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

Banco de la Nación

Financial statements as of December 31, 2021 and 2020, together with the independent auditors' report

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Financial statements as of December 31, 2021 and 2020, together with the independent auditors' report

Content

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Tanaka, Valdivia & Asociados
Sociedad Civil de R. L

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, 2021 and 2020, 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.

Inscrita en la partida 11396556 del Registro de Personas Jurídicas de Lima y Callao
Miembro de Ernst & Young Global

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, 2021 and 2020, 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
April 8, 2022

Countersigned by

Carlos Ruiz
C.P.C.C. Register No.08016

Sandra Luna Victoria Alva
C.P.C.C. Register No. 50093

Banco de la Nación

Statements of financial position

As of December 31, 2021 and 2020

	Note	2021 S/(000)	2020 S/(000)
Assets			
Cash and due from banks:	3		
Cash		2,209,389	2,477,069
Clearing		8,888	12,406
Deposits in the Peruvian Central Bank		26,093,099	23,153,111
Deposits in local banks		123,818	72,063
Deposits in foreign banks		155,524	158,506
Other due from banks		4,841	832
		28,595,559	25,873,987
Investments:			
Available-for-sale	4(a)	7,098,960	6,035,472
Held-to-maturity	4(k)	2,457,739	2,411,146
At fair value through profit or loss	4(a)	-	93,818
		9,556,699	8,540,436
Loans portfolio, net	5	7,313,357	8,045,308
Accounts receivable, net	6	332,766	357,227
Property, furniture and equipment, net	7	598,628	613,659
Net deferred income tax asset	13	112,395	120,729
Other assets, net	8	768,730	713,726
Total assets		47,278,134	44,265,072
Risks and commitments	16	3,906,836	3,276,333

	Note	2021 S/(000)	2020 S/(000)
Liabilities			
Deposits and obligations to the public	9	44,118,449	39,664,885
Deposits of financial entities and international financial entities	10	382,107	677,059
Securities, bonds and obligations outstanding	11	251,666	251,677
Accounts payable	12	462,707	432,769
Other liabilities	8	475,608	864,704
Total liabilities		45,690,537	41,891,094
Equity	14		
Capital stock		1,427,533	1,200,000
Additional capital		1,898	1,461
Legal reserve		420,000	420,000
Unrealized results		(633,969)	91,707
Retained earnings		372,135	660,810
Total net equity		1,587,597	2,373,978
Total net liabilities and equity		47,278,134	44,265,072
Risks and commitments	16	3,906,836	3,276,333

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, 2021 and 2020

	Note	2021 S/(000)	2020 S/(000)
Interest income	17	1,285,837	1,363,619
Interest expenses	17	(62,865)	(66,707)
Gross financial margin		1,222,972	1,296,912
Provision for loan losses, net of recoveries	5(f)	(43,476)	(41,306)
Net financial margin		1,179,496	1,255,606
Income from financial services	18	701,786	545,664
Expenses from financial service	18	(359,345)	(307,974)
Financial margin, net of income and expenses for financial services		1,521,937	1,493,296
Gain on financial transactions	19	82,676	262,026
Operative margin		1,604,613	1,755,322
Administrative expenses	20	(1,038,090)	(925,386)
Depreciation and amortization	7(a) and 8(f)	(67,017)	(88,644)
Net operating margin		499,506	741,292
Valuation of assets and provisions	21	(49,491)	(36,479)
Operating income		450,015	704,813
Other income, net	22	(2,835)	72,302
Income before income tax		447,180	777,115
Income tax	13(b)	(92,710)	(118,823)
Net income		354,470	658,292
Other comprehensive income			
(Net loss) net gain on available-for-sale investments	14(c)	(727,185)	10,036
Income tax	14(c)	1,509	655
Total comprehensive income for the year, net of income tax		(725,676)	10,691
Total comprehensive income		(371,206)	668,983

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, 2021 and 2020

	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, 2020		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
Changes in shareholders' equity for 2021 -							
Net income		-	-	-	-	354,470	354,470
Other comprehensive income	14(c)	-	-	-	(725,676)	-	(725,676)
Total comprehensive income		-	-	-	(725,676)	354,470	(371,206)
Prior years adjustments	14(d)	-	-	-	-	11,921	11,921
Capitalization of retained earnings	14(a) and 14(d)	227,533	-	-	-	(227,533)	-
Distribution of income to Public Treasury	14(d)	-	-	-	-	(427,533)	(427,533)
Others		-	437	-	-	-	437
Balances as of December 31, 2021		1,427,533	1,898	420,000	(633,969)	372,135	1,587,597

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, 2021 and 2020

	Note	2021 S/(000)	2020 S/(000)
Cash flows from operating activities			
Net income		354,470	658,292
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7(a) and 8(f)	67,017	88,644
Provision for loan losses, net of recoveries	5(f)	43,476	41,306
Provision for accounts receivable losses	21(a)	18,289	9,981
Provision for indirect loans	21(a)	1,897	9,626
Provision for litigations and claims	21(a)	29,161	19,838
Deferred income tax	13(b)	11,953	6,386
Net gain on available-for-sale investments	19	(7,689)	(206,461)
Unrealized gain on investments at fair value through profit or loss	19	-	(20,400)
Accrued interest on subordinated bonds	17	19,989	20,044
Interest on investments at fair value through profit or loss	17	(200)	(692)
Gain on sale of properties seized though legal actions	22(a)	(473)	(6,885)
Others		(440)	3,380
Changes in assets and liabilities accounts:			
Decrease (increase) in loan portfolio		688,475	(1,766,922)
Decrease (increase) in accounts receivable		6,645	(863)
Decrease (increase) in other assets, net		169,538	(288,677)
Increase in obligations to the public		4,448,723	10,563,438
(Decrease) increase in deposits of financial entities and international financial entities		(294,952)	454,364
(Decrease) increase in accounts payable		(49,375)	112,225
(Decrease) increase in other liabilities, net		(420,153)	560,078
Equity adjustments	14(d)	11,921	(5,216)
Profit for the period after adjustments and net change in assets and liabilities		5,098,272	10,251,486
Income tax paid		147,129	(189,163)
Net cash and cash equivalent provided by operating activities		4,951,143	10,062,323

Statements of cash flows (continued)

	Note	2021 S/(000)	2020 S/(000)
Cash flows from investing activities			
(Net decrease) net increase in investments		(1,730,497)	1,591,126
Additions of property, furniture and equipment	7(a)	(35,772)	(27,265)
Additions of intangible assets	8(f)	(19,778)	(12,549)
Net cash and cash equivalent (used in) provided by investing activities		(1,786,047)	1,551,312
Cash flows from financing activities			
Distribution of income to Public Treasury	14(d)	(427,533)	(1,043,730)
Interest payment of subordinated bonds		(20,000)	(20,000)
Net cash and cash equivalent used in financing activities		(447,533)	(1,063,730)
Net increase in cash and cash equivalents		2,717,563	10,549,905
Cash and cash equivalents at the beginning of year		25,873,155	15,323,250
Cash and cash equivalents at the end of year		28,590,718	25,873,155
Non-cash flows transactions			
Offsetting debt with the Public Treasury, note 14(d)		-	10,889
Capitalization of retained earnings, note 14(d)		227,533	-

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 own Bylaws and amendments, by Legislative Decree No.1031, the Act that promotes the Efficiency of State´s Business Activity and, on a supplementary basis, by Law No. 26702, the "Ley General del Sistema Financiero y de Seguros y Orgánica de la Superintendencia de Banca, Seguros y AFP" – General Act of the Financial and Insurance System and Organic Act of the Superintendence of Banking, Insurance and Private Pension Funds Management Companies (AFP) (hereinafter "SBS", by its acronym in Spanish).

The Bank's head office is located at Av. Javier Prado Este No.2499, San Borja, Lima, Peru. As of December 31, 2021, the Bank operates through a head office and a network of 574 offices in Peru (one head office and 578 offices as of December 31, 2020).

(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) To provide banking services for the National Treasury System, in accordance with the instructions given by the National Treasury Bureau.

(ii) To provide tax collection services on behalf of tax creditors, subject to the Bank's prior approval and under a specific tax collection agreement.

(iii) To carry out, by delegation, transactions with bank subaccounts of the Public Treasury.

(iv) To receive the resources and funds administered by Central Government agencies, Regional and Local Governments, as well as other National Public Sector Entities.

(v) To act on behalf of other banks or financial entities in funneling domestic or foreign resources to credit institutions.

(vi) To participate in the State's foreign trade operations. In this case, the Bank provides banking and currency exchange services, subject to the regulations issued by the Central Bank.

(vii) To receive, on a consignment and custody basis, administrative and judicial deposits.

(viii) To provide banking services as a correspondent of financial system entities where requested by financial system entities.

(ix) To receive demand deposits from individuals and legal entities in respect of payments, as suppliers, pensioners, as well as Government workers, received within the framework of the National Treasury System.

(x) To receive demand or savings deposits from individuals and/or legal entities for payments received in their capacity as workers, pensioners or suppliers of the State, within the framework of the National Treasury System; as well as to receive time deposits from such workers and open accounts for compensation of length of service to Banco de la Nación's own workers.

(xi) Also, to open basic accounts for individuals across peruvian territory, in accordance with the applicable regulations and within the framework of the objectives of the National Financial Inclusion Policy (PNIF), by its acronym in Spanish.

(xii) To receive savings deposits, as well as in custody in favor of individuals and/or legal entities and carry out other banking operations and financial services, which require the use of the means of payment provided for in Section 5 of the Single Uniform Text of the Law for the Fight against Evasion and for the Formalization of the Economy, approved by Supreme Decree No. 150-2007- EF, in the populated centers across Peruvian territory where private banks do not have offices.

(xiii) To grant credit, leasing and any other financial facility, as well as to create or manage trusts, in favor of National Government, Regional and Local Government agencies and any other Public Sector entities or companies, as well as to provide deposit, payment and bank transfer transactions to the Deposit Insurance Fund and the Cooperative Deposit Insurance Fund. Moreover, to issue, acquire, hold and sell bonds and other securities, in accordance with the law. The issuance of securities subject to securities market regulations will be made in accordance with an annual program approved by the General Public Treasury Bureau of the Ministry of Economy and Finance, which may be reviewed on a quarterly basis.

(xiv) To perform banking transactions and services with Public Sector entities, and domestic and foreign banks and financial institutions in order to fulfill the duties established in its Bylaws, as well as the profitability and risk hedging of the resources managed by Banco de la Nación. These transactions are to be performed in accordance with the annual schedule approved by the Ministry of Economy and Finance (MEF) and may be reviewed on a quarterly basis.

(xv) To grant a single line of credit to workers and pensioners of the Public Sector that, due to their income, hold 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 in accordance with an annual schedule approved by the MEF that may be reviewed on an annual basis.

(xvi) To issue electronic money, in accordance with Law No. 29985, the Act that regulates the basic characteristics of electronic money as instruments of financial inclusion, and its Regulations, as amended.

(xvii) To issue bank drafts and transfer funds on behalf of customers or users.

(c) Approval of financial statements -

The financial statements as of December 31, 2020 and for the year then ended, were approved by the Board of Directors Meeting held on March 30, 2021. The financial statements as of December 31, 2021 and for the year ended, have been approved by Management on April 8, 2022, 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 –

As of March 2020, the World Health Organization declared COVID-19 a pandemic, resulting in travel restrictions and trade slowdowns. In this regard, the Peruvian Government declared a state of health emergency and a State of National Emergency across the country, which remains in force as of the date of this report and which included a number of measures such as the closure of Peruvian borders, mandatory lock-down, closure of non-essential businesses and other measures related to the healthcare and welfare of citizens, with significant negative effects on the Peruvian economy in 2020.

As of May 2020, the Peruvian Government approved the plan for the gradual and progressive resumption of economic activities within the framework of the country's health emergency declaration due to COVID-19. This plan consisted of four phases, each of which was implemented under constant evaluation following the recommendations of the Health Sanitary Authority.

During the last months of 2020, in order to, continue containing and mitigating the spread of COVID-19, the Peruvian Government issued a number of supreme decrees, extending the State of Health Emergency and National State of Emergency and defining warning levels: moderate, high, very high and extreme. These levels were assigned to each region of Peru, based on an evaluation made by the Ministry of Health, and involved a number of, restrictions that vary according to the applicable level. However, at the end of 2020 and during the first months of 2021, Peru experienced a new outbreak with very high rates of infection, which became known as the "second wave". This new chain of infection caused some of the phases of the economic reactivation already implemented to gradually backslide.

In February 2021, after concluding negotiations with different foreign laboratories for the acquisition of vaccines, the Peruvian Government began the distribution of doses to fight COVID-19 in Peru. The vaccination schedule was age-group-based, because not all citizens were exposed to the same level of infection risk. The vaccination process was carried out throughout 2021 and at the end of October 2021 the protocol for the application of the booster dose was established by the end of October 2021.

The vaccination process advanced at a fast pace as part of the plan designed to face a possible "third wave", which ultimately began formally in Peru in early 2022. As a measure to protect citizens' health, the Peruvian Government issued a number of, supreme decrees extending the State of Health Emergency and National State of Emergency until the end of August 2022.

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

The main measures implemented in the 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 supervises 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 have enabled and will enable it to adequately address the negative effects of 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. The accounting principles and practices as of December 31, 2021, have not changed substantially with respect to the principles followed as of December 31, 2020.

