

Translation of independent auditor's report and financial statements
originally issued in Spanish - Note 32

Banco BBVA Perú

Separate financial statements as of December 31, 2022 and
2021, together with Independent Auditor's Report

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Banco BBVA Perú

Separate financial statements as of December 31, 2022 and 2021, together with Independent Auditor's Report

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Independent Auditor's Report

To the Shareholders of Banco BBVA Perú

Opinion

We have audited the separate financial statements of Banco BBVA Perú (a subsidiary of BBVA Perú Holding S.A.C., an entity incorporated in Peru, hereinafter "the Bank"), comprising the separate statement of financial position as of December 31, 2022, and the separate statement of income, comprehensive income, changes in equity and cash flows for the year then ended; as well as the explanatory notes to the separate financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of Banco BBVA Perú as of December 31, 2022, as well as its financial performance and cash flows for the year then ended, in accordance with the accounting standards established by the Superintendence of Banking, Insurance and Private Pension Funds Administrators ("SBS", by its Spanish acronym) for Peruvian financial entities, see note 3.

Basis of the opinion

We perform our audit in accordance with the International Standards on Auditing (ISA) approved for application in Peru by the Board of Peruvian Associations of Certified Public Accountants. Our responsibilities under these standards are described in more detail in the *Auditor's Responsibilities* section regarding the audit of the separate financial statements of our report. We are independent of the Bank in accordance with the International Accounting Standards Board Code of Ethics for Accountants (IESBA Code) along with ethical requirements that are relevant to our audit of financial statements in Peru, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained provides a sufficient and adequate basis for our opinion.

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Independent Auditor's Report (continued)

Emphasis on separate information

The separate financial statements of Banco BBVA Peru have been prepared in compliance with the legal requirements in force in Peru for the presentation of financial information in the instructions established by the Superintendence of Banking, Insurance and Private Pension Funds Administrators ("SBS", by its Spanish acronym) as indicated in note 2(a). These separate financial statements must be read together with the consolidated financial statements of Banco BBVA Perú and Subsidiaries as of December 31, 2022, which are prepared and presented separately.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in the audit of the separate financial statements for the current period. These matters were addressed in the context of the audit of the separate financial statements as a whole, and in forming our opinion thereon; so we do not provide a separate opinion on these matters. Based on the above, below is how each key matter was addressed during our audit.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities section regarding the audit of the separate financial statements* of our report, including in relation to these matters. Accordingly, our audit included conducting procedures designed to respond to the risks of material misstatement assessed in the separate financial statements. The results of the audit procedures, including the procedures performed to address the matters mentioned below, form the basis for the audit opinion on the accompanying separate financial statements.

Key Audit Matter	Audit response
Estimation of the provision for the non-retail loan portfolio under the regulations of the Superintendence of Banking, Insurance and Private Pension Funds Administrators ("SBS", by its Spanish acronym)	<p>As described in note 3(d) to the separate financial statements, the estimate of the provision for the non-retail loan portfolio is determined following the methodology defined by the SBS, which establishes the specific percentages for the calculation of the provision, which depend on the credit classification of the debtor. To define the</p>
	<p>We gained an understanding, evaluated the design and tested the operational effectiveness of the controls of the estimation of the provision for non-retail loan portfolio under the SBS standards, which included:</p> <ul style="list-style-type: none">- Methodology and criteria established for the calculation according to SBS required regulations.

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debtor's credit rating, the Bank, among other relevant factors, considers: The debtor's payment experience, the history of commercial relations with the debtor's management, the history of operations, the debtor's ability to pay and availability of funds, the situations of collaterals and guarantees received, the analysis of the financial statements of the debtor, the risk of the debtor in other financial institutions in the market.

Therefore, we consider that the estimation of the provision for the non-retail loan portfolio is a key audit matter; given that, to define the calculation rate of the provision, the debtor must be classified based on qualitative and quantitative variables in which the critical and professional judgment of the Bank's risk specialists intervenes.

- Integrity and accuracy of the database in the Bank's systems.
- Credit classification of non-retail loan portfolio, considering the Bank's methodology and SBS requirements.
- Review of the calculation of the estimation of the provision for the non-retail loan portfolio in the Bank's systems.
- Disclosure in the notes to the separate financial statements.

In addition, we carried out detailed substantive procedures, which included:

- We assessed whether the accounting policies defined by the Bank are coherent with SBS requirements.
- We tested the integrity and accuracy of the data used in the provision calculation.
- We inspected in a selective manner the credit classification of the debtor, assessing the reasonability of Management's most relevant assumptions.
- We perform a recalculation of the estimate of the non-retail loan portfolio provision.
- We evaluated the adequacy of disclosures in the notes to the separate financial statements.

Information Technology (IT) Environment

The Bank's activities depend to a large extent on the efficient and continuous operation of information technology systems and technology infrastructures, which encompass a large number of IT applications and systems for the processing of all its operations (with

Assisted by our Information Technology (IT) specialists, our audit efforts focused on the Bank's key systems, carrying out, among others, the following procedures:



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significant volumes), accounting records and preparation of the separate financial statements.

The Bank's IT system consists of a set of complex computer applications, essential in the Bank's various business operations. IT environment controls include: IT governance, overall IT controls over program development and changes, access to programs and data, and IT operations, therefore, such controls must be designed and operated effectively with the aim of ensuring the integrity of accurate accounting records and financial reports, in this way mitigate the potential risk of fraud or error. As same of importance are executed calculations of systems, other IT application controls, and interfaces between IT systems.

Therefore, we consider the information technology environment as a key issue, given that the reliability and security of IT systems plays a fundamental role in ensuring the correct treatment of data processing, accounting records and preparation of the separate financial statements.

Other information included in the Bank's 2022 Annual Report

Management is responsible for other information. Other information includes the information included in the Bank's Annual Report and does not form an integral part of the separate financial statements or our related audit report.

Our opinion on the separate financial statements does not cover other information and we do not express any form of conclusion that provides a degree of assurance thereon.

- We evaluated and tested overall IT controls by performing: an understanding of IT governance, reviewing key (including compensatory) controls over application and data access management, application changes and developments, and IT operations.
- We tested application controls, considering the design and operational effectiveness of critical automated controls to data processing, accounting records and the preparation of the financial statement. With respect to identified control deficiencies, we tested the design and operational effectiveness of compensation controls.



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Independent Auditor's Report (continued)

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information is materially inconsistent with the separate financial statements or our knowledge gained in the audit or otherwise appears to be materially misstated. If, based on the work we have done, we conclude that there is a material error of this other information, we are obliged to report that fact. We have nothing to report in this regard.

Responsibilities of the Bank's management and corporate governance officers in relation to the separate financial statements

Management is responsible for the preparation and fair presentation of separate financial statements in accordance with the accounting standards established by the Superintendence of Banking, Insurance and Private Pension Funds Administrators ("SBS", by its Spanish acronym) for financial entities in Peru, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing as appropriate matters relating to the going concern and using the going concern basis of the undertaking unless Management intends to liquidate the Bank or cease operations, or have no realistic alternative to doing so.

Those responsible for the Bank's corporate governance are responsible for overseeing the Bank financial reporting process.

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

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable security is a high level of assurance, but it does not guarantee that an audit conducted in accordance with ISAs approved for application in Peru will always detect a material misstatement where it exists. Inaccuracies may arise due to fraud or error and are considered material if, individually or cumulatively, they could reasonably be expected to influence the economic decisions users make based on the financial statements.



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As part of an audit in accordance with the International Standards on Auditing (ISAs) approved for application in Peru by the Board of Peruvian Associations of Certified Public Accountants, we exercise professional judgment and maintain professional skepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement in the separate financial statements, whether due to fraud or error, design and execute audit procedures that respond to those risks, and obtain audit evidence that is sufficient and appropriate to provide us with a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than that resulting from an error, as fraud may involve collusion, falsification, intentional omissions, misrepresentations or overstepping the internal control system.
- We gained an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank.
- We evaluate the adequacy of the accounting policies used, the reasonableness of the accounting estimates and the respective disclosures made by Management.
- We conclude on the suitability of Management's use of the going concern basis and, based on the audit evidence obtained, whether there is material uncertainty related to events or conditions that may raise significant doubts about the Bank ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to disclosures relating to the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Conclusions are based on audit evidence obtained to date from our audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- We evaluate the overall presentation, structure, content of the separate financial statements, including disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate to the Bank's corporate governance managers, among other matters, the planned scope and timing of the audit, the significant findings of the audit, as well as any significant internal control deficiencies identified in the course of the audit.



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We also provide those responsible for the Bank's corporate governance with a statement that we have complied with the applicable ethics requirements in relation to independence and that we have disclosed all relationships and other matters that could reasonably be expected to affect our independence and, where applicable, the measures taken to eliminate the threats or safeguards applied.

Among the matters that have been the subject of communication with those responsible for the Bank's corporate governance, we determine those that have been of the greatest significance in the audit of the separate financial statements for the current period and, therefore, are the key audit matters. We have described such matters in our audit report unless legal or regulatory provisions prohibit public disclosure of the matter or, in extremely rare circumstances, we determine that a matter should not be disclosed in our report because it would reasonably be expected that the adverse consequences of doing so would outweigh the public interest benefits of the report.

Other issue

The separate financial statements as of December 31, 2021 and for the year ended on that date, were audited by other independent auditors who, on February 23, 2022, issued an unqualified opinion.

Lima, Peru
February 23, 2023

Countersigned by:

Tanaka, Valdivia & Asociados

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

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Banco BBVA Perú

Separate statement of financial position

As of December 31, 2022 and 2021

	Note	2022 S/(000)	2021 S/(000)
Assets			
Cash and due from banks	5	12,127,347	16,247,884
Investments at fair value through profit or loss and available-for-sale investments	6	11,571,509	9,710,027
Loan portfolio, net	7	69,087,751	70,381,769
Trading derivatives	8	1,349,619	1,767,732
Hedging derivatives	8	3,659	75,805
Realizable, received in payment and seized assets, net		67,873	43,916
Interests in subsidiaries and associates	9	175,262	389,390
Property, furniture and equipment, net	10	1,077,718	1,071,350
Income tax	24	768,539	695,900
Other assets, net	11	1,926,988	1,260,804
Total assets		<u>98,156,265</u>	<u>101,644,577</u>
Contingent risks and commitments	16	36,308,949	32,374,034
Liabilities			
Deposits and obligations with the public and financial institutions	12	67,096,104	64,279,478
Debts and financial obligations	13	4,029,240	6,840,555
Trading derivatives	8	1,245,843	1,572,020
Hedging derivatives	8	103,628	35,059
Accounts payable, provisions and other liabilities	14	14,424,261	18,735,729
Total liabilities		<u>86,899,076</u>	<u>91,462,841</u>
Equity			
Share capital	15	7,382,184	6,758,467
Reserves		2,053,490	1,896,680
Unrealized gains or losses		(91,052)	(32,704)
Retained earnings		1,912,567	1,559,293
Total equity		<u>11,257,189</u>	<u>10,181,736</u>
Total equity and liabilities		<u>98,156,265</u>	<u>101,644,577</u>
Contingent risks and commitments	16	36,308,949	32,374,034

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

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Separate statement income

For the years ended December 31, 2022 and 2021

	Note	2022 S/(000)	2021 S/(000)
Interest income	17	5,716,675	4,246,014
Interest expense	18	(1,125,966)	(635,187)
Gross financial margin		<u>4,590,709</u>	<u>3,610,827</u>
Provision for direct loans, net of recoveries	7	(999,089)	(756,352)
Net financial margin		<u>3,591,620</u>	<u>2,854,475</u>
Income from financial services, net	19	<u>872,480</u>	<u>841,242</u>
Net financial margin of income from financial services		<u>4,464,100</u>	<u>3,695,717</u>
Profit or loss from financial transactions	20	<u>640,612</u>	<u>703,299</u>
Operating margin		<u>5,104,712</u>	<u>4,399,016</u>
Administrative expenses	21	(2,124,482)	(1,784,279)
Depreciation and amortization	10 y 11(b)	(209,808)	(194,469)
Net operating margin		<u>2,770,422</u>	<u>2,420,268</u>
Measurement of assets and provisions		(132,734)	(178,415)
Net operating profit or loss		<u>2,637,688</u>	<u>2,241,853</u>
Other income and expenses, net	22	<u>8,596</u>	<u>(16,171)</u>
Profit before income tax		<u>2,646,284</u>	<u>2,225,682</u>
Income tax	23	(733,717)	(666,389)
Net profit		<u>1,912,567</u>	<u>1,559,293</u>
Basic and diluted earnings per share in soles	25	0.2591	0.2112
Weighted average number of outstanding shares (in thousands of shares)	25	<u>7,382,184</u>	<u>7,382,184</u>

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

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Separate statement of other comprehensive income

For the years ended December 31, 2022 and 2021

	2022 S/(000)	2021 S/(000)
Net profit	1,912,567	1,559,293
Other comprehensive income:		
Unrealized loss on available-for-sale investments	(40,204)	(153,023)
Unrealized loss on cash flow hedges	(30,095)	(15,251)
Interests in other comprehensive income of subsidiaries and associates	(892)	512
Unrealized gains on actuarial liabilities	846	15,566
Income tax on items of other comprehensive income	11,997	344
Other comprehensive income for the period, net of income tax	<u>(58,348)</u>	<u>(151,852)</u>
Total comprehensive income for the year	<u>1,854,219</u>	<u>1,407,441</u>

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

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Separate statement of changes in equity

For the years ended December 31, 2022 and 2021

	Number of shares in thousands	Share Capital (note 15(a)) S/(000)	Legal Reserve (note 15(b)) S/(000)	Unrealized gains or losses (note 15(c)) S/(000)	Retained earnings (note 15(d)) S/(000)	Total S/(000)
Balance as of January 1, 2021	6,529,169	6,529,169	1,831,131	119,148	896,621	9,376,069
Net profit	-	-	-	-	1,559,293	1,559,293
Other comprehensive income						
Unrealized loss on available-for-sale investments	-	-	-	(152,587)	-	(152,587)
Unrealized loss on cash flow hedges	-	-	-	(10,752)	-	(10,752)
Interests in other comprehensive income of subsidiaries and associates	-	-	-	512	-	512
Unrealized gains on actuarial liabilities	-	-	-	10,975	-	10,975
Total comprehensive income for the year	-	-	-	(151,852)	1,559,293	1,407,441
Dividends, note 15(d)	-	-	-	-	(601,810)	(601,810)
Capitalization of retained earnings, note 15(a)	229,298	229,298	-	-	(229,298)	-
Additions to reserves and other movements, note 15(b)	-	-	65,549	-	(65,513)	36
Balance as of December 31, 2021	<u>6,758,467</u>	<u>6,758,467</u>	<u>1,896,680</u>	<u>(32,704)</u>	<u>1,559,293</u>	<u>10,181,736</u>
Net profit	-	-	-	-	1,912,567	1,912,567
Other comprehensive income						
Unrealized loss on available-for-sale investments	-	-	-	(36,835)	-	(36,835)
Unrealized loss on cash flow hedges	-	-	-	(21,217)	-	(21,217)
Interests in other comprehensive income of subsidiaries and associates	-	-	-	(892)	-	(892)
Unrealized gains on actuarial liabilities	-	-	-	596	-	596
Total comprehensive income for the year	-	-	-	(58,348)	1,912,567	1,854,219
Dividends, note 15(d)	-	-	-	-	(779,647)	(779,647)
Capitalization of retained earnings, note 15(a)	623,717	623,717	-	-	(623,717)	-
Additions to reserves and other movements, note 15(b)	-	-	156,810	-	(155,929)	881
Balance as of December 31, 2022	<u>7,382,184</u>	<u>7,382,184</u>	<u>2,053,490</u>	<u>(91,052)</u>	<u>1,912,567</u>	<u>11,257,189</u>

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

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Separate statement of cash flows

For the years ended December 31, 2022 and 2021

	Note	2022 S/(000)	2021 S/(000)
Reconciliation of the net profit to cash and flows from operating activities			
Net profit		1,912,567	1,559,293
Adjustments			
Depreciation and amortization		209,808	194,469
Impairment of property, furniture and equipment, and intangible assets		48,400	50,946
(Reversal of an impairment loss) Impairment of available-for-sale investments		267	(2,633)
Provisions		1,083,156	886,454
Other adjustments		650,565	1,030,989
Net changes in assets and liabilities			
Loan portfolio		(444,194)	(2,964,975)
Available-for-sale investments		(178,036)	(1,889,581)
Accounts receivable and others		88,376	591,405
Unsubordinated financial liabilities		4,255,702	(11,044,961)
Accounts payable and others		(4,456,093)	1,454,296
Profit or loss for the period after net changes in assets, liabilities and adjustments		<u>3,170,518</u>	<u>(10,134,298)</u>
Paid tax		<u>(984,322)</u>	<u>(861,651)</u>
Net cash and cash equivalents from (used) operating activities		<u>2,186,196</u>	<u>(10,995,949)</u>
Cash flows from investing activities:			
Purchases of interests		(153)	-
Acquisition of intangible assets and property, furniture, and equipment		(323,593)	(337,421)
Other cash inflows from investing activities		188,406	75,684
Net cash and cash equivalents used in investing activities		<u>(135,340)</u>	<u>(261,737)</u>

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Separate statement of cash flows (continued)

	Note	2022 S/(000)	2021 S/(000)
Cash flows from financing activities			
Cash inflows for issuance of subordinated financial liabilities		-	729,800
Redemption of subordinated financial liabilities		(78,190)	-
Cash paid for dividends	15(d)	(778,101)	(601,232)
Other cash inflows from financing activities		796,200	192,900
Other cash outflows from financing activities		<u>(3,574,144)</u>	<u>(1,451,913)</u>
Net cash and cash equivalents used in financing activities		<u>(3,634,235)</u>	<u>(1,130,445)</u>
Net decrease in cash and cash equivalents before effects of exchange rate fluctuations		<u>(1,583,379)</u>	<u>(12,388,131)</u>
Effects of changes in exchange rates on cash and cash equivalents		<u>(624,136)</u>	<u>963,645</u>
Net decrease in cash and cash equivalents		<u>(2,207,515)</u>	<u>(11,424,486)</u>
Cash and cash equivalents at the beginning of the year		<u>19,773,610</u>	<u>31,198,096</u>
Cash and cash equivalents at the end of the year		<u>17,566,095</u>	<u>19,773,610</u>
Guarantee funds		699,639	843,075
Investment with maturities of less than 90 days		<u>(6,138,387)</u>	<u>(4,368,801)</u>
Cash and due from Banks per the statement of separate financial position	5	<u>12,127,347</u>	<u>16,247,884</u>

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Notes to the separate financial statements

As of December 31, 2022 and 2021

1. Operations

(a) Background and economic activity-

Banco BBVA Perú (hereinafter the Bank) is a subsidiary of BBVA Perú Holding S.A.C., which holds 46.12% of its share capital as of December 31, 2022 and 2021. The Bank Bilbao Vizcaya Argentaria S.A. (hereinafter BBVA S.A.) holds 100% of the shares of BBVA Perú Holding S.A.C.

The Bank is a closely held corporation incorporated in 1951 and is authorized to operate as a banking institution by the Peruvian banking, insurance and pension plan regulator, Superintendence of Banking, Insurance and Private Pension Funds Administrators (henceforth "SBS", by its Spanish acronym).

The Bank is mainly engaged in financial intermediation inherent to commercial banks. Such activities are governed by the SBS according to Law 26702 "General Law of the Financial and Insurance Systems and SBS Organic Law" and its amendments (hereinafter the Banking Law). This Law establishes the requirements, rights, obligations, collaterals, restrictions, and other operating conditions to which every legal entity operating in the financial and insurance systems is subject.

The Bank's legal domicile and headquarters is located at Av. República de Panamá No. 3055 - San Isidro, Lima, Peru.

As of December 31, 2022 and 2021, the Bank carries out its activities through a national network of 314 and 317 agencies, respectively. The number of personnel employed by the Bank as of December 31, 2022 and 2021 is 6,735 and 6,183, respectively.

(b) Political and social context in Peru -

On December 7, 2022, the then-President Pedro Castillo pretended to carry out a coup and set up an Exceptional Government; however, after such a decision and announcement, the Peruvian Congress at an extraordinary meeting and under Resolution No 001-2022-2023-CR decided in favor of a presidential vacancy. A constitutional succession occurred accordingly, by which, the vice president, Dina Boluarte, was appointed as the new President of Peru.

From that date onwards, several street demonstrations and social unrest have been taking place throughout Peru, with the major demand of demonstrators being the resignation of the recently designated President and anticipated presidential elections.

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Given this situation, on December 14 and 15, 2022, the Cabinet Presidency enacted supreme decrees No143-2022-PCM and No144-2022-PCM, setting up a 30-day National Emergency, during which, constitutional rights were suspended relating to the inviolability of domicile, freedom of movement nationwide, freedom of assembly and personal security freedom; and also a mandatory social confinement for 5 days nationwide, respectively.

Subsequently, by means of Supreme Decree No 009-2023-PMC, enacted on January 14, 2023, the National Emergency was amended and only a number of provinces of Peru were then included as part of the new National Emergency for 30 more days.

In this context, dated December 22, 2022 the SBS issued a communication called Oficio Múltiple No 54961-2022-SBS to empower financial institutions to reschedule the debt of its retail customers that were affected by the social unrest widespread in Peru since December 2022, see further detail in note 2(e).

The Bank has assessed and will continue to monitor the potential implications of the ongoing conditions and the measures that are to be taken by the Peruvian Government and the SBS.

(c) National State of Emergency (Covid-19 pandemics) -

On March 2020, the World Health Organization (WHO) declared a pandemic due to the coronavirus disease (COVID-19), and recommended contention and mitigation measurements worldwide. On March 15, 2020, the Peruvian government declared, through Supreme Decree No 044-2020-PCM, a national state of emergency due to the serious circumstances affecting people's life as a result of the COVID-19 outbreak. In October 2022, the Peruvian officially ended the National Emergency by means of Supreme Decree No 130-2022-PCM.

The Bank does not stop its activities, even during the quarantine, to attend and support the government's financing programs and distribute social assistance initiatives, such as bonds (economic subsidies) for households vulnerable to poverty or extreme poverty.

Since the beginning of the pandemic, the Bank carried out a number of contingency actions, which led to the creation of a multidisciplinary team in charge of designing and implementing the strategy to cope with the health crisis, whose main objective was to protect the health of employees and customers throughout Peru.

For this purpose, this multidisciplinary team designed a health strategy, comprehensive infrastructure implementation and management of the use of offices, faced to the new reality arising from the pandemic. Likewise, remote working was implemented for the employees of the business core areas, as well as for the employees considered vulnerable population due to any preexisting health conditions.

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The COVID-19's second wave in Peru started in early 2021 and progressed until the end of August. The Bank set up a crisis management team that, based on its prior-year experience, was responsible for designing and implementing an action plan to strengthen the measures to prevent COVID-19 infections and ensure business continuity. The measures implemented by the Bank included the following:

- Launch a COVID-19 helpline called "Hello, doctor" offered by a team of seven health experts that provide health advice to employees and book a COVID-19 diagnostic test;
- Monitor the compliance of employees and customers with health and safety measures at the workplace; and
- Provide online training on COVID-19 infection prevention and control.

In early September 2021, after the end of the COVID-19's second wave, the Bank started assessing a back-to-work plan. The assessment was based on the experiences gained with remote work during the pandemic and contemplated the return of 500 employees through a hybrid work model (60% on-site work and 40% remote work), which was implemented in mid-November 2021.

At the reporting date, the hybrid work mode is kept for workers at the headquarters; in addition, an intensive communication campaign was launched regarding the new workspaces and services at the head office, as well as the deployment of prime bio sanitary measures such as: setting up thermal imaging cameras and secured social distancing of two (2) meters.

In coping with the Covid-19 pandemic, the Peruvian Government, the Ministry of Economy and Finance, the Bank Reserve Central Bank of Peru and the banking regulator, SBS, set a number of exceptional measures; see further detail in note 2(e).

- (d) Approval of the separate financial statements -
- The separate financial statements as of December 31, 2022 were approved by management on February 23, 2023 and will be submitted for approval to the Board of Directors and General Shareholder's Meeting within the terms established by Law. In management's opinion, the Board of Directors and the General Shareholder's Meeting will approve the accompanying separate financial statements without amendments. The General Shareholders' Meeting, held March 31, 2022, approved the separate financial statements as of December 31, 2021.

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Notes to the separate financial statements (continued)

2. Basis of Preparation of the Separate Financial Statements

(a) Statement of compliance -

The separate financial statements are prepared and presented in accordance with the accounting standards established by the Superintendence of Banking, Insurance and Private Pension Funds Administrators (“SBS”, by its Spanish acronym) for financial entities in Peru. Those standards are contained in the Accounting Manual for Financial Institutions (hereinafter the Accounting Manual) approved by SBS Resolution 895-98 on September 1, 1998 and effective January 1, 2001, including supplemental standards and amendments.

In the absence of such applicable SBS regulations, the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), made official in Peru by the Peruvian Accounting Board (CNC, for its Spanish acronym), are applied.

The separate financial statements in accordance with the legal regulations in Peru do not include the effects of consolidation of the Bank with its subsidiaries (note 9). As of December 31, 2022 and 2021, the Bank records these investments applying the equity method.

As of December 31, 2022 and 2021, the subsidiaries of the Bank are the following: BBVA Bolsa Sociedad Agente de Bolsa S.A., BBVA Asset Management S.A. SAF, BBVA Sociedad Titulizadora S.A., Inmuebles y Recuperaciones BBVA S.A, BBVA Consumer Finance EDPYME in liquidation, Forum Comercializadora del Perú S.A., Forum Distribuidora del Perú S.A. y Continental DPR Finance Company a society created for the special purpose.

The consolidated balances of the Bank are presented below as of December 31:

	2022 S/(000)	2021 S/(000)
Loan portfolio	69,122,387	70,433,581
Total assets	98,045,446	101,495,755
Total liabilities	86,792,072	91,327,026
Equity	11,253,374	10,168,729
Net profit for the period	1,921,759	1,560,500

(b) Basis of measurement -

The Separate financial statements were prepared in Peruvian soles based on the accounting records of the Bank under the historical cost principles, except for derivatives, financial instruments at fair value through profit or loss and the available-for-sale financial assets that are measured at fair value.

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Notes to the separate financial statements (continued)

(c) Functional and presentation currency -

The Bank prepares and present its separate financial statements in soles (S/ or PEN), which is the currency related to the main economic environment in which the Bank operates, such currency influences the Bank's transactions and services it provides, among other factors. All figures are stated in thousands of soles and have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of judgments and estimates -

In preparing these separate financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. The accounting estimates and underlying judgments used are reviewed on an ongoing basis. The results may differ from these estimates.

