

(a) Capital stock –

As of December 31, 2020 and 2019, the Bank's authorized capital amounts to S/1,200,000 million; wholly subscribed and paid by the Peruvian Government, as established in article 5 of the Bank's by-laws. The capital stock of the Bank has been paid by the Peruvian State through the capitalization of profits (50.0 percent of net income to cover the Bank's capital and transferred to the Public Treasury), ending the payment in 2007; after which all net income is transferred to the Public Treasury. No shares or securities of any kind are issued for the Bank's capital stock.

(b) Legal reserve -

Pursuant to legislation in force, the Bank is required to reach an amount no less than 35 percent of its paid-in-capital. This reserve is made through the annual transfer of at least 10% from its net earnings.

(c) Unrealized results -

Unrealized results correspond to fluctuations due to changes in the fair value of investments classified as available-for-sale investments. Changes in the unrealized results during 2020 and 2019 presented net of their tax effect are as follows:

	S/(000)
Balance as of January 1, 2019	(131,011)
Transfer of realized gain from available-for-sale investments, note 19	(342,722)
Net unrealized gain from available-for-sale investments	578,319
Deferred income tax, note 13(a)	(23,570)
Balance as of December 31, 2019	81,016
Transfer of realized gain from available-for-sale investments, note 19	(206,461)
Net unrealized gain from available-for-sale investments	216,497
Deferred income tax, note 13(a)	655
Balance as of December 31, 2020	91,707

(d) Retained earnings -

In the Board of Directors Meeting N°2303 held on June 25, 2020, the distribution to the Public Treasury of net income of the year 2019 for approximately S/1,054.62 million was approved, detailed as follows: S/10.89 million for the annual amortization of bond issued by the MEF due to the sale of the Palacio Building, see note 7(c) and S/1,043.73 million was deposited in the current account of the Public Treasury.

In the Board of Directors Meeting N°2250 held on May 23, 2019, the distribution to the Public Treasury of net income of the year 2018 for approximately S/828.18 million was approved, detailed as follows: S/248.45 million for the annual amortization of bond issued by the MEF, note 4(l)(i), S/10.73 million to be applied to the account receivable from the MEF due to the sale of the Palacio Building, see note 7(c) and S/569.0 million was deposited in the current account of the Public Treasury.

During 2020, the Bank has recorded under "Retained earnings" various adjustments for regularization of transactions for previous years, for a net credit amount of approximately S/5.22 million (net credit amount for approximately S/27.72 million in 2019). In this regard the Bank, considering the materiality of regularization adjustments made and in coordination with the SBS, recorded such adjustments directly in "Retained earnings" as a movement of the year.

(e) Equity for legal purposes -

According to Legislative Decree No.1028, regulatory capital must be equal to or more than 10.0 percent of total risk weighted assets and contingent operations, represented by the sum of: the regulatory capital requirement for market risk multiplied by 10.0, the regulatory capital requirement for operational risk multiplied by 10.0 and assets and contingent credits weighted by credit risk.

As of December 31, 2020 and 2019, pursuant to legislative Decree No.1028 and amendments, the Bank maintains the following amounts related to assets and contingent credits weighted by total risk and regulatory capital (basic and supplementary), in thousands of Soles:

	2020	2019
Total risk weighted assets and credits	1,287,563	1,492,580
Total regulatory capital	1,946,505	1,899,357
Basic regulatory capital	1,596,252	1,557,498
Supplementary regulatory capital	350,253	341,859
Global regulatory capital ratio	15.12%	12.73%

As of December 31, 2020 and 2019, the Bank has complied with the SBS Resolutions No.2115-2009, No.6328-2009 and No.14354-2009, Regulations for Regulatory Capital Requirements for Operational Risk, Market Risk and Credit Risk Regulations, respectively, and their amendments. These resolutions establish, mainly, the methodologies to be applied by financial entities in order to calculate the weighted assets and credits for each type of risk.

In July 2011, the SBS issued Resolution No.8425-2011, which states that an entity must determine an additional regulatory capital. In this sense, Peruvian financial institutions must develop a process to assess the adequacy of their regulatory capital in relation with their risk profile, which must follow the methodology described in such Resolution. The additional regulatory capital shall be equivalent to the amount of regulatory capital requirements calculated for each of the following components: economic cycle, concentration risk, market concentration risk and interest rates risk in the banking book and other risk.

As of December 31, 2020, the additional required estimated regulatory capital amounts to approximately S/217.22 million (S/187.70 million as of December 31, 2019).

In Management's opinion, the Bank has complied with the requirements established by the resolution.

15. Tax situation

(a) **The Bank is subject to the Peruvian tax legislation. As of December 31, 2020 and 2019 the statutory income tax rate was 29.5 percent, on taxable income**.

Also, through Legislative Decree No.1261, issued on December 10, 2016, the rate applicable to dividends and any other form of distribution of Peruvian source income was modified and established at 5 percent. That rate is applicable starting on January 1, 2017.

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

Likewise, income obtained from the indirect disposal of shares or ownership interests of the capital stock of legal entities domiciled in Peru is considered income from Peruvian sources. For such purposes, an indirect disposal shall be considered to occur upon the sale of shares or ownership interests of the capital stock of a legal entity not domiciled in the country that, in turn, is the owner – whether directly or through one or more other legal entities – of shares or ownership interests of the capital stock of one or more legal entities domiciled in the country, provided certain conditions established by law are met and according to the specifications established by Legislative Decree No. 1424. This situation also occurs in those cases where the issuer is jointly and severally liable.

(c) Through Legislative Decree N°1212 that modifies Law N°30341, that promotes the liquidity and integration of the Securities Market, until December 31, 2019 the income from the sale of the following securities were exempted: i) Debt securities, (ii) Participation certificates in mutual funds of securities investment, iii) Participation certificates in Real Estate Investment Funds (FIRBI) and Participation certificates in Real Estate Securitization Trust (FIBRA); and, iv) Negotiable invoices.

Likewise, it should be noted that the tax incentives of the Income Tax and the Alcabala Tax (Emergency Decree No. 009-2019) were extended to the Real Estate Investment Funds (FIRBI) until December 31, 2022.

In order to apply the exemption in the case of income arising from the disposal of shares, investment shares, ADR and GDR, and bonds convertible into shares, the following must be complied with:

- The disposal must be made through a centralized negotiation mechanism located in the country and supervised by the SMV (BVL).
- For a period of 12 months, ownership of 10 percent or more of the total shares issued by the company shall not be transferred. In the case of ADRs and GDRs, this requirement is determined considering the underlying shares. Personal transfers and those of related parties are considered.

- Have a stock market listing.

For the other securities included, it is required that the sale is settled through a centralized negotiation mechanism supervised by the BVL and that it has a stock market listing. In the case of negotiable invoices, the disposal is only required to be carried out through a centralized negotiation mechanism supervised by the BVL.

It is established as a cause of loss of the exemption that the issuer delists the values of the Securities Registry of the Stock Exchange, in whole or in part, in one act or progressively, within the 12 months following the sale. The Regulations will establish exceptions.

Finally, the exemption from Income Tax (Emergency Decree No. 005-2019) provided for capital gains obtained from the disposal of certain transferable securities through centralized negotiation mechanisms was extended until December 31, 2022 (BVL).

(d) With regard to the IGV (Value Added Tax – "IGV" by its acronym in Spanish), this tax is not applied on the interest accrued on securities issued by public or private offering by legal entities incorporated or established in Peru; neither on the interest accrued on securities not placed by public offering, when such securities have been acquired through any of the centralized trading mechanisms referred to in the Stock Exchange Regulation.

(e) For the purpose of determining the Income Tax, the transfer prices agreed for transactions between related entities, or for transactions conducted with or through entities domiciled in non-cooperating or low or zero tax countries or territories, or with entities or permanent establishments whose income, revenues or gains from said contracts are subject to a preferential tax regime, must be supported by documented information on the valuation methods applied and criteria used in the determination of such prices. In the opinion of Management and its internal legal advisors, the application of these tax standards will not have any material consequences on the Bank's financial statements as of December 31, 2020 and 2019.

The Superintendence Resolution No.054-2019/SUNAT extended the deadlines for the submission of the Country-by Country Report affidavit for the years 2017 and 2018 until the last business day of the following month in which SUNAT publishes on its website that Peru has approved the evaluation of the confidential and information security standard required by the OECD for the exchange of information.