The main accounting principles and practices used in the preparation of the financial statements are presented below:

(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 2021 and 2020, 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 2021 and 2020, 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; however, Management expects that the variations, if any, will not have a material effect on the Bank's financial statements.

As of December 31, 2021 and 2020, 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 year 2021, the Peruvian Government granted, through the Banco de la Nación, approximately S/1,633.98 million (S/8,909.05 million During year 2020) as miscellaneous bonds (Bonus "Yanapay", 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) Customer payment facilities

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 are no longer in force and 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. Main measures were the following:

Credit rescheduling -

- 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, 2021, 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.

- If a debtor presented overdue payments after the contractual modifications, such loan was considered as a refinanced loan; following the general criteria of SBS Resolution No. 11356-2008, as indicated in note 2(f).

- In accordance with SBS Multiple Official Letter No. 11150-2020, the scope of the aforementioned facilities was determined by each entity of the Financial System, after analyzing the level of impact on its loan portfolio.

- Financial entities are allowed to record, in a preventive and responsible manner, voluntary provisions necessary to allow them to face increases in risk in the loan portfolio as they materialize.

Subsequently, during the months of February and March 2021, the SBS issued Multiple Official Letter No. 13613-2021-SBS and No. 6302-2021-SBS, through which it empowered financial institutions to reschedule their customers during 2021. To access these reschedules the client must have paid a full installment including principal during the last 6 months, and the rescheduled term cannot be extended by three months.

During 2021, the Bank rescheduled loans of approximately S/63.33 million (S/1,599.61 million as of December 31, 2020) and recognized lower interest and fees of S/1.40 million (S/1.70 million as of December 31, 2020), which are presented net in the loan portfolio, see note 5(a).

In the opinion of the Bank's Management, the Bank has complied with all the provisions established by the SBS regarding loan rescheduling and interest recognition.

Suspension in counting of past due days -

- For debtors with more than 15 past due days as of February 29, 2020, the computation of past was suspended until July 31, 2020.

- 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 were 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.

In the opinion of the Bank's Management, the Bank has complied with all the provisions established by the SBS.

(c) Additional provisions for rescheduled loans
SBS Resolution No. 3155-2020, issued on December 17, 2020, establishes that the rescheduled loans resulting from COVID-19 of debtors with a Normal classification are considered debtors with a credit risk higher than Normal, corresponding to the credit risk level With Potential Problems (CPP). Specific provisions corresponding to this category (CPP) are applied to these loans, which are applicable to consumer, micro-business and small business loans.

As of December 31, 2020, the Bank made provisions for the rescheduled loans of debtors with Normal classification for approximately S/11.13 thousand; additionally, the Bank made provisions for uncollected accrued interest on these rescheduled loans in current accounting status for approximately S/0.82 thousand.

Subsequently, on December 23, 2021, the SBS issued SBS Resolution No. 3922-2021, which establishes that for rescheduled loans resulting from COVID-19, accounted for as such, companies in the financial system must apply the following:

- The rescheduled loans of debtors with a Normal classification are considered debtors with a credit risk higher than Normal, corresponding to the CPP credit risk level. Specific provisions corresponding to this category (CPP) are applied to these loans, which are applicable to consumer, micro-business and small business loans.

- The rescheduled loans of debtors with Normal and CPP classification that have not made payment of at least one full installment including principal in the last six months as of the closing of the accounting information, correspond to the level of credit risk Deficient. These loans are subject to the specific provisions corresponding to the substandard credit risk category, applicable to consumer, microenterprise and small business loans.

- The rescheduled loans of debtors classified as Normal, CPP and Deficient who have not made payment of at least one full installment including principal in the last twelve months, are assigned a Doubtful credit risk level. These loans are subject to the specific provisions corresponding to the Doubtful credit risk category, applicable to consumer, microenterprise and small business loans.

- For the interest accrued on rescheduled loans, in current accounting status, corresponding to the consumer, microenterprise and small business loan portfolio, a provisioning requirement corresponding to the substandard risk category will be applied. In the case of debtors who have not paid at least one full installment including principal in the last six months as of the closing of the accounting information, a specific provisioning requirement corresponding to the credit risk category Loss will be applied to such accrued interest. In accordance with the provisions of the SBS, the deadline for recording these provisions was December 31, 2021.

As from the effective date of this resolution, accrued interest not collected as of the rescheduling date, recognized as income to be capitalized as a result of the rescheduling, must be extinguished and recorded as deferred income, being recorded as income based on the new term of the loan and as the respective installments are paid.

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, 2021, the Bank made provisions for the rescheduled loans of debtors with Normal classification for approximately S/17.86 million; additionally, the Bank made provisions for uncollected accrued interest on these rescheduled loans in current accounting status for approximately S/0.72 million.

(d) Suspension in the presentation of rescheduled credits
According to Multiple Notification No. 19109-2020, issued on August 7, 2020, the SBS communicated some complementary provisions related to the operations subject to the measures established by the Multiple Notifications described in paragraph (b) above. The main provisions were as follows:

- Credit operations that have been subject to contractual modifications should be recorded in subaccount 8109.37 "Rescheduled Credits - State of Health Emergency", for the periods indicated below, as appropriate:

  (i) If the modification was made only for minimum payments of the credit card debt or if or if the modification of the schedule did not imply a reduction in the amount of installments for all types of credits (other than revolving consumer credit by credit cards), the credit operation will cease to be recorded in the memorandum 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 installments of all types of credits (other than revolving consumer credit for credit cards), the operation must remain registered in the memorandum account until the debtor has paid at least twenty percent 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 all types of loans (other than revolving consumer credit card loans) with a payment periodicity greater than monthly, the transaction will cease to be recorded in the memorandum account after 6 consecutive on-time 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 of the principal of the transaction subject to modification; whichever occurs first.

(iv) 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 "Reprogrammed Loans - Sanitary Emergency Status", it should no longer be considered for purposes of Report 35 - "Reprogrammed Loans: COVID-19 National Emergency".

As of December 31, 2021, the Bank ceased to record rescheduled loans for an approximate amount of S/357.93 million in sub-account 8109.37 "Rescheduled Loans - State of Health Emergency", upon compliance with the provisions described above.

(e) "Reactiva Perú" Program –
The "Reactiva Perú" program was created by Legislative Decree N°1455-2021 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°11999-2021. 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, 2021, the Bank does not maintain credits considered within the "Reactiva Perú" Program.

(f) Cash equity
SBS Resolution No. 1264-2020 issued on March 26, 2020, establishes that the modifications to the contractual conditions indicated in the Multiple Notices mentioned in paragraph (a) above will not increase the effective equity requirement for non-revolving consumer loans and mortgage loans. In addition, this resolution authorizes financial institutions to use the additional effective equity for the economic cycle component, see note 14 (e).

Subsequently, the SBS issued Multiple Official Letter No. 27358-2021-SBS, on June 2, 2021, in which it establishes for the financial information corresponding to the period between April 2021 and March 2022, that the effective equity for companies in the financial system must be equal to or greater than 8 percent of the total risk-weighted assets and contingent assets, equivalent to the sum of the effective equity requirement for market risk multiplied by 10, the effective equity requirement for operational risk multiplied by 10, and the credit risk-weighted assets and contingent assets.

SBS Resolution No. 3921-2021 issued on December 23, 2021 establishes the modification of the calculation of the additional effective net worth requirement for market concentration, considering the criteria of size, interconnection, substitutability and complexity. It also establishes an adjustment period of two years from December 2022.

In the opinion of the Bank's Management, the Bank complies with the provisions indicated by the SBS in relation to cash equity.

(g) Repo transactions of loan portfolio represented by securities -

On April 3, 2020, the BCRP issued the Circular Letter N°0014-2021-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, 2021 and 2020, the Bank did not present balances of repurchase agreements of loan portfolio.

(h) Provisions charged to shareholders' equity

Multiple Official Letter No. 42138-2020 issued on December 23, 2020 establishes, on an exceptional basis and subject to prior authorization from the SBS, that financial system entities may reduce their capital stock, legal reserve and/or other equity accounts, in order to constitute new specific and/or generic provisions (including voluntary provisions) for their loan portfolio. As of December 31, 2021 and 2020, the Bank's management decided not to set up provisions against the equity accounts.

(i) Other economic programs promoted by the Peruvian government.
During 2020, the Peruvian Government promoted a series of programs to mitigate the economic impacts generated by COVID-19. These economic programs are briefly described below:

- 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, 2021, 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, during July 2021, the Bank approved a credit line to COFIDE for S/500 million to facilitate the liquidity of Business Support Programs, see note 5(b).

- 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. 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 (e) above.

As of December 31, 2021, the Bank did not maintain loans granted directly to Peruvian financial entities (IFIS) considered within the FAE TURISMO and FAE AGRO programs. However, during July 2021, the Bank approved a credit line to COFIDE for S/500.00 million to facilitate the liquidity of Business Support Programs, see note 5(b).

(j) Covid-19 Guarantees Program –
Law 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 Covid-19 Guarantees Program when the substitution of credit counterpart is applicable, as of the activation of the guarantee.

As of December 31, 2021 and 2020, the Bank did not maintain credits from the Covid-19 Guarantee Program.

(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, financing obtained, interest income and expenses, as well as main 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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. As of December 31, 2021, the Bank did not maintain instruments classified in this sub-category.

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, 2021 and 2020, 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.

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. As of December 31, 2021, the Bank did not maintain instruments classified in this sub-category.

(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 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.

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.

Changes in the classification category -
In the case of changes from available-for-sale to held-to-maturity investments, the carrying amount of the fair value of the investment instrument at the date of the change is converted to its new amortized cost. Any past performance of that instrument, which had previously been recognized directly in equity, will be taken to profit or loss for the period over the remaining life of the held-to-maturity investment using the effective interest rate method. Any difference between the new amortized cost and the amount at maturity will also be amortized over the remaining life of the investment instrument using the effective interest rate method, similar to the amortization of a premium or discount. If the investment instrument subsequently becomes impaired, any gain or loss that would have been recognized directly in equity is transferred and recognized in profit or loss for the period.

Dividend recognition -
Dividends are recognized in profit or loss for the year when declared.

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, 2021 and 2020, 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 assets and liabilities are measured by using the tax rates expected to apply to taxable income in the years in which these differences are recovered or eliminated. The measurement of deferred assets and liabilities reflects the tax consequences of the manner in which it is expected, at the date of the statement of financial position, to recover or settle the value of the assets and liabilities.

Deferred assets and liabilities are recognized without considering the moment in which it is estimated that the temporary differences will be cancelled. Deferred assets are recognized when it is probable that there will be enough future tax benefits for the deferred asset to apply.

At the date of the statement of financial position, Management evaluates the unrecognized deferred assets and the balance of the recognized deferred assets; recording a previously unrecognized deferred asset to the extent that it is probable that future tax benefits will allow its recoverability or reducing a deferred asset to the extent that it is not probable that sufficient future tax benefits will be available to allow part or all of the all deferred assets recognized for accounting purposes.

As established by IAS 12, the Bank determines its deferred income tax based on the 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 events or economic changes indicate that the value of a long-lived asset may not be recoverable, the Bank's Management reviews the value of its property, furniture and equipment and intangible assets to verify that there is no permanent impairment in their value. When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income for property, furniture and equipment and intangible assets held at cost. The recoverable value is the higher between the net sale price and its value in use. The net sales price is the amount that can be obtained on the sale of an asset in an open market, while the value in use is the present value of estimated future cash flows from the continued use of an asset and its disposal at the end of its useful life. In Management's opinion, there is no evidence of impairment in the value of these assets as of December 31, 2021 and 2020.

(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, 2021 and 2020, 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° 021/2021-OPG.EE/ONP (report N°031-2020-OPG.EE/ONP as of December 31, 2020), 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, 2021 –

During the year 2021, the CNC issued the Resolution N° 001-2021-EF/30 on November 15, 2021, which formalized Amendments to IFRS 16 Leases, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 1 - Presentation of Financial Statements, IAS 12 Income taxes and the Complete Set of International Financial Reporting Standards version 2021 that includes the Conceptual Framework for Financial Reporting.

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.

On the other hand, IFRS 16 "Leases" came into force in 2019, replacing IAS 17 "Leases", IFRIC 4 "Determining whether an agreement contains a lease", SIC 15 "Operating leases-incentives" and SIC 27 "Assessing the content of transactions involving the legal form of a lease"; which has important effects on the recognition of operating leases where the Bank is a lessee; however, the SBS issued the multiple official communication No. 467-2019 - SBS dated January 7, 2020, where it indicates the non-application of IFRS 16 for entities under its supervision. In this regard, as of December 31, 2021, the Bank has not incorporated the effects of this standard nor disclosed any effect if such standard were to be adopted by the SBS in the future.

Similarly, during 2018, IFRS 9 "Financial Instruments" came into force, which replaces IAS 39 "Financial Instruments: Recognition and Measurement", which could have a material effect on the Bank's financial statements; however, the SBS has not modified or adapted its Accounting Manual for Financial Systems Companies for this standard. In this regard, as of December 31, 2021, the Bank has not reflected or disclosed any effect if such standards were to be adopted by the SBS in the future.

(r.2) IFRS issued internationally but not yet effective as of December 31, 2021-

- IFRS 17 - Insurance Contracts. Effective for periods beginning on or after January 1, 2023, 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 – Presentation of Financial Statements: 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 – Business Combinations: Reference to the Conceptual Framework. 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. 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 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates. The amendment is effective for annual periods beginning on or after January 1, 2023 and applies to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of the annual period. Early application is permitted, provided that this fact is disclosed.