Adjustments resulting from the review of accounting estimates are recognized prospectively, recording the effect in the separate statement of income or loss, at the year in which the revision is made.

The most relevant estimates and judgments for the preparation of the Bank's separate financial statements are the following:

- Determination of the fair value of investments, note 3(c) and note 30.
- Provisions for loan losses, note 3(e) and note 7.
- Provision for realizable, received as payment, and repossessed assets, note 3(g).
- Useful life of property, furniture and equipment, note 3(f) and intangible assets, note 3(i).
- Provision for income tax, note 3(o) and note 24.
- Deferred tax, note 3(o) and note 24.
- Determination of the fair value of derivative instruments, note 3(b) and note 30.
- Impairment of non-financial assets, note 3(h).
- Provision for contingencies, note 3(n)(i).

(e) Major pronouncements issued by the SBS and the Government with an impact on the financial system -

As stated in note 1(b), in coping with the political juncture in Peru, the SBS issued a formal communication (Oficio Múltiple N°54961-2022-SBS) dated December 22, 2022 by which financial institutions were entitled to reschedule the retail customers who were affected by the social unrest occurring in Peru since December 2022. To be eligible for these loan rescheduling, a customer shall meet the following conditions: being under the classification of Normal or With Potential Problems (CPP), shall not have delays of more than 30 days and the rescheduled due date shall not be for more than two months.

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Notes to the separate financial statements (continued)

As of December 31, 2022, the Bank has not performed debt rescheduling involving debtors that were affected by the social unrest; however, at the reporting date, the Bank is assessing the need to grant this type of rescheduling to customers who need to do so.

On the other hand, as described in note 1(c), because of the Covid-19 pandemic, the Peruvian government, the Ministry of Economy and Finance, the Peruvian Central Reserve Bank and the SBS issued the following regulations involving exceptional measures for the economic reactivation of the country, as detailed below:

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Notes to the separate financial statements (continued)

N°	Programs / Measures	Legal basis	Short description of programs / measures	Impact on the Bank
(i)	Loan rescheduling	Official letter No10997-2020-SBS, No11150-2020-SBS, N°11170-2020-SBS, No12679-2020-SBS, No13195-2020-SBS, N°13805-2020-SBS y No14355-2020-SBS and No15944-2020-SBS. Issued between March and July 2020	These official letters set exceptional measures applicable to the loan portfolio, intended to make debt repayment easier for customers of financial institutions that were affected by the restrictive measures taken by the Peruvian Government due to the Covid-19 pandemic. At the reporting date, these official letters are no longer effective.	As of December 31, 2022 and 2021 the balance of rescheduled loans under these official letters was approximately S/593 million and S/1,518 million, respectively.
		Official letters No13613-2021-SBS and No6302-2021-SBS. Issued from February and March 2021.	Per these Official letters, the SBS entitled financial institutions to reschedule loans to their customers over 2021.	
(ii)	Additional provisions for rescheduled loans	SBS resolution No3155-2020 dated December 17, 2020	Under this resolution, for loans rescheduled due to the Covid-19 pandemic, debtors with a rating of Normal are to be considered debtors with a higher credit risk, above Normal, that is, equivalent to a credit risk rated as With Potential Problems (CPP). For the latter loans, specific provisions required for the CPP loans need to be made, as applicable to consumer loans microbusiness and small entities.	As of December 31, 2022 and 2021 the Bank recorded provisions for rescheduled loans of debtors rated as Normal, CPP and Substandard for around S/7 million and S/49 million, respectively.
		SBS resolution N°3922-2021 dated December 23, 2021	Subsequently, the SBS set the requirement that for those loans that were rescheduled because of the Covid-19 pandemic, and accounted for as such, the financial institutions shall record additional provisions, as if they had a worse credit rating.	
(iii)	Reactiva Perú economic relief program	Legislative Decree N° 1455-2020 dated April 6, 2020	Instated with the following objectives: <ul style="list-style-type: none"> - Respond to the liquidity needs faced by companies in the context of the COVID-19 pandemic. - Ensure continuity in the payment chain. 	As of December 31, 2022 and 2021, the Bank holds "Reactiva Perú" loans for around S/5,801 million and S/11,511 million, note 7(c). The amounts secured by the Peruvian Government totaled S/5,296 million and S/10,485 million, respectively.
	Reactiva Perú Up until November 30, 2020	Ministry Resolution No 134-2020-EF dated April 13, 2020	Using this program, the Government grant guarantees to back entities so they can obtain working capital credit facilities and meet their short-term obligations with workers and suppliers of goods and services. Guarantee range from 80% and 98% of the loan amount, which is a maximum of S/ 10 million per customer, which is determined based on the total sales. Additionally, the Bank obtains the resources to grant these loans based on its repo transactions with the Peruvian Central Reserve Bank (hereinafter BCRP), for the secured portion of the loan.	
	Reactiva Perú rescheduling Up to December 31, 2021	Emergency Decree N° 026-2021 dated March 6, 2021 Emergency Decree No 091-2021 September 30, 2021	The Peruvian Government has ordered that loans granted under the Reactiva Perú program can be eligible for rescheduling, provided that they meet the requirement set by the applicable standards (mainly involving a decrease in sales). Loan rescheduling can be provided with Bank's or BCRP's funding. If Bank's funding is used, the interest rate can be raised up to 25 basis points. The due dates set for customers to be able to obtain loan rescheduling expired on September 30, 2021. However, an extension was ordered for loans secured by this program were eligible for loan rescheduling until December 31, 2021	As of December 31, 2022 and 2021, the rescheduled loans including those obtained in the context of the health emergency and those under the Reactiva program totaled S/4,115 million and S/5,939 million, respectively, note 7(c).

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Notes to the separate financial statements (continued)

N°	Programs / Measures	Legal basis	Short description of programs / measures	Impact on the Bank
	New REACTIVA rescheduling Up to December 31, 2022	Emergency Decree No 011- 2022 May 13, 2022 Emergency Decree No 026-2022 December 27, 2022	Also, the possibility was raised for REACTIVA loans to be subject to new rescheduling up to 10 mil million. Rescheduled loans will continue to be backed by the Peruvian Government. BCRP funding will be kept up to due date of the prior rescheduled loan, at which date, will be replaced with resources of the financial system. For those loans from S/ 90,001 to S/ 10 million, decrease in sales of 30% or more in 2021, as compared to 2019, should be demonstrated. An extension of the due date to apply for rescheduling of Program-backed loans was ordered. The relevant rules for operating application remains to be completed (RO) up until June 30, 2023.	
(iv)	Fondo Crecer Up to 2049	Legislative Decree No 1399 (September 7, 2018) Supreme Decree No 007-2019-EF (January 11, 2019)	This is a program to secured loans obtained for working capital, fixed assets and export credits intended to bolster the productive development and growth of medium-sized and small entities. The maximum amount to be secured per customer is S/10 million. Amounts secured are up to 75% for microbusiness and small entities, up to 70% for medium-sized and up to 60% for exporters.	As of December 31, 2022 and 2021, the Bank holds loans under this program for around S/133 million and S/20 million, respectively, note 7(c). The amounts secured by the Peruvian Government totaled S/86 million and S/11 million, respectively.
(v)	Reporting transactions with loan portfolio rescheduling	Circular N°0014-2020-BCRP dated April 3, 2020 Circular BCRP 0021-2020 dated June 7, 2020 Official letter No11518-2020 dated April 7, 2020 and official letters No12791-2020 dated May 8, 2020	BCRP sets the characteristics and procedures for repo transactions of the loan portfolio secured by the Peruvian Government. At the selling date, the Bank receives the local currency (the sale amount) and, at the same time, it becomes engaged to repurchase such portfolio (repo amount). BCRP will draw down 80 percent of the funds to the Bank's checking account with the BCRP and the remaining portion will be credited to restricted account also held by the Bank with the BCRP. BCRP has instated the possibility for financial institutions to obtain funding at 0.5% by means of Repo Transactions. Under this mechanism, financial system entities engage to reschedule loans to customers or portfolio bought from other financial system entities to reduce temporarily the interest rate over the period the transaction with the BCRP lasts. SBS has set the accounting model for repo transactions as well as some reporting requirements. Based on those official letters, the loan portfolio is not derecognized but provisions will continue to be made of the portfolio used in repo transaction.	As of December 31, 2022 and 2021, the Bank holds repo transaction balances involving rescheduled loan portfolio for S/4,901 million and S/4,942 million, respectively, see note 14.
(vi)	Regulatory capital (patrimonio efectivo)	SBS resolution No 1264-2020 dated March 26, 2020 Official letter No27358-2021-SBS dated June 2, 2021 Emergency Decree 003-2022 dated March 26, 2022 SBS resolution No 3921-2021 dated December 23, 2021	Under this resolution, the amended contractual conditions stated in those official letters in (i), shall not increase the regulatory capital requirement on non-revolving consumer loans and mortgage loans. Also, that resolution authorized financial entities to use the additional regulatory capital (patrimonio efectivo adicional) for the economic cycle component. Under this regulation, the regulatory capital for financial reporting from April 2021 to August 2022 of financial system entities shall be equal or above 8 percent and from September 2022 to March 2023 shall be equal or above 8.5 percent of the total risk-weighted assets and contingencies, equivalent to the sum of the regulatory capital requirement per market risk multiplied by 10, the effective capital requirement for operational risk multiplied by 10, and credit risk-weighted assets and contingencies. Under this resolution, an amendment is made to the calculation of the additional regulatory capital requirement for market concentration, considering criteria such as sized, interconnectedness, replace ability and complexity. In addition, an adequacy period of two more years is set from December 2022.	Bank Management considers the Bank meets the requirements set by the SBS involving regulatory capital requirements (patrimonio efectivo).
(vii)	Provisions charged to equity	Official letter No42138-2020 issued on December 23, 2020	Under this official letter, financial system entities are entitled, on an exceptional basis and prior SBS authorization, to reduce its capital stock, legal reserve and/or other equity items, for the purpose of recording specific and/or generic provisions (including voluntary provisions) for its loan portfolio.	As of December 31, 2022 and 2021, Bank Management decided not to make provisions with a charge to equity accounts.

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Notes to the separate financial statements (continued)

Management considers the Bank has complied with all exceptional rules and measures set forth by the Peruvian Government, the Ministry of Economy and Finance, the Peruvian Central Reserve Bank and the SBS established to cope with the Covid-19 pandemic.

(f) New International Financial Reporting Standards (IFRS) -

(i) IFRS issued and effective in Peru as of December 31, 2022:

At the date of the separate financial statements, the CNC has issued the following resolutions:

- Resolution No 001-2022-EF/30 issued on March 30, 2022 officially approved the amendment to IFRS 17 Insurance Contracts.
- Resolution No 002-2022-EF/30 issued on September 8, 2022, officially approved the full set of IFRS 2022 as well as the Conceptual Framework for Financial Reporting.
- Resolution No 003-2022-EF/30 issued on November 21, 2022 officially approved the technical conditions set for the application of IFRS.

Application of the above-mentioned IFRS is effective one day after the date of the resolution or subsequently as indicated in each IFRS.

In 2019 IFRS 16 "Leases" became effective to replace IAS 17 "Leases", interpretation IFRIC 4 "Determining whether an arrangement contains a lease", interpretation SIC 15 "Operating leases -incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease". The SBS issued official letter No467-2019 -SBS dated January 7, 2020 setting that IFRS 16 is not applicable by entities under its supervision.

IFRS 9 "Financial instruments" became effective in 2018 replacing IAS 39 "Financial instruments: Recognition and Measurement". At the reporting date, the SBS has not amended or modified its Manual of Accounting Financial System Entities to be consistent with that standard.

(ii) IFRS issued internationally but not effective as of December 31, 2022:

The following amendments to standards and interpretations to standards have been published by the IASB and are effective for reporting periods beginning on or after January 1, 2023:

- IFRS 17 - Insurance contracts. Effective for annual periods beginning on or after January 1, 2023 or subsequently with the requirement to include comparative figures. Early application is permitted provided that IFRS 9 and IFRS 15 are also applied on the date IFRS 17 is applied for the first time.

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Notes to the separate financial statements (continued)

- Amendments to IAS 1 - Presentation of financial statements: Classification of liabilities as current and non-current. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and should be applied retrospectively.
- Amendments to IAS 8 - Accounting policies, changes in accounting estimates and errors: Defining accounting estimates. This amendment is effective for annual reporting periods beginning on or after January 1, 2023, and is applicable to changes in accounting policies and changes in accounting estimates occurring after the beginning of the annual reporting period. Early application is permitted as long as that fact is disclosed.
- Amendments to IAS 1 and IFRS Practice Statement 2: Accounting policy disclosures. This amendment is effective for annual periods beginning on or after January 1, 2023 and early application is permitted. Considering that the amendments to Practice Statement 2 provide non-mandatory guidance to apply the definition of material information to the accounting policies, no effective date is needed for this amendment.
- Amendments to IAS 12 "Income Tax": Deferred tax related to assets and liabilities arising from a single transaction. In May 2021, the IASB issued the amendment to IAS 12, which reduces the scope of the initial recognition under the IAS 12 exception by which an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

As indicated in note 2(a), the above-mentioned standards and interpretation in (i) and (ii) will only be applicable to the Bank on a supplemental basis, to those indicated by the SBS, when situations arise that are not addressed in the Accounting Manual. Bank Management has not determined the effect on the preparation of its separate financial statements because the SBS has not adopted those accounting pronouncements.

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Notes to the separate financial statements (continued)

(g) Reclassifications -

Certain items of the separate financial statements as of December 31, 2021 have been reclassified for comparative purposes. Management considers that those reclassifications did not result in any changes in the decisions previously made based on those items. The reclassified amounts and the related accounts are summarized in the table below:

Separate Statement of Financial Position for the year ended December 31, 2021:

	Balances without reclassification S/(000)	Reclassification S/(000)	Reclassified balances S/(000)
Obligations with the public and deposits of financial institutions (Note 13)	64,130,359	149,119	64,279,478
Balances due and borrowings (Note 13)	6,989,674	(149,119)	6,840,555

Separate Statement of Income for the year ended December 31, 2021:

	Balances without reclassification S/(000)	Reclassification S/(000)	Reclassified balances S/(000)
Interest income	4,209,340	36,675	4,246,014
Gains or losses on hedging transactions (Note 17)	50,875	36,675	87,551
Profit or loss on Financial Transactions (ROF)	739,974	(36,675)	703,299
Gains or losses on hedging transactions (Note 20)	-	(36,675)	(36,675)

3. Accounting Principles and Practices

In preparing and presenting the accompanying separate financial statements, Management of the Bank has met the standards set by the SBS currently effective in Peru. Major accounting principles and practices implemented as of December 31, 2022 have not changed significantly in relation with those applied as of December 31, 2021, as summarized in the audit report dated February 23, 2022.

(a) Financial instruments

Recognition of financial instruments

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

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Notes to the separate financial statements (continued)

Financial instruments are recognized on the date when they are originated (trade date) and classified as assets, liabilities, or equity according to the contract that gave rise to the financial instrument. Interest, dividends, gains and losses generated by a financial instrument classified as an asset or liability are recorded as income or expenses in the separate statement of income or loss. Payments to holders of financial instruments are directly recorded in equity.

Gains from the transfer of loan portfolio are recognized as income; however, in the case of transfers through swap, or financed, such gains are recognized as deferred income, which is accrued based on the monetary income obtained of the realization of the goods received in exchange, or in proportion to the perception of the payment of the acquirer of the transferred loan portfolio. Losses from transfer is recognized by transferring.

Classification financial instruments:

The Bank classifies its financial instruments on initial recognition and on an instrument-by-instrument basis, in the following categories, according with the Accounting Manual: at fair value through profit or loss, credits and accounts receivable, available-for-sale, held-to-maturity, at amortized cost, and other liabilities.

The classification of financial instruments on initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. At initial recognition, a financial instrument is measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument, except for financial assets or financial liabilities measured at fair value through profit or loss.

Derecognition of financial assets and financial liabilities:

The Bank recognizes derecognition of a financial asset when: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) transfers the contractual rights to receive the cash flows from the financial asset, or assumes a contractual obligation to pay the cash flows to a third party in a pass through arrangement; and (iii) transfers substantially all risks and rewards of ownership of the financial asset to other entity.

The Bank recognizes derecognition of a financial liability when its contractual obligations are discharged or canceled or expire. An exchange between an existing borrower and lender of financial liabilities with substantially different terms is recognized as a derecognition of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in the separate statement of financial position.

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Notes to the separate financial statements (continued)

Impairment of financial assets:

Impairment of financial assets and the corresponding provisions for impairment are assessed and recorded by the Bank in accordance with SBS standards. A financial asset or group of financial assets is impaired if there is objective evidence of impairment as a result of 1 or more events that occurred subsequent to the initial recognition of the asset (loss event), and if such loss event had an impact on the expected future cash flows of the financial asset or group of financial assets that can be estimated reliably. Any impairment loss is recognized in the separate statement of income or loss.

Offsetting financial instruments:

Financial instruments are offset when the Bank has a legally enforceable right to set them off, and management intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(b) Derivative instruments -

Derivative instruments are recorded at trade date according with SBS Resolution 1737-2006 "Regulation on Trading and Accounting of Derivative Products in Financial Institutions" and amendments, derivative financial instruments are recorded on the negotiation date.

Trading derivatives:

Trading derivatives are initially recognized in the separate statement of financial position at fair value; subsequently, they are measured at fair value.

Future foreign currency operations ("forwards"), interest rate or currency exchange operations ("swaps") and options are recorded at their estimated market value, recognizing an asset or liability in the separate statement of financial situation, as appropriate, and the gain or loss from the valuation or settlement in the result for the year. The nominal value of derivative financial instruments is recorded in the committed or agreed currency, in contingent and/or memorandum accounts.

Hedge derivative instruments:

A hedging derivative financial instrument is recorded as such if, on the negotiation date, it is expected that the changes in its fair value or in the cash flows it generates will be highly effective in offsetting the changes generated in the hedged item, which it must be documented on the trading date of the derivative financial instrument, and during the coverage term. Pursuant to SBS Resolution No. 1737-2006 and amendments, a hedge is considered highly effective if changes in the fair value or cash flows of the hedged instrument and the instrument used as a hedge are expected to be within a range of 80% to 125% effective in reducing the risk associated with the hedged exposure.

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Notes to the separate financial statements (continued)

If the SBS determines the documentation to be insufficient or identifies some weaknesses in the methods used by the Bank, it can require the Bank to eliminate the hedge accounting and recognize derivative instruments as trading derivatives.

- (i) Fair value hedge -
Changes in the fair value of the hedge derivative instrument and hedge is recognized in the separate statement of income or loss, from the moment the hedge is designated and, provided it is effective.

Changes in fair value of hedge (gain and losses due to valuation) are recorded as 'accounts receivable' or 'accounts payable,' as appropriate, in the separate statement of financial position.

- (ii) Cash flows hedges -
In a cash flow hedge, the derivative instrument is measured at fair value and may affect 'equity' and 'profit or loss.' The portion of the adjustment to its fair value is recognized in 'equity' of the separate statement of income or loss and other comprehensive income, while the ineffective portion is recognized in the separate statement of income or loss.

For both types of hedging, if the derivative expires, is sold, terminates or is executed, or no longer meets the criteria for hedge accounting, the hedging relationship ends prospectively and the balances recorded in the separate statement of financial position and in the separate statement of income or loss and other comprehensive income, as appropriate, are transferred to the separate statement of income or loss within the effective term of the hedged item.

- (c) Investments -
The Bank applies the recognition and measurement criteria to investments in instruments, in accordance with SBS Resolution 7033-2012 "Regulation on Classification and Measurement of Investments of Financial Institutions" and amendments, as follows:

- (i) Investments at fair value through profit or loss
Equity and debt securities are classified as investments at fair value through profit or loss if they have been mainly acquired for trading purposes in the near future, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking or have been designated in this category since their initial registration.

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Notes to the separate financial statements (continued)

On initial recognition, these investments are measured at fair value less transaction costs, which are included as expenses in profit or loss for the period. Subsequently, they are measured at their fair value and the gain or loss from the recovery or sale of these financial assets is recorded in the profit or loss of the year.

Interest income is recognized using the effective interest method. Dividends are recognized in the separate statement of income or loss when the right to receive the payment has been established.

Investments at fair value through profit or loss that are pledged as collaterals shall be reclassified as available-for-sale investments. Once these transactions are concluded, investments shall be reclassified at their initial category, transferring the unrealized gains and losses from equity to the separate statement of income or loss.

(ii) Held-to-maturity investments

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

Likewise, they shall be classified by at least two local or international credit rating agencies and the classifications shall be within the parameters established by the SBS, being excluded from this requirement the instruments of Central Banks of countries whose sovereign debt receives at least the classification that corresponds to the sovereign debt of Peru.

Investments are initially measured at fair value plus transactions costs that are directly attributable to the instrument's acquisition.

The subsequent measurement of these investments is carried out at amortized cost, using the effective interest rate method. Any impairment loss is recognized in the separate statement of income.

(iii) Available-for-sale investments

Available-for-sale investments are all investment instruments that are not classified as investments at fair value through profit or loss, held-to-maturity investments, or investments in subsidiaries, associates and joint ventures. Likewise, all instruments shall be included in this category as required by the SBS.

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Notes to the separate financial statements (continued)

Investments are initially measured at fair value plus transactions costs that are directly attributable to the instrument's acquisition. Subsequent measurement of these investments is carried out at fair value; in the case of equity instruments that do not have prices quoted in active markets and whose fair value cannot be reliably estimated, they must be measured at cost. Likewise, in the case of debt instruments, prior to the measurement at fair value, shall be remeasured using the effective interest method, and gains or losses from the changes in fair value shall be recognized.

The gain or loss originated by the fluctuation of the fair value of the available-for-sale investments is recognized directly in equity until the instrument is sold or realized, at which time the gain or loss that previously recognized in equity is transferred and recorded in the result for the year, except for value impairment losses that are recorded in the results when presented.

If an available-for-sale investment is impaired, the accumulated loss (difference between the acquisition cost, net of any repayment and amortization, and the current fair value, less any impairment previously recognized in the separate statement of income or loss) is removed from equity and recognized in the separate statement of income or loss. Impairment of unquoted shares is the difference between the carrying amount and the present value of future net cash flows discounted using the prevailing market rates for a similar instrument.

Gains or losses from exchange differences related to equity instruments are recognized in equity as 'unrealized profit or loss', while those related to debt instruments are recognized in the profit or loss for the period.

Interest income from available-for-sale investments is recognized using the effective interest method, considering the useful life of the instrument. Premiums and discounts originated on the acquisition date are included in the calculation of effective interest rate.

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

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Notes to the separate financial statements (continued)

Impairment assessment -

SBS resolution No 7033-2012, as amended, as well as SBS resolution No 2610-2018 set a standard methodology for identifying impairment of available-for-sales investments and held-to-maturity investments. That methodology is to be applied quarterly to all debt and equity instruments as follows:

(I) Debt instrument:

At each quarter-end, involving the entire debt instrument portfolio, an assessment shall be conducted of whether the following has occurred:

1. Weakening of the financial position or financial ratios of issuer and its economic group.
2. Downgrading of the credit rating of the instrument or issuer, in at least two (02) "notches", from the date of acquisition of the instrument, where one "notch" reflects the minimum difference between two risk ratings inside one single rating scale.
3. Disruption of transactions or an active market for the financial asset, due to issuer's financial difficulty.
4. Observable inputs indicate that, from the initial recognition of a group of financial assets with similar characteristics to those of the assessed instrument, there is a measurable decrease in the estimated future cash flows, even though that decrease cannot yet be related to individual financial assets of the group.
5. Decrease in value due to changes in standards (tax, regulatory or governmental).
6. Significant decrease in fair value below the amortized cost. A significant decrease exists if the fair value at the closing date has decreased by at least 40% below its amortized cost at that date.
7. Prolonged decrease in fair value. A prolonged decrease exists if the fair value at the closing date has decreased by at least 20% as compared to the amortized cost of the prior twelve (12) months, and the fair value at each month's closing date for the period of the prior twelve (12) months has always been held below the amortized cost at the date of each month's closing date.

The fair value to be used to assess criteria 6 and 7 is that used in determining the value of debt instruments available for sale, under the criteria set by the above-mentioned resolution, regardless of the accounting classification given to the debt instrument. However, if the decrease in fair value of the debt instrument is fully due to an increase in risk-free interest, such a decrease shall not be considered an indicator of impairment.

Notes to the separate financial statements (continued)

In the event at least two (2) of the above-described conditions actually occur, it is said that impairment exists. In the event at least two (2) of the above-described conditions have not occurred, it will be enough to see one of the following specific conditions to occur to be considered that impairment exists:

- (a) Noncompliance with contractual clauses, such as default in payment interest or not principal.
 - (b) Renegotiating contractual terms of the instruments based on legal or financial issues involving the issuer.
 - (c) Evidence exists that the issuer is undergoing mandatory restructuring or bankruptcy.
 - (d) When the risk rating of an instrument that held investment grade is downgraded below the investment grade.
- (II) Equity instrument:
- At each quarter-end, involving equity instruments, an assessment shall be conducted of whether the following has occurred:
- 1. Downgrading the risk rating of any debt instrument of the issuer that was rated as investment grade to a rating that below the investment grade.
 - 2. Significant changes have occurred in the technological, market, economic, or legal environment in which the issuer operates that may have adverse effects on the recovery of the investment.
 - 3. Weakening of the financial position or financial ratios of issuer and its economic group.
 - 4. Disruption of transactions or an active market for the financial asset, due to issuer's financial difficulty.
 - 5. Observable inputs indicate that, from the initial recognition of a group of financial assets with similar characteristics to those of the assessed instrument, there is a measurable decrease in the estimated future cash flows, even though that decrease cannot yet be related to individual financial assets of the group.
 - 6. Decrease in value due to changes in standards (tax, regulatory or governmental).

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7. In the event at least two (2) of the above-described conditions actually occur, it is said that impairment exists. In the event at least two (2) of the above-described conditions have not occurred, it will be enough to see one of the following specific conditions to occur to considered that impairment exists:
- (a) Significant decrease in fair value below the amortized cost. A significant decrease exists if the fair value at the closing date has decrease by at least 40% below its amortized cost, acquisition cost is always to be the initial cost, regardless of whether impairment had been previously recognized of the equity instruments assessed.
 - (b) Prolonged decrease in fair value. A prolonged decrease exists if the fair value at the closing date has decreased by at least 20% as compared to the amortized cost of the prior twelve (12) months, and the fair value at each month's closing date for the period of the prior twelve (12) months has always be held below the amortized cost at the date of each month's closing date.
 - (c) Noncompliance with statutory provisions by issuer, involving payment of dividends.
 - (d) Evidence exists that the issuer is undergoing mandatory restructuring or bankruptcy.