Through Legislative Decree No.1381, published on August 24, 2018, the concept of "non-cooperating" countries or territories, as well as preferential tax regimes with respect to which the defensive measures already existing for countries and territories with low or null taxation are imposed, is incorporated into the Income Tax Act.

(f) In July 2018, through Act No. 30823 Congress delegated into the Executive Branch the power to legislate on various issues, including tax and financial matters. In this sense, the main tax regulations issued are the following:

(i) Beginning on January 1, 2019, the treatment applicable to royalties and remuneration for services rendered by non-domiciled persons was modified, eliminating the obligation to pay the amount equivalent to the withholding due to the accounting record of the cost or expense. Now the income tax is withheld because of the payment or accreditation of the compensation. For such cost or expense to be deductible for the local company, the remuneration must have been paid or credited up to the filing date of the annual income tax return (Legislative Decree No.1369).

(ii) The rules that regulate the obligation of legal persons and/or legal entities to inform the identification of their final beneficiaries (Legislative Decree No.1372) were established. These rules are applicable to legal entities domiciled in the country, in accordance with the provisions of Article 7 of the Income Tax Act, and legal entities established in the country. The obligation covers non-domiciled legal entities and legal entities established abroad, provided that: a) they have a branch, agency or other permanent establishment in the country; b) the natural or juridical person who manages the autonomous patrimony or the investment funds from abroad, or the natural or juridical person who has the status of protector or administrator, is domiciled in the country; c) any of the parts of a consortium is domiciled in the country. This obligation will be complied through the presentation to the Tax Authority of an informative Sworn Statement, which must contain the information of the final beneficiary and be submitted, in accordance with the regulations and within the deadlines established by Superintendence Resolution issued by the Tax Authority ("SUNAT", by its Spanish acronym).

(iii) The Tax Code was amended regarding the application of the general anti- circumvention rule (Rule XVI of the Preliminary Title of the Tax Code); as well as to provide the Tax Administration with the legal tools for its effective implementation (Legislative Decree No.1422).

As part of this amendment, a new assumption of joint and several liability is envisaged, when the tax debtor is subject to the application of the measures provided by Rule XVI in the event that tax evasion cases are detected; in such case, the joint and several liability shall be attributed to the legal representatives provided that they have collaborated with the design or approval or execution of acts or situations or economic relations foreseen as elusive in Rule XVI. In the case of companies that have a Board of Directors, it is up to this corporate body to define the tax strategy of the entity, having to decide on the approval or not of acts, situations or economic relations to be carried out within the framework of tax planning, this power being non-delegable. The acts, situations and economic relations carried out within the framework of fiscal planning and implemented on the date of entry into force of Legislative Decree No.1422 (September 14, 2018) and which continue to have effect, must be evaluated by the Board of Directors of the legal entity for the purpose of ratification or modification until March 29, 2019, without prejudice to the fact that the Management or other administrators of the company have approved the aforementioned acts, situations and economic relations.

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

Likewise, the substantive and formal parameters for the application of the general anti-circumvention rule contained in Rule XVI of the Preliminary Title of the Tax Code (Supreme Decree No.145-2019-EF) were approved. With the publication of this regulation, the suspension of the second to fifth paragraphs of Regulation XVI was lifted, which regulate its application in cases of circumvention.

(iv) Regulations have been established for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree No.1425). Until 2018, there was no normative definition of this concept, so in many cases accounting rules were used for its interpretation. In general terms, with the new criterion, for the purpose of determining the Income Tax, it shall be considered whether the substantial events for the generation of the income or expense agreed upon by the parties have occurred, provided they are not subject to a suspensive condition, in which case the recognition will be given when this is fulfilled and the established collection or payment opportunity will not be taken into account.

(g) The main tax regulations issued during 2020 are the following:

- In April 2020, Legislative Decree No. 1471 was published, which established, exceptionally, rules for the determination of payments on account of third category income tax corresponding to the months of April to July 2020, with the option for taxpayers to reduce or suspend them.

  For this purpose, it was established that taxpayers generating third category income who, in application of the provisions of article 85 of the Income Tax Law, are required to make monthly advance tax payments for the months of April, May, June and/or July of the 2020 taxable year, may modify or suspend their advance tax payments for the referred months, in accordance with the following:

  (i) They should compare the net income earned in each month with the net income earned in the same month of the 2019 taxable year.

(ii) If as a result of such comparison it is determined that the net income for the month corresponding to taxable year 2020:

- Has decreased by more than 30 percent, the advance tax payment corresponding to said month is suspended. Such suspension does not exempt the taxpayer from the obligation to file the respective monthly tax return.
- If it has decreased by up to 30 percent, the amount determined as advance tax payment for the month in accordance with Article 85 of the Law is multiplied by a factor of 0.5846 and the resulting amount is the advance tax payment to be made for that month.
- Has not decreased, the advance tax payment is made for the amount determined in accordance with the provisions of Article 85 of the Law.

(iii) If the taxpayers have not obtained income in the months of April, May, June or July of the taxable year 2019, in the month in which this occurs, for the purposes of the comparison provided for in paragraph 1, the following should be considered:

- The greater amount of the net income obtained in any of the months of said fiscal year.
- If no income was obtained in any month of the taxable year 2019, the greater amount of the net income obtained in the months of January and February of the taxable year 2020.

(iv) If the taxpayers have not obtained income in any month of the taxable year 2019 or in the months of January and February of the taxable year 2020, the advance tax payments for months of April, May, June and/or July of the taxable year 2020 are determined by multiplying the amount of the payment on account determined in accordance with the provisions of Article 85 of the Income Tax Law by the factor 0.5846.

- By Law N°31106, published on December 31, 2020, the exemptions provided for in Article 19 of the Income Tax Law have been extended until December 31, 2023.

- Supreme Decree No. 430-2020-EF, published on December 31, 2020, approved the Regulation that establishes the financial information that companies of the financial system must provide to SUNAT for the fight against tax evasion and avoidance of Legislative Decree N°1434. The aforementioned Regulation came into effect on January 1, 2021.

In this regard, the aforementioned Regulation stated that the items on which the Bank must report to SUNAT are, among others, balances and/or accumulated amounts, averages or higher amounts and the yields generated in the accounts during the period reported and which are equal to or higher than S/30,800 in said period. The information will be submitted semi-annually to SUNAT through informative declarations containing information for monthly periods.

- In 2020, Legislative Decree No. 1488 was published, which provides for an accelerated depreciation regime for income tax purposes applicable to the year 2021:

  (i) In the case of buildings and constructions, assets are depreciated at a rate of 20% per year, if their construction began on or after January 1, 2020 and the work will have been at least 80% completed by December 31, 2022.
  (ii) Data processing equipment is depreciated at a rate of 50% if acquired in 2020 or 2021.
  (iii) Machinery and equipment is depreciated at a rate of 20% if acquired in 2020 and 2021.
  (iv) For land vehicles used in the transportation of passengers or merchandise, the depreciation rate is 33.3% per year (with certain exceptions and conditions).
  (v) In the case of hybrid or electric land transportation vehicles (except railroads) the rate is 50% per year.

(h) The main tax regulations issued during 2019 are the following:

- The obligation of legal entities to report the identification of their final beneficiaries is regulated (Supreme Decree No.003-2019-EF). Likewise, it was established that the legal entities domiciled in the country that have the status of Principal Taxpayer as of November 30, 2019 should submit the declaration of the final beneficiary in the month of December, considering the deadlines established for compliance with the tax obligations of the November period (RS No.185-2019/SUNAT).

- The substantive and formal parameters for the application of the general anti-circumvention rule contained in Rule XVI of the Preliminary Title of the Tax Code (Supreme Decree No. 145-2019-EF) were approved. With the publication of this regulation, the suspension of the second to fifth paragraphs of Regulation XVI was lifted, which regulate its application in cases of circumvention.

- The exemption from Income Tax (Emergency Decree No.005-2019) provided for capital gains obtained from the disposal of certain transferable securities through centralized negotiation mechanisms was extended until December 31, 2022 (BVL). Likewise, the requirements for access to such exemption (stock market presence) were modified.

(i) The Tax Authority has the power to review and, if applicable, correct the Income Tax calculated by the Bank in the four years following the year of the tax return.
The annual tax income for the years 2016 to 2020 are pending review by the Tax Administration.