- Amendments to IAS 1 and IFRS Statement of Practice 2: Disclosure of accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2023 and early adoption is permitted. Because the amendments to Statement of Practice 2 provide non-binding guidance on the application of the definition of material to accounting policy disclosures, an effective date for this amendment is not required.

- 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.

Since the standards described in paragraphs (r.1) and (r.2) only apply in supplementary form to those developed by SBS standards, they will not have any effect on the preparation of the accompanying financial statements, unless the SBS adopts them in the future by amending the Accounting Manual for Financial System Companies or by issuing specific standards. The Bank has not estimated the effect on its financial statements should such standards be adopted by the SBS.

3. Cash and due from banks

(a) This item is made up as follows:

	2021 S/(000)	2020 S/(000)
Cash and clearing (b)	2,218,277	2,489,474
Deposits in the Central Reserve Bank of Peru (BCRP) (b)	25,955,033	23,039,525
Deposits in local and foreign banks (c)	279,342	230,569
Accrued income from BCRP deposits	138,066	113,587
Other due from banks	4,841	832
Total	28,595,559	25,873,987

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

	2021 S/(000)	2020 S/(000)
Mandatory reserve		
Deposits in the Central Reserve Bank of Peru (BCRP)	23,307,665	20,823,472
Cash in the vaults of the bank	2,209,389	2,477,068
Legal reserve sub-total (*)	25,517,054	23,300,540
Overnight deposits in the Central Reserve Bank of Peru (BCRP) (**)	2,647,368	2,216,053
Cash and clearing	8,888	12,406
Non-mandatory reserve subtotal	2,656,256	2,228,459
Total	28,173,310	25,528,999

(*) 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, 2021, the Bank maintains overnight deposits in the BCRP in foreign currency, accruing interest at an average annual effective rate of 0.06 percent and maturing in January 2022. As of December 31, 2020, the Bank maintained Overnight deposits in the BCRP in foreign currency, generated interest at an average annual effective rate of 0.08 percent and matured in January 2021.

(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	2021				2020			
	Quantity Units	Amortized cost S/(000)	Unrealized results S/(000)	Estimated fair value S/(000)	Quantity Units.	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
Supranational bonds	-	-	-	-	2,000	-	-	6,401
Total investments at fair value through profit or loss	-	-	-	-	27,500	-	-	93,818
Available-for-sale investments -								
Equity instruments (c)								
Bladex	446,558	13,956	15,617	29,573	446,558	12,674	12,923	25,597
Debt Instruments								
Republic of Peru's Sovereign Bonds (d)	4,731,167	5,709,140	(636,852)	5,072,288	2,326,167	2,783,144	78,193	2,861,337
BCRP Certificate of Deposits (e)	1,975,000	1,971,419	(4,270)	1,967,149	3,000,000	2,987,628	8,615	2,996,243
Corporate bonds (d)	10,746	29,842	108	29,950	12,146	37,459	1,677	39,136
Peruvian Government Global Bonds (d)	-	-	-	-	22,000	111,636	1,523	113,159
Total available-for- sale investments	7,163,471	7,724,357	(625,397)	7,098,960	5,806,871	5,932,541	102,931	6,035,472

(b) During January and February 2021, as a strategy to reduce exposure to interest rate risks, Risk Management decided to sell the entire corporate bond portfolio classified at fair value through profit or loss. As of December 31, 2020, the fair value of corporate and supranational bonds amounted to S/ 93.8 million and the Bank recorded an unrealized gain on investments at fair value through profit or loss in the "Gain on financial transactions" item of the statement of comprehensive income, see note 19.

(c) As of December 31, 2021 and 2020, it refers to the class "A" common shares issued by Banco Latinoamericano de Comercio Exterior S.A. - Bladex representing 1.1 percent of its capital stock. As of such dates, the fair value per share was US$ 16.61 and US$ 15.83, respectively.

(d) Debt instruments –

Republic of Peru's Sovereign Bonds –

Corresponds to sovereign bonds issued by the Peruvian Government in soles. Them are acquired at rates and prices offered in the market at the trade date.

Peruvian Government Global Bonds –

Global bonds are debt instruments issued by the Peruvian Government in foreign currency. As of December 31, 2020, it referred to the global bond in Euro maturing in January 2026 issued by Supreme Decree No. 230-2015-EF. During August 2021, the total sale of this investment was completed.

Corporate bonds –

The detail of corporate bonds is made up as follows:

	2021 S/(000)	2020 S/(000)
Edelnor	4,078	11,541
Red de Energía del Perú	18,003	18,770
Luz del Sur S.A.A.	7,106	7,521
Other minors	763	1,304
	29,950	39,136

(e) The certificate of deposits are freely negotiable securities issued by the BCRP in domestic currency.

(f) As of December 31, 2021 and 2020, Management has estimated the market value of available-for-sale investments based on available market quotations or, in their absence, by discounting the expected cash flows at an interest rate that reflects the securities' risk classification.

(g) The Bank's Management has determined that the unrealized losses on its available-for-sale investments as of December 31, 2021 and 2020 are temporary in nature. In Management's opinion, the Bank has the intention and the ability to hold each of the available-for-sale investments that have unrealized loss for a sufficient period of time to allow an early recovery in fair value or until maturity in the case of debt instruments.

(h) As of December 31, 2021, the Bank maintains net deferred income tax liabilities for S/4.40 million, see note 13(a), generated by the net unrealized gain on certain available-for-sale investments that are subject to income tax in the amount of S/ 14.90 million (net deferred liabilities for approximately S/5.90 million, generated by the net unrealized gain on certain available-for-sale investments that are subject to income tax in the amount of S/20.02 million as of December 31, 2020), see note 13.

(i) As of December 31, 2021 and 2020, 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		2021				2020			
			S/		US$		S/		US$	
	2021	2020	Min	Max	Min	Max	Min	Max	Min	Max
Investments at fair value through profit or loss (b) -			%	%	%	%	%	%	%	%
Corporate bonds	-	Jan-34 / Sep-34	-	-	-	-	-	-	0.01	3.79
Supranational bonds	-	Nov-34	-	-	-	-	-	-	0.07	0.07
Available-for-sale Investments-										
Republic of Peru's Sovereign Bonds (d)	Jan-26 / Aug-40	Jan-26 / Feb-29	2.06	5.59	-	-	1.84	3.85	-	-
BCRP Certificate of Deposits (e)	Jan-22 / March-23	Jan-21 / March-23	0.35	2.51	-	-	0.28	2.38	-	-
Corporate bonds (d)	Apr-22 / Apr-23	Apr-21 / Apr-23	4.47	6.38	-	-	4.47	6.89	-	-
Peruvian Government Global Bonds (d)	-	Jan-26			-	-	-	-	0.33	0.33

The accrued return on the available-for-sale investment portfolio during the year 2021 amounted to approximately S/170.86 million (approximately S/125.79 million during the year 2020) and is included in "Interest income" of the statement of comprehensive income, see note 17.

(j) The balance of investments available-for-sales and at fair value through profit or loss as of December 31, 2021 and 2020, classified by maturity is made up as follows:

	2021 S/(000)	2020 S/(000)
Up to 3 months	1,865,812	2,464,235
From 3 months to 1 year	21,312	246,852
From 1 to 3 years	109,975	324,292
From 3 to 5 years	-	-
More than 5 years	5,072,288	3,068,313
Without maturity (shares)	29,573	25,598
Total	7,098,960	6,129,290

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

	2021 S/(000)	2020 S/(000)
Bonds D.S. N°002-2007 (i)	296,704	296,721
Sovereign bonds BS12FEB2029 (ii)	2,059,238	2,071,355
Sovereign bonds BS12AGO2024 (iii)	32,781	-
Sovereign bonds BS12AGO28 (iii)	21,999	-
Accrued interest	47,017	43,070
	2,457,739	2,411,146

The accrued interest during 2021 of held-to-maturity investments portfolio amounted to approximately S/128.15 million (approximately S/110.04 million during 2020) 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 certificates 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.

It should be noted that Section 10 of Law No. 31085, the Act on the Financial Balance of the Public Sector Budget for Fiscal Year 2021, establishes, as an exception for fiscal year 2021, the suspension of the amortization of the bond against the Bank's net profits for fiscal year 2020, referred to in Section 5.2 of Supreme Decree No. 002-2007-EF, as amended by Section 1 of Supreme Decree No. 081-2009-EF.

Board of Directors' meeting No. 2353 held on May 23, 2021approved the distribution of 50 % of the net profits for the year 2020 to the Public Treasury without subtracting the amortization of this bond in compliance with the aforementioned law.

The balance of this bond as of December 31, 2021 and 2020 amounts to S/ 296.70 million and S/ 296.72 million, respectively.

(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 - BS12FEB2029 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 February 12, 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, 2021, the balance of this bond amounted to S/2,059.24 million (S/2,071.36 million as of December 31, 2020).

(iii) During 2021, as part of its strategy to increase its portfolio of bonds held to maturity, the Bank acquired 30,000 and 20,000 units of sovereign bonds BS12AGO2024 and BS12AGO2028, maturing in August 2024 and August 2028, at a total cost of approximately S/33.60 million and S/22.59 million, respectively.

5. **Loans portfolio, net**

(a) As of December 31, 2021 and 2020, this item is made up as follows:

	2021 S/(000)	2020 S/(000)
Direct loans		
Current		
Consumer loans	4,972,673	4,859,916
Sovereign loan – MEF (b)	29,351	404,366
Mortgage loans	367,617	322,301
Loans to financial system companies (b)	2,052,672	2,061,356
Loans to public sector entities (b)	82,046	582,917
Loans to micro-business	11,167	-
Refinanced	16,249	17,036
Past due	150,771	142,884
Legal collection	40,009	23,765
Total	7,722,555	8,414,541
More (less)		
Accrued interest from current loans	50,625	46,200
Deferred interest income from refinanced loans, restructured and rescheduled current loans	(10,481)	-
Deferred interest income on refinanced loans	(4,703)	(4,032)
Provision for loan losses (f)	(444,639)	(411,401)
Total Direct loans	7,313,357	8,045,308
Indirect loans, and Note 16(a)	900,027	587,658

(b) Sovereign loans – MEF, loans to financial system companies and loans to public sector entities – 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. As of December 31, 2021, this item refers mainly to twenty-one (21) loans granted under Supreme Decree No. 091-2019-EF to partially finance twelve (12) investment projects of the Ministry of Defense (as of December 31, 2020, it comprised two hundred and sixty-four (264) loans granted mainly under Supreme Decree No. 218-2007-EF, Supreme Decree No. 143-2008-EF and Supreme Decree No. 204-2009-EF to finance the requirements of the Basic Effective Core of the Ministry of Defense).

Loans to financial system companies –
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 Mi Banco, Municipal Savings and Loans Banks, COFIDE, and Fondo MIVIVIENDA.

During 2020, Emergency Decree No. 029-2020 and Emergency Decree No. 049-2020 issued amendments to the above regulations. Accordingly, the Bank was authorized to grant credit lines to COFIDE in order to facilitate temporary liquidity 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 were approved by the Bank through Board of Directors' meeting No. 2289 -2020 held on March 23, 2020, meeting No. 2296-2020 held on May 11, 2020 and meeting No. 2300-2020 held on 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. As of December 31, 2021, the balance of these loans amounted to S/1,146.00 million and consisted of fifty-one (51) loans (as of December 31, 2020, the balance amounted to S/1,738.00 million consisting of sixty-five (65) loans).

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)(i). 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.

During 2021, Board of Directors' Meeting No. 2362 held on July 22, 2021 approved two direct revolving credit lines, a new Multiprogram credit line for S/500.00 million to finance the liquidity needs of the disbursements made under government programs in force and destined to the containment and reactivation of the economy in view of the negative effects of the COVID-19 pandemic, thus providing funding to FAE MYPE, FAE Turismo, FAE AGRO, PAE MYPE and other programs to be created by the National Government with the purpose of reactivating the economy following the COVID-19 crisis; as well as another freely available line for S/450.00 million to serve working capital transactions in priority sectors of Peruvian economy. The Bank disbursed to COFIDE loans totaling S/147.00 million from the freely available credit line for S/450.00 million to serve working capital transactions in priority sectors of Peruvian economy.

During 2021, Board of Directors' Meeting No. 2335 held on February 11, 2021, the Bank approved a revolving direct credit line in favor of Fondo Mi Vivienda for S/570.00 million to finance mortgage loan transactions. As of December 31, 2021, the Bank disbursed the entire credit line.

Loans to public sector entities –
During 2021,Electro Norte, Electro Centro, Electro Sur, Electro Ucayali, Hidrandina, SEAL, ELSE, ENOSA and Petroperu prepaid the principal of the loans granted during the first half of 2020 for approximately S/ 536.67 million. Also, during 2021, the Bank disbursed S/ 20.80 million to municipalities and S/ 15.00 million to SERPOST.