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

Further, if the SBS considers that an additional provision shall be recorded for any type of investment, such a provision will be determined based on each individual security and shall be recorded in profit or loss for the year in which SBS sets the requirement to make such a provision.

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Notes to the separate financial statements (continued)

- Recognizing differences on exchange -
Exchange gains or losses derived from the amortized cost of debt instruments are stated in profit or loss and those arising from the difference between the amortized cost and the fair value are stated within unrealized gains or losses in equity. For equity instruments, they are considered non-monetary items, and therefore, they are stated at their historical cost in local currency because exchange gains or losses are part of their valuation and are recognized in unrealized gains or losses in equity

- Changes in classification -
In the event of changes in classification from available-for-sale investments to held-to-maturity investments, the carrying amount of fair value if the investment instrument at the date of exchange will be considered the new amortized cost. Any previously recognized profit or loss on that instrument that was previously directly stated in equity will be carried to profit or loss for the period over the remaining life of the held-to-maturity investment using the effective interest method. Any difference arising between the new amortized cost and the amount at maturity date will be also amortized over the remaining life of the investment instrument using the effective interest method, same way as the amortization of a premium or a discount. If the investment instrument is subsequently impaired, any resulting gains or losses that had been directly recognized in equity shall be transferred and stated in profit or loss for the period. During 2022 and 2021, the Bank did not perform any reclassifications.

(d) Equity in subsidiaries and associates -

The representative capital securities acquired in order to equity participation and have control in subsidiaries or significant influence in associates.

At inception, these investments are stated at fair value, including the costs attributable directly to the acquisition; subsequently, they are measured under the equity method.

The excess between the consideration paid and the fair value of the identifiable assets acquired, and the liabilities assumed on the acquisition date is recognized as goodwill. This goodwill is included in the carrying amount of the investment, and is assessed for impairment as part of the investment, note 3(j). In the event the fair value of the investment exceeds the consideration paid, this amount is recognized as profit in the separate statement of income.

The Bank determined that the fair value of investments equals the carrying amount of the investee at the acquisition date, since they do not have significant non-monetary assets, or they have non-monetary assets recorded at their updated fair value.

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When management identifies that one or more investments in subsidiaries and associates are impaired, said impairment shall reflect the difference between the carrying amount and the recoverable amount of the investment, in accordance with IAS 36 Impairment of Assets. The carrying amount of the investment shall be reduced to its recoverable amount. Impairment loss shall be immediately recognized in the separate statement of income.

According to the equity method, dividends declared by subsidiaries in cash are recorded by decreasing the value of the investment.

(e) Loans and provisions for loan losses -

Direct loans are recorded when fund expenditures are made in favor of customers. Indirect loans (contingent) are recorded when the documents supporting such credit facilities are issued.

Finance leases are recognized using the effective interest method, and the amount of the installments receivable is recognized as a loan. Related financial income is recorded on an accrual basis in accordance with the lease arrangement terms. Initial direct costs are immediately recognized as expenses.

(i) Types of loans

In accordance with SBS Resolution 11356-2008, loans are classified as: i) corporate loans; ii) large-business loans; iii) medium-business loans; iv) small-business loans; v) micro-business loans; vi) revolving loans; vii) non-revolving loans; and viii) mortgage loans. This classification considers nature of customer, purpose of loan, business size measured per income, debt, among others.

(ii) Accounting situation of loans

According with the Accounting Manual, direct loans present the following classification according to their situation:

Current loans:

They are loans granted in its different modalities, whose payments are up to date, in accordance with the agreement

Restructured loans:

They are loans or direct funding, regardless of its modalities, subject to the rescheduling of payments approved in the restructuring process, ordinary or preventive bankruptcy, as the case may be, in accordance with the Banking Law of the Bankruptcy System approved by Law 27809.

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Notes to the separate financial statements (continued)

Refinanced loans:

They are loans, in their different modalities, in which there are variations in the term and/or amount of the original agreement that are due to difficulties of the debtor's ability to meet its obligations.

Past due loans:

They are loans that have not been settled or amortized by the borrowers on the due date. They include loans originated by the amounts disbursed by the Bank in the event of the customer's default, for operations whose payment has been guaranteed by the Bank and/or by letters of credits issued and confirmed assumed by the Bank.

The terms for a loan to change from current status to past due are presented below:

Type of loans / Product	Days in arrear
Sovereign loans, to multilateral development banks, public entities, securities intermediaries, financial entities, corporations, large companies and medium-sized companies.	15 calendar days after the due date for payment of any of the agreed installments.
Small-business and micro-business loans.	30 calendar days after the due date for payment of any of the agreed installments.
Consumer (revolving and non-revolving) loans and mortgage loans. Finance lease and real state capitalization agreement, regardless of the type of the loan.	Progressive tax After 30 calendar days of not having paid on the agreed date, only the unpaid portion will be considered past due; while after 90 calendar days of default in any of the agreed installments, the entire debt will be considered past due.
Overdrafts in checking accounts, regardless of the amount and type of the loan	As of the thirty-first (31st) calendar day of granted the overdraft.

Lawsuit loans:

They are loans for which the Bank has initiated legal collection actions. The demand for legal collection, unless there are technical and legal reasons, begins within a period of 90 calendar days of having recorded the loan as past due.

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Rescheduled loans:

By means of Official Letter No 5345 - 2010-SBS, the SBS has cleared that in certain situations, volatility of the debtor's income is expected, which can cause a mismatch between the expected cash flows and originally agreed repayment timetables. To the extent those situations or events are temporary in nature and the debtor's feasibility is not compromised, adjusting the originally agreed contractual terms should not reflect diminished payment capacity of the customer, and therefore, those adjustments shall not constitute refinancing.

These cases should be assessed by the financial system entities on an individual basis and their decision should be supported by including the risk assessments conducted together with the documentation contained in the debtor's file, which should be made available to the SBS.

In the event the volatility of income affects the structural viability of a debtor's, or a debtor is incurred in delays in payment, the adjustments made to the contractual terms and conditions will be considered to reflect impaired payment capacity, and therefore, those contractual term adjustments shall constitute refinancing.

(iii) Measurements in the COVID-19 context

As a result of COVID-19 and the national state of emergency and mandatory social isolation (note 1.B), the SBS adopted a series of exception measures with accounting impact, which, in terms of credit, are detailed below:

Rescheduled loans due to the public health emergency

They are those credits that have undergone modifications in their contractual conditions (mainly by extension in the payment schedule as a result of the granting of a grace period), without this constituting a refinancing, to the extent that the total term of the referred credits does not extend for more than 6 (six) months of the original term or 12 (twelve) months, depending on the type of credit, and that on the date of the declaration of the state of emergency the debtors are up to date with their payments. The principal balance and interest of the reschedulings are controlled in memorandum accounts.

The types of rescheduling are:

- Mass rescheduling

Massive rescheduling of loans, with or without the approval of the customer and without credit risk assessment, have the following requirements:

- (i) The customer shall record 15 days past due as maximum as of February 29, 2020 or as of March 15, 2020.

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- (ii) The maximum date to request the first rescheduling is until May 30, 2020 (loans to large companies and corporate loans) and until June 30, 2020 (retail loans to medium-sized companies).
 - (iii) The maximum date for rescheduling is 6 months for loans to large companies and corporate loans, and 12 months for retail loans and medium-sized companies.
- Individual rescheduling
In individual rescheduling, there must be a credit risk assessment and have the customer's approval. The maximum rescheduling period of 6 and 12 months of mass rescheduling does not apply, and it may be extended to longer periods. Likewise, the customer shall not be more than 30 days past due to the rescheduling date.
- For both rescheduling types, as of July 1, 2020, revolving loans for credit cards shall be rescheduled only for the entire debt in a new payment schedule.
- Financial entities may apply the accrual criterion for the accounting treatment of the interests associated with the retail loans that are subject to rescheduling. If such retail loans change the accounting treatment to default after the payment obligation according with the new schedule is resumed, the entity shall reverse the accrued and unpaid interest, having 6 months to carry out such reverse proportionally.
- For wholesale debtors with massive rescheduling loan, the accounting treatment of interest shall be subject to the assumption method. For rescheduling process carried out as an individual credit risk assessment, accrual basis may be applied.
- In 2021, through Official Letters 6302-2021-SBS and 13613-2021-SBS, the following provisions are effective:
 - From March 16, 2021, loans may be subject to unilateral modifications when the customer pays at least one full installment, including principal, in the last six (6) months, but the modified payment schedule cannot be extended for more than three (3) months, considering the customer's last payment schedule. Likewise, interest on loans rescheduled from such date shall be recognized when earned.

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- From March 16, 2021, modifications may be made unilateral credit operations without the client having paid at least one full installment, including capital, in the last six (6) months; the modified payment schedule may be extended for a maximum of three (3) months in total, considering the customer's last payment schedule. For the credits of debtors with a Normal and CPP classification rescheduled under these conditions, the companies must constitute additional voluntary provisions, equivalent to the Deficient risk classification. Likewise, the accounting record of the interests associated with the credit operations rescheduled from the date unilaterally, must be carried out by the criterion of what was received.

- SBS Resolution 3922-2021, issued on December 23, 2021 and effective December 2021, modified the Regulation on Borrower Risk Assessment and Credit Rating, and Provision Requirements (SBS Resolution 11356-2008) in relation to loans recognized as rescheduled loans due to the public health emergency. It also stated the following:
 - The specific provisions for rescheduled loans due to the public health emergency include consumer loans, micro-business loans, small-business loans and medium-business loans.

 - Requirement of specific provisions:

Debtor classification /Accounting status	Conditions	Specific provision to be made according to risk rating
Normal	Rescheduled loans of debtors rated as Normal.	CPP (on balance of principal)
Normal / CPP	Default of payment of at least one full installment that includes the principal for the last six months at the accounting reporting close.	Deficient (on balance of principal)
Normal / CPP / Substandard	No payment was made of at least one full installment including principal for the last twelve months.	Doubtful (on balance of principal)
Loans under current status	Rescheduled loans under current status.	Substandard (on accrued interest)

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Debtor classification /Accounting status	Conditions	Specific provision to be made according to risk rating
	Rescheduled loans under current status and debtors who failed to pay at least one full installment including principal for the last six months at the accounting reporting close.	Loss (on accrued interest)
-	Entities may not, in any case, generate profits or generate higher profit or loss from the reversal of provisions, and shall be used to recognize specific mandatory provisions.	
-	Accrued interest not collected at the rescheduling date, recognized as income that is capitalized as a result of the rescheduling, must be repaid and recorded as deferred income, being recorded as income based on the new term of the loan and as installments are settled.	

By means of Supreme Decree No 130-2022-PCM, published on October 27, 2022, the National Emergency is ended, and therefore, all new loan rescheduling are within the scope of the provisions of Official Letter No 5345-2010-SBS. In this sense, the provisions set in the Official Letter govern the assessment and/or approval of a loan rescheduling, including recording and accounting treatment.

(iv) Credit risk ratings
 The debtor classification categories for credit risk established by the SBS are the following: Normal, with Potential Problem (CPP), Deficient, Doubtful and Loss; which are assigned according to the credit behavior of the debtor.

For wholesale loan portfolio (corporate loans, large-business loans and medium-business loans), the rating is based on the borrower's ability to meet its debt obligation, cash flows, level of compliance with obligations, rating designated by other financial institutions, financial position, and management quality. For retail loan portfolio (small-business loans, micro-business loans, revolving and non-revolving loans, and mortgage loans), the rating is based on the borrower's level of compliance with obligations, reflected in the defaults and delays, and rating designated by other financial institutions. Additionally, the Bank assesses the exposure to exchange rate risk of the loan portfolio in foreign currency, according to the SBS Resolution 041-2005 and amendments, the Bank evaluates the exposure to credit exchange risk for loans in foreign currency.

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Notes to the separate financial statements (continued)

- (v) Provision for loan losses
 The provision for loan losses is measured in accordance with the criteria established in SBS Resolution 11356-2008 "Regulations for the Evaluation and Classification of the Debtor and the Requirement of Provisions".

According to current regulations, the Bank considers 2 types of provisions for loan portfolio: general and specific provisions. The general provision is recorded in a preventive manner for direct and indirect loans rated as "standard" and additionally for the procyclical component when the SBS orders its application. The general provision also includes voluntary provisions.

Voluntary provision is determined considering the following: the economic situation of the debtors that make up the high-risk loan portfolio (overdue loans, in judicial collection, rescheduled, refinanced and restructured), previous experience and other factors that, at the management's discretion, require to current recognition of possible losses in the loan portfolio. The amount of voluntary provisions is reported periodically to the SBS.

The specific provision is that established on direct credits and the equivalent exposure to credit risk of indirect credits of debtors that have been classified in a risk category higher than the normal category.

The credit risk equivalent of indirect loans is determined by multiplying the indirect loans by the different types of Credit Conversion Factor (CCF) described as follows:

	Description	CCF (%)
(a)	Confirmations of irrevocable letters of credit up to one year, when the issuing bank is a tier 1 foreign financial institution.	20
(b)	Collaterals, import letters of credit, and letters of guarantee, and confirmations of letters of credit not included in a), as well as banker's acceptance.	100
(c)	Letters of guarantee not included in b).	50
(d)	Undisbursed loans granted and unused credit lines.	0
(e)	Other indirect loans not included in the prior paragraphs.	100

Provision requirements are determined considering the borrower's credit rating, whether the loan is secured by collateral, and type of collateral.

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The percentages applied to determine the provision for the loan portfolio are the following:

Credit risk rating	No collateral	Preferred collateral	Preferred easily realizable collateral	Self-liquidating preferred collateral
Standard				
Corporate loans	0.70%	0.70%	0.70%	0.70%
Large-business loans	0.70%	0.70%	0.70%	0.70%
Medium-business loans	1.00%	1.00%	1.00%	1.00%
Small-business loans	1.00%	1.00%	1.00%	1.00%
Micro-business loans	1.00%	1.00%	1.00%	1.00%
Revolving loans	1.00%	1.00%	1.00%	1.00%
Non-revolving loans	1.00%	1.00%	1.00%	1.00%
Mortgage loans	0.70%	0.70%	0.70%	0.70%
With potential problems	5.00%	2.50%	1.25%	1.00%
Substandard	25.00%	12.50%	6.25%	1.00%
Doubtful	60.00%	30.00%	15.00%	1.00%
Loss	100.00%	60.00%	30.00%	1.00%

As of December 31, 2022 and 2021, the procyclical component for the provision for loan portfolio is deactivated, according to SBS Official Letter B-2224-2014. SBS Resolution 3718-2021 modified the Regulation on Borrower Risk Assessment and Credit Rating and Provision Requirements in relation to activation criteria of procyclical provisions. Accordingly, they can be activated as of June 30, 2024. The minimum rates of the procyclical component are the following:

Types of loans	Procyclical component
Corporate loans	0.10%
Large-business loans	0.40%
Medium-business loans	0.60%
Small-business loans	1.00%
Micro-business loans	1.00%
Revolving loans	1.50%
Non-revolving loans	1.00%
Mortgage loans	0.40%

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For loans with self-liquidating preferred collaterals, the procyclical component shall be 0% for the portion covered by such collaterals. For non-revolving loans supported by payroll or pension deduction agreements, the procyclical component shall be 0.25%

A provision for direct loan losses is recorded deducting the balance of the relevant asset (note 7). A provision for indirect loan losses is recorded in 'liabilities' (note 14).

The SBS exceptionally established a zero percent provision rate for credit risk to the part of the loans covered by the guarantee of the Reactiva Peru and FAE for SME program, note 2(e)(v).

- (f) Property, furniture and equipment-
 Property, furniture and equipment is recorded at historical cost, which includes disbursements attributable to acquisition, and is presented net of accumulated depreciation and accumulated impairment losses. Annual depreciation is recognized as expense and is determined using the standard cost, under the straight-line method based on the estimated useful life of property, furniture and equipment, using depreciation rates:

	Years
Buildings and premises	33 and 10
Installations and improvements to rental property	Up to 20
Property, furniture and equipment	10 and 4
Vehicles	5

In-transit units and work in progress items are stated at cost and consist of installations, furniture and equipment remaining to be received or under construction. This includes the cost of acquisition or construction and other direct costs. These items are not depreciated until the relevant assets are received or completed and are already operational.

Disbursements incurred after a component of property, furniture and equipment has been put into use are capitalized only when they can be measured reliably, and it is probable that such disbursements will result in future economic benefits in excess of the normal performance originally assessed for said asset.

Disbursements for maintenance and repairs are recognized as an expense in the year in which they are incurred. When a component of property, furniture and equipment is sold or withdrawn from use, its accumulated cost and depreciation are eliminated and the gain or loss resulting from the sale is recognized in the result for the year.

The accounting balance of leased offices which contracts are terminated or rescinded before maturity are recognized as provisions for impairment.

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The Bank is not permitted to apply the revaluation model. It is only permitted to apply the cost model. Likewise, the banks are prohibited from giving as collateral their property, furniture and equipment as collateral, except those acquired in financial leasing operations.

- (g) Realizable, received as payment and repossessed assets -
Assets received as payment and repossessed by the Bank as payment of debts are recorded at judicial or extrajudicial value or at value agreed upon in the payment. At initial recognition, recovered assets as a result of the agreement termination, if any, are measured at the lower of the outstanding debt value and the net realizable value. If the outstanding debt value is higher than the value of the recovered asset, the difference is recognized as a loss, provided that its recovery is remote.

Likewise, in accordance with Resolution 1535-2005 "Regulation on the Accounting Treatment of Repossessed and Recovered Assets and Provisions" and amendments, the Bank records provisions as follows:

- For assets received, a provision for 20% of the value on the award or recovery date.
- For fixed assets, a monthly provision, within a maximum period of 42 months, a uniform monthly provision must be made, based on the net value obtained in the twelfth or eighteenth month of its adjudication or recovery, depending on whether the SBS extension is available and until completing 100% of the book value of the asset. On an annual basis, the net book value of real estate is compared with the realizable value determined by an independent appraiser and, in the event that this value is lower, a provision for impairment is established.
- For assets other than fixed assets, a provision for the remaining balance within a period of not more than 12 or 18 months, depending on whether an extension is granted by the SBS.

Impairment loss is recognized when the net realizable value is lower than net carrying amount; accordingly, the carrying amount shall be reduced and the loss shall be recognized in the separate statement of income or loss. If the recoverable amount exceeds the carrying amount, the higher amount shall not be recognized.

- (h) Intangible assets -
Intangible assets with finite useful life are recognized at acquisition cost and are presented net of accumulated amortization and any impairment loss. Amortization is recognized as expense. It is determined under the straight-line method based on the estimated useful life of assets. The assets' estimated useful life is between 1 and 5 years.

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Costs associated with maintenance of software are recognized as expenses when incurred. The development expenses and unique and identifiable software, which are likely to generate economic benefits, are recognized as intangible assets.

(i) Goodwill -

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

For the purpose of impairment testing, assets are grouped into the smallest identifiable group of assets that generates cash inflows from continuing use and is largely independent of the cash inflows from other assets or groups of assets of cash-generating units. Goodwill is allocated to each cash-generating unit that is expected to benefit from the synergies arising from the business combination. A cash-generating unit to which the acquired goodwill has been allocated, is tested for impairment annually, or more frequently, when indicators exist that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized reducing the carrying amount of any goodwill allocated to a cash-generating unit, and then to the other assets of the cash-generating unit, prorating it based on the amount in books of each of the assets of the cash-generating unit. Any impairment losses on goodwill is recognized against profit or loss for the year in which it occurs. Impairment losses on goodwill acquired is not reversed in subsequent periods.

(j) Impairment of non-financial assets -

When events or circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, management reviews the carrying amount of the asset at separate statement of financial statement. If after the impairment test, the carrying amount exceeds its recoverable amount, an impairment loss is recognized in the separate statement of income or loss. The recoverable amount is estimated for each asset.

(k) Debts and financial obligations -

Outstanding instruments and liabilities are financial liabilities recorded at amortized cost using the effective interest method. Amortized cost is calculated taking into consideration any discounts or premiums on issuance. Costs are an integral part of the effective interest rate and are amortized during the validity term of the liabilities. Accrued interest are recognized in the separate statement of income or loss.

Outstanding instruments and liabilities are classified as financial liabilities at fair value through profit or loss when are held for trading or, when at initial recognition have been to be accounted at fair value through profit or loss.

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A financial liability classifies as held-for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- It is part of a portfolio of identified financial instruments, which are managed together, and for which there is evidence of a recent pattern of obtaining short-term profits; or
- It is a derivative that is not a financial guarantee contract, nor has it been designated as a hedging instrument, and it meets the conditions to be effective.

As of December 31, 2022 and 2021, the Bank does not have financial liabilities that qualify as held for trading.

A financial liability different to those held-for-trading is classified as at fair value through profit or loss if:

- This eliminates or significantly reduces any inconsistency in valuation or recognition; or
- It is part of a group of financial assets, financial liabilities or both, which are managed and evaluated according to the fair value criteria, in accordance with a documented investment or risk management strategy of the Bank, and whose information is provided by internal way on that basis; or
- It is part of an agreement containing one or more embedded derivatives, and IAS 39 allows the entire hybrid (combined) agreement to be designated as a financial asset or a financial liability at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are recorded at fair value. Gains and losses from changes in the fair value of these liabilities are recognized in "Profit or loss from financial transactions" in the separate statement income.

As of December 31, 2022 and 2021, the Bank does not have financial liabilities at fair value.

(l) Securities and obligations outstanding -

The liabilities arising from the issuance of instruments, securities and other obligations outstanding are accounted for at their nominal value, with interest accrued recognized in profit or loss for the year. Discounts granted and income obtained in their placement are deferred and are shown net of their issuance value and they are amortized over the effective period of the related instruments, securities, and obligations outstanding using the effective interest rate method.

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(m) Employee benefits -

Holidays and other benefits

Personnel's annual holidays, paid leaves, and other employee benefits are recognized on an accrual basis, considering their probability of occurrence. The provision for estimated liabilities corresponding to personnel's annual holidays, resulting from the service rendered by an employee, is recorded on the date of the separate statement of financial position.

Severance payment

The provision for severance payment is measured, according to current regulations, on the total employees' reimbursement rights, according to current regulations. Payments are deposited in the Bank since it is the financial institution chosen by the employee.

Employees' profit sharing

The Bank recognizes a liability and an expense for employees' profit sharing equivalent to 5% of tax base determined in accordance with current tax laws.

Long-term benefits

It comprises post-employment benefits granted to the Bank's active or retired employee, mainly related to seniority awards and medical benefits. Such benefits are recorded based on an actuarial valuation method determined independently, considering future wages levels in accordance with the market expectations, and the average historical cost of medical expenses and other benefits adjusted for inflation, as well as their probability of occurrence. These future cash flows are discounted considering a market interest rate that corresponds to the issuance of bonds with high credit rating.

(n) Provision, contingent liabilities and contingent assets -

(i) Provisions

A provision is recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources to settle the obligation shall be required, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed on an ongoing basis and adjusted to reflect the best estimates at the date of the separate statement of financial position. Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenses expected to be required to settle the obligation.

(ii) Contingent assets and contingent liabilities

Contingent assets are not recognized in the separate financial statements. They are only disclosed when an inflow of economic resources is probable.

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

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Notes to the separate financial statements (continued)

(o) Income tax -

Income tax, either current and deferred, is recognized as "income and expense", and is included in the separate statement of income or loss, except if such amounts are related to items recognized in equity accounts, in which case, current income tax or deferred is also recognized in equity accounts.

According to current tax legislation, current income tax is determined by applying the tax rate for the year and is recognized as an expense.

The Bank recognizes Income tax in accordance with the provisions of IAS 12 - Income Tax. The Income tax reflects the effects of the temporary differences between the accounting balances of assets and liabilities and those determined for tax purposes.

The deferred tax liabilities is recognized for all taxable temporary differences that arise when comparing the carrying amount of assets and liabilities and their tax base, without considering that the temporary differences estimated at the beginning will be reversed. The deferred tax asset is recognized for all taxable temporary differences that arise when comparing the carrying amount of assets and liabilities and their tax base, to the extent that it is probable that, in the future, the Bank will have sufficient income tax against which it can apply the temporary differences that revert.

Deferred tax liability and asset are measured at the income tax rate, which is expected to be applied to tax of the year in which this liability is settled or the asset is realized, using the income tax rate enacted or substantially effective at the separate statement of financial position.

As set forth under IAS 12, the Bank determines its Income tax based on the tax rate applicable to its undistributed profits, recognizing any additional tax on dividend distribution on the date the liability is recognized.

(p) Income and expense recognition -

Interest income and expense and service fees are recognized in profit or loss for the period on an accrual basis, depending on the term of the generating transactions.

Accrued interest from past due, refinanced, restructured and under legal collection loans, as well as loans rated as "doubtful" or "loss", which is recognized in the separate statement of income or loss when are collected effectively. If it is determined that the financial condition of the debtor has improved to such an extent that the uncertainty about the recoverability of the principal disappears, the accounting of the interest generated by these credits is restored on the basis of the accrued.

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

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Notes to the separate financial statements (continued)

(q) Basic and diluted earnings per share -

Basic earnings per ordinary share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted-average number of outstanding ordinary shares during the year. Since the Bank does not have dilutive financial instruments, earnings per ordinary and diluted share are the same.

(r) Repurchase agreements -

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

The Bank recognizes the cash received and a liability recorded in 'accounts payable' to refund such cash at maturity. Also, it will make the reclassification of securities subject to the transaction in accordance with SBS regulations. Accounting records of returns will depend on the agreements between the parties. The difference between the final amount and the initial amount shall be recognized as expense against a liability within the transaction term using the effective interest method.

Loan portfolio reporting operations guaranteed by the Government represented in securities. These operations are agreed within the framework of the Reactiva Peru Program. BCRP conducts operations through auctions or direct operations. Market participants sell to the BCRP the securities representative of credits guaranteed by the Government. They receive local currency (amount of the sale) and are obliged to repurchase said securities subsequently, against the payment of local currency (amount of the repurchase). Securities could be:

- Portfolio of securities representative of credits (regular form)
- Certificates of participation in real estate trusts (special form)

The market participant shall monthly pay interest. The operation includes a grace period of 12 months without paying interest, which are prorated over the life of the operation. The market participant is forced to repurchase loans guaranteed by the Government guarantee program each time there is a reduction in their value, or on the resulting date in case of early maturity. In the event of breaches, BCRP shall maintain definitively loans with the Government guarantee program.