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

16. Risks and Commitments

(a) As of December 31, 2020 and 2019, this item is made up as follows:

	2020 S/(000)	2019 S/(000)
Contingent operations (indirect loans) (b) -		
Bank letters of guarantee	101,635	74,276
Letters of credit	486,023	118,211
	587,658	192,487
Responsibilities under credit line agreements (c)	2,688,675	2,594,466
Total contingent operations	3,276,333	2,786,953

(b) In the normal course of its operations, the Bank performs contingent operations (indirect loans). These transactions expose the Bank to additional credit risk beyond the amounts recognized in the statements of financial position. The Bank's exposure to credit losses from letters of credit and guarantees (indirect loans) is represented by the contractual amounts specified in the related contracts.

The Bank applies the same credit policies for granting direct loans when performing contingent operations, including obtaining guarantees when it deems necessary. Guarantees vary and include deposits in financial institutions, securities or other assets.

Because most of the contingent operations are expected to expire without any performance being required, the total committed amounts do not necessarily represent future cash requirements.

(c) Responsibilities under credit line agreements do not correspond to commitments to grant credits and include lines of credit of consumer credit and corporate business, which are cancellable upon notification to the client.

17. Interest income and expenses

These items are made up as follows:

	2020 S/(000)	2019 S/(000)
Interest income		
Interest from loan portfolio	912,484	1,037,498
Interest from cash and due from banks	214,611	157,768
Interest from available-for-sale investments, note 4(j)	125,791	331,567
Interest from held-to-maturity investments, note 4(l)	110,041	107,177
Interest on investments at fair value through profit or loss	692	-
	1,363,619	1,634,010
Interest expense		
Interest and commissions on deposits and obligations	(46,574)	(45,118)
Interest on securities, bonds and obligations outstanding, note 11(b)	(20,044)	(19,986)
Commissions for outstanding securities, titles and obligations	(87)	(61)
Deposits on financial entities and international financial entities	(2)	-
	(66,707)	(65,165)
Gross financial margin	1,296,912	1,568,845

18. Income and expenses from financial services

(a) These items are made up as follows:

	2020 S/(000)	2019 S/(000)
Fee income from financial services		
Income from cash management (b)	291,652	356,511
Income from insurance sales commission	49,841	57,878
Income from services of tax collection (c)	45,985	74,620
VISA commission income	29,340	36,641
Income from transfer services (d)	25,080	47,704
Income from savings accounts – Income from ATMs – Multired	6,952	16,276
Income from savings accounts – Commission credit Notes	4,305	20,226
Income from savings accounts - Income from commission on new Multired card	9,897	11,440
Income from collection	6,116	8,435
Income from services commission - FISE	5,805	7,263
Income from contingent operations	5,651	3,844
Income from commission on SUNAT repossessions	4,004	6,220

	2020 S/(000)	2019 S/(000)
Commission on withdrawal of credit notes of charge	3,774	15,034
Income from – checks received from other banks - Clearing	3,444	4,224
Services by shared premises	1,593	2,361
Income from penalties payments to suppliers	1,603	1,542
Income from certificates commission	186	2,708
Others (e)	50,436	53,749
Total	545,664	726,676
Expenses relating to financial services		
Transportation, custody and administration of cash and securities	(147,893)	(119,027)
Credit and debit cards	(97,704)	(79,543)
Cell banking	(33,850)	(15,784)
Omnichannel Banking Service	(7,362)	-
Direct debit service - ONP	(5,389)	-
CORE banking service	(3,065)	-
Other financial services	(12,711)	(8,785)
Total	(307,974)	(223,139)

(b) During 2020, income from cash management mainly comprises commissions for revenue services of the fund collected by the Bank on behalf of the General Treasury Directorate for S/258.08 million, and correspondent banking services for S/32.57 million (S/315.00 million and S/39.50 million, as of December 31, 2019).

(c) During 2020, income from services of tax collection correspond to the collection of taxes administered by SUNAT for S/22.37 million and the collection of charges corresponds to other entities (Policía Nacional del Perú, Poder Judicial, ONP, among others) for S/23.62 million (S/36.83 million and S/37.79 million, respectively, as of December 31, 2019).

(d) For the year 2020, income from transfer services mainly corresponds to tele-money order system for S/10.76 million, tele-money order correspondent service for S/5.00 million and services of transfer of funds for S/9.32 million (22.64 million, S/13.15 million and S/11.92 million, respectively, as of December 31, 2019).

(e) During 2020, the other financial services revenues are mainly to local banking ATMs for S/2.45 million, fees for interbank transfers for S/19.39 million, current account fees for S/5.36 million, commissions for fiduciary services for S/7.93 million (S/10.17 million, S/9.17 million, S/5.03 million, S/4.20 million, respectively, as of December 31, 2019); among others.

19. Gain on financial transactions

These items are made up as follows:

	2020 S/(000)	2019 S/(000)
Net gain on available-for-sale investments, note 14(c)	206,461	342,722
Gain on exchange difference and exchange operations, net	35,145	48,870
Gain (loss) unrealized on investments at fair value through profit or loss, note 4(b)	20,400	(24,483)
Others	20	793
Total	262,026	367,902

20. Administrative expenses

(a) This item is made up as follow:

	2020 S/(000)	2019 S/(000)
Personnel and Board of Directors expenses (b)	(529,017)	(603,056)
Services received from third parties (c)	(305,408)	(295,194)
Taxes and contributions	(90,961)	(78,282)
Total	(925,386)	(976,532)

(b) The table below shows the personnel and Board of Directors expenses:

	2020 S/(000)	2019 S/(000)
Remuneration	(227,604)	(221,538)
Retirement, note 9(c)	(84,122)	(114,559)
Bonuses	(43,815)	(44,978)
Group performance bonus	(40,000)	(37,000)
Allowances	(34,389)	(48,358)
Severance indemnities	(23,237)	(23,836)
Legal employees' profit sharing	(20,060)	(43,698)
Social security	(22,245)	(22,847)
Overtime	(8,829)	(16,464)
Travel allowance	(6,410)	(7,075)
Work uniforms	(4,873)	(5,000)
Extraordinary bonuses	(1,328)	(1,329)
Incentive	-	(9,975)
Other expenses	(12,105)	(6,399)
Total	(529,017)	(603,056)
Average number of employees	5,179	4,712

(c) The table below presents the expenses for services received from third parties:

	2020 S/(000)	2019 S/(000)
Repair, maintenance and cleaning services	(99,282)	(93,199)
Communications and other utilities	(63,718)	(67,859)
Professional fees	(55,715)	(45,582)
Security and insurance	(32,159)	(35,330)
Leases of property and other assets	(18,949)	(18,824)
Professional services	(11,658)	(10,821)
Printing services	(4,582)	(4,263)
Transport, mobility and courier services	(1,977)	(2,256)
Other services	(17,368)	(17,060)
Total	(305,408)	(295,194)

21. Valuation of assets and provisions

(a) This item is made up as follows:

	2020 S/(000)	2019 S/(000)
Provisions for litigation and claims, net (b)	(19,838)	(53,811)
(Loss) gain from COFIDE funds (c)	(9,781)	20,379
Provision for uncollectable receivables	(200)	(445)
Impairment of fixed assets, note 7(g)	2,989	6,380
Provision for indirect loans	(9,626)	234
Others	(23)	(38)
	(36,479)	(27,301)

(b) For the year ended December 31, 2020, provisions for litigations and claims include provisions for labor and civil trials for S/27.07 million and S/4.48 million, respectively, net of a reversal of S/11.71 million (mainly S/64.01 million and S/1.86 million, respectively, net of a reversal of S/12.06 million, as of December 31, 2019).

(c) During 2020, it corresponds to the loss from the FAE-MYPE fund of S/12.42 million, note 6(c), net of the gain from the CRECER fund of S/2.64 million, note 6(b). During 2019, it corresponds to the gain from the CRECER and FOGEM funds of S/20.38 million, see notes 6(b).

22. Other income, net

(a) This item is made up as follows:

	2020 S/(000)	2019 S/(000)
Other income:		
Income tax refund plus interest (b)	67,753	7,433
Sale of seized assets	6,885	-
Income from leases	1,353	1,416
Claims settlement	491	5,334
Sale of goods, note 7(c)	-	20,444
Other income	1,820	3,122
	78,302	37,749
Other expenses:		
Derecognition of goods, note 7(c)	-	(8,322)
Cost of sale of goods, note 7(c)	-	(1,761)
Losses and claims not covered by insurance	(2,051)	(1,534)
Donations	(823)	(669)
Administrative and fiscal penalties	(593)	(520)
Other expenses	(2,533)	(1,085)
	(6,000)	(13,891)
Other income, net	72,302	23,858

(b) Through Intendancy Resolution No. 012-180-0023738/SUNAT dated December 31, 2020, SUNAT ordered the refund of the third category income tax paid in excess by the Bank corresponding to the annual tax return for the fiscal year 2013 for S/117.23 million (S/83.5 million of capital plus S/33.73 million of interest). It should be noted that the Bank had an income tax receivable for the fiscal year 2013 of S/49.47 in the account "Recoverable income tax" in the item "Other assets, net", so the difference with the aforementioned refund amount was recorded in the "Income tax refund plus interest" account in the statement of comprehensive income. Cash collection was made on January 30, 2021

Through Intendancy Resolution No. 012-180-0019441/SUNAT dated June 20, 2019, SUNAT made the refund to the Bank corresponding to the third category income tax paid in excess corresponding to the annual tax return for the fiscal year 2010 for S/6.2 million.