(c) As of December 31, 2021 and 2020, the direct loan portfolio, segmented by type of credit, is as follows:

	2021 S/(000)	2020 S/(000)
Non-retail loans		
Corporate	2,164,111	3,048,689
Medium-business	6,720	6,497
	2,170,831	3,055,186
Retail loans		
Revolving and non-revolving consumer loans	5,168,370	5,032,806
Mortgage	371,464	325,885
Small-business	658	626
Micro-business	11,232	38
	5,551,724	5,359,355
Total	7,722,555	8,414,541

A portion of the loan's portfolio is secured by guarantees received from customers, who 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, 2021 and 2020, the Bank's loan portfolio risk classification is as follows:

Risk category	2021					
	Direct loans		Indirect loans		Total	
	S/(000)	%	S/(000)	%	S/(000)	%
Normal	7,283,727	94.32	857,864	95.32	8,141,591	94.42
With potential problems	109,429	1.42	-	-	109,429	1.27
Substandard	40,554	0.53	-	-	40,554	0.47
Doubtful	103,013	1.33	42,163	4.68	145,176	1.68
Loss	185,832	2.41	-	-	185,832	2.16
Total	7,722,555	100.00	900,027	100.00	8,622,582	100.00

Risk category	2020					
	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

(e) As of December 31, 2021 and 2020, 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, 2021 and 2020, 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:

	2021 S/(000)	2020 S/(000)
Balance as of January 1	411,401	389,757
Provision, net of recoveries (*)	43,476	41,306
Loan portfolio written-off	(10,493)	(19,875)
Exchange difference and other	255	213
Balance as of December 31	444,639	411,401

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

As of December 31, 2021 and 2020, the provision for direct doubtful loans includes a voluntary generic provision amounting to S/49.66 million corresponding to the provision that was determined under the procyclical rule.

As of December 31, 2021 and 2020, the provision for indirect loans is approximately S/21.32 million and S/18.14 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, 2021 and 2020 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, 2021 and 2020, the annual effective rates for the main products were:

	2021		2020	
	National currency	Foreign currency	National currency	Foreign currency
Overdrafts	9.00 -17.00	12.00	9.00 -17.00	12.00
Corporate loans	2.50 – 7.50	8.00	5.00 – 11.00	8.00
Consumer loans	8.90 – 15.50	-	10.00 - 15.50	-
Credit card	21.00 – 32.00	-	19.00 - 32.00	-
Mortgage loans	5.50 – 7.25	-	5.50 - 7.25	-

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/99,892.27 million and S/62,353.52 million in 2021 and 2020, respectively.

(h) Set out below is the direct loan portfolio as of December 31, 2021 and 2020, according to their contractual maturities:

	2021 S/(000)	2020 S/(000)
Outstanding loans -		
Up to 1 month	137,045	305,032
From 1 to 3 months	479,520	610,692
From 3 months to 1 year	1,641,417	2,224,397
From 1 to 3 years	3,635,373	3,926,736
From 3 to 5 years	1,345,390	928,672
More than 5 years	276,781	235,327
Refinanced	16,249	17,036
Past due and under legal collection loans	190,780	166,649
Total	7,722,555	8,414,541

6. Accounts receivables, net

(a) As of December 31, 2021 and 2020, this item is made up as follows:

	2021 S/(000)	2020 S/(000)
Receivables to COFIDE – CRECER (b)	132,483	135,167
Receivables to COFIDE - FAE -MYPE (c)	90,862	106,562
Claims to third parties (d)	51,961	58,274
Commission (e)	22,166	20,698
Other receivables (f)	20,387	11,663
Advances to staff (g)	18,215	28,991
Advances to suppliers	3,087	1,425
Receivables to MEF	106	106
	339,267	362,886
Provision for claims to third parties	(5,733)	(4,919)
Provision for other receivables	(768)	(740)
Total	332,766	357,227

(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.

During 2020, the CRECER Fund transferred S/ 117.35 million to the FAE-MYPE Fund, see paragraph c) below.

The loss of the CRECER Fund amounting to S/ 1.17 million for the year 2021 (gain of S/ 2.64 million for the year 2020), is recorded in the "Valuation of assets and provisions" account of the statement of comprehensive income, see note 21(c).

(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.

The losses of the FAE-MYPE Fund amounting to S/16.96 million and S/12.42 million for the years 2021 and 2020, respectively, are recorded in the "Valuation of assets and provisions" account of the statement of comprehensive income, see note 21(c).

(d) As of December 31, 2021, the balance refers mainly to: (i) S/25.72 million for the guarantee deposits made by the Bank in the Judicial Branch's collection account for those proceedings that are at the cassation appeal stage and have already been resolved by a lower instance court, (ii) accounts receivable in respect of the "Pension 65" program for S/10.03 million and the "Juntos" program for S/0.68 million (these amounts refer to the reimbursement made by the executing units of the social programs - MIDIS), (iii) claims for liabilities of former workers for S/3.10 million, (iv) claims to banks in liquidation for S/2.12 million, and (v) miscellaneous claims for S/10.31 million.

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.

(e) As of December 31, 2021, the balance refers mainly to: (i) S/9.53 million in respect of commissions receivable for judicial and administrative deposits held by the Judicial Branch with the Bank, (ii) S/5.10 million in respect of commissions to insurance companies, (iii) S/3.77 million in respect of commissions receivable for the loss of judicial and administrative deposits, (iv) S/3.59 million for trust commissions, and (v) S/181 thousand in respect of commissions receivable from the Executive Units of the "Pension 65" and "Juntos" social programs for the services of money distribution to their beneficiaries across Peru.

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.

(f) As of December 31, 2021, the balance refers mainly to: (i) S/4.84 million in respect of accounts receivable for services rendered to MINEDU for the transfer and custody of tests pertaining to the Public Contest for Admission to the Public Teaching Career 2021, the relevant agreement being executed in May 2021, (ii) S/5.89 million for life, debit card protection, accident, burial and cancer treatment insurance services, (iii) S/3.01 million in respect of accounts receivable for Essalud subsidies, and (iv) other minor items for S/2.68 million.

As of December 31, 2020, the balance referred mainly to: (i) S/6.84 for life, debit card protection, accident, burial and cancer treatment insurance services, (ii) S/2.27 million in respect of accounts receivable for Essalud subsidies, (iii) S/1.00 million for local foreign ATM transactions pending reimbursement, and (iv) other minor items for S/1.55 million.

(g) During 2021 and 2020, the Bank has granted advances to various workers in order to mitigate the adverse effects of the COVID-19 pandemic, ranging from S/2,000 to S/4,000 per person.

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

(a) During 2021 and 2020, 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, 2020	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 (c)	-	(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
Additions (b)	265	172	-	430	2,976	-	31,929	35,772
Transfers	-	1,351	-	181	13,245	-	(14,777)	-
Disposals	-	-	(2,694)	(60,331)	(110,680)	(6,607)	-	(180,312)
Balance as of December 31, 2021 (iv)	69,905	712,688	21,507	133,961	285,363	323	35,399	1,259,146
Depreciation								
As of January 1, 2020	-	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
Depreciation for the year	-	17,766	1,314	12,589	19,088	46	-	50,803
Disposals (c)	-	-	(2,694)	(60,331)	(110,680)	(6,607)	-	(180,312)
Balance as of December 31, 2021 (v)		301,060	17,081	76,356	247,272	307	-	642,076
Impairment as of December 31, 2020 (iii) (g)	5,761	10,678	-	2,003	-	-	-	18,442
Impairment as of December 31, 2021 (vi) (g)	5,761	10,678	-	2,003	-	-	-	18,442
Net book value								
As of December 31, 2020 (i)-(ii)-(iii)	63,879	417,193	5,740	67,580	40,958	62	18,247	613,659
As of December 31, 2021 (iv)-(v)-(vi)	64,144	400,950	4,426	55,602	38,091	16	35,399	598,628

(b) The additions for the year 2021 refer mainly to works in progress for approximately S/9.55 million in respect of the expansion and remodeling of branch offices, implementation of ATMs and replacement of ATMs in branch offices nationwide. Also, it refers to units (furniture and equipment) to be received for S/22.38 million, pending entry to the Bank's facilities.

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.

(c) During 2021, the Bank derecognized improvements in rental properties and facilities, furniture and equipment, computer equipment and vehicles that were fully depreciated for a cost and accumulated depreciation amounting to S/180.31 million.

During 2020, the Bank derecognized obsolete computer equipment for a total cost of S/4.06 million.

(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, 2021 and 2020 is as follows:

	2021 S/(000)	2020 S/(000)
Balance as of January 1	18,442	21,431
net reversion of additions, note 21(a)	-	(2,989)
Balance as of December 31	18,442	18,442

8. Other assets, net and other liabilities

(a) As of December 31, 2021 and 2020, this item is made up as follows:

	2021 S/(000)	2020 S/(000)
Other assets, net		
Financial instruments		
Head office and branches (b)	338,860	269,037
Operations in process (c)	133,518	171,505
Tax receivable (d)	-	117,230
	472,378	557,772
Non-financial instruments		
Recoverable Income Tax (e)	154,436	96,211
Recoverable Temporary Tax on Net Assets ("ITAN" for it acronym in Spanish) (e)	82,718	-
Intangibles, net (f)	40,130	39,315
Advance payments and deferred charges	17,077	18,492
Diverse assets	1,991	1,936
	296,352	155,954
Total	768,730	713,726
Other liabilities		
Financial instruments		
Transfers pending of payment (g)	4,541	317,510
Peruvian Government Bonds payable (h)	198,667	317,380
Operations in process (c)	137,701	97,953
Cash surplus (c)	15,455	14,246
	356,364	747,089
Non-financial instruments		
Provision for litigations and claims (i)	96,696	98,165
Provision for indirect loan losses, note 5(f)	21,322	18,141
Deferred income for interests and fees of indirect loans	798	881
Other	428	428
	119,244	117,615
Total	475,608	864,704

(b) As of December 31, 2021, the balances of main office and branches correspond mainly to pending operations at branches and agencies in Lima for S/34.80 million and in provinces for S/303.63 million (branches and agencies in Lima for S/25.80 million and in provinces for S/217.40 as of December 31, 2020). 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 2022.

(c) Transactions in process are transactions carried out mainly 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, 2021, the balance of lending transactions in progress mainly includes: (i) after-hours transactions for approximately S/31.02 million, due to the closing of business at the end of the year and regularized in early January 2022, (ii) transactions to be settled for approximately S/64.76 million, (iii) accounts receivable for S/9.56 million resulting from recognizing temporary transactions and transferred in early January 2022, (iv) credit card purchase transactions through POS terminals in stores for approximately S/3.33 million. 21.91 percent of these lending transactions in progress have been regularized in the first days of January 2022.

Furthermore, the balance of borrowing transactions in progress mainly includes: (i) after-hours transactions for approximately S/44.36 million, due to the closing of business at the end of the year and regularized in the first week of January 2022, (ii) accounts payable for S/32.91 million resulting from recognizing temporary transactions and transferred in early January 2022, (iii) transactions to be applied for S/22.82 million, (iv) transactions to be settled for S/12.17 million, (v) surplus from ATMs of hinterland branch offices for S/7.02 million, and (vi) payments to suppliers' current accounts for S/4.43 million32.03 percent of these borrowing transactions in progress have been regularized in the first days of January 2022.

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.

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

(e) As of December 31, 2021, corresponds to advance income tax payments and other income tax credits for S/235.20 million, which are presented net of income tax for the year for S/80.76 million, note 13(b). 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).

It also includes the balance of the Temporary Tax on Net Assets for the year 2021 in the amount of S/82.72 million.

(f) During the year 2021, 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/19.78 million. Moreover, in that year, software licenses were written off at a cost of S/ 21.70 million, because Management detected that certain active software originated from old contracts and had been fully amortized.

During the years 2021 and 2020, the Bank recorded an amortization of S/16.21 million and S/21.60 million, respectively, presented in the caption "Depreciation and amortization" of the statement of comprehensive income.

(g) As of December 31, 2021, the transfer 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/4.54 million (S/317.51 million as of December 31, 2020) that were mainly regularized in the first days of January 2022.

(h) As of December 31, 2021 and 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/198.67 million and S/317.38 million, respectively, see note 2(a)(ii)(a) that were regularized mainly in the first days of January 2022.

(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. Also, during 2021 and 2020, the Bank has made disbursements in respect of these claims for approximately S/30.63 million and S/31.16 million, respectively.

Furthermore, as of December 31, 2021 and 2020, the Bank is involved in judicial and labor proceedings for an estimated value of approximately S/ 40.13 million and S/ 43.14 million, respectively. In the opinion of Management and the Bank's in-house legal counsel, there are solid defense arguments to consider that the degree of contingency is possible, and, therefore, in accordance with the SBS accounting standards in force, an additional provision for these proceedings is not required as of December 31, 2021 and 2020.

9. Deposits and obligations to the public

(a) As of December 31, 2021 and 2020 the balance of obligations by product is as follows:

	2021 S/(000)	2020 S/(000)
Current accounts (b)	20,853,637	17,784,618
Saving deposits	17,057,478	15,657,540
Restricted obligations with the public (c)	4,100,031	4,029,478
Social benefits of workers and pensioners (d)	1,441,399	1,535,882
Term deposits (g)	213,102	205,879
Severance indemnity deposits	78,318	104,881
Other obligations with the public (e)	273,450	247,625
	44,017,415	39,565,903
Accrued interest payable (f)	101,034	98,982
Total	44,118,449	39,664,885

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:

	2021 S/(000)	2020 S/(000)
Private Sector	6,806,409	6,643,850
Central government	5,387,105	1,307,673
Ministerio de Economía y Finanzas	2,880,097	2,083,802
Public institutions	1,536,552	3,322,205
Local government	1,523,529	1,280,404
Essalud	1,452,085	1,122,988
Regional government	754,594	520,918
Public companies	372,992	387,495
International organizations and other	140,274	1,115,283
Total	20,853,637	17,784,618

(c) This balance corresponds to judicial and administrative deposits, guarantee deposits, judicial withholdings for approximately S/3,381.54 million, S/632.54 million and S/85.95 million, respectively (approximately S/2,792.94 million, S/1,152.19 million and S/84.30 million, respectively, as of December 31, 2020).