By means of Emergency Decree No 011-2022, the Government has established the possibility that loans under the Reactiva Perú program can be eligible for a new rescheduling (or first rescheduling for those who did not obtain one previously) for up to a total of 10 thousand million soles.

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Notes to the separate financial statements (continued)

It should be noted that in the event rescheduling is decided, the repo transaction with the BCRP will not continue but financing for those (rescheduled) loans will be completed with the Bank's resources.

The Peruvian government guarantee will continue to be effective up until the new due date for the rescheduled loan and will also continue to be effective the same percentage of guarantee coverage.

As of December 31, 2022 and 2021, the Bank carries out currency, securities and loan portfolio reporting operations guaranteed by the Government represented in securities and loan portfolio (notes 6, 7 and 14).

- (s) Separate statement of income or loss and other comprehensive income, and changes in equity - Unrealized profit or loss of the measurement of available for sale investment, modifications of the hypothesis related with actuarial liabilities and measurement of cash flow hedges is recognized in the separate statement of income or loss and other comprehensive income. Deferred tax related with these items are detailed in the corresponding note (note 3.(o)).

The separate statement of changes in equity shows profit or loss for the period, other comprehensive income, accumulated effects of changes in accounting policies or correction of errors, if any, changes in the shareholder transactions, as payment of dividends and capital contributions, and the reconciliation of the opening balances to the closing balances, by revealing every move or change.

- (t) Cash and cash equivalents -
This caption, recorded in the separate statement of cash flows, comprises cash and cash equivalents (without including guarantee funds), interbank funds, and cash equivalents that correspond to short-term and highly liquid instruments easily convertible into cash and subject to an insignificant risk of changes in the fair value, whose maturity does not exceed 90 days from the acquisition date. According to the SBS, the Bank prepares and presents this statement by applying the indirect method.

The Bank's overdrafts are reclassified as liabilities in the separate statement of financial position.

- (u) Trust activities -
Assets from fiduciary activities in which there is a commitment to return such assets to customers and in which the Bank acts as the holder, trustee or agent, have been excluded from the separate financial statements. Such assets are controlled separately in the separate financial statements and are presented in memorandum accounts.

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Notes to the separate financial statements (continued)

(v) Foreign currency transactions -

Currency transactions are recorded, at initial recognition, using the local currency. For this purpose, the amounts in foreign currency are translated to the functional currency by applying the exchange rate on the transaction date.

Gains or losses resulting from restating monetary assets and liabilities in foreign currency at the exchange rates in force on the date of the separate statement of financial position are recorded in the results of the year as "Exchange gains or losses" under the heading "Profit or loss from financial transactions".

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Notes to the separate financial statements (continued)

4. Foreign Currency Balances

The separate statement of financial position includes balances of foreign currency transactions, mainly in U.S. dollars (US\$), which are recorded in soles (S/) at the exchange rate established by the SBS. As of December 31, 2022 and 2021, buy and sell exchange rate was US\$ 1 = S/3.814 and US\$ 1 = S/3.987, respectively.

Foreign currency transactions in Peru referred to the concepts authorized by the BCRP are channeled through a free banking system. As of December 31, 2022, buy and sell exchange rates used were US\$ 1 = S/3.808 and US\$ 1 = S/3.820, respectively (buying rate of US\$ 1 = S/3.975 and buy rate of US\$ 1 = S/3.998, as of December 31, 2021).

As of December 31, 2022 and 2021, foreign currency balances stated in thousands of U.S. dollars are as follows:

	2022			2021		
	US Dollars (000)	Other currencies (000)	Total (000)	US Dollars (000)	Other currencies (000)	Total (000)
Asset						
Cash and due from banks	2,306,355	109,203	2,415,558	2,949,732	99,220	3,048,952
Investments at fair value through profit or loss and available-for-sale	1,028,502	-	1,028,502	400,035	-	400,035
Loan portfolio, net	4,636,713	-	4,636,713	4,308,418	222	4,308,640
Other assets, net	169,214	16,795	186,009	122,780	1,716	124,496
	<u>8,140,784</u>	<u>125,998</u>	<u>8,266,782</u>	<u>7,780,965</u>	<u>101,158</u>	<u>7,882,123</u>
Liabilities						
Deposits and obligations with the public and financial institutions	7,070,250	60,597	7,130,847	6,610,015	68,562	6,678,577
Debts and financial obligations	670,299	-	670,299	1,306,241	-	1,306,241
Provisions and other liabilities	289,719	23,821	313,540	298,423	5,814	304,237
	<u>8,030,268</u>	<u>84,418</u>	<u>8,114,686</u>	<u>8,214,679</u>	<u>74,376</u>	<u>8,289,055</u>
Net position						
Derivative instruments, assets	4,890,362	147,751	5,038,113	6,047,373	202,693	6,250,066
Derivative instruments, liabilities	4,986,132	191,082	5,177,214	5,426,887	233,758	5,660,645
	<u>14,746</u>	<u>(1,751)</u>	<u>12,995</u>	<u>186,772</u>	<u>(4,283)</u>	<u>182,489</u>

In 2022 and 2021, the Bank recorded net exchange gains for S/936 million and S/ 208 million, respectively, which corresponds to the valuation of exchange rate, as well as purchase and sales transactions in foreign currency in 'profit or loss from financial transactions' of the separate statement of income (note 20).

The percentage change in the exchange rate of the Sol in relation to the US dollar was -4.34% and 10.11% for the years 2022 and 2021, respectively.

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Notas a los estados financieros separados (continuación)

5. Cash and due from banks

As of December 31, this caption comprises the following:

	2022 S/(000)	2021 S/(000)
Cash (a)	2,725,393	2,583,579
Clearing	46,657	38,003
Peruvian Central Reserve Bank (a)	4,970,231	12,117,862
Foreign banks and other financial institutions (b)	3,627,707	513,896
Local Banks and other financial institutions (b)	57,647	151,102
Other guarantee funds (c)	699,639	803,222
Other cash and due from banks	73	366
BCRP funds pledge as guarantee (d)	-	39,854
	<u>12,127,347</u>	<u>16,247,884</u>

- (a) As of December 31, 2022, cash balances held by the bank as well as those held with the Peruvian Central Reserve Bank (BCRP) includes US\$984 million and S/2,249 million (US\$705 million and S/1,731 million, as of December 31, 2021) destined to cover the legal reserve that the Bank must keep for the deposits and obligations with the public, under the local regulations currently in force. These cash balances are kept in the Bank's vault or are credited to the BCRP.

As of December 31, 2022 and 2021, the balances subject to the legal reserve requirement in local currency and foreign currency are subject to an implicit rate of 6.00% and 35.00%, respectively (4.75% and 35.00%, respectively as of December 31, 2021) over total obligations subject to legal reserve (TOSE), under the rules set by the BCRP.

The legal reserve funds that reflect the legal minimum are not interest bearing. The legal reserve funds comprising the additional legal reserve in foreign currency and in local currency bear interest at a nominal rate set by the BCRP. As of December 31, 2022, a portion of the additional legal reserve funds in U.S. dollars of US\$800 million are hedged with a cash flow hedge, see note 8(ii).

As of December 31, 2022, balances held with the BCRP include overnight deposits of S/1,885 million (S/800 million of time deposits and S/ 9,326 million of overnight deposits as of December 31, 2021).

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Notes to the separate financial statements (continued)

As of December 31, 2022 and 2021 this item shows the following accounting balances:

	2022 S/(000)	2021 S/(000)
Legal reserve		
Deposits with BCRP	3,065,635	1,991,281
Cash in vault	<u>2,725,393</u>	<u>2,583,579</u>
Legal reserve subtotal	5,791,028	4,574,860
Non-mandatory legal reserve		
Time deposits with BCRP	1,884,659	10,126,581
Interest on checking account	<u>19,937</u>	<u>-</u>
Non-mandatory legal reserve subtotal	<u>1,904,596</u>	<u>10,126,581</u>
Total	<u><u>7,695,624</u></u>	<u><u>14,701,441</u></u>

- (b) As of December 31, 2022 and 2021 deposits held with local and foreign banks are mainly in Peruvian soles and in U.S dollars but also other currencies for smaller amounts; they are cash in hand and bear interest at market rates.

As of December 31, 2022, they include balances mainly with the following financial institutions: JP Morgan Chase Bank of S/1,355 million, Bank of New York of S/771 million, Citibank N.A. New York of S/675 million, Standard Chartered Bank S/410 million and BBVA París of S/384 million (As of December 31, 2021, balances were held mainly with BBVA S.A. S/364 million and Citibank N.A. New York of S/65 million, Standard Chartered Bank of S/20 million and JP Morgan of S/20 million).

- (c) As of December 31, 2022 and 2021 cash includes guarantee funds that secure transactions with derivatives as requested by the Bank counterparties for a total US\$79 million and US\$158 million, respectively. Also, as of December 31, 2022, this balance includes S/330 million and US\$16 million to secure the transfer process in line with a requirement of BCRP (S/132 million and US\$9 million, as of December 31, 2021).
- (d) As of December 31, 2021, cash includes amounts that secure repo transactions involving the loan portfolio of S/40 million.

During the course of 2022 and 2021, interest income on cash and due from banks totaled S/166 million and S/30 million, respectively, and is shown within interest income in the separate statement of income, see note 17.

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Notas a los estados financieros separados (continuación)

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

As of December 31, this caption comprises the following:

	2022				2021			
	Amortized cost S/(000)	Gross unrealized gains or losses		Estimated fair value S/(000)	Amortized cost S/(000)	Gross unrealized gains or losses		Estimated fair value S/(000)
		Gains S/(000)	Losses S/(000)			Gains S/(000)	Losses S/(000)	
Investments at fair value through profit or loss:								
Certificates of deposit with BCRP (a)	-	-	-	2,691,234	-	-	-	3,738,906
Peruvian Public Treasury bonds (b)	-	-	-	587,625	-	-	-	390,675
Subtotal				<u>3,278,859</u>				<u>4,129,581</u>
Available-for-sale investments (f)								
Debt instruments:								
U.S. treasury bills (c)	3,659,533	-	(11,777)	3,647,756	1,036,166	-	(522)	1,035,644
Peruvian Public Treasury bonds (b)	3,036,064	-	(66,613)	2,969,451	1,827,887	-	(32,695)	1,795,192
Certificates of deposit with BCRP (a)	1,583,830	-	(1,135)	1,582,695	2,621,476	-	(7,627)	2,613,849
Corporate bonds (d)	68,689	-	(177)	68,512	108,442	1,347	-	109,789
	<u>8,348,116</u>	<u>-</u>	<u>(79,702)</u>	<u>8,268,414</u>	<u>5,593,971</u>	<u>1,347</u>	<u>(40,844)</u>	<u>5,554,474</u>
Shares:								
Shares of local companies (e)	23,226	-	-	23,226	24,962	-	-	24,962
Shares of foreign companies	1,010	-	-	1,010	1,010	-	-	1,010
	<u>24,236</u>	<u>-</u>	<u>-</u>	<u>24,236</u>	<u>25,972</u>	<u>-</u>	<u>-</u>	<u>25,972</u>
Subtotal	<u>8,372,352</u>	<u>-</u>	<u>(79,702)</u>	<u>8,292,650</u>	<u>5,619,943</u>	<u>1,347</u>	<u>(40,844)</u>	<u>5,580,446</u>
Total				<u>11,571,509</u>				<u>9,710,027</u>

(a) As of December 31, 2022, the certificates of deposit issued by the BCRP consist of negotiable instruments obtained in public auctions held by the BCRP or traded in the secondary market with maturities up until September 2023 (March 2022, as of December 31, 2021). As of December 31, 2022 the balance includes certificates of deposit of S/204 million that secure repo transactions (S/630 million as of December 31, 2021).

As of December 31, 2022, annual return in local currency on these instruments ranged from 7.00% to 8.06% (from 0.38% to 5.00% in local currency as of December 31, 2021). Annual return in foreign currency was 0.22%, as of December 31, 2021.

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Notas a los estados financieros separados (continuación)

- (b) Peruvian Public Treasury Bonds include sovereign bonds of the Republic of Peru in local currency and global bonds in foreign currency issued by the Ministry of Economy and Finance del Perú (MEF), which represent public internal debt securities of the Republic of Peru.

As of December 31, 2022 and 2021, these bonds bore interest at an annual interest rates ranging from 5.20% to 8.20% in local currency, in both periods and 7.35% in foreign currency in both periods. As of December 31, 2022 and 2021, local currency bonds have maturities up until February 2042 and February 2055, respectively, and foreign currency bonds up until July 2025, in both periods.

As of December 31, 2022 and 2021, a portion of the balance of global bonds Perú of US\$30 million are hedged with a cash flow hedge (note 8(ii)).

- (c) As of December 31, 2022, the U.S. Treasury Bills bear interest ranging from (Letras del Tesoro Americano) 0.75% and 4.42% in foreign currency (ranging from 0.02% to 0.21% as of December 31, 2021) and with maturities up until July 2024 (September 2022 as of December 31, 2021)

As of December 31, 2021, a portion of the balance of U.S Treasury Bills of US\$100 million was hedged with a cash flow hedge (note 8). As of December 31, 2022, the Bank holds no hedge on these debt instruments.

- (d) As of December 31, 2022 and 2021 this balance included corporate bonds issued by financial institutions in Peru in foreign currency.

As of December 31, 2022, these bonds bear interest at annual interest ranging from 3.50% and 4.25% in foreign currency (from 3.50% to 4.75% as of December 31, 2021). As of December 31, 2022 and 2021, those bonds in foreign currency have maturities up until April 2023 in both periods.

- (e) As of December 31, 2022 a provision for impairment was made of S/12 million and S/4 million on the investments held on the Lima stock exchange (Bolsa de Valores de Lima) and Pagos Digitales Peruanos, respectively (S/11 million and S/4 million as of December 31, 2021).

- (f) As of December 31, 2022, unrealized losses on the valuation of available-for-sale investments, net of the related Income tax for a total of S/76 million (unrealized losses of S/39 million as of December 31, 2021), note 15(c).

- (g) As of December 31, 2022 and 2021, the return accrued of the Bank's investment portfolio (note 17) totaled S/441 million and S/132 million, respectively.

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Notes to the separate financial statements (continued)

7. Loan portfolio, net

As of December 31, this caption comprises the following:

	2022 S/(000)	2021 S/(000)
Direct loans		
Loans (c)	27,613,594	32,420,826
Mortgage loans (d)	13,959,809	13,600,490
Consumer loans	9,798,074	7,431,548
Foreign trade	6,010,104	4,894,668
Finance lease	3,180,799	3,463,072
Project financing	1,372,565	1,649,807
Factoring	1,585,012	1,537,513
Discounts	1,229,437	1,014,448
Others	3,499,415	3,519,296
	<u>68,248,809</u>	<u>69,531,668</u>
Loans past due and loans under legal collection	3,198,454	2,755,251
Refinanced loans	1,672,801	2,158,755
	<u>73,120,064</u>	<u>74,445,674</u>
Plus (less)		
Accrued interest from performing loans	680,379	640,209
Deferred income	(86,431)	(98,278)
Provisions for direct loan losses	(4,626,261)	(4,605,836)
Direct loans total	<u>69,087,751</u>	<u>70,381,769</u>
Contingent or indirect loans, note 16	<u>17,981,921</u>	<u>17,058,943</u>

(a) As of December 31, 2022 and 2021, 51.00% of the direct loan portfolio is concentrated in 4,718 customers, which amounts to S/37,653 million and 3,532 customers, which amount to S/38,320 million, respectively.

(b) Direct loan portfolio with guarantees received from customers, which comprise mortgages, deposits, letters of guarantees, collaterals and warrants, amounts to S/44,922 million as of December 31, 2022 (S/54,632 million as of December 31, 2021).

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Notes to the separate financial statements (continued)

- (c) As of December 31, 2022, part of the loan portfolio belongs to the Reactiva Peru program (note 2(e)(iii)) with a balance for S/5,801 million (S/11,511 million as of December 31, 2021). The detail of such loans is detailed as follows:

	2022 S/(000)	2021 S/(000)
Types of loans		
Medium-business loans	3,838,459	7,375,613
Large-business loans	1,109,798	2,799,296
Small-business loans	838,921	1,300,959
Corporate loans	6,152	26,737
Micro-business loans	7,554	8,147
	<u>5,800,884</u>	<u>11,510,752</u>
Total of Reactiva Peru program loans		

As of December 31, 2022, the Bank holds repo transactions involving the loan portfolio with the BCRP (note 14(a)) for S/5,408 million (S/10,677 million as of December 31, 2021) that relate to the Reactiva Perú Program.

As of December 31, 2022, the balances of the loans and payables on repo transactions involving loan portfolio with the BCRP (note 14(a)) totaled S/5,793 million and S/4,901 million, respectively (as of December 31, 2021, these balances totaled S/5,608 million and S/4,942 million, respectively).

As of December 31, 2022, loans that under the Crecer program totaled S/133 million and those under the Fondo de Apoyo Empresarial (FAE) totaled S/23 million (S/20 million and S/28 million as of December 31, 2021), note 2(e)(iv).

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Notes to the separate financial statements (continued)

As of December 31, 2022 and 2021, rescheduled loans, including rescheduled loans due to the public health emergency and the rescheduled loans of the Reactiva Peru program, under the SBS standards, totaled S/4,115 million and S/5,939 million, respectively; balances by the type of loan are broken down as follows:

	2022 S/(000)	2021 S/(000)
Types of loans		
Medium-business loans	2,673,573	3,395,204
Large-business loans	644,175	1,142,183
Small-business loans	551,376	717,116
Mortgage loans	202,769	351,850
Corporate loans	10,135	230,545
Consumer loans	29,240	96,640
Micro-business loans	4,045	4,974
	<u>4,115,313</u>	<u>5,938,512</u>
Total rescheduled loans	<u>4,115,313</u>	<u>5,938,512</u>

- (d) As of December 31, 2022, a portion of the balance of the mortgage loan portfolio is securing a debt with Fondo MIVIVIENDA - Programa MIHOGAR for up to S/664 million (S/500 million as of December 31, 2021) (note 13 (b)).
- (e) In 2022, the Bank purchased a portfolio from its subsidiary BBVA Consumer Finance Edpyme, in liquidation, for a capital equivalent to S/4 million (S/199 million in 2021). The purchase price of the aforementioned portfolio amounted to S/4 million (S/218 million as of December 2021), note 11(d).
- (f) As of December 31, 2021, a portion of the balance of the trade loan portfolio of US\$146 million was hedged with a cash flow hedge (note 8(ii)).

As of December 31, 2022, the Bank has not taken a hedge of this nature.

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Notes to the separate financial statements (continued)

- (g) As of December 31, the balances of the direct loan portfolio segmented by type of customer, in accordance with the provisions of SBS Resolution No. 11356-2008, is as follows:

	2022		2021	
	S/(000)		S/(000)	
Medium-business	17,547,101	25%	20,110,390	27%
Mortgage	14,613,415	20%	14,383,976	19%
Large business	12,737,814	17%	12,862,938	17%
Corporate	11,963,606	16%	13,861,115	19%
Consumer	10,153,888	14%	7,714,282	10%
Small business	3,785,178	5%	2,859,546	4%
Public sector entities	862,688	1%	1,324,985	2%
Financial system entities	808,890	1%	593,153	1%
Security brokerage	486,041	1%	654,890	1%
Micro businesses	161,443	-	80,399	-
	<u>73,120,064</u>	<u>100%</u>	<u>74,445,674</u>	<u>100%</u>

- (h) During 2022 and 2021, the interest earned on the loan portfolio were mutually agreed based on the prevailing market rates. In March 2021, the Peruvian Congress enacted Law No31143 that establishes that the BCRP is charged with setting the maximum and minimum interest rates for financial institutions. In April 2021, BCRP set the methodology for the calculation of the maximum interest rate on consumer loans, and loans to microbusinesses and small entities, which is to be updated semiannually in May and November. As of December 31, 2022, the maximum annual interest rate is 87.91% in local currency and 68.27% in foreign currency (as of December 31, 2021, the maximum annual interest rate was 83.64% in local currency and 66.08% in foreign currency).

As of December 31, 2022 and 2021, the average annual effective interest rate of the main products was as follows:

	2022		2021	
	Local currency %	Foreign currency %	Local currency %	Foreign currency %
Loans and discounts	8.14	6.36	4.10	3.95
Mortgage	6.10	5.49	5.86	5.43
Consumer	21.28	21.76	19.49	21.25

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Notes to the separate financial statements (continued)

(i) As of December 31, 2022 and 2021, in accordance with current SBS regulations, the Bank's loan portfolio is classified by risk as follows:

Risk category	2022						2021					
	Direct		Contingent		Total		Direct		Contingent		Total	
	S/(000)	%	S/(000)	%	S/(000)	%	S/(000)	%	S/(000)	%	S/(000)	%
Normal	65,765,671	90	16,292,144	90	82,057,815	90	67,075,078	90	15,350,043	90	82,425,121	90
With potential problems	2,382,750	3	1,202,558	7	3,585,308	4	2,596,746	3	1,119,484	7	3,716,230	4
Substandard	1,117,219	2	236,992	1	1,354,211	1	1,147,927	2	454,809	3	1,602,736	2
Doubtful	1,263,460	2	124,124	1	1,387,584	2	1,217,112	2	71,894	-	1,289,006	1
Loss	2,504,533	3	126,103	1	2,630,636	3	2,310,533	3	62,713	-	2,373,246	3
	<u>73,033,633</u>	<u>100</u>	<u>17,981,921</u>	<u>100</u>	<u>91,015,554</u>	<u>100</u>	<u>74,347,396</u>	<u>100</u>	<u>17,058,943</u>	<u>100</u>	<u>91,406,339</u>	<u>100</u>
Deferred income	86,431						98,278		-		98,278	
	<u>73,120,064</u>		<u>17,981,921</u>		<u>91,101,985</u>		<u>74,445,674</u>		<u>17,058,943</u>		<u>91,504,617</u>	

(*) In recording provisions over 2021, as described in note 2(e)(ii) and in accordance with SBS resolution No3922-2021, Covid-19 rescheduled loans that were rated as "Normal" shall be considered as rated "CPP", and those that were rated "Normal" and "CPP" by the Bank, which had not made effective payment one full installment, including the principal, for the last 6 months, shall be rated as "Substandard"; those rescheduled which failed to make effective payment of one full installment, including principal, for the last 12 months shall be rated as "Doubtful". As of December 31, 2022 and 2021, the balance of these provisions for rescheduled loans totaled S/7 million and S/49 million, respectively.

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Notes to the separate financial statements (continued)

- (j) As of December 31, 2022 and 2021, movement of the provision for direct loan losses is as follows:

	2022 S/(000)	2021 S/(000)
Balance at the beginning of the year	(4,605,836)	(4,364,046)
Additions debited to profit or loss	(2,393,908)	(2,261,022)
Recovery of provisions	1,369,709	1,458,262
Sale of loan portfolio	430,517	399,621
Write-off	448,669	184,458
Waiver	55,703	40,663
Exchange difference, net	68,885	(63,772)
	<u>(4,626,261)</u>	<u>(4,605,836)</u>

As of December 31, 2022 and 2021, the provision for direct loan losses, net presented in the separate statement of income, is presented as follows:

	2022 S/(000)	2021 S/(000)
Provisions for loan losses	(2,393,908)	(2,261,022)
Recovery of loan losses provisions	1,369,709	1,458,262
Recovery of provisions for country risk	12,643	32,883
Income on portfolio recovery	12,467	13,525
Provision for loan losses, net of recoveries	<u>(999,089)</u>	<u>(756,352)</u>

The balance of the provision for loan losses is broken down as follows:

	2022 S/(000)	2021 S/(000)
Specific	(3,021,965)	(2,893,965)
Specific - COVI D-19	(8,646)	(49,124)
Generic	(699,500)	(661,321)
Voluntary	(895,657)	(1,000,538)
Provision for country risk	(493)	(888)
	<u>(4,626,261)</u>	<u>(4,605,836)</u>

The provision for bad debts involving indirect loans is shown within "Payables, provisions, and other liabilities" in the separate statement of financial position (note 14).

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Notes to the separate financial statements (continued)

The Bank, in compliance with current standards and regulations, has identified those customers that are exposed to the credit risk and currency risk and no additional provision has been deemed necessary to be made.

Management of the Bank considers that the provision loan losses recorded as of December 31, 2022 and 2021 has been made in accordance with the SBS standards effective at those dates.

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Notes to the separate financial statements (continued)

8. Trading and Hedging derivatives

As of December 31, 2022 and 2021, the Bank holds foreign-exchange forward contracts, cross-currency swaps and interest rate swaps and options. The table below shows the fair value of these derivative financial instruments, including receivables (asset) or payables (liabilities). The nominal values shown reflect the notional amounts of the derivatives based on which changes in the fair value are measured, as appropriate:

	Note	Underlying	Maturity date	2022		
				Nominal S/(000)	Assets S/(000)	Liabilities S/(000)
Trading derivatives						
Currency forward contracts			Between 2023 and 2029	21,636,906	330,171	112,740
Interest rate swaps			Between 2023 and 2050	17,944,373	532,972	384,954
Currency swap			Between 2023 and 2042	16,645,992	482,709	736,333
Options of shares, changes and others			Between 2023 and 2026	871,647	11,816	11,816
Provision for country risk			-	-	(8,049)	-
				<u>57,098,919</u>	<u>1,349,619</u>	<u>1,245,843</u>
Hedging derivatives						
	5, 6 and 13					
At fair value (i)						
Interest rate swaps		Bonds issue	2024	1,144,200	-	67,398
Interest rate swaps		Loans	2026	762,800	2,974	-
Contractual cash flows (ii)						
Interest rate swaps		Legal reserve	From 2024 to 2025	3,051,200	685	2,750
Currency swap		Balances due	2027	228,840	-	15,125
Currency swap		Global Perú bonds	2025	114,420	-	15,274
Currency forward contracts		Time deposits	2023	90,814	-	3,081
				<u>5,392,274</u>	<u>3,659</u>	<u>103,628</u>

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Notes to the separate financial statements (continued)

	Note	2021				
		Underlying	Maturity date	Nominal S/(000)	Assets S/(000)	Liabilities S/(000)
Trading derivatives						
Currency forward contracts			Between 2022 and 2029	23,311,275	339,541	428,488
Interest rate swaps			Between 2022 and 2050	21,067,297	221,545	236,945
Currency swap			Between 2022 and 2042	21,285,101	1,217,374	904,980
Options of shares, changes and others			Between 2022 and 2026	1,024,321	1,607	1,607
Provision for country risk				-	(12,335)	-
				<u>66,687,994</u>	<u>1,767,732</u>	<u>1,572,020</u>
Hedging derivatives						
	5,6 and 12					
At fair value (i)						
Interest rate swaps		Bonds issue	Between 2022 and 2024	3,189,600	51,090	-
Interest rate swaps		Loans	2022	19,935	76	-
Contractual cash flows (ii)						
Currency forward contracts		Loan portfolio	2022	583,738	16,958	-
Currency forward contracts		U.S. treasury bills	2022	398,700	7,446	-
Currency forward contracts		Future cash flows - supplier	2022	210,115	-	2,733
Currency forward contracts		Interest on bonds	2022	158,982	235	3,894
Currency swap		Global Perú bonds	2025	119,610	-	28,378
Interest rate swaps		Loans	2022	11,391	-	54
				<u>4,692,071</u>	<u>75,805</u>	<u>35,059</u>

(i) Fair value - Hedging derivatives

Interest rate swap - IRS

As of December 31, 2022, the Bank has contracted "interest rate swaps - IRS" for a nominal value equivalent to S/ 1,907 million to cover issues and debts (S/ 3,210 million to hedge bonds and debts as of December 31, 2021). Through the IRS, the Bank receives interest at a fixed rate in US dollars and pays interest at a variable rate in that same currency. In the year 2022, the variation in the fair value of the IRS amounts to a loss of S/ 92 million and is presented in the caption " Profit or loss from financial transactions" of the separate statement of income (S/ 37 million loss in the year 2021).