23. Financial instruments classification

The following are the carrying amounts of the financial assets and liabilities in the statements of financial position, by categories as defined under IAS 39:

	As of December 31, 2020						As of December 31, 2019					
	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Investments at fair value through profit or loss S/(000)	Liabilities at amortized cost S/(000)	Total S/(000)	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	Investments at fair value through profit or loss S/(000)	Liabilities at amortized cost S/(000)	Total S/(000)
Financial Assets												
Cash and due from banks	25,873,987	-	-	-	-	25,873,987	15,324,063	-	-	-	-	15,324,063
Available-for-sale investments	-	6,035,472	-	-	-	6,035,472	-	8,022,267	-	-	-	8,022,267
Held-to-maturity investments	-	-	2,411,146-	-	-	2,411,146	-	-	1,826,007	-	-	1,826,007
Investments at fair value through profit or loss	-	-	-	93,818	-	93,818	-	-	-	66,063	-	66,063
Loans, net	8,045,308	-	-	-	-	8,045,308	6,319,692	-	-	-	-	6,319,692
Accounts receivable, net	357,227	-	-	-	-	357,227	356,364	-	-	-	-	356,364
Other assets, net, note 8(a)	557,772	-	-	-	-	557,772	160,764	-	-	-	-	160,764
	34,834,294	6,035,472	2,411,146	93,818	-	43,374,730	22,160,883	8,022,267	1,826,007	66,063	-	32,075,220
Financial Liabilities												
Obligations to the public	-	-	-	-	39,664,885	39,664,885	-	-	-	-	29,101,447	29,101,447
Deposits of financial system companies and international financial entities	-	-	-	-	677,059	677,059	-	-	-	-	222,695	222,695
Securities, bonds and obligations outstanding	-	-	-	-	251,677	251,677	-	-	-	-	251,633	251,633
Accounts payable	-	-	-	-	432,769	432,769	-	-	-	-	320,544	320,544
Other liabilities, note 8(a)	-	-	-	-	747,089	747,089	-	-	-	-	156,281	156,281
	-	-	-	-	41,773,479	41,773,479	-	-	-	-	30,052,600	30,052,600

24. Financial risk management

By the nature of its activities, the Bank is exposed to market risks which arise from positions in interest rates and exchange rates; as well as liquidity risks, operational and credit risks, all of which are exposed to general and specific market movements. These risks are managed through the process of identification, measurement and continuous monitoring, and they are subject to risk limits and other controls.

The Bank's overall risk management program focuses on credit risk and the Bank tries to minimize its potential adverse effects on the Bank's financial performance.

The Bank's management is aware of the conditions in the market and based on their knowledge and experience it controls the risks following the policies approved by the Board of Directors. The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the strategic planning process of the Bank.

(a) Risk management structure and organization -

The Bank maintains policies for risk management which include coverage and mitigation policies based on the risk management rules. Thus, the Bank has policies to manage credit, operational, market, liquidity and country risk. The Bank also has specialized committees which are informed regarding the Bank's management of each of the risks to which it is exposed.

The Bank's Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks, as further explained bellow:

(i) Board of Directors -

The Board of Directors is the most senior organic unit whose mission is the management and all control over the financial and administrative operations of the Bank.

The Board of Directors has established specialized committees which have delegated specific functions in order to strengthen risk management and internal control.

(ii) Risk Committee -

The Risk Committee is responsible for the strategy used for mitigating risks; and the approval of the objectives, guidelines, policies, procedures and methodologies for the identification and management of risks, among others. Also, it is responsible for supporting the actions that ensure the financial economic viability of the Bank to address the risks to which it is exposed.

The Risk Committee is dependent on the Board and consists of only three (3) members of the Board, one of whom must not perform management activities in the bank and must be chaired by those who meet at least once a month or at the request of one of them.

(iii) Audit Committee -
The Audit Committee is the coordinating unit between the Board of Directors and the Internal Control Unit. This Committee is established with the objective of monitoring the proper functioning of the internal control system.

The Audit Committee depends of the Board of Directors and its main purpose is to monitor that the accounting process and financial report are appropriate, and shall report to the Board of Directors about the implementation of recommendations issued by the SBS and Comptroller General of the Republic, and other recommendations of Bank's audit, verifying the implementation of actions. The Committee meets periodically at least once a month.

The Audit Committee is composed by three members of the Board of Directors who do not perform management activities in the bank, one of whom presides, appointing another member as Vice-president.

(iv) Assets and Liabilities Committee –
The Assets and Liabilities Committee is established in order to define and manage the structure of Assets and Liabilities of the Bank's statements of financial position and monitor the liquidity risk, by analyzing indicators that reflect the result of business strategies and investment, with the objective of maximizing the profitability considering the level of risk and ensuring that the company has sufficient resources to deal with a set of unexpected events affecting its liquidity, such as the loss or reduction of funding sources.

This committee is composed of the Executive Chairman, General Manager, Central Manager of Administration, Central Manager of Business and Technology, Finance and Accounting Manager, Manager of Development Banking and Financial Inclusion, Risk Manager, Assistant Manager of Economic and Financial Studies, Assistant Manager of Money Bureau and Assistant Manager of Credit and Financial Risks; who meet at least once a month to discuss matters related to asset and liability management.

(v) Credit Committee -

The Credit Committee is a body with a level of autonomy for the approval of direct and indirect corporate credits, mortgage loans or other credit facilities in accordance with the limits established by the Board.

It is composed of the presiding Executive Chairman, the General Manager, the Central Manager of Business and Technology, the Manager of Development Banking and Financial Inclusion who acts as Secretary of the Committee and the Risk Manager as an observer without voting rights; workers deemed relevant may also be invited to participate.

The Appropriations Committee meets according to the need to discuss the proposals submitted; however, it must meet at least every three months.

(vi) General Management -

The General Manager has the mission of managing the Bank's activities, and to resolve matters that require his or her intervention, according to the Board's resolutions, having the judicial and administrative representation of the Bank.

Also, one of the functions and main duties of the General Manager is to plan, schedule, organize and supervise the activities and operations of the Bank's dependencies, according to the policies established by the Board; and to this end, he or she may delegate part of his/her authority to other management officials of the Main Office or to the Heads of decentralized agencies (Regional Managers).

(b) Risk measurement and reporting systems -

The Monitoring and controlling of risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Management is willing to accept. Likewise, The Bank monitors and measures the overall risk-bearing capacity in relation to total risk exposure and with all types of risk.

Information obtained from the Bank is examined and processed in order to analyze, control and identify any risks in a timely manner. This information is presented and explained to the Risk Management Committee, ALM Risk Committee and Credit Committee. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR (Value at Risk), liquidity ratios and risk profile changes. Management periodically assesses the fair value of the investments and the appropriateness of the provision for credit losses.

(c) Risk mitigation and risk coverage -
The Bank, in order to mitigate the risks to which it is exposed and concentrations thereof, has established a series of measures among which are the following: (i) Policies, procedures, methodologies, models and parameters aimed to allow to identify, measure, control and report credit risk, (ii) Review and assessment of risk concentrations, through the Risk Committee, (iii) Timely monitoring and tracking of credit risk and its maintaining within a defined tolerance level and, (iv) Compliance with internal limits on counterparty concentrations.
The Bank does not use derivatives or other financial instruments to manage exposures resulting from changes in interest rates and foreign currency, since, as indicated below, Management considers that the Bank is not significantly exposed to such risks. Additionally, the Bank features specialized committees in which the management of each of the risks in which the Bank is exposed are reported.

(d) Risk concentration –
Concentrations arise when several counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank performance to developments affecting a determinate industry or geographical location.