(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, 2021 and 2020, it comprises:

	2021 S/(000)	2020 S/(000)
Retirement pensions - Decree Law No.20530	1,437,675	1,531,979
Labor Regime - Law No.4916	3,687	3,850
Labor Regime - Decree Law No.11377	37	53
	1,441,399	1,535,882

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

	2021 S/(000)	2020 S/(000)
Balance at the beginning of the year	1,531,979	1,612,963
Additions debited to personnel expenses, note 20(b)	62,424	84,122
Provisions, rates and charitable fund	2,837	2,262
Payments to pensioners	(159,565)	(167,368)
Balance at the end of the year	1,437,675	1,531,979

The obligation for retirement pensions decreased as compared to 2020, mainly due to the reduction in the number of pensioners from 4,904 as of December 31, 2020 to 4,681 pensioners as of December 31, 2021.

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

	2021 S/(000)	2020 S/(000)
Discount rate	4.67%	4.67%
Average life expectancy	16.44 años	16.80 años
Active service period	0 años	0 años
Pensioners with statutory bonuses	543	584
Pensioners with reward	4,007	4,180
Pensioners with no bonus	131	140
Assets with statutory bonuses	4	6

As of December 31, 2021 and 2020, the discount rated used is 4.67 percent, in accordance with the Manual on the Methodology for the Calculation of Actuarial Reserves of the Provisional Systems Administered by the Social Security Normalization Office, with Chief Resolution No. 152-2021-ONP/JF. 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. Transitory rules for the application of the Annual Technical Interest Rate, as long as the ONP does not approve the Annual Technical Interest Rate regulations, the parameters indicated in Head Resolution No. 134-2018-JEFATURA/ONP are maintained.

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, 2021, the calculation of pension reserves for pensioners has been made with a maximum pension amount equivalent to S/8,800 (S/8,600, as of December 31, 2020).

(e) The other obligations with the public are made up of cashier checks, transfers payable and bank certificates for S/159.26 million, S/103.31 million and S/5.18 million, respectively (S/130.60 million, S/110.10 million and S/5.00 million, respectively, as of December 31, 2020).

(f) Accrued interest payable corresponds to administrative and judicial deposits for approximately S/97.56 million y S/3.47 million, respectively (approximately S/95.5 million and S/3.5 million, respectively, as of December 31, 2020).

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

	2021 S/(000)	2020 S/(000)
Up to 3 months	104,097	97,582
From 3 months to 1 year	109,005	108,297
	213,102	205,879
Accrued interests for term deposits	62	28
Total	213,164	205,907

10. Deposits of financial entities and international financial entities

As of December 31, 2021, it includes demand deposits for S/378.87 million and saving deposits for S/3.24 million (S/666.51 million and S/10.55 million, respectively, as of December 31, 2020).

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

	2021 S/(000)	2020 S/(000)
Mi Vivienda Fund	213,671	183,375
Banks (*)	95,551	400,746
Corporación Financiera de Desarrollo – COFIDE	26,680	15,604
Municipal credit and saving institutions	21,474	38,794
Financial entities	17,271	21,304
Rural credit and saving institutions	5,153	11,745
Edpymes	2,306	5,481
Trust company	1	10
Total	382,107	677,059

(*) The balance of banking entities decreased mainly due to the bank transfers made by Agrobanco for its operating activities, considering that the accounts held by that entity with the Bank are its main accounts for transacting business.

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/250.00 million, which had a date of placement on November 29, 2016. The composition of this item is as follow:

	2021 S/(000)	2020 S/(000)
Subordinate bond (b)	249,996	250,007
Interests payable	1,670	1,670
	251,666	251,677

(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 2021 and 2020, the accrued interest of the subordinated bonds amounted to S/19.99

million and S/20.04, 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, 2021 and 2020, this item is made up as follows:

	2021 S/(000)	2020 S/(000)
Suppliers	194,908	142,292
Collected and withheld taxes (b)	152,272	146,580
Group performance bonus	42,607	42,058
Other accounts payable (c)	32,934	49,117
Vacations payable	20,148	21,848
Workers' profit sharing payable – legal	14,408	20,060
Other accounts payable to staff	3,343	8,656
Other contributions	1,920	2,006
Others	167	152
	462,707	432,769

(b) As of December 31, 2021, corresponds to the taxes collected nationally by the Bank at the request of the Tax Administration – SUNAT, which amounted to S/142.41 million and withheld taxes by the Bank as withholding agent which amounted to S/9.86 million; which were transferred to SUNAT in January 2022 (S/142.89 million and S/3.69 million, respectively, as of December 31, 2020; which were transferred to SUNAT in January 2021).

(c) Other accounts payable mainly includes obligations for refunds to be made to pensioners forS/7.97 millon (S/7.79 millon in 2020) for discounts on bonuses for length of service that are withheld until the Judicial Power orders the disbursement in its favor, various accounts payable for S/7.65 millon (S/3.18 millon in 2020), obligations payable derived from transactions made through other banks' ATMs and establishments, pending confirmation for S/3,33 million and S/0.13 million, respectively (S/22.02 million and S/4.24 million as of December 31, 2020, respectively), accounts payable to AFP for S/2.22 million (S/2.23 million as of December 31, 2020), transference to FEBAN wellness program for S/1.05 million (S/0.89 million as of December 31, 2020), and among other minor items for S/10.58 million (S/7.76 million in 2020)

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13. Deferred income tax asset, net

(a) As of December 31, 2021 and 2020, this item is made up as follows:

	Balances as of January 01, 2020 S/(000)	(Debit) credit to equity S/(000)	(Debit) credit to income S/(000)	Balances as of December 31,2020 S/(000)	(Debit) credit to equity S/(000)	(Debit) credit to income S/(000)	Balances as of December 31, 2021 S/(000)
Deferred assets							
General provision for direct loans	47,964	-	1,146	49,110	-	(1,083)	48,027
Provision for litigations and claims	32,299	-	(3,340)	28,959	-	(434)	28,525
Intangible amortization	19,252	-	880	20,132	-	(3,004)	17,128
Provision for group performance bonus	11,482	-	925	12,407	-	162	12,569
Investments at fair value through profit or loss	7,188	-	(5,698)	1,490	-	(1,490)	-
Provision for vacations	6,052	-	393	6,445	-	(501)	5,944
Property depreciation	6,224	-	19	6,243	-	239	6,482
General provision for contingent loans	2,175	-	975	3,150	-	810	3,960
Specific provision for contingent loans	96	-	(3)	93	-	32	125
Provision for fixed asset's devaluation	2,159	-	(460)	1,699	-	-	1,699
Over-indebtedness provision	-	-	-	-	2,110	(2,110)	-
Other	3,212		(265)	2,947	-	3	2,950
Total deferred asset	138,103	-	(5,428)	132,675	2,110	(7,376)	127,409
Deferred liabilities							
Unrealized results from available-for-sale investments	(6,562)	655	-	(5,907)	1,509	-	(4,398)
Property depreciation	(3,816)	-	(813)	(4,629)	-	(446)	(5,075)
Exchange rate	(1,265)	-	(145)	(1,410)	-	(4,131)	(5,541)
Total deferred liabilities	(11,643)	655	(958)	(11,946)	1,509	(4,577)	(15,014)
Total deferred asset, net	126,460	655	(6,386)	120,729	3,619	(11,953)	112,395

(b) The composition of the balances presented in the statements of comprehensive income for the years ended December 31, 2021 and 2020 are as follows:

	2021 S/(000)	2020 S/(000)
Current income tax - Expense	80,757	112,437
Deferred income tax – Expense	11,953	6,386
	92,710	118,823

(c) The table below presents the reconciliation of the effective Income Tax rate with the statutory Income Tax rate for the years 2021 and 2020:

	2021		2020	
	S/(000)	%	S/(000)	%
Income before income tax	447,180	100.00	777,115	100.0
Theoretical expense	131,918	29.5	229,249	29.5
Effect of non-deductible expenses-				
Common expenses linked to untaxed and exempt income	49,142	10.99	62,880	8.2
Other non-deductible expenses	40,850	9.14	38,084	4.9
Effect of non-taxable income-				
Unaffected interests	(126,069)	(28.19)	(130,316)	(16.8)
Sale of non-taxable securities	(1,770)	(0.40)	(61,087)	(7.9)
Other non-taxable income	(1,361)	(0.30)	(19,987)	(2.6)
Income tax recorded, current and deferred	92,710	20.73	118,823	15.3

14. Equity

(a) Capital stock –

As of December 31, 2021 and 2020, the Bank's authorized capital amounts to S/1,427.53 y S/1,200.00 million; wholly subscribed and paid by the Peruvian Government, as established in article 5 of the Bank's by-laws.

Until December 31, 2020, the Bank's authorized capital was fully paid-in by the Peruvian State through the annual capitalization of profits (50.0 percent of the net income to cover the Bank's capital and 50.0 percent to be transferred to the Public Treasury). Payment ended in 2007, after which all net income was transferred to the Public Treasury.

During 2021, Supreme Decree No. 316-2021-EF, dated November 15, 2021, modified the Bank's subscribed capital from S/1,200.00 million to S/1,600.00 million, through the capitalization of a portion of its profits for fiscal years 2020 and 2021 up to the amount of S/400.00 million, which will allow the Bank to handle the growth of its placements. In this regard, said Supreme Decree authorized the Bank to allocate the total profits for fiscal year 2020 pending transfer to the Public Treasury to cover the authorized capital. The amount capitalized by the Bank during 2021 amounted to S/227.53 million.

Legislative Decree No. 1526, issued on March 1, 2022, approved measures aimed at strengthening the Bank's operations, including the possibility of increasing its capital and modifying its budget, see note 26.

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 2021 and 2020 presented net of their tax effect are as follows:

	S/(000)
Balance as of January 1, 2020	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
Transfer of realized gain from available-for-sale investments, note 19	(7,689)
Net unrealized loss from available-for-sale investments	(719,496)
Deferred income tax, note 4(h) and 13(a)	1,509
Balance as of December 31, 2021	(633,969)

(d) Retained earnings -
Board of directors' meeting No. 2353 held on May 23, 2021 approved the distribution to the Public Treasury of 50 percent of the net profits for the year 2020 for approximately S/327,533, which were deposited in the Public Treasury's checking account on account of profits. Subsequently, board of directors' meeting No. 2368 held on August 31, 2021 resolved to transfer S/100,000, which were deposited in the Public Treasury's checking account. Finally, Supreme Decree No. 316-2021-EF dated November 15, 2021 approved the capitalization of profits for the remaining balance of approximately S/227,533, see note 14(a).

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.

During 2021, the Bank has recorded under "Retained earnings" various adjustments for regularization of transactions for previous years, for a net credit amount of approximately S/11.92 million (net credit amount for approximately S/5.22 million in 2020). 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, 2021 and 2020, 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:

	2021	2020
Total risk weighted assets and credits	1,214,964	1,287,563
Total regulatory capital	1,918,259	1,946,505
Basic regulatory capital	1,559,362	1,596,252
Supplementary regulatory capital	358,897	350,253
Global regulatory capital ratio	13.59%	15.12%

As of December 31, 2021 and 2020, 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, 2021, the additional required estimated regulatory capital amounts to approximately S/181.90 million (S/217.22 million as of December 31, 2020).

In December 2021, the SBS issued Resolution No. 3921-2021, which modifies the calculation of the additional regulatory capital requirement for market concentration, considering size, interconnectedness, substitutability and complexity criteria. It also establishes an adjustment period of two years from December 2022.

On March 26, 2020, the SBS issued Resolution No. 1264-2020, which establishes that regulatory capital requirements in relation to the weighting factor for non-revolving mortgage and consumer loans that have been subject to rescheduling where their maturity has been extended, as indicated in note 2(a)(ii)(f), will not be increased. Moreover, said resolution also authorizes financial institutions to use the additional regulatory capital accumulated by the economic cycle component.

In this regard, as indicated in note 2(a)(ii)(b), the Bank has granted its customers rescheduling benefits, which consist in making changes in the payment schedules and/or granting grace periods, so that the original term of the loan is extended. However, as indicated by the SBS, this extended loan maturity has not led the Bank to make higher regulatory capital requirements due to the weighting factor.

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

15. Tax situation

(a) The Bank is subject to the Peruvian tax regime. As of December 31, 2021 and 2020, the income tax rate is 29.5 percent on taxable income.

Moreover, the same Legislative Decree No. 1261 established a 5 percent rate for dividends and any other form of distribution of Peruvian source profits. It should be noted that the accumulated results or other concepts susceptible of generating taxable dividends referred to in Article 24-A of the Consolidated Text (hereinafter, TUO) of the Income Tax Law, obtained between January 1, 2015 and December 31, 2016, which are part of the distribution of dividends or any other form of distribution of profits, will be taxed at the rate of 6.8 percent, except for the case established in paragraph g) of Article 24-A of the TUO; to which the rate of 4.1 percent will be applied.

Finally, according to the Ninth Final Complementary Provision of Law No. 30296, the rate of 4.1 percent will be applied to the accumulated results or other concepts susceptible of generating taxable dividends, referred to in Article 24-A of the Income Tax Law, obtained up to December 31, 2014, which are part of the distribution of dividends or any other form of distribution of profits.