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Notes to the separate financial statements (continued)

The table below shows the detail of hedged items and their Hedging derivatives as of December 31:

Hedge element	Hedging instrument	Face value of the hedging instrument stated in thousands of S/		Fair value of the hedging instrument stated in thousands of S/	
		2022 S/(000)	2021 S/(000)	2022 S/(000)	2021 S/(000)
Fair value hedge					
First international issuance of subordinated bonds for US\$ 300 million	Interest rate swap (IRS). The Bank receives a fixed interest rate and pays a variable interest rate.	1,144,200	1,196,100	(67,398)	22,251
BBVA balance due of US\$ 200 million	Interest rate swap (IRS). The Bank receives a fixed interest rate and pays a variable interest rate.	762,800	-	2,974	-
First international issuance of corporate bonds for US\$ 500 million	Interest rate swap (IRS). The Bank receives a fixed interest rate and pays a variable interest rate.	-	1,993,500	-	28,839
Wells Fargo loan for US\$ 5 million	Interest rate swap (IRS). The Bank receives a fixed interest rate and pays a variable interest rate.	-	19,935	-	76
Fair value hedge total		<u>1,907,000</u>	<u>3,209,535</u>	<u>(64,424)</u>	<u>51,166</u>

(ii) Cash flow - Hedging derivatives

Currency forward contracts -

As of December 31, 2022, the Bank has foreign exchange forward contracts with a notional amount of S/91 million to hedge time deposits of US\$24 million. By means of this foreign exchange forward contract, the Bank receives cash flows in U.S. dollars and pays future cash flows in Peruvian soles

As of December 31, 2021, the Bank has currency forward contracts at face value equivalent to S/1,352 million for hedging the loan portfolio for US\$146 million, U.S. treasury bills for US\$100 million, commitment of future payments to suppliers for US\$53 million and interest on bonds for US\$40 million. For the loan portfolio and U.S. treasury bills, the Bank receives a future cash flow in soles and pays a future cash flow in U.S. Dollars. Also, for the commitment of future payments to suppliers and interest on bonds, the Bank receives a future cash flow in U.S. dollars and pays a future cash flow in soles.

During 2022, the fair value of the forward contracts was a loss of S/2 million stated in equity accounts, net of its Income tax (gains, net of Income tax of S/31 million during 2021).

Currency swap -

As of December 31, 2022, the Bank holds currency swaps with a face value amounting to S/343 million for the bonds hedge accounted for as available-for-sale investments (US\$30 million of a global bond) and due from banks (US\$60 million). By means of the CCS on global bonds, the Bank received a fixed interest rate in Peruvian soles and pays a fixed interest rate in U.S. dollars; while by means of the CCS on balances due, the Bank obtains a fixed interest rate in U.S. dollars and pays and fixed interest rate in soles.

As of December 31, 2021, the Bank has CCS contracts with a notional amount of S/120 million to hedge bonds accounted for as available-for-sale investments (US\$30 million global bonds). By means of the CCS on global bonds, the Bank obtains a fixed interest rate in soles and pays a fixed interest rate in U.S. dollars.

During 2022, the fair value of the CCS was a loss of S/22 million and stated in equity accounts, net of its Income tax (loss, net of Income tax of S/35 million during 2021).

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Notes to the separate financial statements (continued)

Interest rate swap -

As of December 31, 2022, the Bank has an interest rate swap (IRS) contract with a notional amount of S/3,051 million to hedge a number of additional legal reserve funds in U.S. dollars. The Bank receives a fixed interest rate in U.S. dollars and pays a floating interest rate in the same currency.

As of December 31, 2021, the Bank holds cross-currency swaps contract at face value for S/11 million for loans and issuance. The Bank receives a variable interest rate in U.S. dollars and pays a fixed interest rate in the same currency.

During 2022, the fair value of IRS resulted in a loss of S/1 million as recognized in equity items, net of Income tax (loss, net of Income tax of S/ 0.1 million in 2021).

The table below shows the detail of hedged elements and their Hedging derivatives as of December 31:

Hedge element	Hedging instrument	Face value of the hedging instrument stated in thousands of S/		Fair value of the hedging instrument stated in thousands of S/	
		2022 S/(000)	2021 S/(000)	2022 S/(000)	2021 S/(000)
Cash flows hedges					
Additional legal reserve funds of US\$ 800 million	Interest rate swap (IRS). The Bank receives fixed interest rate in U.S. dollars and pays a floating interest rate in the same currency.	3,051,200	-	(2,065)	-
Balance due IFC (Institute Finance Corporation) of US\$ 60 million	Cross currency swap (CCS). The Bank receives a fixed interest rate in U.S. dollars and pays a fixed interest rate in soles.	228,840	-	(15,125)	-
Global bonds of US\$30 million	Cross currency swap (CCS). The Bank receives a fixed interest rate in soles and pays a fixed interest rate in U.S. dollars.	114,420	119,610	(15,274)	(28,378)
Time deposits of US\$24 million	Foreign exchange forward. The Bank receives future cash flows in U.S. dollars and pays future cash flows in soles.	90,814	-	(3,081)	-
Loan portfolio of US\$146 million	Foreign exchange forward. The Bank receives future cash flows in soles and pays future cash flows in U.S. dollars.	-	583,738	-	16,958
U.S. Treasury Bills of Exchange US\$100 million	Foreign exchange forward. The Bank receives future cash flows in soles and pays future cash flows in U.S. dollars.	-	398,700	-	7,446
Interest on bonds of US\$40 million	Foreign exchange forward. The Bank receives future cash flows in U.S. dollars and pays future cash flows in soles.	-	158,982	-	(3,659)
Invoice payments of US\$39 million	Foreign exchange forward. The Bank receives cash flows in U.S. dollars and pays future cash flows in soles.	-	153,500	-	(1,906)
Commission and expense payments US\$14 million	Foreign exchange forward. The Bank receives future cash flows in U.S. dollars and pays future cash flows in soles.	-	56,615	-	(827)
Balances due Standard Chartered of US\$3 million	Interest rate swap (IRS). The Bank received a floating interest rate and pays a fixed interest rate.	-	11,391	-	(54)
Cash flows hedges total		3,485,274	1,482,536	(35,545)	(10,420)

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Notes to the separate financial statements (continued)

9. Interests in subsidiaries and associates

As of December 31, this caption comprises the following:

	2022 S/(000)	2021 S/(000)
Shares in subsidiaries (a)		
Inmuebles y Recuperaciones BBVA S.A. (b)	62,064	181,337
Forum Distribuidora del Perú S.A.	30,823	27,161
BBVA Asset Management S.A. S.A.F.	28,494	37,384
BBVA Bolsa Sociedad Agente de Bolsa S.A.	18,583	18,693
BBVA Consumer Finance Edpyme, en liquidación (c)	16,111	104,423
BBVA Sociedad Titulizadora S.A.	4,730	5,125
Forum Comercializadora del Perú S.A.	2,309	2,268
	<u>163,114</u>	<u>376,391</u>
Shares in associates (d)		
Compañía Peruana de Medios de Pago S.A.C. (d)	7,350	7,001
TFP S.A.C.	4,798	5,998
	<u>12,148</u>	<u>12,999</u>
	<u>175,262</u>	<u>389,390</u>

- (a) As of December 31, 2022 and 2021, the Bank holds el 100% of shares in its subsidiaries.
- (b) In October 28, 2022, the reduction of share capital for S/120 million was approved at Board meeting.
- (c) Goodwill corresponding to the acquisition of the companies BBVA Consumer Finance EDPYME in liquidation, Forum Comercializadora del Perú S.A. and Forum Distribuidora del Perú S.A., as of December 31, 2022 and 2021, amounts to S/10 million, and its provision for impairment is S/10 million, for both periods. During 2022, as part of the liquidation process of BBVA Consumer Finance EDPYME in liquidation, the share capital was reduced for S/79 million and the distribution of profits from previous years for S/22 million approved in a Board meeting held on October 28, 2022.

In addition, the subsidiary BBVA Consumer Finance EDPYME in liquidation is in the process of liquidation and dissolution according to SBS Resolution N° 00429 2022 dated February 9, 2022.

- (d) As of December 31, 2022 the Bank holds 24.30% and 21.50% of shares in the share capital of TFP S.A.C. and Compañía Peruana de Medios de Pago S.A.C. (Niubiz), respectively (24.30% and 21.15% as of December 31, 2021),

In 2022 and 2021, the Bank recognized net gains on investments in subsidiaries and associates for S/43 million and S/62 million, respectively (note 20).

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Notes to the separate financial statements (continued)

10. Property, furniture and equipment, net

Movement in property, furniture and equipment and accumulated depreciation for the years 2022 and 2021 was as follows:

	Land S/(000)	Buildings and premises S/(000)	Property, furniture and equipment S/(000)	Vehicles S/(000)	Installations and improvements to rental property S/(000)	Work-in progress S/(000)	Goods in transit and replacement parts S/(000)	Total S/(000)
Costs								
Balance as of January 1, 2021	118,224	899,732	780,688	8,087	347,753	151,478	256	2,306,218
Additions	-	12,154	98,692	-	6,618	70,026	-	187,490
Derecognition of assets and others	-	(356)	(27,088)	(366)	-	-	-	(27,810)
Transfers	-	14,188	366	-	(285)	(14,269)	-	-
As of December 31, 2021	<u>118,224</u>	<u>925,718</u>	<u>852,658</u>	<u>7,721</u>	<u>354,086</u>	<u>207,235</u>	<u>256</u>	<u>2,465,898</u>
Additions	-	13,821	69,618	1,823	8,547	50,369	-	144,178
Derecognition of assets and others	-	(293)	(15,174)	-	(8)	-	-	(15,475)
Transfers	-	154,815	13,019	-	38,592	(206,426)	-	-
As of December 31, 2022	<u>118,224</u>	<u>1,094,061</u>	<u>920,121</u>	<u>9,544</u>	<u>401,217</u>	<u>51,178</u>	<u>256</u>	<u>2,594,601</u>
Accumulated depreciation -								
Balance as of January 1, 2021	-	571,524	521,596	7,282	192,848	-	-	1,293,250
Additions	-	26,456	71,188	427	11,213	-	-	109,284
Impairment	-	9,700	-	-	10,100	-	-	19,800
Derecognition of assets and others	-	(355)	(27,065)	(366)	-	-	-	(27,786)
Transfers	-	2,266	-	-	(2,266)	-	-	-
As of December 31, 2021	<u>-</u>	<u>609,591</u>	<u>565,719</u>	<u>7,343</u>	<u>211,895</u>	<u>-</u>	<u>-</u>	<u>1,394,548</u>
Additions	-	32,243	75,085	404	11,911	-	-	119,643
Impairment	-	-	-	-	17,926	-	-	17,926
Derecognition of assets and others	-	(294)	(14,940)	-	-	-	-	(15,234)
Transfers	-	(4)	-	-	4	-	-	-
As of December 31, 2022	<u>-</u>	<u>641,536</u>	<u>625,864</u>	<u>7,747</u>	<u>241,736</u>	<u>-</u>	<u>-</u>	<u>1,516,883</u>
Net carrying amount -								
As of December 31, 2022	<u>118,224</u>	<u>452,525</u>	<u>294,257</u>	<u>1,797</u>	<u>159,481</u>	<u>51,178</u>	<u>256</u>	<u>1,077,718</u>
As of December 31, 2021	<u>118,224</u>	<u>316,127</u>	<u>286,939</u>	<u>378</u>	<u>142,191</u>	<u>207,235</u>	<u>256</u>	<u>1,071,350</u>

- (a) According to current regulations, the Bank in Peru cannot pledge as collateral the assets that are part of their property, furniture and equipment, except for those acquired through the issuance of lease bonds to carry out finance leases.
- (b) Management performs a periodic review the method of depreciation used to ensure it is consistent with the economic benefit assessed for the fixed assets. Bank Management considers that there is no indicator of impairment of the Bank's fixed assets as of December 31, 2022 and 2021.

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Notes to the separate financial statements (continued)

11. Other assets, net

As of December 31, this caption comprises the following:

	2022 S/(000)	2021 S/(000)
Financial instruments -		
Transactions in progress (a)	973,083	548,502
Others	1,665	1,665
	<u>974,748</u>	<u>550,167</u>
Other assets, note 28		
Accounts receivable for sale of assets, services and trust	6,194	23,597
Other accounts receivable	151,584	10,488
	<u>157,778</u>	<u>34,085</u>
Receivables, note 28		
Non-financial instruments -		
Intangible assets (b)	377,921	318,715
Tax credit (c)	234,854	198,787
Prepaid expenses (d)	181,687	159,050
	<u>794,462</u>	<u>676,552</u>
	<u>1,926,988</u>	<u>1,260,804</u>

- (a) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their final accounts in the separate statement of financial position. These transactions do not affect the Bank's profit. As of December 31, 2022, it mainly corresponds to treasury transactions: i) acquisition and sale of currency for S/291 million (S/176 million as of December 31, 2021), and ii) sale of securities for S/646 million (S/296 million as of December 31, 2021).

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Notes to the separate financial statements (continued)

- (b) The movement of intangible assets as of December 31, 2022 and 2021 was as follows:

	2022 S/(000)	2021 S/(000)
Costs		
Balances as of January 1	681,403	531,473
Additions	194,907	149,930
Disposal and other	<u>(15,494)</u>	<u>-</u>
	860,816	681,403
Accumulated amortization and impairment		
Balances as of January 1	(362,688)	(246,114)
Amortization	(90,165)	(85,185)
Impairment (*)	(45,536)	(31,146)
Disposals and other	<u>15,494</u>	<u>(243)</u>
	<u>(482,895)</u>	<u>(362,688)</u>
Net carrying amount	<u>377,921</u>	<u>318,715</u>

- (*) The carrying amounts of applications acquired or software developed that are not used or do not generate future economic benefits are stated as a provision for impairment.

- (c) As of December 31, 2022, includes the tax credit for VAT to S/29 million (S/25 million as of December 31, 2021), and the tax credit for income tax for S/206 million (S/174 million as of December 31, 2021)
- (d) As of December 31, 2022 and 2021, the balances mainly includes prepaid insurance contracts and deferred loan origination costs related to fees paid to the external sales force and the premium paid for the acquisition of loan portfolio.

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Notes to the separate financial statements (continued)

12. Deposits and Obligations with the public and financial institutions

As of December 31, this caption comprises the following:

	2022 S/(000)	2021 S/(000)
Deposits and obligations with the public		
Savings accounts	25,112,300	28,493,043
Demand deposits	22,483,924	24,887,037
Time deposits	18,222,052	9,725,296
Other liabilities	235,476	91,485
	<u>66,053,752</u>	<u>63,196,861</u>
Deposits with financial institutions		
Demand deposits	678,951	543,923
Time deposits	212,983	402,732
Savings accounts	150,418	135,962
	<u>1,042,352</u>	<u>1,082,617</u>
	<u>67,096,104</u>	<u>64,279,478</u>

As of December 31, 2022 and 2021, deposits and obligations include deposits received as guarantees of direct and indirect loan for S/822 million and S/731 million, respectively.

Interest rates for liability transactions are stated by the Bank, based on current interest rates. Current interest rates as of December 31, 2022 and 2021 fluctuated as detailed below for the main products, respectively:

	2022		2021	
	Local currency %	Foreign currency %	Local currency %	Foreign currency %
Checking accounts	0.00 - 0.25	0.00 - 0.125	0.00 - 0.25	0.00 - 0.125
Savings accounts	0.00 - 0.50	0.00 - 0.25	0.00 - 0.125	0.00 - 0.125
Time deposits and bank certificates	0.01 - 4.00	0.01 - 1.10	0.01 - 1.35	0.01 - 0.80
Super deposit	1.10 - 3.50	0.15 - 0.75	0.01 - 1.35	0.01 - 0.25
Length-of-service compensation deposits	1.10 - 2.60	0.60 - 1.10	0.25 - 1.50	0.15 - 1.75

As of December 31, 2022, from the total deposits and obligations from individuals and non-profit entities and legal entities, S/25,520 million are hedge by the Deposit Insurance Fund (S/24,935 million as of December 31, 2021) and are obtained from the average daily balances of the month according with SBS Resolution 0657-99. The maximum amount subject to hedge by person amounts to S/125,603 at the end of December 2022 (S/115,637 at the end of December 2021).

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Notes to the separate financial statements (continued)

As of December 31, 2022, a portion of the time deposit balances of US\$ 24 million are hedged with a cash flow hedge (note 8(ii)).

On May 25, 2022 and April 8, 2021, by means of Law No 31480 and Law No31171, "Law that authorizes the provision of compensation for time of service in order to cover the economic needs caused by the Covid-19 pandemic", the Peruvian Government authorized workers to make free use of their full employees' severance indemnities (CTS) until December 31, 2023, deposited with financial institutions and accumulated at the date of disposal, including the deposits that were made in May and November 2022 and 2021 and the deposits that will be made in May and November 2023 to enable workers to meet their economic needs arising from the Covid-19 pandemic.

13. Debts and financial obligations

As of December 31, this caption comprises the following:

	2022 S/(000)	2021 S/(000)
Debts and Financial Obligations		
Foreign financial institutions (a)	956,420	1,566,388
MIVIVIENDA Program (b)	664,462	500,011
International financial organizations (c)	228,840	-
Corporación Financiera de Desarrollo - COFIDE	5,143	19,627
Accrued interest payable	23,049	24,210
	<u>1,877,914</u>	<u>2,110,236</u>
Securities and obligations (d):		
Subordinated bonds		
Corporate bonds	1,703,278	1,894,193
Accrued interest payable	420,015	2,767,766
Negotiable certificates of deposit	27,992	68,188
Debts and Financial Obligations	41	172
	<u>2,151,326</u>	<u>4,730,319</u>
	<u>4,029,240</u>	<u>6,840,555</u>

Loan agreements include standard clauses regarding compliance with financial ratios, use of funds and other administrative matters. As of December 31, 2022 and 2021, in management's opinion, these clauses are being met, in all material respects, and do not represent any restriction to the Bank activities.

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Notes to the separate financial statements (continued)

- (a) As of December 31, 2022 and 2021, the Bank maintains the following debt agreements with foreign financial institutions, which accrue interest at annual LIBOR rates ranging from +1.45% and 3.18% (Libor +0.52% and 5.00% as of December 31, 2021):

	2022		2021		Maturity date
	US\$	S/	US\$	S/	
BBVA S.A. (i)	200,765	765,720	200,000	797,400	February 2031
Mizuho Corporate Bank	50,000	190,700	50,000	199,350	November 2023
Wells Fargo Bank (ii)/(iv)	-	-	105,017	418,702	May and June 2022
ICO - Instituto de crédito	-	-	35,000	139,545	August 2022
Standard Chartered (iii)/(iv)	-	-	2,857	11,391	June 2022 and November 2022
	<u>250,765</u>	<u>956,420</u>	<u>392,874</u>	<u>1,566,388</u>	
Accrued interest payable	<u>5,555</u>	<u>21,187</u>	<u>5,764</u>	<u>22,981</u>	
	<u>256,320</u>	<u>977,607</u>	<u>398,638</u>	<u>1,589,369</u>	

- (i) It corresponds to a subordinated loan in foreign currency agreed at an annual interest rate of 3.18% for the first 5 years, and for the remaining years a new rate will be set with maturity in February 2031. Such a loan is accounted for as a Level 2 regulatory capital. The fair value of this issuance is hedged with an "interest rate swap - IRS", which has resulted in cumulative losses of S/ 3 million as of December 31, 2022.
- (ii) As of December 31, 2021, the balance includes a loan for a nominal amount of US\$ 5 million, agreed at annual fixed interest rate of 5.00%, maturing in June 2022, which has a fair value hedge (note 8 (i)) through an "interest rate swap - IRS", which as of December 31, 2021 has generated accumulated losses of S/0.1 million.
- (iii) As of December 31, 2021, the balance includes a loan for US\$3 million, maturing in June 2022, whose cash flows were hedged through an "interest rate swap - IRS". (note 8(ii))
- (iv) As of December 31, 2021, the balance includes financing received for a total of US\$8 million maturing in June 2022, guaranteed by present and future flows generated by electronic payment orders from customers (Diversified payments rights - DPR's). These orders are sent to the Bank via SWIFT (Society for Worldwide Interbank Financial Telecommunications Network) and accrue interest at Libor plus a spread.

The Bank signed specific agreements on these loans, which contain clauses for compliance with financial ratios and other specific conditions related to flows ceded by the Bank, which in the opinion of Management have been fully complied with.

As of December 31, 2022 and 2021, the Bank has deferred issuance expenses in accounts payable for S/ 2 million for both periods.

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Notes to the separate financial statements (continued)

- (b) As of December 31, 2022, it corresponds to resources for the financing of the acquisition of houses under the MI VIVIENDA program (MI HOGAR credit) for S/664 million in local currency and US\$0.2 million in foreign currency (S/498 million in local currency and US\$0.5 million in foreign currency as of December 31, 2021). As of December 31, 2022 and 2021, this loan accrues interest at an effective annual rate in US dollars of 7.75% and in soles of 6.25% on the principal plus the Constant Update Value (VAC) in both periods, and has maturities until December 2042 and December 2041, respectively.

As of December 31, 2022 and 2021, debts with MIVIVIENDA fund are guaranteed with mortgage loan portfolio up to S/664 million and S/500 million, respectively (note 7). These loans include specific agreements on how the funds should be used, the financial conditions that the final borrower must maintain, as well as other administrative matters.

- (c) As of December 31, 2022, this balance includes a borrowing of US\$60 million with IFC (International Finance Corporation) with maturity in December 2027 and agreed at an annual interest rate of 3.11%. Also, cash flows are hedged with a cross currency swap - CCS (note 8(ii)) and this transaction reflects a balance of payables of S/2 million comprising deferred issuance expenses.

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Notes to the separate financial statements (continued)

(d) As of December 31, 2022 and 2021, securities and bonds are as follows:

	Amount authorized by program	Currency	Original amount placed	2022	2021	Maturity date
Corporate bonds						
2nd issuance series A - Fifth Program	USD 250 million	PEN	150,000	150,000	150,000	December 2026
2nd issuance series A - Seventh Program		PEN	100,000	100,000	100,000	July 2023
2nd issuance series B - Seventh Program		PEN	73,465	73,465	73,465	August 2023
1st issuance series D - Seventh Program	USD 1,000 million	PEN	120,000	-	120,000	July 2022
1st issuance series E - Seventh Program		PEN	65,520	-	65,520	August 2022
1st issuance series F - Seventh Program		PEN	150,000	-	150,000	October 2022
2nd issuance series C - Seventh Program		PEN	96,550	96,550	96,550	December 2024
First Program of international Issuance (i)	USD 500 million	USD	500,000	-	2,012,231	August 2022
				<u>420,015</u>	<u>2,767,766</u>	
Subordinated bonds						
2nd issuance series A - First Program	USD 50 million or S/	USD	20,000	-	79,507	May 2027
3rd issuance series A - First Program	158.30 million	PEN	55,000	93,580	86,291	June 2032
2nd issuance series A - Second Program		PEN	50,000	83,317	76,827	November 2032
3rd issuance series A - Second Program		USD	20,000	76,280	79,740	February 2028
4th issuance single series - Second Program	USD 100 million	PEN	45,000	72,363	66,727	July 2023
5th issuance single series - Second Program		PEN	50,000	79,366	73,183	September 2023
6th issuance series A - Second Program		PEN	30,000	46,799	43,153	December 2033
1st issuance single series - Third Program	USD 55 million	USD	45,000	171,630	179,415	October 2028
First Program of international Issuance - Single issuance (ii)	USD 300 million	USD	300,000	1,079,943	1,209,350	September 2029
				<u>1,703,278</u>	<u>1,894,193</u>	
Negotiable certificates of deposit						
				<u>41</u>	<u>172</u>	
Accrued interest payable						
				<u>27,992</u>	<u>68,188</u>	
				<u>2,151,326</u>	<u>4,730,319</u>	

(i) In August 2012, the Bank carried out an international issuance of corporate bonds for a nominal amount of US\$500 million, at a fixed annual rate of 5.00%, and maturing in August 2022; Principal payment was made in full at maturity. The fair value of this issuance had an accounting hedge through an "interest rate swap - IRS", which has generated accumulated losses of S/19 million as of December 31, 2021.

(ii) In September 2014, the Bank issued subordinated bonds in the international market for a face value of US\$ 300 million, at an annual fixed rate of 5.25%, and with maturity in September 2029. The main payment shall be carried out in full on its maturity date. As of December 31, 2022, fair value of this issuance has been hedged with "interest rate swap - IRS", which has generated accumulated gains of S/60 million (accumulated losses for S/18 million as of December 31, 2021).

As of December 31, 2022, corporate bonds do not have specific collaterals and accrue interest at effective annual interest rates ranging in local currency from 4.40% and 7.50% (3.90% and 7.50% as of December 31, 2021). In foreign currency accrue interest at effective annual interest rates of 5.00% as of December 31, 2021.

Subordinated bonds have been issued in accordance with the Banking Law, and accrue interest at a rate ranging from constant update value plus a spread for local currency, and from 5.30% and 6.50% in foreign currency, as of December 31, 2022 and 2021.

As of December 31, 2021, a portion of the corporate and subordinated bonds (US\$ 40 million) have a cash flow hedge (note 8 (ii)).

As of December 31, 2022 and 2021, the Bank have in accounts payable a balance of S/5 million and S/6 million, respectively, which corresponds to deferred issuance expenses.