In order to avoid excessive risk concentrations, the Bank policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

24.1 Credit Risk -

(a) The Bank takes on exposure to credit risk, which is the risk that a counterparty causes a financial loss by failing to discharge an obligation. Credit risk is the most important risk for the Bank business; therefore, Management carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans.

The Bank grants loans to its customers, mainly workers and pensioners of the Public Sector, Local and Regional Governments, financial institutions (Banks, Finance Companies, Rural and Municipal Banks and small businesses "Edpymes") and public sector entities. Loans are mainly granted to workers and pensioners of the Public Sector.

The Bank structures the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to a borrower or groups of borrowers, and to geographical segments. Such risks are monitored on a revolving basis and subject to frequent reviews. Limits in the level of credit risk by product and by geographic segment are approved by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below:

(i) Collateral

The Bank uses a range of policies and practices to mitigate credit risk. The most traditional of these is to require collateral for loans , which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The main types of collateral for loans are as follows:

- For consumer loans aimed at workers and pensioners of the Public Sector, the Bank mitigates the credit risk by requesting a signed promissory note and receiving as a deposit the salary of these debtors.
- For residential mortgage loans, guarantees include mortgages on real estate.
- For loans granted to Financial Intermediaries, the Bank requests as guarantee the signing of a promissory note, the assignment of rights on the loan portfolio or the constitution of security interest on the loan portfolio classified in the "Normal" category, which is equivalent to the amount of credit granted.
- For commercial loans, the Bank requests deposits in guarantee, stand-by letters of credit, regular budget resources; as appropriate for the existing legal framework.

Collaterals are classified in self-liquidating preferred, highly liquid preferred and preferred in accordance with SBS Resolution No 11356-2008, see Note 2(e).

Management monitors the fair value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the fair value of collateral obtained during its review of the adequacy of the provision for impairment losses. It is a Bank policy to dispose off repossessed properties in order of age. The proceeds are used to reduce or repay the outstanding receivable. In general, the Bank do not use repossessed properties for its own business.

At the same time, the Bank has a Risk Management, which establishes the overall credit policies for each and all the businesses in which the Bank decides to take part.

(b) The maximum exposure to credit risk as of December 31, 2020 and 2019, before the effect of mitigation through any collateral, is the book value of each class of financial assets indicated in note 23 and the contingent operations detailed in note 16(a).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan portfolio and investments based on the following:

- 96.13 percent of the gross loan portfolio (direct and indirect) is categorized in the top two grades of the internal rating system establish by the SBS as of December 31, 2020 (95.05 percent as of December 31, 2019);
- 96.14 percent of the loan portfolio is considered neither past due nor impaired as of December 31, 2020 (95.40 percent as of December 31, 2019);
- 13.24 percent of the commercial loan portfolio has a sovereign risk as of December 31, 2020 (72.83 percent as of December 31, 2019).
- 100 per cent of investments classified in Peru or abroad have at least investment grade (BBB- or greater) as of December 31, 2020 and 2019;
- 9.57 percent and 89.48 percent of the cash and due from banks represent amounts deposited in the Bank and in the BCRP, respectively, as of December 31, 2020 (11.91 percent and 86.4 percent, respectively, as of December 31, 2019).

(c) Credit risk management for loans -
The Bank classified their loan portfolio into one of five risk categories according to paragraph 2, Chapter II of SBS Resolution N°11356-2008, which considers the degree of risk of non-payment of each borrower. The categories used are: (i) normal, (ii) with potential problems, (iii) substandard, (iv) doubtful and (v) loss, which have the following characteristics:

(i) Normal: Non-retail borrowers are classified into this category when their financial situation is liquid, their debt-to-equity ratio is low and their ability to generate benefits and cash flows allows them to fulfill their obligations and fulfil them on time. Likewise, retail and mortgage borrowers are included into this category when payments are current or up to 8 days past due. Furthermore, borrowers with mortgage loans are classified in this category when they comply with the established schedule or are up to 30 days past due.

(ii) With potential problems: Non-retail borrowers are classified into this category when their financial situation is solid, their debt-to-equity ratio is moderate and their cash flows are sufficient to pay off principal and interest debt, however, such cash flows could weaken in the following twelve months. Likewise, retail and mortgage borrowers are included into this category when payments of their loans are 9 to 30 days past due and 31 to 60 days past due, respectively.

(iii) Substandard: Non-retail borrowers are classified into this category when their financial situation is weak, and their cash flows do not allow to pay off neither principal nor interest and payments are between 60 and 121 days past due. Likewise, retail and mortgage borrowers are included into this category when payments are 31 to 60 days past due and 61 to 120 days past due, respectively.

(iv) Doubtful: Non-retail borrowers are classified into this category when the financial situation is critical and does not allow them to pay off neither principal nor interest, their debt-to-equity ratio is high and they are forced to sell their significant assets, or payments are between 120 and 365 days past due. Likewise, retail and mortgage borrowers are included into this category when payments are 61 to 120 days past due and 121 to 365 days past due, respectively.

(v) Loss: Non-retail borrowers are classified into this category, when the financial situation does not allow them to deal with refinancing agreements, the entity is not in operation or is in liquidation and payments are more than 365 days past due. Likewise, retail borrowers are classified into this category when they show arrears in the payment of their credits for more than 120 days, while debtors with mortgage loans are classified in this category when they show arrears in their payments for more than 365 days.

Regarding the assessment of loan portfolios, the Bank classified borrowers into the risk categories established by SBS and according to the classification criteria set out for each loan type, that is, for the borrowers belonging to the non-retail, consumer and mortgage portfolio. The classification of borrowers into their corresponding categories is determined by following the criteria set out by SBS Resolution N°11356-2008, see note 2(e).

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary legal procedures have been completed and the write-offs have been approved by the Board of Directors, in accordance with the SBS Resolution No. 11356-2008. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statements of comprehensive income.

The following is a summary of the direct loans classified in three major groups:

(i) Loans neither past due nor impaired, comprising those direct loans having presently no delinquency characteristics and related to clients ranked as normal or potential problems; ii) Past due but not impaired loans, comprising past due loans of clients classified as normal or with potential problems and iii) Impaired loans, or those past due loans of clients classified as substandard, doubtful or loss; presented net of the provision for loan losses for each of the loan classifications:

	As of December 31, 2020						As of December 31, 2019					
	Commercial loans S/(000)	Micro-Business loans S/(000)	Consumer Loans S/(000)	Residential mortgage loans S/(000)	Total S/(000)	%	Commercial loans S/(000)	Micro-Business loans S/(000)	Consumer loans S/(000)	Residential mortgage loans S/(000)	Total S/(000)	%
Neither past due nor impaired -												
Normal	3,041,520	-	4,665,528	316,819	8,023,867	100.30	702,360	-	5,289,326	319,079	6,310,765	100.49
Potential problem	3,463	-	57,286	2,325	63,074	0.78	480	-	50,087	1,490	52,057	0.83
Past due but not impaired -												
Normal	-	-	-	-	-	-	-	-	-	-	-	-
Potential problem	-	-	-	-	-	-	-	-	-	-	-	-
Impaired -												
Substandard	3,658	-	49,511	1,704	54,873	0.68	-	-	49,535	1,086	50,621	0.81
Doubtful	8	-	108,011	3,689	111,708	1.38	10	-	108,595	2,380	110,985	1.77
Loss	6,537	664	152,470	1,348	161,019	1.99	6,359	638	137,205	1,116	145,318	2.31
Gross	3,055,186	664	5,032,806	325,885	8,414,541	105.14	709,209	638	5,634,748	325,151	6,669,746	106.21
Less: Provision for loan losses	43,551	664	360,336	6,850	411,401	(5.14)	25,936	638	357,533	5,650	389,757	(6.21)
Total, net	3,011,635	-	4,672,470	319,035	8,003,140	100.00	683,273	-	5,277,215	319,501	6,279,989	100.00

Following is the detail of the gross amount of impaired loans by loan type, along with the estimated fair value of the related guarantee and the amounts of the provision for loan losses:

	As of December 31, 2020					As of December 31, 2019				
	Commercial loans S/(000)	Micro-Business Loans S/(000)	Consumer loans S/(000)	Residential mortgage loans S/(000)	Total S/(000)	Commercial loans S/(000)	Micro-Business Loans S/(000)	Consumer loans S/(000)	Residential mortgage loans S/(000)	Total S/(000)
Impaired loans	10,203	664	309,992	6,741	327,600	6,369	638	295,335	4,582	306,924
Collateral	-	-	-	4,763	4,763	-	-	-	4,543	4,543
Provision for loan losses	7,698	664	227,395	4,051	239,808	6,365	638	214,746	2,815	224,564

As of December 31, 2020 and 2019, the exposure to this loan portfolio risk is distributed in the following economic sectors:

	2020 S/(000)	2019 S/(000)
Financial intermediation	2,061,357	89,081
Public administration and defense	452,637	595,746
Manufacturing industry	191,623	1,608
Transport, storage and communications	18,517	3,362
Others	331,716	20,050
Sub – Total	3,055,850	709,847
Consumer loans	5,032,806	5,634,748
Residential mortgage loans	325,885	325,151
Total	8,414,541	6,669,746

In consideration of Official Letters issued by the SBS, see note 2(a)(ii), the Bank modified contractual conditions of loans that as of February 29 were up-to-date in their payments or had less than 30 past due days, without such modification resulting in a "refinanced loan". As of December 31, 2020, balances of reprogrammed loans and not considered as "refinanced loans", due to the aforementioned situation, amount to approximately S/1,599.61 million.