(b) As detailed in note 1(d), the Government declared a State of National Emergency as a consequence of the COVID-19 pandemic, establishing a series of measures that included a prolonged period of mandatory social isolation, as well as the temporary closure of some economic activities. In this regard, in order to mitigate the temporary effect of the contraction of the Peruvian economy, the Government implemented tax measures so that companies do not cut their payment chain and comply with their labor, financial, commercial and operating obligations. The Bank is subject to the following tax regulations:

1. Application of the discretionary power not to impose administrative penalties for tax violations incurred by debtors, committed or detected during the State of National Emergency, as established by Superintendency Resolution No. 008-2020/SUNAT.

2. An exceptional and temporary special depreciation regime was established for taxpayers of the General Income Tax Regime, as well as the modification of the depreciation terms by increasing the depreciation percentages for certain assets, as provided in Legislative Decree No. 1488. This regime is applicable as of fiscal year 2021.
It should be noted that Law No. 31107, published on December 31, 2020, amended the above-mentioned Legislative Decree No. 1488 published Legislative Decree No. 1488. Among the amendments introduced, it was established that the depreciation of buildings and constructions by applying the 20 percent annual rate may be made until their total depreciation or only during fiscal years 2021 and 2022. The choice of one of these two options is made by the taxpayer when filing his income tax return, and cannot be changed.

3. As mentioned in note 2(a)(ii)(c), the SBS determined that for rescheduled loans resulting from COVID-19, accounted for as such, companies in the financial system should apply the following:
   - The rescheduled loans of debtors with a Normal classification are considered debtors with a credit risk higher than Normal, corresponding to the CPP credit risk level. Specific provisions corresponding to this category (CPP) are applied to these loans, which are applicable to consumer, micro-business and small business loans.

   - The rescheduled loans of debtors with Normal and CPP classification that have not made payment of at least one full installment including principal in the last six months as of the closing of the accounting information, correspond to the level of credit risk Deficient. These loans are subject to the specific provisions corresponding to the substandard credit risk category, applicable to consumer, micro business and small business loans.

   - The rescheduled loans of debtors classified as Normal, CPP and Deficient who have not made payment of at least one full installment including principal in the last twelve months, are assigned a Doubtful credit risk level. These loans are subject to the specific provisions corresponding to the Doubtful credit risk category, applicable to consumer, micro business and small business loans.

- For the interest accrued on rescheduled loans, in current accounting status, corresponding to the consumer, microenterprise and small business loan portfolio, a provisioning requirement corresponding to the substandard risk category will be applied. In the case of debtors who have not paid at least one full installment including principal in the last six months as of the closing of the accounting information, a specific provisioning requirement corresponding to the credit risk category Loss will be applied to such accrued interest. In accordance with the provisions of the SBS, the deadline for recording these provisions was December 31, 2021.

  It also determined that accrued interest not collected at the rescheduling date, recognized as income to be capitalized as a result of the rescheduling, should be extinguished and recorded as deferred income, being recorded as income based on the new term of the loan and as the respective installments are paid.

In line with the above, Ministerial Resolution 387-2020-EF/15 was issued, which states that the provisions for rescheduled loans - COVID 19 referred to in the Eighth Final and Transitory Provision of the Regulation for the Evaluation and Classification of the Debtor and the Requirement of Provisions, approved by SBS Resolution No. 11356-2008, as amended by SBS Resolution No. 3155-2020, jointly meet the requirements set forth in paragraph h) of Article 37 of the Law, regulated by paragraph e) of Article 21 of the Regulations; in this sense, it is provided that these provisions will be treated as specific provisions and will be accepted for tax purposes by SUNAT.

On December 31, 2021, the Ministerial Resolution No. 394-2021-EF/15 which establishes that the provisions for rescheduled loans - COVID 19, referred to in the Ninth final and transitory provision of the Regulation for the Evaluation and Classification of the Debtor and the Requirement of Provisions, approved by SBS Resolution No. 11356-2008, jointly comply with the requirements set forth in Article 37, paragraph h) of the Income Tax Law. In this respect, paragraph h) of Article 37 of the Income Tax Law states that Financial System companies may deduct from their gross income the provisions that jointly meet the following requirements:

- Specific provisions are concerned
- Provisions that do not form part of the effective equity and,
- Provisions exclusively related to credit risks, classified in the categories of potential problems, substandard, doubtful and loss.

(c) As from 2011, with the amendment introduced by Law No. 29645 to the Income Tax Law, interest and other income from external loans granted to the National Public Sector is also included as one of the items exempted from income tax.

Moreover, income obtained from the indirect disposal of shares or ownership interests of stock of legal entities resident in Peru is considered Peruvian source income. For such purposes, it should be considered that an indirect disposal occurs when shares or participations representing the capital of a legal entity not domiciled in the country are disposed of, which, in turn, is the owner--directly or through another legal entity or entities--of shares or participations representing the capital of one or more legal entities domiciled in the country, provided that certain conditions established by law are met. This situation also outlines those circumstances in which the issuer is jointly and severally liable.

Currently, the Income Tax Law states that an indirect transfer of shares occurs when in any of the 12 months prior to the disposal, the market value of the shares or participations of the domiciled legal entity is equivalent to 50 percent or more of the market value of the shares or participations of the non-domiciled legal entity. Additionally, as a concurrent condition, it is established that in any 12-month period shares or participations representing 10 percent or more of the capital of a non-domiciled legal entity are disposed of.

According to Legislative Decree No. 1262, which amended Law 30341, the Act that promotes liquidity and integration of the securities market, and by means of Emergency Decree No. 005-2019, until December 31, 2022, income from the sale of the following securities is exempt: (a) Common shares and investment shares, (b) American Depositary Receipts (ADR) and Global Depositary Receipts (GDR), (c) Exchange Trade Fund (ETF) units with shares and/or debt securities as underlying, (d) Debt securities, e) Certificates of participation in mutual funds for investment in securities, f) Certificates of participation in Real Estate Rental Investment Funds (FIRBI) and certificates of participation in Securitization Trusts for Investment in Real Estate Rental (FIBRA).

In the case of common shares and investment shares, ADRs, GDRs and bonds convertible into shares, the following requirements must be met:

- They must be sold through a centralized trading mechanism supervised by the Superintendency of the Securities Market.

- In a 12-month period, the taxpayer and its related parties do not transfer, through one or more simultaneous or successive transactions, ownership of 10 percent or more of the total securities issued by the company. In the case of ADRs and GDRs, this requirement is determined by considering the underlying shares.

  If the requirement is not met, the taxable income is determined by considering all transfers that have been exempt during the 12 months prior to the disposal.

  The relationship is qualified in accordance with the provisions of Article 32-A, paragraph b) of the Law.

- Securities must have a stock market presence.
  For the other securities covered, it is required that the sale be made through the centralized trading mechanism supervised by the SMV and that it must have a stock exchange presence. In the case of negotiable invoices, it is only required that the sale be made through the centralized negotiation mechanism supervised by the SMV.

  Finally, it is incorporated as a cause for loss of the exemption that the issuer delists the securities from the Securities Registry of the Stock Exchange, totally or partially, in an act or progressively, within the 12 months following the disposal. The Regulations will establish exceptions.

(d) As for the General Sales Tax, interest generated by securities issued through public or private offering by legal entities incorporated or established in the country are not taxed, as well as interest generated by securities not placed through public offering, when they have been acquired through any centralized negotiation mechanism referred to in the Securities Market Law.

On December 30, 2021 was published Legislative Decree No. 1519, which aims to extend the validity of exemptions and tax benefits related to the General Sales Tax.

The extension of the validity of Legislative Decree No. 783 which approves the regulation on the refund of taxes levied on acquisitions with donations from abroad and imports of diplomatic missions and others and the exemption of IGV for the issuance of electronic money made by companies issuing electronic money until December 31, 2024.

The amendment of Article 7 of the General Sales Tax Law, establishing that the exemptions included in Appendices I and II will be valid until December 31, 2022. It should be noted that the aforementioned standard is effective as of January 1, 2022.

(e) For income tax purposes, the transfer prices of transactions with related companies and companies resident in non-cooperating countries or territories, or with subjects or permanent establishments whose income, revenues or profits from such contracts are subject to a preferential tax regime, must be supported by documentation and information on the valuation methods used and the criteria considered for their determination. Based on an analysis of the Bank's operations, management and its in-house legal counsel are of the opinion that, as a result of the application of these standards, no material contingencies will arise for the Bank as of December 31, 2021 and 2020.

Through Legislative Decree No. 1312 published on December 31, 2016, the formal obligations for entities included within the scope of application of Transfer Pricing are modified, incorporating three new informative affidavits; the first one for Local Report, the second one for Master Report and the third one for Country Report. The first one is effective as of 2017 for transactions occurring during 2016 and the last two are effective as of 2018 for transactions occurring as of fiscal year 2017.

(f) In July 2018, Law No. 30823 was published in which Congress delegated to 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) As from January 1, 2019, the treatment applicable to royalties and retributions for services rendered by non-domiciled persons was modified, eliminating the obligation to pay the amount equivalent to the withholding on the occasion of the accounting record of the cost or expense, and now income tax must be withheld on the occasion of the payment or crediting of the retribution. In order for such cost or expense to be deductible for the local company, the remuneration must have been paid or credited up to the date of filing the annual income tax return (Legislative Decree No. 1369).

(ii) The rules regulating the obligation of legal persons and/or legal entities to report the identification of their beneficial owners were established (Legislative Decree No. 1372). 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 reaches non-domiciled legal persons and legal entities incorporated abroad, as long as: a) they have a branch, agency or other permanent establishment in the country; b) the natural or legal person that manages the autonomous patrimony or investment funds abroad, or the natural or legal person that has the capacity of protector or administrator, is domiciled in the country; c) any of the parties 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 to provide greater guarantees to taxpayers in the application of the general anti-avoidance rule (Rule XVI of the Preliminary Title of the Tax Code); as well as to provide the Tax Administration with tools for its effective implementation (Legislative Decree No. 1422).

As part of this amendment, a new case of joint and several liability is introduced when the tax debtor is subject to the application of the measures provided for in Rule XVI in case of detection of tax evasion; in such case, joint and several liability will be attributed to the legal representatives whenever they have collaborated with the design or approval or execution of acts or situations or economic relationships foreseen as evasive 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 relationships carried out within the framework of tax planning and implemented as of the effective date of Legislative Decree No. 1422 (September 14, 2018) and that continue to have effects, must be evaluated by the Board of Directors of the legal entity for the purpose of ratification or modification until March 29, 2019; notwithstanding that the Management or other administrators of the Bank had approved at the time the referred acts, situations and economic relationships.

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.

(iv) Amendments to the Income Tax Law were included, effective January 1, 2019, to improve the tax treatment applicable to (Legislative Decree No. 1424):

- Income obtained from the indirect sale of shares or participations representing the capital of legal entities domiciled in the country. Among the most relevant changes is the inclusion of a new case of indirect disposal, which is configured when the total amount of the shares of the domiciled legal entity whose indirect disposal is made is equal to or greater than 40,000 UIT.
- Permanent establishments of sole proprietorships, partnerships and entities of any nature incorporated abroad. To this effect, new cases of permanent establishment have been included, among them, when services are rendered in the country, in respect of the same project, service or for a related one, for a total period exceeding 183 calendar days within any twelve-month period.
- The regime of credits against income tax for taxes paid abroad, to incorporate the indirect credit (corporate tax paid by foreign subsidiaries) as a credit applicable against the income tax of domiciled legal entities, in order to avoid economic double taxation.
- The deduction of interest expenses for the determination of corporate income tax. In 2019 and 2020, the debt limit, set at up to three times the net worth as of December 31 of the previous year, will be applicable both to loans with related parties and to loans with third parties contracted as of September 14, 2018. Beginning in 2021, the limit for the deduction of financial expenses will be equivalent to 30 percent of the entity's EBITDA.

(v) Rules have been established for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree No. 1425). Until 2018, there was no regulatory definition of this concept; therefore, in many cases, accounting standards were used for its interpretation. In general terms, under the new criterion, for purposes of determining income tax, it will now matter whether the material facts for the generation of the income or expense agreed by the parties, which are not subject to a condition precedent, have occurred, in which case the recognition will be given when this is fulfilled and the established timing of collection or payment will not be taken into account; and, if the determination of the consideration depends on a future fact or event, the total or the portion of the income or expense that corresponds will be deferred until that fact or event occurs.

(g) 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 No. 1434. The aforementioned Regulation came into force 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 reporting period 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.

(h) Law 31106 extends until December 31, 2023 the validity of all exemptions in force to date contained in Article 19 of the Income Tax Law.

In this regard, among the above-mentioned extended exemptions applicable or related to the Bank's operations, are the following:

- Subsection i) of Article 19 states that any type of fixed or variable rate interest, in local or foreign currency, paid on the occasion of a deposit or deposit in accordance with the General Law of the Financial System and the Insurance System and the Organic Law of the Superintendency of Banking and Insurance, Law No. 26702, as well as capital increases of such deposits and deposits in local or foreign currency, shall be exempt, except when such income constitutes third category income.

- Subsection l) of Article 19 states that capital gains from the sale of securities registered in the Public Registry of the Securities Market through centralized trading mechanisms referred to in the Securities Market Law, as well as from the sale of securities outside centralized trading mechanisms will be exempt, provided that the transferor is a natural person, an undivided estate or a marital partnership that opted to be taxed as such.