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Notes to the separate financial statements (continued)

14. Accounts payable, provisions and other liabilities

As of December 31, this caption comprises the following:

	2022 S/(000)	2021 S/(000)
Accounts payable		
Repurchase agreements with BCRP (a)	10,505,016	16,217,008
Accounts payable to suppliers	878,397	469,926
Other accounts payable (b)	404,232	92,108
Premium to deposit insurance fund, contributions and obligations with tax collecting institutions	203,842	174,252
Dividends, interest and remunerations payable	147,698	130,263
Interest payable	74,023	25,273
	<u>12,213,208</u>	<u>17,108,830</u>
Provisions		
Labor provisions and others	627,417	477,586
Provision for litigations, claims and other contingencies (c)	281,321	302,670
Provision for indirect loans (d)	251,668	244,377
	<u>1,160,406</u>	<u>1,024,633</u>
Other liabilities		
Transactions in progress (e)	974,196	528,077
Deferred income and others	76,451	74,189
	<u>1,050,647</u>	<u>602,266</u>

- (a) As of December 31, 2022, it corresponds to repurchase agreements of the loan portfolio of the Reactiva Peru program for S/ 5,408 million (S/10,677 million as of December 31, 2021), repurchase agreements of rescheduled loans for S/4,901 million (S/4,942 million as of December 31, 2021) and repurchase agreements of certificates of deposits with the BCRP for S/196 million (S/598 million as of December 31, 2021).

As of December 31, 2022 and 2021, repurchase agreements of the loan portfolio of the Reactiva Peru program mature in December 2025 and accrue interest at annual interest rates of 0.50%. Also, repurchase agreements of rescheduled loans mature in September 2025 and accrue interest at annual interest rates ranging from 0.50% to 3.50% for both periods.

- (b) As of December 31, 2022, it includes S/74 million insurance on behalf of borrowers (S/35 million as of December 31, 2021) and S/279 million for short selling transactions (S/24 million as of December 31, 2021).

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Notes to the separate financial statements (continued)

- (c) The Bank has several pending court claims, litigation and other processes that are related to the activities it develops, and in the opinion of Management and its legal advisors, they will not result in additional liabilities to those registered.

- (d) Movement in the loss allowance for indirect loans is as follows:

	2022 S/(000)	2021 S/(000)
Balance at the beginning of the year	244,377	247,366
Provisions	114,069	113,519
Recovery and reversals	(100,938)	(120,128)
Exchange difference and other adjustments	(5,840)	3,620
	<u>251,668</u>	<u>244,377</u>

The balance of the provision for loan losses (indirect loans) is as follows:

	2022 S/(000)	2021 S/(000)
Specific	129,753	123,905
Generic	108,423	106,233
Provision for country risk	13,492	14,239
	<u>251,668</u>	<u>244,377</u>

- (e) Transactions in progress are mainly those carried out during the last days of the month and are reclassified in the following month to their final accounts in the separate statement of financial position. These transactions do not have an impact on the Bank's profit or loss. As of December 31, 2022, liability transactions in progress mainly include treasury transactions for S/647 million (S/350 million as of December 31, 2021).

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Notes to the separate financial statements (continued)

15. Equity

(a) Share capital -

As of December 31, 2022 and 2021, the Bank's authorized, subscribed, and paid-in capital is represented by 7,382,184 and 6,758,467 thousand of ordinary shares, respectively, with a face value of S/1.00 each

The General Shareholders' Meeting held on March 31, 2022 and March 24, 2021 approved the increase in share capital for S/624 million and S/229 million, respectively, through the capitalization of retained earnings.

As of December 31, 2022 and 2021, shareholding on the Bank's share capital is as follows:

	2022		2021	
	N° of shareholders	Interests %	N° of shareholders	Interests %
Up to 1	8,601	6.62	7,952	6.13
From 1.01 to 5	1	1.14	1	1.63
From 45.01 to 100	2	92.24	2	92.24
	<u>8,604</u>	<u>100.00</u>	<u>7,955</u>	<u>100.00</u>

(b) Reserves -

In accordance with the Banking Law, the Bank is required to have a legal reserve of more than 35.00% of the paid-in-capital. This legal reserve shall be recognized by an annual transfer of more than 10% of profit after tax. It shall replace the reserve referred to in the Companies Act. In accordance with the Banking Law, the amount of this reserve may also be increased with contributions made by the shareholders for this purpose

At the General Shareholders' Meeting, held on March 31, 2022 and March 24, 2021, the decision was made to approve to record the legal reserve for the amount equivalent to 10% of 2021 profits (S/156 million) and 2020 (S/66 million), respectively.

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Notes to the separate financial statements (continued)

(c) Adjustments to equity -

As of December 31, 2022 and 2021, unrealized profit or loss, net of deferred tax, was as detailed below:

	2022 S/(000)	2021 S/(000)
Available-for-sale investments, note 6	(76,217)	(39,380)
Cash Flows hedges, note 8	(26,016)	(4,799)
Other comprehensive income of subsidiaries and associates	(2,898)	(2,007)
Actuarial liabilities for long-term employee benefits	14,079	13,482
	<u>(91,052)</u>	<u>(32,704)</u>

(d) Retained earnings -

At the General Shareholders' Meeting, held on March 31, 2022 and March 24, 2021, the decision was made to approve the capitalization of retained earnings for S/624 million and S/229 million, respectively, dividend distribution and have an amount of S/780 million and S/295 million in 'retained earnings', respectively.

At the General Shareholders' Meeting, held March 24, 2021, the decision was made to approve to delegate to the Board of Directors the power to determine the distribution of profits (recognized in 'retained earnings'), as well as the amount and timing provided that it is not necessary to adopt a commitment for the capitalization of such profits.

On September 22, 2021, the Bank's Board of Directors agreed to distribute dividends for S/307 million corresponding to the profits of the years 2019 and 2020. They were allocated to retained earnings.

(e) Regulatory capital and legal limits -

In accordance with the Banking Law, regulatory capital amount could not be less than 10% risk-weighted assets for credit risk, market risk and operational risk, which are calculated by the Bank using the standardised approach.

By means of Legislative Decree No 1531 dated March 19, 2022, the Peruvian banking law was amended to adopt the Basil III capital standards and approach; major changes include: composition of regulatory capital (patrimonio efectivo in Peru), requirement of minimum ratios, powers in the event of noncompliance with solvency requirements, among others. The SBS, by means of general purpose standards, set the form and due dates for adequacy. On December 27, 2022 by means of SBS resolution No 03952-2022, the minimum solvency requirements were set in article 199 of the General Banking Law with the following adequacy due dates:

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Notes to the separate financial statements (continued)

Period	Minimum common equity Tier 1 requirement	Tier 1 regulatory capital requirement	Minimum total regulatory capital ratio
January 2023 to March 2023	3.825%	5.10%	8.5%
April 2023 to August 2023	4.05%	5.40%	9.0%
September 2023 to February 2024	4.275%	5.70%	9.5%
March 2024 and later	4.50%	6.00%	10.0%

As of December 31, 2022, the effective equity of the Bank, determined according to current legal regulations, is S/12,885 million (S/11,919 million as of December 31, 2021):

	2022 S/(000)	2021 S/(000)
Tier 1		
Common shares	7,382,184	6,758,467
Plus		
Legal reserve	2,244,747	2,052,610
Profit or loss for the year under capitalization agreement		-
Less		
Regulatory adjustments	(39,692)	(163,328)
	<u>9,587,239</u>	<u>8,647,749</u>
Tier 2		
Plus		
Subordinated debt	762,800	797,400
Subordinated bonds	1,519,295	1,680,327
Generic provisions for loans	1,055,237	957,001
Less		
Regulatory adjustments	(39,692)	(163,328)
	<u>3,297,640</u>	<u>3,271,400</u>
Total regulatory capital (patrimonio efectivo)	<u>12,884,879</u>	<u>11,919,149</u>

The rules the application of the additional regulatory capital requirement approved by SBS resolution No 8425-2011 (published on July 20, 2011) and subsequently amended by SBS resolution No 3921-2021 (published on December 23, 2021), sets forth that that the additional regulatory capital requirement shall be equal to the sum of the regulatory capital requirements calculated for each of the following component: credit concentration risk (individual and sectorial), market concentration risk, interest risk in the banking book and other risks. As of December 31, 2022 and 2021, the additional regulatory capital requirement for the bank is S/1,754 million and S/1,067 million, respectively.

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Further, by means of Official Letter No 2097-2022-SBS dated January 19, 2022 the SBS set forth that the Bank shall keep levels of capital stock, legal reserve and deductions set out in article 184 of the Peruvian General Law, so that, when measuring the solvency level only based on those components, the Bank's solvency ratio is kept above 10%. As of December 31, 2022, the Bank's solvency ratio totals 10.34%.

As of December 31, 2022, the level of risk-weighted assets for credit risk, market risk and operational risk under current regulations was S/92,296 million (S/84,328 million as of December 31, 2021). Also, the Bank's global capital ratio by credit risk, market risk and operational risk is 13.96% (14.13% as of December 31, 2021).

It should be noted that the regulatory capital is a figure also used to calculate certain limits and restrictions applicable to the Bank and which Management considers the Bank has fully complied with.

16. Contingent risks and commitments

As of December 31, this caption comprises the following:

	2022 S/(000)	2021 S/(000)
Indirect loans		
Guarantees and letters of guarantee	16,672,087	15,647,556
Letters of credit and banker's acceptance	<u>1,309,834</u>	<u>1,411,387</u>
Indirect loans total, note 7	<u>17,981,921</u>	<u>17,058,943</u>
Unused credit lines and undisbursed loans granted	18,320,926	15,308,712
Various responsibilities	<u>6,102</u>	<u>6,379</u>
	<u>36,308,949</u>	<u>32,374,034</u>

In the normal course of its business, the Bank participates in transactions whose risk is recorded in contingent accounts. These transactions expose the Bank to credit risk, in addition to the amounts presented in the separate statement of financial position.

Credit risk for contingent transactions is related to the probability that a counterparty will fail to meet its obligations in accordance with agreed terms.

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Notes to the separate financial statements (continued)

The Bank applies similar credit policies when evaluating and granting direct and indirect loans. In management's opinion, contingent transactions do not represent a relevant credit risk since it expects that a portion of these indirect loans expire without being used. The total amount of indirect loans does not necessarily represent future cash outflows for the Bank.

Management estimates that no significant losses will arise, for contingent transactions effective as of December 31, 2022 and 2021.

17. Interest income

This caption comprises the following:

	2022 S/(000)	2021 S/(000)
Direct loan portfolio	5,007,330	3,989,521
Investments at fair value through profit or loss, note 6(g)	224,683	58,096
Available-for-sale investments, note 6(g)	215,818	74,337
Cash and due from banks, note 5(c)	165,668	30,410
Profit or loss on hedge transactions	92,111	87,551
Interbank funds	6,753	547
Other finance income	4,312	5,552
	<u>5,716,675</u>	<u>4,246,014</u>

18. Interest expenses

This caption comprises the following:

	2022 S/(000)	2021 S/(000)
Deposits and obligations with the public	(627,030)	(150,359)
Debts and financial obligations	(312,120)	(351,373)
Accounts payable	(116,181)	(95,085)
Deposits with financial institutions	(20,945)	(7,269)
Interbank funds	(13,522)	(738)
Other borrowing costs	(36,168)	(30,363)
	<u>(1,125,966)</u>	<u>(635,187)</u>

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Notes to the separate financial statements (continued)

19. Income from financial services, net

This caption comprises the following:

	2022 S/(000)	2021 S/(000)
Income		
Income from fees of credit fees	374,933	294,514
Transfer fees	286,404	274,243
Income from indirect loans	263,715	246,878
Income from collections services fees	157,961	147,518
Income from online banking services for business	70,670	56,886
Income from services and maintenance of checking accounts	53,761	55,357
Income from advisory services	25,551	16,093
Income from technical and legal studies	12,351	18,409
Income from cash services	8,885	5,279
Income from trust and trust fees	1,220	1,469
Other income for services	291,444	263,267
	<u>1,546,895</u>	<u>1,379,913</u>
Expenses		
Expenses for operating with Visa, Mastercard and Plin	(164,612)	(141,082)
Customer loyalty program	(148,802)	(98,360)
Premiums to the Deposit Insurance Fund	(114,443)	(107,034)
Government fund guarantee	(76,771)	(69,306)
Financial product sponsors	(73,220)	(44,019)
Transfers	(42,722)	(32,942)
Purchase of foreign currency - spot transaction	(9,615)	(12,309)
Expenses of maintenance of checking accounts	(5,465)	(5,299)
Other expenses of services	(38,765)	(28,320)
	<u>(674,415)</u>	<u>(538,671)</u>
	<u>872,480</u>	<u>841,242</u>

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Notes to the separate financial statements (continued)

20. Profit or loss on financial transactions

The table below shows a detail:

	2022 S/(000)	2021 S/(000)
Exchange gains, note 4	936,080	207,722
Gains on interests held, note 9	42,622	62,152
Investments at fair value through profit or loss	3,944	(34,229)
Available-for-sale investments	823	(42,079)
Derivatives held for trading	(277,628)	525,563
Profit or loss on hedging transactions	(91,939)	(36,675)
Other	26,710	20,845
	<u>640,612</u>	<u>703,299</u>

21. Administrative expenses

This caption comprises the following:

	2022 S/(000)	2021 S/(000)
Third party service expenses	(1,059,717)	(813,430)
Personnel and Board of Directors expenses	(1,015,630)	(920,415)
Tax and contributions	(49,135)	(50,434)
	<u>(2,124,482)</u>	<u>(1,784,279)</u>

22. Other income and expenses, net

As of December 31, 2022, it includes "Other income" of S/97 million mainly include the reversal of contingent provisions of S/57 million, other income of S/13 million, income from leases of S/3 million and "Other expenses" of S/88 million, mainly including losses in sales of seized assets and recovered of S/21 million, customer claims of S/29 million and administrative and tax sanctions of S/8 million. As of December 31, 2021, this item shows "Other income" of S/82 million mainly include the reversal of contingent provisions of S/17 million, other income of S/7 million, income from leases of S/5 million and "Other expenses" of S/98 million mainly including losses in sales of seized assets and recovered of S/1 million, customer claims of S/30 million and administrative and tax sanctions of S/7 million.

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23. Tax situation

(a) Tax rates

The Bank is subject to the Peruvian tax regime. As of December 31, 2022 and 2021, the corporate income tax rate in Peru is 29.5% on the net taxable income determined individually by each of the companies that make up the Bank.

Through Legislative Decree 1261, published December 10, 2016 and effective January 1, 2017, the corporate income rate was amended to 29.5%.

The aforementioned Decree also established the amendment to the income tax rate applicable to dividend distribution and any other form of profit distribution to 5% for profits generated and distributed from January 1, 2017.

The rates applicable to income tax on dividends for the year 2017 and thereafter is 5.0%.

- (b) In accordance with current tax legislation in Peru, non-resident subjects are taxed only on their Peruvian source income. Thus, in general terms, the income obtained by subjects not domiciled for services rendered in our country are taxed with income tax at a rate of 30% on a gross basis, as long as the application of an Agreement to avoid the double taxation (CDI) that the country has signed and that is in force. Currently, Peru has CDIs in force with the Andean Community, Chile, Canada, Brazil, Portugal, Switzerland, Mexico, South Korea and Japan.

For the purposes of technical assistance services or digital services provided by non-resident subjects in favor of domiciled subjects, the place of provision will be indistinct, and in all cases they will be taxed with income tax at a rate of 15% and 30% on gross basis, respectively. The rate applicable to technical assistance services will be 15%, provided that the requirements indicated in the Tax Law on Rent. As indicated in the previous paragraph, the withholding rate in these cases may vary or the withholding may even be inapplicable if the provisions of a current CDI are used.

(c) Income tax determination

The Bank and subsidiaries computed its tax base for the years ended December 31, 2022 and 2021 and determined separate current tax for S/780 million and S/660 million, respectively.

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Tax expense per company comprises the following:

	2022 S/(000)	2021 S/(000)
Current tax	779,580	660,048
Deferred tax		
Profit or loss	(60,643)	(21,576)
Income tax (adjustment/provision recovery)	14,780	27,917
	<u>733,717</u>	<u>666,389</u>

The reconciliation of the effective income tax rate with the tax rate is as follows:

	2022		2021	
	S/(000)	%	S/(000)	%
Profit before income tax	<u>2,646,284</u>	<u>100.00</u>	<u>2,225,682</u>	<u>100.00</u>
Income tax calculated according to the tax rate	(780,654)	(29.50)	(656,576)	(29.50)
Tax effect on additions (deductions)				
Permanent differences	61,717	2.33	18,104	0.81
Others	<u>(14,780)</u>	<u>(0.56)</u>	<u>(27,917)</u>	<u>(1.25)</u>
Current and Income tax recorded at effective rate	<u>(733,717)</u>	<u>(27.73)</u>	<u>(666,389)</u>	<u>(29.94)</u>

(d) Temporary tax on net assets -

The Bank and subsidiaries are subject to the temporary tax on net assets, whose tax base is composed of the prior period adjusted net asset value less depreciations, amortizations, legal reserve requirements and specific provisions for credit risk. The tax rate is 0.4% for the years 2022 and 2021 and is applied to the amount of net assets exceeding S/ 1 million. It may be paid in cash or nine consecutive monthly installments. The paid amount may be used as a credit against income tax paid for tax periods from March to December of the taxable year in which the tax was paid until maturity date of each down payment, and against the payment for regularization of income tax of the relevant taxable year. In the event a remaining balance is not applied, its refund may be requested. Temporary tax on net assets for the year 2022 amounts to S/359 million (S/381 million in 2021).

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- (e) Financial transaction tax -
For the years 2022 and 2021, the Financial Transaction Tax rate has been set at 0.005% and is applicable to charges and credits in bank accounts or movements of funds through the financial system, unless it is exempt.

- (f) Transfer pricing -
For purposes of determining income tax, the transfer prices of transactions with related companies and with companies' resident in territories with low or no taxation must be supported by documentation and information on the valuation methods used and the criteria considered for your determination.

Until the 2016 taxable year, the formal Transfer Pricing obligations were given by the obligation to present the informative affidavit and have the technical study. As of January 1, 2017, through Legislative Decree No. 1312, published on December 31, 2016, the following formal obligations are established that replace the previous ones: i) submit the Local Report affidavit (as long as have income accrued over 2,300 UIT); ii) submit the Master Report affidavit (as long as the taxpayer has accrued income greater than 20,000 UIT); and, (iii) present the Country by Country Report affidavit (as long as the consolidated accrued income of the parent company of the multinational group for the previous year is greater than or equal to S/(000) 2,700). Both the Master Report and the Country by Country Report are required as of the 2018 taxable year. It should be noted that the Master Report is only on international operations and that BBVA Peru is not subject to submitting the Country by Country Report in accordance with the exceptions established in Superintendency Resolution No. 163-2018/SUNAT and the Regulations of the Income Tax Law.

Also, under the provisions of the above-mentioned Legislative Decree No. 1312 low valued-added intragroup services are not allowed to have a margin of more than 5.00% over cost; in respect to services rendered between related parties, taxpayers must meet the beneficial owner test requirement and furnish all relevant documentation that support the economic substance of transactions and count on with all information requested in minimum good conditions that are needed for tax deduction of costs or expense.

By means of Legislative Decree No. 1116 the Transfer Pricing rules were set to be not applicable for the purpose of determining VAT (IGV in Peru).

Through Legislative Decree No. 1381 published on August 24, 2018, the concept of "non-cooperative" countries or territories and preferential tax regimes are incorporated into the Income Tax Law, in respect of which the already existing defensive measures are imposed for countries and territories with low or no taxation.

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Notes to the separate financial statements (continued)

Based on an analysis of the Bank's transactions, Management and its legal counsel consider that no significant contingencies arose from the application of these standards as of December 31, 2022 and 2021.

(g) Tax assessment -

The Tax Authority has the power to review and, if applicable, correct the income tax calculated by the Bank in the four years after the year of filing the tax return. The sworn income tax returns for the years 2018 to 2021, and the one that will be presented for the year 2022, are pending inspection by tax administration. As of the date of this report, the tax administration is reviewing the income tax for the year 2017. In April 2019, the review of the income tax for the year 2016 was completed; while the review of the years 2014 and 2015 ended in December 2021.

Management considers that no significant liabilities that may affect the Bank's profit or loss will arise from the tax claims and years subject to tax audits, under the provisions of IFRIC 23.

Due to the possible interpretations of the current laws by the Tax Authorities, it is not possible to determine, to date, whether a future tax assessment will result in liabilities for the Bank. Therefore, any major tax or surcharge that might arise from eventual tax assessments would be applied to profit or loss when they are recognized. However, it is the opinion of management and its legal advisors that any possible additional settlement of taxes would not be significant for the separate financial statements as of December 31, 2022 and 2021.

(h) Sales tax regime (VAT or IGV in Peru) -

Regarding the VAT, interest arising on securities issued by public or private offering by legal entities incorporated in Peru is not subject to VAT; and neither are the interest on the securities not placed via public offering, when they were acquired via a centralized mechanism of trading as described in the Peruvian Securities Market Law.

Dated December 30, 2021 Legislative Decree No. 1519 was enacted to extend the effective period of the tax exemptions and benefit relating to the VAT, such as:

- Extension of Legislative Decree No. 783 governing the refund of taxes levied on acquisitions with foreign grants and imports of diplomatic missions and other as well as the VAT exemption on electronic money issuance by issuers of electronic money up until December 31, 2024.
- Amendment of Article 7 to the Peruvian VAT Law governing that exemptions contained in Appendices I and II will be effective until December 31, 2022. It should be noted that this standard became effective on January 1, 2022.

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Notes to the separate financial statements (continued)

- (i) Uncertainty over income tax treatments -
In accordance with IFRIC 23, the Bank assessed its uncertain tax treatments and concluded, based on its assessment of tax compliance and transfer pricing, that it is probable that the Tax Authorities will accept its uncertain tax treatment. The Interpretation did not have an effect on the Bank financial statements as of December 31, 2022 and 2021.

Major amendments to current tax laws

- (j) New accrual concept: Legislative Decree 1425 introduced the definition of "legal accrual" for income tax purposes, stating that: a) income from transfer of goods occurs when i) control has been transferred (under IFRS 15); or ii) risk has been transferred to the acquirer (Risk Theory set out in the Civil Code), whichever occurs first; and b) income from rendering the service occurs when realization level of the rendered service has been established.

In general, the new criteria for income tax determination will matter if the substantial facts underlying income-earning or expense-incurring activities occur as agreed by the parties, facts that are not subject to a suspensive condition; in which case, income shall be recognized when that condition is met regardless of the timing of collection of payment; and, whenever the determination of the consideration depends on a future event or fact, the proportional portion or total income or expense would be deferred until the relevant event or fact actually occurs.

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

The new "legal accrual" concept requires the necessary reconciliation between the financial recognition of income, costs and/or expenses and their related recognition for tax purposes because the "legal accrual" concept differs from the financial accrual concept.

Finally, it is worth indicating that this new concept shall not be applicable by those entities which accrue income or expenses for income tax purposes under the provisions of a special tax regime (industry-specific) of accrual.

- (k) Thin capitalization -
From January 1, 2021, borrowing costs shall be deductible up to 30% of the tax-EBITDA (Net Income - Loss Compensation + Net Interest + Depreciation + Amortization) of the prior period. If there is any financial expense balance that is not expected to be absorbed as an expense over a given year under the new rule of thin capitalization effective from January 1, 2021, it can be offset against the entity's income that is obtained over the four (4) following fiscal years (for example, four year carry forward) at the end of which, the balance will be considered expired and give rise to permanent differences. There are some exemptions regarding this 30% limit for banks, taxpayers whose income is lower than 2,500 Peruvian tax units, infrastructure, and public utilities, among others.

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Supreme Decree 402-2021, published December 30 and effective December 31, 2021, modified the Regulation on the Income Tax Law that governs the calculation of tax-EBITDA for the purpose of setting interest rate limits.

For the fiscal 2019 and 2020, finance costs arising from debts of independent and related parties are subject to the thin capitalization limit of three times the net equity as of December 31 of the prior period.

- (l) Accelerated depreciation of fixed assets -
A special regime of accelerated depreciation was set up, on an exceptional and temporary basis, for taxpayers under the Peruvian income tax general regime as well as an amendment of the periods of depreciation by increasing the depreciation rates on certain assets, under the provisions of Legislative Decree No. 1488. This regime is applicable from fiscal 2021.

It should be noted that under Law No. 31107 published on December 31, 2020, the aforementioned Legislative Decree No. 1488 was amended. Some of the major changes introduced were depreciation of buildings and constructions under an annual rate of 20% can be done until those assets are fully depreciated or only during fiscal 2021 and 2022. The taxpayer must opt for one of the two options at the time of filing its income tax return, and the choice made cannot be changed.

- (m) Deduction of expenses or costs incurred in transactions with non-domiciled parties -
Legislative Decree No. 1369 requires that costs and/or expenses (including "outbound" interest) incurred with non-resident counterparties must have been effectively paid in order to be deductible in the year in which they were incurred up to before the expiration of the term for the presentation of the annual affidavit. Otherwise, its impact on the determination of the net income will be deferred to the year in which cash is paid, opportunity in which the corresponding withholding will be applied.

Such piece of regulation removed the obligation to pay the amount of the withholding on the amount accounted for as cost and/or expense.

- (n) Indirect tax credit -
Effective January 1, 2019, under certain requirements, domiciled entities receiving foreign inbound dividends may deduct as direct tax credit the income tax that may have been levied foreign dividends and the corporate income tax (indirect tax credit) paid by the tier 1 and tier 2 non-domiciled entity (provided that they are in the same jurisdiction) that distributed the dividends from abroad.

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Notes to the separate financial statements (continued)

- (o) Permanent establishments -
Effective January 1, 2019, permanent establishments of unipersonal entities, partnerships and entities of any nature incorporated overseas. For this purpose, new assumptions of permanent establishments have been included, such as, the service completed in Peru to the same project, service or for a related one for a period not exceeding 183 calendar days within any given period of twelve months.
- (p) Measures for the enforcement of the anti-tax-avoidance general clause contained in Standard XVI of the Peruvian Tax Code -
Legislative Decree 1422 sets up the procedure to implement the General Anti-avoidance Rule, mainly stating that: (i) it is applicable only in final audit procedures in which acts, events or situations that occurred since July 19, 2012 are reviewed; (ii) it is applicable only if there is a favorable opinion (unappealable) from a review committee composed of Tax Authorities' officers; and (iii) final tax audit procedures, in which the General Anti-avoidance Rule is applicable, are not subject to a 1-year term to request information from the audited parties.