(d) Credit risk management on investments -

The Bank evaluates the identified credit risk of each of the financial instruments in these categories, considering the risk rating granted to them by a risk rating agency. For investments traded in Peru, the risk ratings used are those provided by the three most prestigious Peruvian rating agencies (authorized by the Peruvian government regulator) and for investments traded abroad, the risk-ratings used are those provided by the three most prestigious international rating agencies.

The following table presents the risk classification of investments at fair value through profit and loss provided by the institutions referred to above:

	As of December 31, 2020	
	S/(000)	%
<u>Instruments classified abroad</u>		
AAA	6,401	6.8
A- a A+	31,798	33.9
BBB- a BBB+	55,619	59.3
Total	93,818	100.0

The following table presents the risk-rating analysis of the available-for-sale investments provided by the institutions referred to above:

	As of December 31, 2020		As of December 31, 2019	
	S/(000)	%	S/(000)	%
Instruments rated in Peru:				
AAA	37,832	0.6	59,150	0.7
AA- a AA+	1,304	0.0	7,907	0.1
Short-term instruments (non-listed)				
BCRP Certificate of deposits	2,996,243	49.6	2,717,694	33.9
Treasury bills	-	-	679,848	8.5
Subtotal	3,035,379	50.3	3,464,599	43.2
Instruments rated abroad:				
AAA	-	-	-	-
A- a A+	-	-	4,351,776	54.2
BBB- a BBB+	2,974,496	49.3	174,208	2.2
Non-listed shares	25,597	0.4	31,684	0.4
Subtotal	3,000,093	49.7	4,557,668	56.8
Total	6,035,472	100.0	8,022,267	100.0

The following table presents the risk analysis of the held-to-maturity investments provided by the institutions referred to above:

	As of December 31, 2020		As of December 31, 2019	
	S/(000)	%	S/(000)	%
Instruments rated abroad:				
A- a A+	2,411,146	100.0	1,826,007	100.0
Total	2,411,146	100.0	1,826,007	100.0

As of December 31, 2020 and 2019, the financial instruments exposed to credit risk according to geographic area are the following:

	As of December 31, 2020					As of December 31, 2019				
	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	At fair value through profit or loss S/(000)	Total S/(000)	Loans and receivables S/(000)	Available-for-sale investments S/(000)	Held-to-maturity investments S/(000)	At fair value through profit or loss S/(000)	Total S/(000)
Peru	34,675,788	6,009,874	2,411,146	-	43,096,808	22,003,863	7,938,167	1,826,007	66,063	31,834,100
United States of America	85,218	-	-	83,008	168,226	104,569	32,608	-	-	137,177
Colombia	65,558	-	-	-	65,558	-	-	-	-	-
Mexico	-	-	-	-	-	-	-	-	-	-
Panama	-	25,598	-	-	25,598	-	31,684	-	-	31,684
England	-	-	-	-	-	36,044	-	-	-	36,044
Germany	-	-	-	-	-	4,977	-	-	-	4,977
Other countries	7,869	-	-	10,810	18,679	11,517	19,808	-	-	31,325
Country risk	(139)	-	-	-	(139)	(87)	-	-	-	(87)
Total	34,834,294	6,035,472	2,411,146	93,818	43,374,730	22,160,883	8,022,267	1,826,007	66,063	32,075,220

24.2 Liquidity risk -

The liquidity risk is the inability of the Bank to meet the maturity of its obligations which can result in losses that has a significant effect on its financial position. This risk can occur as a result of various events, such as: the unexpected reduction of funding sources, the inability to liquidate assets quickly, among others.

The Bank's liquidity is managed by the Asset and Liability Committee ("ALCO") where the positions, movements, indicators and limits on liquidity management are presented. Liquidity risk is in turn monitored by the Risk Committee, which defines the appetite for risk to be proposed to the Board of Directors and reviews the corresponding indicators, limits and controls.

Likewise, the Bank has a set of indicators that are monitored and reported frequently, these indicators establish the minimum liquidity levels allowed. The indicators reflect different aspects of risk such as: concentration, stability, currency position, availability of liquid assets, etc.

The process used for matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. However, it is unusual for banks to be completely matched, as transacted business is often based on uncertain terms and on different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and their exposure to changes in interest rates and exchange rates.

The Bank has an internal model which is based on expected maturities and the use of methodological assumptions for asset and liability accounts. Therefore: (i) for asset accounts, the expected cash flows of investment and loans accounts are considered and distribution criteria are assumed on receivables accounts; and, (ii) for liability accounts with uncertain maturity, the Internal historic LAR (Liquidity at Risk) methodology is applied. This methodology is based on the review of historical data of accounts and the volatility of their variations, in order to estimate their expected maturity. In addition, criteria are assumed for the distribution of accounts payable and, for the remaining liabilities, their cash flows are distributed according to their contractual maturity.

The table below presents the cash flows payable by the Bank according to remaining contractual maturities (not including future interest payments if applicable) as of the date of the statements of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows:

	As of December 31, 2020					As of December 31, 2019				
	Up to a month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	Over 1 year S/(000)	Total S/(000)	Up to a month S/(000)	From 1 to 3 months S/(000)	From 3 to 12 months S/(000)	Over 1 year S/(000)	Total S/(000)
Financial liabilities by type -										
Obligations to the public	4,612,729	4,110,236	2,262,928	28,678,992	39,664,885	2,438,166	2,384,492	1,537,566	22,741,223	29,101,447
Deposits of financial system companies and international financial entities	654,702	5,791	-	16,566	677,059	220,480	2,215	-	-	222,695
Securities, bonds and obligations outstanding	-	-	1,670	250,007	251,677	-	-	1,670	249,963	251,633
Accounts payable	192,125	60.417	28,521	151,706	432,769	125,432	80,698	30,915	83,499	320,544
Other liabilities	747,089	-	-	-	747,089	156,281	-	-	-	156,281
Total liabilities	6,206,645	4,176,444	2,293,119	29,097,271	41,773,479	2,940,359	2,467,405	1,570,151	23,074,685	30,052,600

The following table presents the changes in liabilities from financing activities as indicated by IAS 7:

	January 1, 2020 S/(000)	Cash flows S/(000)	Approval of profit sharing S/(000)	Interest payable S/(000)	December 31, 2020 S/(000)
Distribution of income to Public Treasury	-	(1,043,730)	1,043,730	-	-
Payment of interest on subordinated bonds	251,633	(20,000)	-	20,044	251,677
Total liabilities from financing activities	251,633	(1,063,730)	1,043,730	20,044	251,677

	January 1, 2019 S/(000)	Cash flows S/(000)	Approval of profit sharing S/(000)	Interest payable S/(000)	December 31, 2019 S/(000)
Distribution of income to Public Treasury	-	(569,000)	569,000	-	-
Payment of interest on subordinated bonds	251,647	(20,000)	-	19,986	251,633
Total liabilities from financing activities	251,647	(589,000)	569,000	19,986	251,633

24.3 Market Risk –

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and the level of volatility of prices such as interest rates, foreign exchange rates, commodities and equity prices; all of which are exposed to general and specific market movements. Due to the nature of the Bank's current activities, commodity price risk is not applicable.

Furthermore, it is important to mention that due to the Covid-19 pandemic, these market risks present a greater tendency to more pronounced fluctuations, due to the instability in the financial markets. Faced with this situation, the Bank has been periodically monitoring these fluctuations in order to quantify the impact that fluctuations generate in the valuation of its financial assets and liabilities.