(i) The Tax Authority has the authority to review and, if applicable, correct the Income Tax calculated by the Bank in the four years following the year of filing the respective tax return.

The annual income tax returns for the years 2017 to 2021 are pending audit by the Tax Administration.

Due to the possible interpretations that the Tax Authority may give to the legal regulations in force, it is not possible to determine at this date whether or not the audits carried out will result in liabilities for the Bank; therefore, any higher taxes, late payment interest and penalties that may result from such tax audits would be applied to the results of the year in which they are determined. However, in the opinion of management and its in-house legal counsel, any additional tax assessments would not be material to the Bank's financial statements.

16. Risks and Commitments

(a) As of December 31, 2021 and 2020, this item is made up as follows:

	2021 S/(000)	2020 S/(000)
Contingent operations (indirect loans) (b) -		
Bank letters of guarantee	455,694	101,635
Letters of credit	444,333	486,023
	900,027	587,658
Unused lines of credit and loans granted but not disbursed (c)	3,006,809	2,688,675
Total contingent operations	3,906,836	3,276,333

(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:

	2021 S/(000)	2020 S/(000)
Interest income		
Interest from loan portfolio	853,457	912,484
Interest from available-for-sale investments, note 4(i)	170,864	125,791
Interest from cash and due from banks	133,163	214,611
Interest from held-to-maturity investments, note 4(k)	128,153	110,041
Interest on investments at fair value through profit or loss	200	692
	1,285,837	1,363,619
Interest expense		
Interest and commissions on deposits and obligations	(42,782)	(46,574)
Interest on securities, bonds and obligations outstanding, note 11(b)	(19,989)	(20,044)
Commissions for outstanding securities, titles and obligations	(94)	(87)
Deposits on financial entities and international financial entities	-	(2)
	(62,865)	(66,707)
Gross financial margin	1,222,972	1,296,912

18. Income and expenses from financial services

(a) These items are made up as follows:

	2021 S/(000)	2020 S/(000)
Fee income from financial services		
Income from cash management (b)	419,571	291,652
Income from insurance sales commission	52,295	49,841
Income from services of tax collection (c)	56,030	45,985
VISA commission income	35,767	29,340
Income from transfer services (d)	23,356	25,080
Income from savings accounts –		
Income from Multired ATMs	7,280	6,952
Credit note commission	3,362	4,305

	2021 S/(000)	2020 S/(000)
Income from savings accounts –		
Income from commission on SUNAT repossessions	11,665	4,004
Income from commission on new Multired card	11,290	9,897
Income from collection	8,075	6,116
Income from services commission - FISE	6,820	5,805
Commission on withdrawal of credit notes of charge	4,411	3,774
Income from contingent operations	3,904	5,651
Income from – checks received from other banks - Clearing	3,873	3,444
Income from penalties payments to suppliers	2,404	1,603
Income from services in shared premises	1,845	1,593
Income from certificates commission	11	186
Others (e)	49,827	50,436
Total	701,786	545,664
Expenses relating to financial services		
Transportation, custody and administration of cash and securities	(142,270)	(147,893)
Credit and debit cards	(126,323)	(97,704)
Cell banking	(49,544)	(33,850)
Omnichannel Banking Service	(9,385)	(7,362)
CORE banking service	(7,915)	(3,065)
Direct debit service – ONP	(5,691)	(5,389)
Other financial services	(18,217)	(12,711)
Total	(359,345)	(307,974)

(b) During 2021, 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/374.62 million, and correspondent banking services for S/44.13 million (S/258.08 million and S/32.57 million, as of December 31, 2020). During the year 2021, there has been an increase in the amount collected, highlighting the teleprocessing service (DGTP) in SUNAT and Customs taxes, given the conditions for the economic reactivation of Peru with respect to the year 2020.

(c) During 2021, income from services of tax collection correspond to the collection of taxes administered by SUNAT for S/22.26 million and the collection of charges corresponds to other entities (Policía Nacional del Perú, Poder Judicial, ONP, among others) for S/33.77 million (S/22.37 million and S/23.62 million, respectively, as of December 31, 2020).

(d) For the year 2021, income from transfer services mainly corresponds to tele-money order system for S/7.65 million, tele-money order correspondent service for S/5.60 million and services of transfer of funds for S/10.11 million (10.76 million, S/5 million and S/9.32 million, respectively, as of December 31, 2020).

(e) During 2021, the other financial services revenues are mainly for interbank transfers for S/17.24 million, current account fees for S/5.20 million, commissions for fiduciary services for S/5.15 million and local bank ATM fees for S/0.03 millon (S/19.39 millon, S/5.36 millon, S/7.93 millon y S/2.45 millon, respectively, as of December 31, 2020); among others.

19. Gain on financial transactions

These items are made up as follows:

	2021 S/(000)	2020 S/(000)
Net gain on available-for-sale investments, note 14(c)	7,689	206,461
Net gain on exchange difference and exchange operations	73,945	35,145
Unrealized gain on investments at fair value through profit or loss	1,042	20,400
Others	-	20
Total	82,676	262,026

20. Administrative expenses

(a) This item is made up as follow:

	2021 S/(000)	2020 S/(000)
Personnel and Board of Directors expenses (b)	(551,155)	(529,017)
Services received from third parties (c)	(365,284)	(305,408)
Taxes and contributions	(121,651)	(90,961)
Total	(1,038,090)	(925,386)

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

	2021 S/(000)	2020 S/(000)
Remuneration	(227,366)	(227,604)
Retirement, note 9(c)	(62,424)	(84,122)
Bonuses	(44,119)	(43,815)
Group performance bonus	(40,000)	(40,000)
Allowances	(31,881)	(34,389)
Extraordinary bonuses (*)	(24,289)	-
Incentivized retirement plan (**)	(23,957)	-
Severance indemnities	(23,463)	(23,237)
Social security	(23,081)	(22,245)
Legal employees' profit sharing	(14,408)	(20,060)
Overtime	(11,745)	(8,829)
Travel allowance	(6,064)	(6,410)
Work uniforms	(5,178)	(4,873)
Extraordinary bonuses	(1,302)	(1,328)
Other expenses	(11,878)	(12,105)
Total	(551,155)	(529,017)
Average number of employees	4,856	5,179

(*) By means of Board of Directors' Meeting No. 2386 dated December 23, 2021, it was approved the granting of (i) an extraordinary bonus for full-time employees, for an indefinite and definitive term in the amount of S/6,000.00 and (ii) an exceptional bonus in favor of full-time employees who are on the payroll due to a precautionary measure in the amount of S/2,400.00. Both bonds were approved by FONAFE through Official Letter SIED No. 0597-2021. It should be noted that they were paid by the Bank as of December 31, 2021.

(**) By means of Board of Directors' Meeting No. 2381 dated November 26, 2021, the Board of Directors approved the Guidelines of the Incentive Retirement Plan 2021. In this regard, workers between the ages of 60 and 69 with indeterminate contracts who decided to take advantage of this benefit submitted their retirement requests, which were evaluated by the Bank's Evaluation Committee and paid according to the allocated budget.

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

	2021 S/(000)	2020 S/(000)
Repair, maintenance and cleaning services	(109,045)	(99,282)
Expenses for rendering of services	(96,731)	(55,715)
Communications and other utilities	(54,489)	(63,718)
Security and insurance	(33,459)	(32,159)
Leases of property and other assets	(19,709)	(18,949)
Professional services	(13,826)	(11,658)
Printing services	(3,855)	(4,582)
Transport, mobility and courier services	(2,108)	(1,977)
Other services	(32,062)	(17,368)
Total	(365,284)	(305,408)

21. Valuation of assets and provisions

(a) This item is made up as follows:

	2021 S/(000)	2020 S/(000)
Provisions for litigation and claims, net (b)	(29,161)	(19,838)
Loss from COFIDE funds (c)	(18,128)	(9,781)
Provision for uncollectable receivables	(161)	(200)
Reversal, net of additions, due to impairment of fixed assets, note 7(g)	-	2,989
Provision for indirect loans	(1,897)	(9,626)
Others	(144)	(23)
	(49,491)	(36,479)

(b) For the year ended December 31, 2021, provisions for litigations and claims include provisions for labor and civil trials for S/44.62 million and S/2.21 million, respectively, net of a reversal of S/17.67 million (mainly S/27.07 million and S/4.48 million, respectively, net of a reversal of S/11.71 million, as of December 31, 2020).

(c) During 2021, it corresponds to the loss from the FAE-MYPE fund of S/16.96 million, note 6(c), net of the gain from the CRECER fund of S/1.17 million, note 6(b). During 2020, it corresponds to the loss from the FAE-MYPE fund of S/12.42 million, net of the gain from the CRECER fund of S/2.64 million, note 6(c) y 6(b), respectively.

22. Other income, net

(a) This item is made up as follows:

	2021 S/(000)	2020 S/(000)
Other income:		
Transfer and custody service to MINEDU (b)	11,920	-
Income from leases	2,122	1,353
Compensation for claims	698	491
Sale of seized assets	473	6,885
Income tax refund plus interest (b)	391	67,753
Other income	1,449	1,820
	17,053	78,302
Other expenses:		
Transfer and custody service to MINEDU (b)	(10,833)	-
Losses and claims not covered by insurance	(5,024)	(2,051)
Administrative and fiscal penalties	(2,799)	(593)
Donations	(934)	(823)
Other expenses	(298)	(2,533)
	(19,888)	(6,000)
Other income, net	(2,835)	72,302

(b) During 2021, the Bank provided services to the Ministry of Education (MINEDU) for the custody and transfer of tests to the evaluation sites nationwide for the Public Competition for Admission to the Public Teaching Career 2021, whose agreement was signed in May 2021. To provide this service, the Bank subcontracted Empresas Transportadoras de Valores.

(c) Through Intendancy Resolution No. 012-180-0023738/SUNAT dated December 31, 2021, 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.

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, 2021						As of December 31, 2020					
	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	28,595,559	-	-	-	-	28,595,559	25,873,987	-	-	-	-	25,873,987
Available-for-sale investments	-	7,098,960	-	-	-	7,098,960	-	6,035,472	-	-	-	6,035,472
Held-to-maturity investments	-	-	2,457,739	-	-	2,457,739	-	-	2,411,146	-	-	2,411,146
Investments at fair value through profit or loss	-	-	-	-	-	-	-	-	-	93,818	-	93,818
Loans portfolio	7,313,357	-	-	-	-	7,313,357	8,045,308	-	-	-	-	8,045,308
Accounts receivable, net	332,766	-	-	-	-	332,766	357,227	-	-	-	-	357,227
Other assets, note 8(a)	472,378	-	-	-	-	472,378	557,772	-	-	-	-	557,772
	36,714,060	7,098,960	2,457,739	-	-	46,270,759	34,834,294	6,035,472	2,411,146	93,818	-	43,374,730
Financial Liabilities												
Obligations to the public	-	-	-	-	44,118,449	44,118,449	-	-	-	-	39,664,885	39,664,885
Deposits of financial system companies and international financial entities	-	-	-	-	382,107	382,107	-	-	-	-	677,059	677,059
Securities, bonds and obligations outstanding	-	-	-	-	251,666	251,666	-	-	-	-	251,677	251,677
Accounts payable	-	-	-	-	462,707	462,707	-	-	-	-	432,769	432,769
Other liabilities, note 8(a)	-	-	-	-	356,364	356,364	-	-	-	-	747,089	747,089
	-	-	-	-	45,571,293	45,571,293	-	-	-	-	41,773,479	41,773,479

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 made up of the Executive President, General Manager, Finance and Accounting Manager, Products and Financial Inclusion Manager, 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 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, 2021 and 2020, 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:

- 95.71 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, 2021 (96.13 percent as of December 31, 2020);
- 97.53 percent of the loan portfolio is considered neither past due nor impaired as of December 31, 2021 (98.42 percent as of December 31, 2020);
- 13.35 percent of the commercial loan portfolio has a sovereign risk as of December 31, 2021 (13.24 percent as of December 31, 2020).
- 100 per cent of investments classified in Peru or abroad have at least investment grade (BBB- or greater) as of December 31, 2021 and 2020;
- 7.73 percent and 91.25 percent of the cash and due from banks represent amounts deposited in the Bank and in the BCRP, respectively, as of December 31, 2021 (9.57 percent and 89.48 percent, respectively, as of December 31, 2020).