It should be noted that, at the reporting date, the General Anti-avoidance Rule is in full effect together with the application of Standard XVI of the Peruvian Tax Code.

Dated May 6, 2019 Supreme Decree 145-2019-EF, was published on the official newspaper of Peru "El Peruano," approving all the formal and substantial parameters for the application of the General Anti-avoidance Rule provided in the Standard XVI of the Peruvian Tax Code. Consequently, the requirement to end the suspension of the application for such rule, established by Law 30230, is deemed fulfilled. Likewise, the Regulation for Tax Audits performed by SUNAT has been modified accordingly.

By means of Resolution 000184-2021/SUNAT, published December 13, 2021, the members of the Review Committee of the Tax Authorities (SUNAT) were appointed, in accordance with Article 62-C of the Consolidated Text of the Tax Code. It states that, when applying the General Anti-Tax avoidance Rule over a tax audit, a report and the auditor's report shall be submitted to the Reviewer Committee.

- (q) Joint and several liability of legal representatives and directors of entities -
Effective September 14, 2018, through Legislative Decree 1422, when an audited individual is subject to the General Anti-Tax-Avoidance Rule, there is joint and several liability of legal representatives due to fraud, gross negligence or misuse of powers, unless proven otherwise. The aforementioned joint and several liability shall be attributable to such representatives provided that they collaborated with the design or approval or execution of acts, situations or economic relationships with a tax-avoidance purpose.

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The regulation also involves the members of the Board of Directors of companies, by noting that these subjects are responsible for defining the tax strategy of the companies in which they are directors, and they must decide whether or not to approve acts, situations or economic relations to be carried out in the framework of tax planning, being non-delegable - according to the norm in comment - this attribution of the Directors.

Members of domiciled entities' Board of Directors were granted until March 29, 2019 to ratify or modify the acts, situations or economic relationships carried out within the tax planning framework and implemented from September 14, 2018 that have tax effect up to the current date.

Nonetheless the aforementioned maximum term for complying with this formal requirement and considering that such joint and several liability attributable to legal representatives and directors, and the absence of a definition of "tax planning," it will be critical for entities to review any act, situation or economic relationship that has: (i) increased tax liabilities; and/or (ii) generated a lower payment of taxes for such periods, in order to prevent any joint and several liability from arising, both from an administratively and criminal perspectives, depending on the tax audit criteria, in the event the aforementioned clause is applied to the entity on the occasion of a tax audit by SUNAT.

(r) Information about beneficial owners -

In the framework of the regulations to strengthen the fight against tax evasion and tax avoidance, as well as against money laundering and terrorism financing, effective August 3, 2018, the provisions introduced by Legislative Decree No. 1372 are currently in force. The aforementioned Decree requires the presentation of information related to the beneficial owners to the competent authorities through a sworn statement on the ultimate beneficiaries. Such statement shall disclose the names of the individuals that actually hold title, ownership or control. Thus, it is mandatory to report the following: (i) identification of the beneficial owner; (ii) chain of title with its respective supporting documentation; and (iii) identification of third parties that have said information, if applicable. Also, it states that the information related to the identification of the beneficial owners of legal persons and legal entities provided to the competent authorities under these regulations neither violates professional secrecy nor is subject to restrictions on the disclosure of information arising from secrecy requirements under contracts or any regulatory provision or rule.

Note that on December 23, 2022, Superintendency Resolution 000278 2022/SUNAT was published, establishing that legal entities must submit the Declaration of Final Beneficiary up to the dates established for compliance with the monthly obligations corresponding to the period of December 2023, modifying the original presentation date corresponding to December 2022.

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In the other hand, it should be noted that SUNAT Resolution No. 000041-2022/SUNAT established that entities which reported net income in 2021 of more than of 300 UIT (S/1,380,000.00) and up to 500 UIT (S/2,300,000.00), and which were not required to file the Sworn Statement on Beneficial Owner previously in fiscal 2022, shall file such a statement for fiscal period May 2023, based on the last digit of the Peruvian taxpayer number (RUC) of the entities subject to the requirement, in line with the timetable of monthly tax obligations of fiscal 2023.

It should be noted that if the informative sworn statement containing the information about the beneficial owner is not submitted, the legal representatives of the entity that failed to comply with that filing will be considered jointly and severally liable.

On December 16, 2019 and June 20, 2022, the Bank comply with filing the sworn statement on beneficial owner on the date set in the monthly tax obligation timetable.

(s) Indirect disposal of shares -

As of January 1, 2019, an anti-avoidance rule is incorporated to avoid the division of operations, through which, indirectly, shares of companies domiciled in Peru are sold. In this sense, Peruvian source income is considered to be that obtained from the indirect sale of shares or participations representing the capital of legal persons domiciled in the country. For such purposes, it must be considered that an indirect sale occurs when shares or participations representing the capital of a legal person not domiciled in the country are sold, which, in turn, is the owner directly or through another person or persons of shares or participations representing the capital of one or more legal entities domiciled in the country, provided that the conditions established by Law No. 30341 occur concurrently.

In order to determine whether a Peruvian entity has made a transfer within a 12-month period of 10% or more of capital, transfers of the analyzed entity and transfers to related parties shall be considered, whether transfers are made through one or several, simultaneous or successive, transactions. The relatedness shall be set up in accordance with the provisions of section b) of Article 32-A of Income Tax Law.

Likewise, regardless of compliance with the provisions of the Income Tax Law, an indirect taxable transfer shall always occur when, over any 12-month period, the total amount of transferred shares of the Peruvian legal person is equal to or greater than 40,000 Peruvian tax units (UITs).

Further, from the effective date stated above, when the transferor is a non-domiciled legal person that has a branch office or any permanent establishment in Peru with allocated equity, the latter is considered a jointly severally liable party. Thus, the latter is required to provide, among other information, that about the transferred shares or interests of the non-domiciled legal person.

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Per Legislative Decree No. 1262 amending Law No. 30341, the law promoting the integration of the securities market and by means of Emergency Decree No. 005-2019, the income obtained from the disposal of the following securities is exempted from income tax until December 31, 2022: a) common shares and investment shares b) American Depositary Receipts (ADR) and Global Depositary Receipts (GDR), c) Units of Exchange Trade Fund (ETF) with underlying items such as shares and debt instruments, d) Debt instruments, e) Certificates of ownership interest in mutual funds for investments in securities, f) Certificates of ownership interest in Investment Fund of Real- Estate Assets (Fondo de Inversión en Renta de Bienes Inmuebles - FIRBI) and certificates of ownership interest in securitization trusts (Fideicomiso de Titulización para Inversión en Renta de Bienes Raíces - FIBRA).

For common shares and investment shares, ADRs, GDRs and bonds convertible in shares, the following requirements should be met:

1. Disposal should be carried out via a centralized trading mechanism under the oversight of the securities market regulator (Superintendence of the Securities Market-SMV),
2. Over a period of 12 months, a taxpayer and related parties do not transfer via one or more simultaneous or successive transactions, the ownership of 10 percent or more of the securities issued by the entity. For ADR and GDR, this requirement is determined based on the underlying shares. If this requirement is not met, the taxable income is determined based on the transfers that that would had been exempted over the 12 months prior to the disposal. The relatedness is determined based on the provisions in subsection b, article 32-A of the Law.
3. Securities should be listed.

For all the securities involved, disposal is required to be completed via a centralized trading mechanism under the oversight of the SMV and they should be listed. With respect to negotiable invoices, the only requirement is that the disposal be completed via a centralized trading mechanism under the oversight of the SMV.

Finally, one cause for loss of exemption includes the fact an issuer delists its securities from the local stock exchange registry, either fully or partially, in one single act or progressively within a time span of 12 months following the date of disposal. Exemptions are to be determined under the relevant regulations

Without prejudice of the above, on December 30, 2022 Law No. 31662 was published to extend until December 31, 2023 an income tax exemption on the disposal of securities carried out on the local stock exchange (BVL) as previously instated and set forth the following:

1. The income tax exemption is applicable to capital gains earned by an individual, undivided succession or matrimonial regime who opted to be pay taxes as such.
2. The income tax exemption is applicable to the first 100 UITs of capital gains earned in each taxable fiscal year.

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Notes to the separate financial statements (continued)

The requirements originally set in Law No. 30341, Law promoting the liquidity and integration of the securities market are kept unchanged regarding the listed status of the securities and keeping ownership of at least 10% of the securities issued by the entity.

(t) Information to be provided to SUNAT -

By means of Supreme Decree No. 430-2020-EF, published on December 31, 2020, the relevant Rules were approved stating the financial information that financial system entities must furnish to SUNAT for the fight against tax evasion and tax avoidance under the provisions of Legislative Decree No. 1434. Such Rules became effective on January 1, 2021.

In addition, the aforementioned Rules specified that the items on which the Bank should report to SUNAT are, among others, the cumulative balances and/or amounts, average or the highest balances and the return obtained on accounts for the reporting period and which equal or exceed S/30,800 over that period. The information will be submitted to SUNAT on a semiannual basis, via informative tax returns that will contain information for monthly periods.

(u) Income Tax Exemptions -

By means of Law No. 31106 all exemptions effective at that date as contained in article 19 of the Peruvian income Tax Law will be extended until December 31, 2023.

In this regard, some of the aforementioned extended exemptions applicable or related to the Bank's operations to benefit individual taxpayers are the following:

- Subsection i) Article 19 states that the exemption covers any type of fixed rate or floating rate interest, in local or foreign currency, that is paid on a deposit or balance pursuant to the General Law of the Financial System and the Insurance System and Comprehensive Law of the Peruvian Banking and Insurance Regulator, Law No. 26702, as well as any capital increases in those deposits or balances in local or foreign currency, excepted when those inflows are third category (corporate) income.
- Subsection l) of Article 19 states that capital gains obtained from the disposal/sales of securities registered with the local securities market (Registro Público del Mercado de Valores) via the centralized trading mechanisms set under the Peruvian Securities Market Law; as well as capital gains on disposal/sale of securities outside centralized trading mechanisms provided that the selling party is an individual, an undivided succession or a matrimonial regime that chose to pay taxes as such.

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(v) Bancarization Law -

On March 3, 2022 Legislative Decree No. 1529 was published amending the Bancarization law (Ley de Bancarización) to promote the use of formal means of payment and reduce the amount at which formal means of payments are required to be used, as follows:

- The minimum amount at which formal Means of Payments should be used is two thousand soles (S/ 2 000) or five hundred U.S. dollars (US\$ 500).
- In order to improve the coverage of Means of Payment and thus expand the set of traceable operations, Article 3 of the Banking Law was modified in order to indicate that the payment of sums of money from the operations indicated in Said article, for amounts equal to or greater than 1 UIT, even when it is partially carried out, can only be made using Means of Payment provided for in the Law.
- Payment of obligations to non-domiciled individuals and/or legal entities that need to be made using the statutory Means of Payment can be made effective using non-domiciled ESF financial institutions; in those cases in which the payer makes foreign trade transactions, including obligations derived from the acquisition of land and rights to shares and other securities.
- The requirement to use Means of Payment is considered met if the payment is made directly to the creditor, supplier and/or service provider, or whenever such payment is made to a third party designated by one of the above, as long as such designation is reported to SUNAT prior to payment.
- The requirement to use Means of Payment will not be considered met in any case when the payments are made effective via financial institutions or banks that are based in or have permanent establishments in territories or countries considered as tax havens.

This piece of legislation became effective on April 1, 2022, except for the amendment related to payments via the non-domiciled financial system entities that are based in tax havens, which would become effective on January 1, 2023.

- (w) On March 26, 2022 Legislative Decree No. 1539 was published amending the Peruvian Income Tax Law to include new methods to determine the market value of securities in transactions between unrelated third parties. This piece of legislation would become effective on January 1, 2023.

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- (x) On January 24, 2022 SUNAT Resolution No. 000281-2022/SUNAT was published setting the timetable for taxpayers to meet its monthly tax obligations for fiscal 2023. In this context, considering that filing the Common Standard Reporting for fiscal 2022 with SUNAT should be made in adherence to the timetable set for monthly tax obligations for the period of April 2023, the due dates set in such timetable should be adhered to.

It should be noted that on the due dates contained in that timetable, financial institutions are required to report all required financial information to SUNAT as follows:

- Preexisting accounts of individuals (high and low value) as of December 31, 2022.
- Preexisting accounts of (reportable) entities as of December 31, 2022.
- New accounts of individuals as of December 31, 2022.
- New accounts of entities as of December 31, 2022.

- (y) Deducibility of provisions for loans -

In 2020, Ministry Resolution 387-2020-EF/15 was published to state that the provisions made for COVID 19 rescheduled loans, as described in the relevant regulations (Octava Disposición Final y Transitoria del Reglamento para la Evaluación y Clasificación del Deudor y la Exigencia de Provisiones), approved under SBS resolution No. 11356-2008, as amended by SBS resolution No. 3155-2020, meet altogether the requirements set out in subsection h), Article 37 of the Peruvian Income Tax Law, with regulations per subsection e), Article 21 of the Rules. In this sense, these provisions must be treated as specific provisions and must be accepted for tax purposes by SUNAT.

On December 31, 2021 Ministry Resolution No. 394-2021-EF/15 was published to state that provisions for COVID 19 rescheduled loans, as described in the relevant regulations (Novena Disposición Final y Transitoria del Reglamento para la Evaluación y Clasificación del Deudor y la Exigencia de Provisiones), approved under SBS resolution No. 11356-2008, meet altogether the requirements set out in subsection h), Article 37 of the Peruvian Income Tax Law. In this respect, subsection h), Article 37 of the Peruvian Income Tax Law states that financial system entities are allowed to deduct from its gross incomes those provisions that meet all the following requirements:

- These are specific provisions.
- These are provisions that are not part of the regulatory capital (patrimonio efectivo) and,
- These are provisions solely related to credit risk, classified into the categories of with potential problems, Substandard, Doubtful and Loss.

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24. Income tax

Deferred tax has been calculated applying the liability method, and is attributed to the following items:

	Balance as of 01.01.2021 S/(000)	Additions (recoveries) of equity S/(000)	Additions (recoveries) to profit or loss S/(000)	Balance as of 31.12.2021 S/(000)	Additions (recoveries) of equity S/(000)	Additions (recoveries) to profit or loss S/(000)	Balance as of 31.12.2022 S/(000)
Assets:							
Provision for direct loan losses	460,380	-	29,677	490,057	-	(19,484)	470,573
Provision for other expenses and others	102,123	-	36,709	138,832	-	113,125	251,957
Labor provisions	92,521	(4,592)	19,469	107,398	(250)	13,596	120,744
Provision for indirect loan losses	43,326	-	(3,886)	39,440	-	63	39,503
Specific provision for indirect loan losses	30,997	-	5,554	36,551	-	1,725	38,276
Provision for awarded assets	46,184	-	(5,625)	40,559	-	(4,058)	36,501
Cash flow hedges	2,131	-	-	2,131	8,878	-	11,009
Valuation of hedges of amounts due	26,585	-	(15,627)	10,958	-	-	10,958
Valuation of available-for-sale investments	5,191	-	-	5,191	-	-	5,191
Interest in suspense	278	-	-	278	-	-	278
	<u>809,716</u>	<u>(4,592)</u>	<u>66,271</u>	<u>871,395</u>	<u>8,628</u>	<u>104,967</u>	<u>984,990</u>
Liabilities:							
Amortization of intangible assets / deferred charges	(100,455)	-	(21,266)	(121,721)	-	(25,352)	(147,073)
Equalization of exchange gains and losses	(19,102)	-	(20,133)	(39,235)	-	10,543	(28,692)
Valuation of hedges of amounts due	-	-	-	-	-	(28,627)	(28,627)
Tax deduction of property, furniture and equipment	(6,045)	-	(3,296)	(9,341)	-	(888)	(10,229)
Valuation of available-for-sale investments	(5,512)	437	-	(5,075)	3,368	-	(1,707)
Cash flow hedges	(4,622)	4,499	-	(123)	-	-	(123)
	<u>(135,736)</u>	<u>4,936</u>	<u>(44,695)</u>	<u>(175,495)</u>	<u>3,368</u>	<u>(44,324)</u>	<u>(216,451)</u>
Deferred tax asset, net	<u>673,980</u>	<u>344</u>	<u>21,576</u>	<u>695,900</u>	<u>11,996</u>	<u>60,643</u>	<u>768,539</u>

In Management's opinion, the net deferred asset for income tax will be recovered with future taxable income generated by the Bank in the following years, including the portion that is recorded in equity.

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25. Earnings per share

The calculation of the weighted average number of shares outstanding and earnings per share as of December 31 was as follows:

	Number of shares outstanding	Base shares in determining weighted average	Effective days to period-end	Weighted average number of common shares
2022				
Balance at January 1, 2022	6,758,467	6,758,467	365	6,758,467
Capitalization of 2022 profit	623,717	623,717	365	623,717
Balance at December 31, 2022	<u>7,382,184</u>	<u>7,382,184</u>		<u>7,382,184</u>
Net Profit at December 31, 2022				1,912,567
Earnings per basic and diluted share				<u>0.2591</u>
2021				
Balance at January 1, 2021	6,529,169	6,529,169	365	6,529,169
Capitalization of 2021 profit	229,298	229,298	365	229,298
Capitalization of 2022 profit	-	623,717	365	623,717
Balance at December 31, 2021	<u>6,758,467</u>	<u>7,382,184</u>		<u>7,382,184</u>
Net profit at December 31, 2021				1,559,293
Earnings per basic and diluted share				<u>0.2112</u>

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26. Related party transactions

As of December 31, 2022 and 2021, the separate financial statements include related party transactions, which, under IAS 24 and SBS regulations, comprise the Parent Company, subsidiaries, related parties, associates, other related parties, and the Bank's directors and key management. All transactions with related parties are carry out under the available market conditions for unbound third parties.

(a) The balances of the Bank separate statement of financial position arising from related parties as of December 31, 2022 and 2021 were as follows:

	2022					2021						
	Controlling party S/(000)	Subsidiaries S/(000)	Related parties (*) S/(000)	Associates S/(000)	Key personnel and directors S/(000)	Total S/(000)	Controlling party S/(000)	Subsidiaries S/(000)	Related parties (*) S/(000)	Associates S/(000)	Key personnel and directors S/(000)	Total S/(000)
Assets:												
Cash and due from banks	386,470	-	1,475	-	-	387,945	364,274	-	-	-	-	364,274
Loan portfolio, net	-	63,064	244,587	27,279	22,942	357,872	-	134,480	812,606	11,783	26,473	985,342
Trading derivatives	485,210	-	49,732	-	-	534,942	487,180	-	107,829	-	-	595,009
Other assets, net	214,896	126,377	28,886	-	-	370,159	544,682	20,167	52,013	-	-	616,862
Total assets	1,086,576	189,441	324,680	27,279	22,942	1,650,918	1,396,136	154,647	972,448	11,783	26,473	2,561,487
Liabilities:												
Deposits and obligations with financial institutions	225,055	194,603	292,882	1,096	38,752	752,388	123,188	193,579	370,874	803	206,824	895,268
Debts and financial obligations	783,588	-	-	-	-	783,588	819,131	-	-	-	-	819,131
Trading derivatives	485,466	-	190	-	-	485,656	1,071,514	-	1,816	-	-	1,073,330
Provisions and other liabilities	271,976	239	303,343	-	-	575,558	60,158	1,136	139,400	-	-	200,694
Total liabilities	1,766,085	194,842	596,415	1,096	38,752	2,597,190	2,073,991	194,715	512,090	803	206,824	2,988,423
Off-balance sheet accounts:												
Indirect loans	-	214,700	70,287	13,385	-	298,372	-	293,287	21,932	14,213	-	329,432
Derivative instruments	18,579,416	-	16,400	-	-	18,595,816	22,852,867	-	498,037	-	-	23,350,904

(*) Related parties include balances and transactions with other related parties in accordance with IAS 24 and SBS regulations.

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Notes to the separate financial statements (continued)

(b) The effects of related party transactions in the separate statement of financial position are detailed below for the years ended December 31, 2022 and 2021:

	2022					2021						
	Controlling party S/(000)	Subsidiaries S/(000)	Related parties (*) S/(000)	Associates S/(000)	Key personnel and directors S/(000)	Total S/(000)	Controlling party S/(000)	Subsidiaries S/(000)	Related parties (*) S/(000)	Associates S/(000)	Key personnel and directors S/(000)	Total S/(000)
Interest income	-	4,117	960	181	103	5,361	-	4,338	1,820	39	122	6,319
Interest expense	(25,021)	(14,257)	(19,207)	-	(27)	(58,512)	(21,572)	(17,770)	(14,352)	-	(26)	(53,720)
Financial margin	(25,021)	(10,140)	(18,247)	181	76	(53,151)	(21,572)	(13,432)	(12,532)	39	96	(47,401)
Financial service income	6,945	18,398	546	-	23	25,912	229	31,522	682	-	37	32,470
Financial service expenses	-	-	-	-	(1)	(1)	-	-	-	-	-	-
Net commissions	6,945	18,398	546	-	22	25,911	229	31,522	682	-	37	32,470
Profit or loss from financial transactions, net	(11,623)	-	(1,878)	-	2	(13,499)	(9,315)	-	(3,434)	-	4	(12,745)
Administrative expenses	(140,501)	-	(166,623)	-	-	(307,124)	(49,057)	(90)	(107,545)	-	-	(156,692)
Other income and expenses, net	-	(2,405)	16	-	-	(2,389)	-	(1,635)	11	-	-	(1,624)
Other income and expenses	(152,124)	(2,405)	(168,485)	-	2	(323,012)	(58,372)	(1,725)	(110,968)	-	4	(171,061)

(*) Related parties include balances and transactions with other related parties in accordance with IAS 24 and SBS regulations.

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- (c) Loans to personnel and remunerations to key personnel-
As of December 31, 2022 and 2021, Board of Directors, executives and employees of the Bank hold allowed loan transactions pursuant to the Banking Law, which regulates and establishes certain limits to transactions with members of the Board of Directors, executives and employees of financial entities in Peru. As of December 31, 2022 and 2021, direct loans granted to employees, directors, executives and key personnel amount to S/709 million and S/562 million, respectively.

Likewise, as of December 31, 2022 and 2021, remuneration to key personnel and expenses allowance for the Board of Directors amount to S/16 million for both periods.

27. Trust activities

The Bank offers structuring and management services of trust transactions and trust fees and is in charge of the preparation of the underlying contractual agreements. Assets held in trust are not included in the Bank's financial statements. The Bank is responsible for the appropriate management of these trusts based on the limits established by applicable laws and the respective agreement. As of December 31, 2022, the allocated value of assets in trusts and trust fees totaled S/3,201 million (S/4,881 million, as of December 31, 2021).

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Notes to the separate financial statements (continued)

28. Classification of financial instruments

The bank classifies its financial assets and financial liabilities into categories as described in note 3. As of December 31, financial assets and financial liabilities are classified as follows:

	2022					
	At fair value through profit or loss			Available-for-sale		
	Held for trading S/(000)	Allocated at inception S/(000)	Loans and accounts receivable S/(000)	At amortized cost (*) S/(000)	Fair value S/(000)	Held-to maturity S/(000)
Assets						
Cash and due from banks	-	-	12,127,347	-	-	-
Investments	3,278,859	-	-	1,121	8,291,529	-
Equity instruments	-	-	-	1,121	23,115	-
Debt instruments	3,278,859	-	-	-	8,268,414	-
Loan portfolio	-	-	69,087,751	-	-	-
Trading derivatives	1,349,619	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	3,659
Accounts receivable, note 11	-	-	157,778	-	-	-
Other assets, note 11	-	-	974,748	-	-	-
	<u>4,628,478</u>	<u>-</u>	<u>82,347,624</u>	<u>1,121</u>	<u>8,291,529</u>	<u>3,659</u>

(*) It includes investments measured at cost.

	2022				
	At fair value through profit or loss		At amortized cost S/(000)	Other liabilities S/(000)	Hedging derivatives S/(000)
	Hedge-for-trading S/(000)	Allocated at inception S/(000)			
Liabilities					
Deposits and obligations	-	-	66,053,752	-	-
Deposits with financial institutions and international financial institutions	-	-	1,042,352	-	-
Debts and financial obligations	-	-	4,029,240	-	-
Trading derivatives	1,245,843	-	-	-	-
Hedging derivatives	-	-	-	-	103,628
Accounts payable, note 14	-	-	12,213,208	-	-
	<u>1,245,843</u>	<u>-</u>	<u>83,338,552</u>	<u>-</u>	<u>103,628</u>

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	2021					Held for trading S/(000)
	At fair value through profit or loss			Available-for-sale		
	Held for trading S/(000)	Allocated at inception S/(000)	Loans and accounts receivable S/(000)	At amortized cost (*) S/(000)	Fair value S/(000)	
Assets						
Cash and due from banks	-	-	16,247,884	-	-	-
Interbank funds	-	-	-	-	-	-
Investments	4,129,581	-	-	1,122	5,579,324	-
Equity instruments	-	-	-	1,122	24,850	-
Debt instruments	4,129,581	-	-	-	5,554,474	-
Loan portfolio	-	-	70,381,769	-	-	-
Trading derivatives	1,767,732	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	75,805
Accounts receivable, note 11	-	-	34,085	-	-	-
Other assets, note 11	-	-	550,167	-	-	-
	<u>5,897,313</u>	<u>-</u>	<u>87,213,905</u>	<u>1,122</u>	<u>5,579,324</u>	<u>75,805</u>

(*) It includes investments measured at cost.

	2021				
	At fair value through profit or loss		At amortized cost S/(000)	Other liabilities S/(000)	Hedging derivatives S/(000)
Hedge-for-trading S/(000)	Allocated at inception S/(000)				
Liabilities					
Deposits and obligations	-	-	63,196,861	-	-
Interbank funds	-	-	-	-	-
Deposits with financial institutions and international financial institutions	-	-	1,082,697	-	-
Debts and financial obligations	-	-	6,840,555	-	-
Trading derivatives	1,572,020	-	-	-	-
Hedging derivatives	-	-	-	-	35,059
Accounts payable, note 14	-	-	17,108,830	-	-
	<u>1,572,020</u>	<u>-</u>	<u>88,228,863</u>	<u>-</u>	<u>35,059</u>

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Notes to the separate financial statements (continued)

29. Financial risk management

Financial risk management is fundamental on the Bank's strategy, since it guarantees its creditworthiness and sustainable development. The Bank's risk profile has been established in accordance with the strategy and policies of the BBVA Group, and considers a unique, independent and global risk management model.

- Unique: Focused on a sole objective. Risk appetite supported in fundamental metrics, limits for portfolios and economic sectors, and indicators for the management and monitoring of portfolios, is determined.
- Independent: It is independent and complementary to the business. The process of adapting the risk area allows to closely monitor the business and thus detect opportunities.
- Global: BBVA Peru Group has a flexible risk model that can be used for all risk, in all countries and for all business.