(i) Interest rate risk -

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Cash flows interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The impact of changes in interest rates can occur in two ways: first, which translates into an impact on expected earnings, is directly related to the reinvestment risk and the risk generated when the movements in interest rates expose the firm to higher costs in financing operations (passive interest rates); or lower returns in its investment operations (active interest rates). The second is related to the valuation of assets and liabilities of the entity and therefore the economic value or actual value of the entity's equity. This modality occurs when market interest rates used for the valuation of the various instruments that are part of the Bank's statements of financial position change.

The SBS defines these two impacts as Earnings at Risk ("GER" its acronym in Spanish) and Equity Value at Risk ("VPR" its acronym in Spanish), establishing a maximum regulatory limit of 5.0 percent for the first, and demanding an increase of additional cash equity in case the second exceeds 15.0 percent.

As of December 31, 2020 and 2019, the Bank introduced a VPR of 8.85 and 7.9 percent, respectively, and obtained a GER of 0.99 and 0.5 percent for the periods 2020 and 2019, respectively.

The Board sets limits on the level of imbalance of interest rate repricing, which is monitored by Risk Management.

Re-pricing gap –

The analysis of the repricing gap consists of determining the amount of assets and liabilities that reprice interest rates in each time gap, considering the maturity of the operation and the period of repricing of interest rate for the next period. This analysis focuses on measuring the impact of changes in interest rates on expected earnings.

The table below summarizes the Bank's interest rate risks exposure. It includes the Bank's financial instruments at carrying amounts, categorized between the interest rate re-pricing period of the contract or maturity date, whichever occurs first:

	As of December 31, 2020					
	Up to 1 month S/(000)	More than 1 up to 3 months S/(000)	More than 3 up to 12 months S/(000)	More than 12 months S/(000)	Non-interest bearing S/(000)	Total S/(000)
Assets						
Cash and due from banks	12,332,731	1,000,000	6,500,000	3,000,759	3,040,497	25,873,987
Investments at fair value through profit or loss	93,818	-	-	-	-	93,818
Available-for-sale investments	533,647	1,986,719	382,597	3,132,509	-	6,035,472
Held-to-maturity investment	4,465	38,605	120,000	2,248,076	-	2,411,146
Loans, net	342,982	612,253	2,226,567	5,095,255	(231,749)	8,045,308
Accounts receivable and other assets	7,707	24,809	13,932	62,849	1,696,044	1,805,341
Total assets	13,315,350	3,662,386	9,243,096	13,539,448	4,504,792	44,265,072
Liabilities						
Deposits and obligations to the public	8,257,700	7,772,280	8,490,149	11,689,452	4,132,363	40,341,944
Securities, bonds and obligations outstanding	-	-	1,670	250,007	-	251,677
Accounts payable and other liabilities	158,361	-	-	6,485	1,132,627	1,297,473
Shareholders' equity	-	-	-	-	2,373,978	2,373,978
Total liabilities	8,416,061	7,772,280	8,491,819	11,945,944	7,638,968	44,265,072
Marginal gap	4,899,289	(4,109,894)	751,277	1,593,504	(3,134,176)	-
Accumulated gap	4,899,289	789,395	1,540,672	3,134,176	-	-

	As of December 31, 2019					
	Up to 1 month S/(000)	More than 1 up to 3 months S/(000)	More than 3 up to 12 months S/(000)	More than 12 months S/(000)	Non-interest bearing S/(000)	Total S/(000)
Assets						
Cash and due from banks	7,121,440	1,000,000	5,000,013	726	2,201,884	15,324,063
Investments at fair value through profit or loss	66,063	-	-	-	-	66,063
Available-for-sale investments	370,351	787,247	1,944,847	4,919,822	-	8,022,267
Held-to-maturity investment	4,638	34,060	60,000	1,727,309	-	1,826,007
Loans, net	229,915	406,448	1,642,149	4,041,180	-	6,319,692
Accounts receivable and other assets	64,451	6,999	84	367,757	938,918	1,378,209
Total assets	7,856,858	2,234,754	8,647,093	11,056,794	3,140,918	32,936,301
Liabilities						
Deposits and obligations	5,828,612	5,850,543	6,131,399	8,344,088	3,169,501	29,324,142
Securities, bonds and obligations outstanding	-	-	1,670	249,963	-	251,633
Accounts payable and other liabilities	132,523	-	5,347	12,773	445,061	606,503
Shareholders' equity	-	-	-	-	2,764,821	2,764,821
Total liabilities	5,961,135	5,850,543	6,138,416	8,606,824	6,379,383	32,936,301
Marginal gap	1,895,723	(3,615,789)	2,508,677	2,449,970	(3,238,581)	-
Accumulated gap	1,895,723	(1,720,066)	788,611	3,238,581	-	-

The Bank's exposure to this risk is given by changes in interest rates, basically for its financial obligations and debtors. The Bank does not use derivative financial instruments to hedge this risk, which is minimized by maintaining its financial obligations at fixed interest rates.

Therefore, Management believes that fluctuations in interest rates will not affect the Bank's results.

(ii) Foreign exchange risk -

The Bank is exposed to fluctuations in foreign currency exchange rates prevailing in its financial position and cash flows. Management sets limits on the level of exposure by currency and in total daily positions, which are monitored daily.

The foreign currency transactions are made at the free market exchange rates.

As of December 31, 2020, the weighted average market exchange rate published by the SBS for transactions in U.S. Dollars was S/3.618 per US$1 for purchase and S/3.624 per US$1 for sale (S/3.311 and S/3.317 as of December 31, 2019, respectively). As of December 31, 2020, the exchange rate for the accounting of assets and liabilities in foreign currency set by SBS was S/3.621 per US$1 (S/3.314 as of December 31, 2019).

The table below presents the detail of the Bank's currency position as of December 31, 2020 and 2019:

	2020				2019			
	U.S. Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)	U.S. Dollars S/(000)	Soles S/(000)	Other currencies S/(000)	Total S/(000)
Monetary assets								
Cash and due from Banks	2,666,557	23,126,213	81,217	25,873,987	2,063,643	13,201,414	59,006	15,324,063
Investments at fair value through profit or loss	93,818	-	-	93,818	66,063	-	-	66,063
Available-for-sale investments	25,597	5,896,715	113,160	6,035,472	255,164	7,767,103	-	8,022,267
Held-to-maturity investment	-	2,411,146	-	2,411,146	-	1,826,007	-	1,826,007
Loans, net	-	8,045,308	-	8,045,308	-	6,319,692	-	6,319,692
Accounts receivable, net	1,064	356,163	-	357,227	11,057	345,307	-	356,364
Other assets, net, note 8	9,575	548,197	-	557,772	74,113	86,599	52	160,764
Total monetary assets	2,796,611	40,383,742	194,377	43,374,730	2,470,040	29,546,122	59,058	32,075,220
Monetary liabilities								
Deposits and obligations to the public	2,723,220	36,759,235	182,430	39,664,885	2,378,856	26,686,585	36,006	29,101,447
Deposits of financial system companies and international financial entities	7,689	669,370	-	677,059	6,996	215,699	-	222,695
Securities, bonds and obligations outstanding		251,677	-	251,677	-	251,633	-	251,633
Accounts payable	1,099	431,670	-	432,769	998	319,546	-	320,544
Other liabilities, note 8	194	746,895	-	747,089	14,317	141,964	-	156,281
Total monetary liabilities	2,732,202	38,858,847	182,430	41,773,479	2,401,167	27,615,427	36,006	30,052,600
Net monetary position	64,409	1,524,895	11,947	1,601,251	68,873	1,930,695	23,052	2,022,620

As of December 31, 2020, the Bank has contingent operations (indirect loans) in foreign currency for approximately US$153.50 million, equivalent to approximately S/555.82 million (approximately US$47 million, equivalent to approximately S/155.76 million as of December 31, 2019).

The Bank manages foreign exchange risk by monitoring and controlling currency positions exposed to changes in exchange rates. The Bank measures their performance in soles, so if the net foreign exchange position (e.g. U.S. Dollar) is positive, any depreciation of the Peruvian currency would positively affect the Bank's statements of financial position. The current position in a foreign currency comprises exchange rate-linked assets and liabilities in that currency. An institution's position in individual currencies comprises assets, liabilities and off-balance sheet items denominated in the respective foreign currency for which the institution itself bears the risk; any appreciation/depreciation of the foreign exchange would affect the statements of comprehensive income.