(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, 2021						As of December 31, 2020					
	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	2,150,513	11,006	4,758,765	363,440	7,283,724	100.08	3,041,520	-	4,665,528	316,819	8,023,867	100.30
Potential problem	10,227	120	98,475	604	109,426	1.50	3,463	-	57,286	2,325	63,074	0.78
Past due but not impaired -												
Normal	-	-	-	-	-	0.00	-	-	-	-	-	-
Potential problem	-	-	-	3	3	0.00	-	-	-	-	-	-
Impaired -												
Substandard	3,320	27	35,380	1,830	40,557	0.56	3,658	-	49,511	1,704	54,873	0.68
Doubtful	44	42	99,680	3,247	103,013	1.42	8	-	108,011	3,689	111,708	1.38
Loss	6,726	696	176,070	2,340	185,832	2.55	6,537	664	152,470	1,348	161,019	1.99
Gross	2,170,830	11,891	5,168,370	371,464	7,722,555	106.11	3,055,186	664	5,032,806	325,885	8,414,541	105.14
Less: Provision for loan losses	37,777	819	398,195	7,848	444,639	(6.11)	43,551	664	360,336	6,850	411,401	(5.14)
Total, net	2,133,053	11,072	4,770,175	363,616	7,277,916	100.00	3,011,635	-	4,672,470	319,035	8,003,140	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, 2021					As of December 31, 2020				
	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	10,090	765	311,137	7,417	329,409	10,203	664	309,992	6,741	327,600
Collateral	-	-	-	4,776	4,776	-	-	-	4,763	4,763
Provision for loan losses	8,515	703	249,647	4,776	263,641	7,698	664	227,395	4,051	239,808

As of December 31, 2021 and 2020, the exposure to this loan portfolio risk is distributed in the following economic sectors:

	2021 S/(000)	2020 S/(000)
Financial intermediation	2,052,672	2,061,357
Public administration and defense	109,655	452,637
Manufacturing industry	1,692	191,623
Transport, storage and communications	18,702	18,517
Others	-	331,716
Sub – Total	2,182,721	3,055,850
Consumer loans	5,168,370	5,032,806
Residential mortgage loans	371,464	325,885
Total	7,722,555	8,414,541

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, 2021, balances of reprogrammed loans and not considered as “refinanced loans”, due to the aforementioned situation, amount to approximately S/417.79 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, 2021		As of December 31, 2020	
	S/(000)	%	S/(000)	%
Instruments rated abroad:				
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, 2021		As of December 31, 2020	
	S/(000)	%	S/(000)	%
Instruments rated in Peru:				
AAA	29,186	0.41	37,832	0.63
AA- a AA+	764	0.01	1,304	0.02
Subtotal	29,950	0.42	39,136	0.65
Instruments rated abroad:				
A-2	1,967,149	27.71	2,996,243	49.64
BBB- a BBB+	5,072,288	71.45	2,974,496	49.28
Non-listed shares	29,573	0.42	25,597	0.42
Subtotal	7,069,010	99.58	5,996,336	99.35
Total	7,098,960	100.00	6,035,472	100.00

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

	As of December 31, 2021		As of December 31, 2020	
	S/(000)	%	S/(000)	%
Instruments rated abroad:				
BBB	2,324,888	100.0	2,411,146	100.0
Total	2,324,888	100.0	2,411,146	100.0

As of December 31, 2021 and 2020, the financial instruments exposed to credit risk according to geographic area are the following:

	As of December 31, 2021					As of December 31, 2020				
	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	36,558,536	7,069,387	2,457,739	-	46,085,662	34,675,788	6,009,874	2,411,146	-	43,096,808
United States of America	77,461	-	-	-	77,461	85,218	-	-	83,008	168,226
Colombia	-	-	-	-	-	65,558	-	-	-	65,558
Panama	-	29,573	-	-	29,573	-	25,598	-	-	25,598
England	58,958	-	-	-	58,958	-	-	-	-	-
Germany	5,206	-	-	-	5,206	-	-	-	-	-
Other countries	14,047	-	-	-	14,047	7,869	-	-	10,810	18,679
Country risk	(148)	-	-	-	(148)	(139)	-	-	-	(139)
Total	36,714,060	7,098,960	2,457,739	-	46,270,759	34,834,294	6,035,472	2,411,146	93,818	43,374,730

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, 2021					As of December 31, 2020				
	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	4,774,626	4,331,458	1,866,840	33,145,525	44,118,449	4,612,729	4,110,236	2,262,928	28,678,992	39,664,885
Deposits of financial system companies and international financial entities	309,083	71,854	-	1,170	382,107	654,702	5,791	-	16,566	677,059
Securities, bonds and obligations outstanding	-	-	1,670	249,996	251,666	-	-	1,670	250,007	251,677
Accounts payable	358,605	54,408	20,964	28,730	462,707	192,125	60,417	28,521	151,706	432,769
Other liabilities	356,364				356,364	747,089	-	-	-	747,089
Total liabilities	5,798,678	4,457,720	1,889,474	33,425,421	45,571,293	6,206,645	4,176,444	2,293,119	29,097,271	41,773,479

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

	January 1, 2021 S/(000)	Cash flows S/(000)	Approval of profit sharing S/(000)	Interest payable S/(000)	December 31, 2021 S/(000)
Distribution of income to Public Treasury	-	(427,533)	427,533	-	-
Payment of interest on subordinated bonds	251,677	(20,000)	.	19,989	251,666
Total liabilities from financing activities	251,677	(447,533)	427,533	19,989	251,666

	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

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, 2021 and 2020, the Bank introduced a VPR of 12.5 and 8.85 percent, respectively, and obtained a GER of 0.76 and 0.99 percent for the periods 2021 and 2020, 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, 2021					
	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	15,626,579	4,000,000	5,000,000	1,000,781	2,968,199	28,595,559
Available-for-sale investments	1,088,777	850,988	29,872	5,129,323	-	7,098,960
Held-to-maturity investment	64,637	42,378	-	2,350,724	-	2,457,739
Loans portfolio	174,544	483,456	1,643,208	5,264,943	(252,794)	7,313,357
Accounts receivable and other assets	-	-	18	1,017	1,811,484	1,812,519
Total assets	16,954,537	5,376,822	6,673,098	13,746,788	4,526,889	47,278,134
Liabilities						
Deposits and obligations to the public	9,067,961	8,967,714	9,566,852	12,693,238	3,822,684	44,118,449
Securities, bonds and obligations outstanding	-	-	1,670	249,996	-	251,666
Accounts payable and other liabilities	-	-	-	168	1,320,254	1,320,422
Shareholders' equity	-	-	-	-	1,587,597	1,587,597
Total liabilities	9,067,961	8,967,714	9,568,522	12,943,402	6,730,535	47,278,134
Marginal gap	7,886,576	(3,590,892)	(2,895,424)	803,386	(2,203,646)	-
Accumulated gap	7,886,576	4,295,684	1,400,260	2,203,646	-	-

	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 portfolio	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	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	-	-

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, 2021, the weighted average market exchange rate published by the SBS for transactions in U.S. Dollars was S/3.975 per US$1 for purchase and S/3.998 per US$1 for sale (S/3.618 and S/3.624 as of December 31, 2020, respectively). As of December 31, 2021, the exchange rate for the accounting of assets and liabilities in foreign currency set by SBS was S/3.987 per US$1 (S/3.621 as of December 31, 2020).

The table below presents the detail of the Bank's currency position as of December 31, 2021 and 2020:

	2021				2020			
	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	3,176,284	25,328,418	90,857	28,595,559	2,666,557	23,126,213	81,217	25,873,987
Investments at fair value through profit or loss	-	-	-	-	93,818	-	-	93,818
Available-for-sale investments	29,593	7,069,348	19	7,098,960	25,597	5,896,715	113,160	6,035,472
Held-to-maturity investment	-	2,457,739	-	2,457,739	-	2,411,146	-	2,411,146
Loans portfolio		7,313,357		7,313,357	-	8,045,308	-	8,045,308
Accounts receivable, net	1,272	331,494	-	332,766	1,064	356,163	-	357,227
Other assets, net, note 8	14,862	457,205	311	472,378	9,575	548,197	-	557,772
Total monetary assets	3,222,011	42,957,561	91,187	46,270,759	2,796,611	40,383,742	194,377	43,374,730
Monetary liabilities								
Obligations to the public	3,136,007	40,893,180	89,262	44,118,449	2,723,220	36,759,235	182,430	39,664,885
Deposits of financial system companies and international financial entities	5,246	376,861	-	382,107	7,689	669,370	-	677,059
Securities, bonds and obligations outstanding	-	251,666	-	251,666		251,677	-	251,677
Accounts payable	1,083	461,413	211	462,707	1,099	431,670	-	432,769
Other liabilities, note 8	8,042	346,692	1,630	356,364	194	746,895	-	747,089
Total monetary liabilities	3,150,378	42,329,812	91,103	45,571,293	2,732,202	38,858,847	182,430	41,773,479
Net monetary position	71,633	627,749	84	699,466	64,409	1,524,895	11,947	1,601,251

As of December 31, 2021, the Bank has contingent operations (indirect loans) in foreign currency for approximately US$223.80 million, equivalent to approximately S/892.28 million (approximately US$153.50 million, equivalent to approximately S/555.82 million as of December 31, 2020).

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, 2021 and 2020 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** %	**2021** S/(000)	**2020** S/(000)
Devaluation -			
U.S. Dollar	5	(1,271)	(1,555)
U.S. Dollar	10	(2,542)	(3,109)
Revaluation -			
U.S. Dollar	5	1,271	1,555
U.S. Dollar	10	2,542	3,109

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, 2021 and 2020, including the level of the fair value hierarchy. The amounts are based on the balances presented in the statements of financial situation:

		As of December 31, 2021			
	Note	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		-	-	-	-
Supranational bonds		-	-	-	-
Total investments at fair value through profit or loss	4(a)	-	-	-	-
Available-for-sale investments:					
BCRP Certificates of deposit		-	1,950,372	-	1,950,372
Sovereign bonds		5,006,806	-	-	5,006,806
Corporate bonds		-	29,592	-	29,592
Capital instruments		29,573	-	-	29,573
		5,663,379	1,979,964	-	7,016,343
Accrued return					82,617
Total available for sale investments	4(a)				7,098,960

		As of December 31, 2020			
	Note	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		-	2,967,197	-	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	3,102,045	-	5,995,559
Accrued return					39,913
Total available for sale investments	4(a)				6,035,472

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, 2021					As of December 31, 2020				
	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	-	28,595,559	-	28,595,559	28,595,559	-	25,873,987	-	25,873,987	25,873,987
Held-to-maturity investments	-	2,324,888	-	2,324,888	2,457,739	-	2,270,112	-	2,270,112	2,411,146
Loans portfolio	-	7,313,357	-	7,313,357	7,313,357	-	8,045,308	-	8,045,308	8,045,308
Accounts receivable	-	332,766	-	332,766	332,766	-	357,227	-	357,227	357,227
Other assets, net	-	472,378	-	472,378	472,378	-	557,772	-	557,772	557,772
Total	-	39,038,948	-	39,038,948	39,171,799	-	37,104,406	-	37,104,406	37,245,440
Liabilities										
Obligations to the public	-	44,118,449	-	44,118,449	44,118,449	-	39,664,885	-	39,664,885	39,664,885
Deposits of financial system companies	-	382,107	-	382,107	382,107	-	677,059	-	677,059	677,059
Securities, bonds and obligations outstanding	-	251,666	-	251,666	251,666	-	251,677	-	251,677	251,677
Accounts payable	-	462,707	-	462,707	462,707	-	432,769	-	432,769	432,769
Other liabilities	-	356,364	-	356,364	356,364	-	747,089	-	747,089	747,089
Total	-	45,571,293	-	45,571,293	45,571,293	-	41,773,479	-	41,773,479	41,773,479

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, 2021 and 2020, 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

Legislative Decree No. 1526, issued on March 1, 2022, approved measures aimed at strengthening the long-term solvency of the Banco de la Nación. In this connection, it was mainly approved that:

i. The Bank's Board of Directors request FONAFE to make capital increases from time to time in an average amount of the net profits generated by the Bank itself during the four years prior to the year of the request made to FONAFE. The capitalization may only be made when the overall capital ratio is below thirteen percent (13%) or, failing that, below the minimum allowed by the SBS; and is paid up to a maximum amount equal to thirty percent (30%) of the annual net profits generated by the Bank itself.

ii. The Bank's Board of Directors may increase or modify its Personnel Allocation Table (CAP) directly and exclusively, in compliance with the guidelines established by FONAFE.

iii. The Bank's Board of Directors may approve or modify its budget to cover personnel needs within its Personnel Allocation Table (CAP) or technological requirements of the Bank's IT area, in compliance with the specific guidelines established by FONAFE.

iv. The Bank's Board of Directors may approve its Institutional Strategic Plan (PEI) and Institutional Operating Plan (POI), which are prepared in accordance with the specific guidelines established by FONAFE and aligned with FONAFE's Corporate Strategic Plan, following the approval of the Ministry of Economy and Finance in financial inclusion matters.

v. The Bank's Board of Directors may approve voluntary retirement programs with incentives for employees, provided that they are budgeted and comply with the specific guidelines established by FONAFE.

vi. The Bank's Board of Directors may approve or modify its fees scale, in compliance with the specific guidelines established by FONAFE.

To date, Management has estimated that during the second quarter of 2022 it will capitalize profits in the amount of S/ 172.47 million, in order to complete the capital modified under Supreme Decree No. 316-2021-EF up to the amount of S/1,600.00 million, see note 14 (a). Subsequently, it will make the appropriate evaluations of the overall capital ratio and, if applicable, will request FONAFE's approvals of profit capitalizations.

Except as described above, there are no other material events known to have occurred between the closing date of these financial statements and the date of this report that could materially 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.

CONSTANCIA DE HABILITACIÓN

El Decana y el Director Secretario del Colegio de Contadores Públicos de Lima, que suscriben, declaran que, en base a los registros de la institución, se ha verificado que

TANAKA VALDIVIA & ASOCIADOS S. CIVIL DE R.L
SOCIEDAD: S0761

Se encuentra, HABIL, para el ejercicio de las funciones profesionales que le faculta la Ley Nº 13253 y su modificación Ley Nº 28951 y conforme al Estatuto y Reglamento Interno de este 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 30 de ABRIL del 2022.

Lima, 02 de AGOSTO de 2021.

CPC. GUILLERMINA ZAVALA PAUCAR
DECANA

CPC. GLADYS MILAGROS BAZAN ESPINOZA
DIRECTORA SECRETARIA

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