The Bank's net monetary position is the sum of its positive open positions in non-Peruvian currencies (net long position) less the sum of its negative open positions in non-Peruvian currencies (net short position); and any devaluation/revaluation of the foreign currency would affect the statement of comprehensive income. An imbalance in the monetary position would make the Bank's statement of financial position vulnerable to the fluctuation of the foreign currency (exchange rate shock).

The table below shows the sensitivity analysis of the U.S. Dollar, the currency to which the Bank has significant exposure as of December 31, 2020 and 2019 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Peruvian currency, with all other variables held constant on the statements of comprehensive income, before income tax. A negative amount in the table reflects a potential net reduction in statements of comprehensive income, while a positive amount reflects a net potential increase:

Sensitivity Analysis	**Change in currency rates** %	**2020** S/(000)	**2019** S/(000)
Devaluation -			
U.S. Dollar	5	(1,555)	(5,207)
U.S. Dollar	10	(3,109)	(10,414)
Revaluation -			
U.S. Dollar	5	1,555	5,207
U.S. Dollar	10	3,109	10,414

24.4. Fair values

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

The following table presents an analysis of the financial instruments that are measured at fair value as of December 31, 2020 and 2019, including the level of the fair value hierarchy. The amounts are based on the balances presented in the statements of financial situation:

	Note	As of December 31, 2020			
		Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Investments at fair value through profit or loss:					
Corporate bonds		87,417	-	-	87,417
Supranational bonds		6,401	-	-	6,401
Total investments at fair value through profit or loss	4(a)	93,818	-	-	93,818
Available-for-sale investments:					
BCRP Certificates of deposit		-	2,967197	-	2,967,197
Sovereign bonds		2,754,913	96,180	-	2,851,093
Global bonds		113,004	-	-	113,004
Corporate bonds		-	38,668	-	38,668
Capital instruments		25,597	-	-	25,597
		2,893,514	3,100,045	-	5,995,559
Accrued return					39,913
Total investments available for sale	4(a)				6,035,472

	Note	As of December 31, 2019			
		Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Total S/(000)
Investments at fair value through profit or loss:					
Corporate bonds		61,292	-	-	61,292
Supranational bonds		4,771	-	-	4,771
Total investments at fair value through profit or loss	4(a)	66,063	-	-	66,063
Available-for-sale investments:					
Sovereign bonds		4,143,861	109,652	-	4,253,513
BCRP Certificates of deposit		-	2,683,026	-	2,683,026
Global bonds		170,945	-	-	170,945
Corporate bonds		3,073	66,298	-	69,371
Other instruments		720,597	-	-	720,597
Capital instruments		31,684	-	-	31,684
		5,070,160	2,858,976	-	7,929,136
Accrued return					93,131
Total investments available for sale	4(a)				8,022,267

Financial instruments included in the Level 1 category are those that are measured based on quotations obtained in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices are regularly derived from market transactions.

Financial instruments included in the Level 2 category are those that are measured based on observed markets factors. This category includes instruments valued using quoted prices for similar instruments, either in active or less active markets and other valuation techniques (models) where all significant inputs are directly or indirectly observable based on market data.

Following is a description of how fair value for the main Bank financial instruments is determined using valuation techniques with inputs based on market data which incorporate the Bank's estimates on the assumptions that market participants would make for measuring these financial instruments:

- Valuation of BCRP certificates of deposit, corporate and sovereign bonds are estimated calculating their Net Present Values (NPV) through discounted cash flows, using appropriate and relevant zero-coupon rate curves to discount cash flows in the respective currency and considering observable market transactions. Other debt instruments are valuated using valuation techniques based on assumptions supported by prices from observable current market transactions, obtained via pricing services. Nevertheless, when prices have not been determined in an active market, fair values are based on broker quotes and assets that are valued using models whereby most assumptions are observable in the market.

(b) Financial instruments not measured at fair value -

Set out below is the disclosure of the comparison between the carrying amounts and fair values of the financial instruments, which are not measured at fair value, presented in the statements of financial position by level of the fair value hierarchy:

	As of December 31, 2020					As of December 31, 2019				
	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)	Level 1 S/(000)	Level 2 S/(000)	Level 3 S/(000)	Fair value S/(000)	Book value S/(000)
Assets										
Cash and due from banks	-	25,873,987	-	25,873,987	25,873,987	-	15,324,063	-	15,324,063	15,324,063
Held-to-maturity investments	-	2,270,112	-	2,270,112	2,411,146	-	1,783,476	-	1,783,476	1,826,007
Loans, net	-	8,045,308	-	8,045,308	8,045,308	-	6,319,692	-	6,319,692	6,319,692
Accounts receivable	-	357,227	-	357,227	357,227	-	356,364	-	356,364	356,364
Other assets, net	-	557,772	-	557,772	557,772	-	160,764	-	160,764	160,764
Total	-	37,104,406	-	37,104,406	37,245,440	-	23,944,359	-	23,944,359	23,986,890
Liabilities										
Obligations to the public	-	39,664,885	-	39,664,885	39,664,885	-	29,101,447	-	29,101,447	29,101,447
Deposits of financial system companies	-	677,059	-	677,059	677,059	-	222,695	-	222,695	222,695
Securities, bonds and obligations outstanding	-	251,677	-	251,677	251,677	-	251,633	-	251,633	251,633
Accounts payable	-	432,769	-	432,769	432,769	-	320,544	-	320,544	320,544
Other liabilities	-	747,089	-	747,089	747,089	-	156,281	-	156,281	156,281
Total	-	41,773,479	-	41,773,479	41,773,479	-	30,052,600	-	30,052,600	30,052,600

The methodologies and assumptions used to determine fair values depend on the terms and risk characteristics of the various financial instruments and include the following:

(i) Assets for which fair values approximate their carrying value - For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

(ii) Financial instruments at fixed rate – The fair value of the financial liabilities at fixed rate and at amortized cost is determinate by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. When quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity. The fair value of the loan portfolio and deposits and obligation, according to SBS Multiple Official Letter N°1575-2014, correspond to its book value.

25. Contingencies

As of December 31, 2020 and 2019, the Bank has civil, administrative, labor and other lawsuits related to its activities which, in the opinion of the Management and its legal advisors, will not result in additional liabilities to be recorded by the Bank, see note 8(i).

26. Subsequent events

On February 05, 2021, the SBS published Official Letter N°06302-2021, which communicates prudential measures complementary to those established by Official Letters N° 10997-2020-SBS dated March 13, 2020, N° 11150-2020-SBS dated March 16, 2020, N° 11170-2020-SBS dated March 20, 2020, N° 12679-2020-SBS dated May 05, 2020, N° 13195-2020-SBS dated May 19, 2020, N° 13805-2020 dated May 29, 2020, N° 15944-2020 dated July 02, 2020 and N° 19109-2020 dated August 07, 2020, to be applied to the Bank's loans portfolio due to the declaration of the State of National Emergency, established by Supreme Decree N° 044-2020-PCM and recently extended by Supreme Decree N° 008-2021-PCM until February 28, 2021. To date, Management is evaluating the impacts of the implementation of this rule.

Except as indicated above, there are no known material events that have occurred between the balance sheet date and the date of approval, see note 1(c), of these financial statements that could significantly affect the Bank's financial position.

27. Prevailing Applicable Language

The accompanying translated financial statements were originally issued in Spanish and are presented based on accounting standards prescribed by the Superintendence of Banking, Insurance and Private Pension Funds Administrators for Peruvian financial entities, as described in note 2. Certain accounting practices applied by the Bank that conform to those accounting principles may not conform to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.

COLEGIO DE CONTADORES PUBLICOS DE LIMA

Constancia de Habilitación

La Decana y la Directora Secretaria del Colegio de Contadores Públicos de Lima, que suscriben, declaran que, en base a los registros de la institución, se ha verificado que:

PAREDES, BURGA & ASOCIADOS S. CIVIL DE R.L.
Nº MATRICULA: SO761

Se encuentra **HABIL**, para el ejercicio de las funciones profesionales que le faculta la Ley N.º 13253 y su modificación Ley N.º 28951 y conforme al Estatuto y Reglamento Interno de esté Colegio; en fe de lo cual y a solicitud de parte, se le extiende la presente constancia para los efectos y usos que estime conveniente. Esta constancia tiene vigencia hasta el 31 de JULIO 2021.

Lima, 2 de Noviembre 2020.

CPC. GUILLERMINA ZAVALA PAUCAR
DECANA

CPC. GLADYS MILAGROS BAZAN ESPINOZA
DIRECTORA SECRETARIA

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ÁREA DE PAGOS POR TRANSFERENCIAS

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