This risk management area centralizes and concentrates management of the credit and market risk by means of a number of separate units. The Risk Area consists of 5 units Retail Risk, Wholesale Risk, Market, Structural & Fiduciary Risk, Collection, Mitigation & Work Out, y Portfolio Management, Data & Reporting) and 2 sub-units (Risk Solution Group and Risk Transformation).

This structure provides the adequate environment for synergies to be created in work teams and higher integration to be obtained in all business processes, from strategy, planning, to modeling and management tools; where Risk Solution and Risk Transformation consolidate cross-functional activities to support overall risk management; meanwhile Portfolio Management, Data & Reporting are charged with performing due diligence, monitoring and follow-up on the risk indicators of the Bank's entire portfolio, placing focus on the follow-up of sensitive portfolios.

Supplemental to this management, the Unit of Internal Control of Risks (Unidad de Control Interno de Riesgos), part of the Internal Control and Compliance function) is charged with verifying that the relevant controls are in place and operating effectively over the major business processes and deliverables of the overall Risk Area.

In a highly complex juncture in Peru, mainly characterized by the conditions involving the COVID-19 effects, apart from the economic and political instability, Risk Management efforts over 2022 have been fully focused on the adequate management of portfolio from all fronts:

- Portfolio management under the guidelines defined by the SBS and the Government, customizing management and monitoring reports to meet the new needs of the ongoing juncture (placing attention to the new provisions y ready to introduce the necessary adequacies to fulfill its assigned duties efficiently).
- Ongoing follow-up and monitoring of liquidity risks.

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- From the wholesale and retail Admission, ongoing review and adjustment of the admission policies, rescheduling modalities carrying out the portfolio diagnosis, segmentation and action plans according to the identified criticality.
- Under the management of non-financial risks, control of the measures and decisions taken in order to mitigate operational risks.

Collections continue with follow-up and management efforts under a preventive and anticipatory approach, with a focus on special groups and the potential impact of impairment off the different portfolios always oriented to the most vulnerable and hardest-hit sectors. Specialized teams have been set up to manage collections by implementing differentiated strategies according to the portfolio to implement special containment efforts.

Credit risk:

The Bank's risk management system is based on a corporate governance scheme in which the Bank determines the policies for managing and controlling the risk of retail and wholesale loans, which are adapted to local regulations and local reality.

The structure of the risk area for credit risk management is as follows:

- Portfolio Management, Data & Reporting: It is responsible for the continuous oversight and monitoring of key risk indicators.

The Reporting, Monitoring & Data team is responsible for the continuous oversight and monitoring of key risk indicators of portfolios based on the entity's strategies and risk appetite. It ensures timely measurement and communication with the relevant authorities, as well as adequate management and compliance with the risk appetite framework.

The Measurement team is responsible for the calculation of the key risk indicators, including the measurement of credit risk indicators related to provisions, regulatory capital, economic capital and risk-adjusted return.

The Risk Advance Analytics team, under the Center of Expertise (CoE), is responsible for developing models that support different credit processes in fulfillment of the risk function. There are two teams in place for this purpose: Follow-up on Models and the Parameter Estimation, IFRS 9 and Stress Team.

Finally, the Data Quality team is responsible for ensuring data quality in the calculation and reporting processes at a risk level. The focus is placed on creating a data governance model at the entity level and ensuring compliance with quality rules.

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- Risk Solution: It manages the portfolio of projects in the Risk area. It ensures its definition, prioritization, execution and startup.
- Risk Transformation: This is the team responsible for ensuring the execution and continuous improvement of the dependent processes, complying with the defined and committed quality and productivity standards. Also, this team pulls the key levers of transformation (agile practices, process management, demand and productivity management, organizational re-design, and others) in its efforts to evolve into an operational excellence center. Finally, this area manages the operational risk involving infrastructure with a focus on the typologies on the third party, technology, legal, people, among others.
- Retail Loan: It manages retail credit risk, in accordance with the Bank's strategic objectives, and monitors the risk quality of transactions. Such management includes the following:
 - Definition of customer admission requirements for the retail segment.
 - Study of the results of consumer behavior, segments and campaigns, analyzing their evolutions and developments.
 - Evaluating the level of borrowing, disseminating and strengthening the Bank's risk culture.
 - Improving the capabilities of the trade areas and risk analysts by means of ongoing training programs.
 - Maintaining a comprehensive credit risk policy that underlies the quality of the loan portfolio based on an intensive interaction of the several business areas and attention to the internal and external overseeing bodies.
 - Proposing and promoting continuing improvements in business processes, tools, and standards for an efficient management of the Credit Risk.
 - Overseeing compliance with policies in the process of analysis and admission of the credit risk on transactions arising in the commercial areas.

There are 5 sub-units supporting management and from October they consist of: Particular Individual Admission (admission of individuals); Individual Admission Pymes (Admisión Pymes), Campaña Persona Natural (a campaign with a focus on individuals), Campaña Pymes (a number of campaigns with focus on small and medium-sized entities - Pymes in Peru), Governance & Strategies (responsible for the policies and standards intended to ensure compliance with corporate rules and local laws and regulations and analysis and diagnosis of portfolio).

- Wholesale Loan: Unit in charge of managing the wholesale credit portfolio aimed at maximizing the generation of economic benefit based on risk positioning and the limits defined in the Asset Allocation framework resulting from the definition of the Group's objective risk profile and risk appetite; also complying with current legal regulations and corporate and local policies.

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Within its structure, there is a sub-unit called Wholesale Credit Strategies, charged with management of the Wholesale portfolio, control of the Asset Allocation limits as well as definition of the growth and disinvestment policies and strategies.

On the other hand, there is the sub-unit called Wholesale Credit Governance, charged with updating and implementing the overall policies, standards and procedures as well as the following up on observations raised by Internal Audit, External Audit, Internal Control, Holding and the SBS. It services consultations made regarding standards and delegations. It also leads the technical office of the credit technical committee (Secretaria Técnica del Comité Técnico de Créditos - CTO).

In addition, as a way to keep an agile structure, there are two sub-units in Admission:
Wholesale Admission Stage 1: This is a primary axis of analysis under industry groupings and keeps expertise by segment.

Admission & Monitoring Stage 2: Operating under a preventive management approach, involving strategies to hold and/or reduce the risk of portfolio, and stop impairment by structuring pertinent financial solutions.

Real Estate Risk: a team specialized in the real-estate sector, it has two sub-units:

- Wholesale Admission Real Estate: Charged with assessing the economic and financial aspects of the credit proposals of entities in the real-estate industry (Housing and Commercial).
- Wholesale Monitoring Real Estate: Charged with following up on the portfolio of real-estate projects in progress (monthly valuation of work progress, updating sales dashboard, matching cash flows, etc.); until work satisfaction is obtained and sponsor debt is settled.

It should be noted that the tools for Rating, Risk Analyst and Early Warnings (Alertas Tempranas) are critical for decision-making. Further, the PF ARCE and the digital Financial Program (Programa Financiero Automatizado and Programa Financiero Digital), used with the BEC and CIB (Corporate Investment Banking), segments, respectively, continued to operate as digital platforms in preparing and conducting analysis of the credit proposals.

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Both the teams of Wholesale Credit Governance and Wholesale Credit Strategies have been working on management improvement initiatives. The Governance included in the calculation of delegation of office managers (Calculadora de Delegación de gerentes de oficinas) a system of visual signaling by sectors, new variables for consultation of delegation to support the evaluation, which resulted in lower times required in searching a number of sources. The Strategies team drove the initiative called "Valida +" for rating validation, with the majority of the qualified portfolio; in addition, PLAN RADAR was set up to safeguard portfolios, which enable the team to identify groups of customers vulnerable to the current juncture in Peru, which in turn led to preventive measures to be taken to prevent future contingencies from arising.

Collection, Mitigation & Workout: It groups together the functions and processes necessary for the monitoring, non-payment containment, collection, recoveries and the divestment of the portfolio with problems, both from retail and wholesale banking, achieving crossway efficiencies in the processes, as well as in the external management channels (collection agencies, calls, and law firms) and internal (network of offices). The major sub-units are the following:

- (i) Retail Credit Early Default, a team charged with the recovery of the preventive and unpaid retail portfolio.
- (ii) Wholesale Credit Early Default, a team charged with managing the wholesale portfolio with payment difficulties and leading the sub-unit of Individual Classification, which assesses the Bank's non-retail customer portfolio to determine its rating and required level of provision, in consistency with the SBS Group BBVA standards.
- (iii) Strategy, Governance & Management, a team that articulates collections and recoveries by means of initiatives, pilots and other projects that support data-processing and analysis.
- (iv) Retail Credit Late Default, a team charged with the court-ordered secured and off-court recovery and write-off of the retail portfolio.
- (v) Wholesale Credit Late Default, a team charged with highest number of loans via court-ordered recoveries of the wholesale portfolio.
- (vi) IRBSA & Guarantees, a team charged with management and administration of commercialization of real-estate properties and other properties and setting the policies for the comprehensive management of guarantees.

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During fiscal 2022, the effectiveness of the Collections Factor (Fábrica de Cobranzas) needs to be underscored as well as that of the Implant model and the handling of the Reactiva portfolio. On the other hand, an agile execution of payments has enabled the team to contain the delayed portfolio providing a more adequate support in the context of the currently adverse juncture. It should also be underscored the system in place for managing, follow-up and negotiation of the portfolio under court action, as well as an adequate disinvestment strategy leveraged via write-off higher than 3 UITs (Peruvian referential tax units) of those cases considered as no recoverable and resuming secure sales that were not implemented since 2016. All these actions have strengthened the Fábrica de Cobranzas, which will be redesigned in 2023 as a Specialized Center of Collections (CEC in Spanish) to adapt to the new context of the portfolio. Finally, there are plans to continue developing new ways to improve collections for all customers who join the existing ones.

Maximum exposure to credit risk:

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

	2022 S/(000)	2021 S/(000)
Cash and due from banks	12,127,347	16,247,884
Investments at fair value through profit or loss	3,278,859	4,129,581
Available-for-sale investments	8,292,650	5,580,446
Loan portfolio, net	69,087,751	70,381,769
Trading derivatives	1,349,619	1,767,732
Hedging derivatives	3,659	75,805
Accounts receivable, note 11	157,778	34,085
Other assets, note 11	974,748	550,167
	<u>95,272,411</u>	<u>98,767,469</u>

Guarantees received:

The requirement of guarantees may be a necessary instrument, but not sufficient for the granting of risks, and its acceptance is complementary to the credit process, which requires and mainly weighs the prior verification of the debtor's ability to pay or whether can generate the sufficient resources to allow the amortization of the risk incurred and under the agreed conditions.

The procedures for the management and valuation of the guarantees received for the loans granted to customer are indicated in the Guarantee Regulation that includes the policies for the admission of guarantees, as well as the basic principles for their constitution, maintenance and release. This regulation establishes that the guarantees must be properly instrumented and registered, ensuring that they are in force and that they have insurance policies, in strict compliance with the regulations established by the regulator.

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The valuation of the guarantees is governed by the principle of prudence, which implies the use of appraisal reports in real estate guarantees, market prices in securities, and quotes in shares in investment funds, among others. This principle establishes internal milestones that may be more conservative than those contemplated by local regulations, and under which the value of the guarantees is updated.

Below is the detail of the guarantees as of December 31, 2022 and 2021:

	2022		2021	
	S/(000)	%	S/(000)	%
Mortgages	25,940,643	35	24,729,658	33
Endorsements and letters of guarantee received	6,490,818	9	9,142,676	12
Finance lease	3,511,965	5	3,816,240	5
Self-liquidating collaterals	518,081	1	468,380	1
Vehicle, industrial, agricultural pledges and others	74,435	-	42,790	-
Rest of guarantees	8,386,322	11	16,431,824	22
Guaranteed loans	<u>44,922,264</u>	<u>61</u>	<u>54,631,568</u>	<u>73</u>
Non-guaranteed loans	<u>28,197,800</u>	<u>39</u>	<u>19,814,106</u>	<u>27</u>
	<u>73,120,064</u>	<u>100</u>	<u>74,445,674</u>	<u>100</u>

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Credit quality of the loan portfolio

The segmentation of the loan portfolio into "Not past due or impaired", "Past due but not impaired" and "Impaired" is presented as follows:

	2022						2021					
	Wholesale loans S/(000)	Small and micro-business loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Total S/(000)	%	Wholesale loans S/(000)	Small and micro-business loans S/(000)	Consumer loans S/(000)	Mortgage loans S/(000)	Total S/(000)	%
Neither-past-due nor impaired loans	40,532,894	3,588,256	9,523,521	13,824,143	67,468,814	98	45,504,657	2,647,754	7,296,750	13,496,568	68,945,729	99
Standard	39,280,116	3,463,410	9,319,661	13,648,634	65,711,821	95	43,968,160	2,577,528	7,204,745	13,290,174	67,040,607	96
With potential problems	1,252,778	124,846	203,860	175,509	1,756,993	3	1,536,497	70,226	92,005	206,394	1,905,122	3
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Neither past-due nor impaired loans	174,159	2	2	516	174,679	-	98,795	5	3	759	99,562	-
Standard	38,453	1	2	4	38,460	-	31,692	4	2	-	31,698	-
With potential problems	135,706	1	-	512	136,219	-	67,103	1	1	759	67,864	-
Substandard	-	-	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-	-	-
Impaired loans	3,699,086	358,364	630,365	788,756	5,476,571	9	3,804,021	292,185	417,529	886,648	5,400,383	8
Standard	15,666	4	39	-	15,709	-	3,294	2	16	-	3,312	-
With potential problems	493,770	-	143	-	493,913	1	638,444	-	9	-	638,453	1
Substandard	699,869	73,298	148,548	205,967	1,127,682	2	838,795	38,079	76,856	201,271	1,155,001	2
Doubtful	752,557	93,200	236,629	189,595	1,271,981	2	779,148	51,203	163,601	245,173	1,239,125	2
Loss	1,737,224	191,862	245,006	393,194	2,567,286	4	1,544,339	202,901	177,047	440,204	2,364,492	3
Gross portfolio	44,406,139	3,946,622	10,153,888	14,613,415	73,120,064	107	49,407,473	2,939,944	7,714,282	14,383,975	74,445,674	107
Less: Provisions	(2,991,879)	(277,028)	(753,770)	(603,584)	(4,626,261)	(7)	(3,032,007)	(238,507)	(634,813)	(700,509)	(4,605,836)	(7)
Total net portfolio	41,414,260	3,669,594	9,400,118	14,009,831	68,493,803	100	46,375,466	2,701,437	7,079,469	13,683,466	69,839,838	100

Criteria to determine if a loan is impaired are the following:

Type of debtor	Impairment criteria
Retail	Loans past due over 90 days. Debtor is rated as deficient, doubtful or loss.
Wholesale	Debtor is rated as deficient, doubtful or loss. Rescheduled or refinancing loans.

The specific provisions associated with transactions that as of December 31, 2022 have been classified as past due and non-impaired loans and impaired loans amount to S/2,971 million (S/2,845 million as of December 31, 2021).

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In 2022 and 2021, customer transactions that throughout said periods were classified as past due and not impaired loans and as impaired loans have generated finance income of S/198 million and S/182 million, respectively.

As of December 31, 2022 and 2021, the guarantees of past due and non-impaired loans and impaired loans amount to S/2,659 million and S/2,718 million, respectively, of which S/2,523 million and S/2,626 million correspond to mortgage loans. As of December 31, 2022 and 2021, past due and non-impaired loans amounts to S/175 million and S/100 million, respectively. The breakdown of the referred credits according to days of arrears is shown below:

Days in arrears	2022				2021			
	16-30 S/(000)	31-60 S/(000)	61-90 S/(000)	Total S/(000)	16-30 S/(000)	31-60 S/(000)	61-90 S/(000)	Total S/(000)
Types of loan								
Corporate	41	1,663	674	2,378	-	-	-	-
Large-business loans	8,153	15,949	1,321	25,423	892	11,025	1,673	13,590
Medium-business loans	60,980	65,511	19,867	146,358	34,250	32,614	18,341	85,205
	<u>69,174</u>	<u>83,123</u>	<u>21,862</u>	<u>174,159</u>	<u>35,142</u>	<u>43,639</u>	<u>20,014</u>	<u>98,795</u>
Small-business loans	-	2	-	2	-	2	3	5
Micro-business loans	-	-	-	-	-	1	-	1
Consumer loans	-	2	-	2	-	2	1	3
Mortgage loans	-	516	-	516	-	759	-	759
	<u>-</u>	<u>520</u>	<u>-</u>	<u>520</u>	<u>-</u>	<u>764</u>	<u>4</u>	<u>768</u>
	<u>69,174</u>	<u>83,643</u>	<u>21,862</u>	<u>174,679</u>	<u>35,142</u>	<u>44,403</u>	<u>20,018</u>	<u>99,563</u>

Risk concentrations:

The loan portfolio is distributed in the following economic sectors:

	2022		2021	
	S/(000)	%	S/(000)	%
Mortgage and consumer loans	24,767,302	34	22,098,258	30
Commerce	13,821,173	19	15,007,388	20
Manufacturing	10,691,306	15	11,572,044	16
Transport, storage and communications	6,299,939	9	6,657,607	9
Real estate, business and leasing	3,809,945	5	4,069,603	5
Agriculture and livestock	3,144,823	4	2,727,398	4
Financial intermediation	2,278,990	3	1,811,653	2
Hotels and restaurants	1,623,101	2	1,722,813	2
Power, gas and water	1,233,808	2	1,793,180	2
Mining	1,136,403	2	2,201,883	3
Construction	1,063,506	1	1,477,096	2
Others	3,249,768	4	3,306,751	5
	<u>73,120,064</u>	<u>100</u>	<u>74,445,674</u>	<u>100</u>

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Notes to the separate financial statements (continued)

As of December 31, financial assets are distributed among the following geographic areas:

	2022					Total S/(000)
	At fair value through profit or loss		Loans and accounts receivable (*) S/(000)	Available-for- sale S/(000)	Hedging derivatives S/(000)	
	Held-for-trading S/(000)	Allocated at inception S/(000)				
Financial instruments						
Peru	3,706,864	-	73,406,503	4,643,884	-	81,757,250
Rest of South America	-	-	25,685	980	-	26,665
Mexico	314	-	1,163	-	-	1,477
United States of America	-	-	9,188	3,647,756	-	3,656,944
Europe	929,349	-	3,000	30	3,659	936,038
Rest of the world	-	-	9,572	-	-	9,572
	<u>4,636,527</u>	<u>-</u>	<u>73,455,111</u>	<u>8,292,650</u>	<u>3,659</u>	<u>86,387,946</u>
Provisions	(8,049)	-	(4,803,529)	-	-	(4,811,578)
Accrued returns on current loans	-	-	680,378	-	-	680,378
Deferred income	-	-	(86,431)	-	-	(86,430)
	<u>4,628,478</u>	<u>-</u>	<u>69,245,529</u>	<u>8,292,650</u>	<u>3,659</u>	<u>82,170,316</u>
	2021					
	At fair value through profit or loss		Loans and accounts receivable (*) S/(000)	Available-for- sale S/(000)	Hedging derivatives S/(000)	Total S/(000)
	Held-for-trading S/(000)	Allocated at inception S/(000)				
Financial instruments						
Peru	5,290,281	-	74,552,575	4,543,792	24,639	84,411,287
Rest of South America	-	-	28,614	980	-	29,594
Mexico	1,330	-	1,383	-	-	2,713
United States of America	-	-	81,764	1,035,644	-	1,117,408
Europe	130,857	-	10,469	30	51,166	192,522
Rest of the world	487,180	-	12,904	-	-	500,084
	<u>5,909,648</u>	<u>-</u>	<u>74,687,709</u>	<u>5,580,446</u>	<u>75,805</u>	<u>86,253,608</u>
Provisions	(12,335)	-	(4,813,786)	-	-	(4,826,121)
Accrued returns on current loans	-	-	640,209	-	-	640,209
Deferred income	-	-	(98,278)	-	-	(98,278)
	<u>5,897,313</u>	<u>-</u>	<u>70,415,854</u>	<u>5,580,446</u>	<u>75,805</u>	<u>81,969,418</u>

(*) As of December 31, 2022 and 2021, this balances include the loan portfolio and receivables.

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Notes to the separate financial statements (continued)

Market risk:

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

There are three major risk factors that affect market prices: interest rates, exchange rates and variable-income.

- Interest rate risk: it arises as a consequence of variations in the provisional structure of market interest rates, for the different currency.
- Exchange rate risk: It arises as a consequence of variations in the exchange rate risk among the different currency.
- Price risk: It arises as a consequence of changes in the market price, either for the specific instruments factors, or for factors affecting all the instruments trades in the market.

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

Value at risk (VaR) is the basic variable to measure and control the Bank's market risk. This risk measure estimates the maximum loss, with a given level of confidence that can occur in the market positions of a portfolio for a certain time horizon. The Bank calculates the VaR using the historical method with a confidence level of 99% and a time horizon of one day; the data period considered is two years.

The structure of market risk limits determines a scheme of VaR and economic capital limits for market risk, as well as alerts and specific ad-hoc sub-limits for types of risk, among others.

Likewise, validity tests are carried out on the risk measurement models used, which estimate the maximum loss that can occur in the positions considered, with a certain level of probability ("back testing"), as well as measurements of the impact of extreme movements market in the risk positions maintained ("stress testing"). Currently, the stress analysis is carried out on historical scenarios of the Lehman Brothers crisis (2008).

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Notes to the separate financial statements (continued)

As of December 31, 2022 and December 31, 2021 the detail of the VaR for risk factors was as follows:

	2022 S/(000)	2021 S/(000)
VaR for risk factors		
VaR without smoothing	7,547	10,144
VaR interest	7,673	10,458
VaR exchange	1,451	319
VaR weighted	8,678	8,479
VaR maximum	12,498	13,348
VaR minimum	5,435	5,245

Structural interest risk:

Structural interest risk is defined as the potential alteration that occurs in the interest income and/or in the equity value of an entity due to the variation in interest rates.

According to the impact variable, the following types of risks are distinguished in the Group and in the Bank:

- Interest margin risk: potential adverse deviation in the interest margin projected over a given horizon.
- Equity economic value risks: potential impact on the economic value of the financial institution's balance sheet.
- Risk of carrying amount of instruments accounted for at fair value in the banking book: potential impact on equity given the effect on the carrying amount of the portfolios of fixed income and derivatives classified as "Held to Collect and Sell" (HtC&S).

Structural interest rate risk management is aimed at maintaining the stability of the interest income against interest rate fluctuations, contributing to the generation of recurring results, and at controlling the potential impacts on equity due to the mark-to-market of instruments classified as held to collect and sale as well as limiting capital needs for structural interest risk.

The Assets and Liabilities Committee (hereinafter COAP) conducts active management of the banking book through operations to optimize the level of risk assumed, in relation to the expected results, and allow compliance with the maximum levels of tolerable risk.

The activity performed by the COAP is based on the interest risk measurements conducted by the risks area. Which, acting as an independent unit, periodically quantifies the impact the variation in interest rates has on the interest margin and the economic value of the Bank.

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Notes to the separate financial statements (continued)

In addition to the sensitivity measurements to different variations in market rates, the Bank develops probabilistic calculations that determine the “economic capital” (maximum loss in economic value) and the “margin at risk” (maximum loss in the interest margin) due to structural interest risk of the Bank's banking activity, excluding treasury activity, based on interest rate curve simulation models. Stress testing is conducted periodically to complete the evaluation of the Bank's interest risk profile.

All these risk measures are subject to subsequent analysis and monitoring, and the levels of risk assumed and the degree of compliance with the authorized limits are transferred to the different management and administration departments.

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The consumption of the structural interest risk levels of the Bank during the years 2022 and 2021 are presented as follows:

2022	Dec -22	Nov-22	Oct-22	Sep-22	Aug-22	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Feb-22	Jan-22	
Limit consumption													
Sensitivity in profit margin	9.5%	N/D	4.5%	4.9%	5.9%	6.2%	6.6%	6.6%	7.9%	7.5%	7.4%	8.5%	7.7%
Alert consumption													
Economic value sensitivity	750	N/D	501	484	485	503	512	517	506	332	329	399	285
Economic capital	900	N/D	753	735	744	743	700	725	689	659	716	612	445
Margin at risk	4.5%	N/D	2.5%	2.4%	3.0%	3.1%	3.1%	3.2%	3.6%	3.9%	4.0%	3.2%	3.0%
2021													
	Dec-21	Nov-21	Oct-21	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21	
Limit consumption													
Sensitivity in profit margin	7.0%	6.42%	6.78%	6.86%	6.6%	5.5%	5.0%	5.1%	5.6%	5.1%	5.4%	5.4%	5.4%
Alert consumption													
Economic value sensitivity	1,200	221	262	264	297	309	444	422	417	403	439	452	496
Economic capital	1,200	422	432	400	411	422	535	528	534	529	556	559	584
Margin at risk	4.0%	3.5%	2.9%	3.0%	2.8%	2.2%	2.2%	2.2%	2.4%	2.1%	2.2%	2.2%	2.3%

In the measurement process, the Bank has established hypotheses on the evolution and behavior of certain items, such as those relating to products without explicit or contractual expiration. These hypotheses are based on studies that approach the relationship between the interest rates of these products and those of the market, and that allow the disaggregation of the specific balances into trend balances, with a long-term permanence degree, and seasonal or volatile balances, with a short-term residual maturity.

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Notes to the separate financial statements (continued)

Liquidity risk:

The liquidity and financing risk is defined as the inability of a financial institution to honor its payment obligations due to a lack of cash or financing or whenever a financial institution has to resort to financing under especially severe conditions to be able to honor those obligations.

As part of this risk and considering a temporary horizon over which the payment obligation occurs, we can distinguish:

- Liquidity risk: The risk of suffer losses in the short-term resulting from events that affect their ability to use cash resources to meet its more immediate payment obligations, either because of the impossibility to sell assets or an unexpected reduction of trade liabilities, or because the regular financing sources are shut down bot in normal or stress situation and including the potential outflow of additional resources for contingent reasons.
- Intraday liquidity risk: Risks that a financial institution is not able to meet its daily settlement obligations; for example, because of timing mismatches in payment, settlement systems or other relevant.
- Financing risk: This risk reflects the increase in the exposure of balance sheet of a financial institution, medium and short-term resulting from its deviation from its target to keep stable resources inherent to its activity, together with other wholesale stable financing resources to enable a diversification by due dates and sources, as a way to concentration of counterparties that sharpen the exposure or vulnerability of the financial institution in a stress scenario. In a context of higher exposure to this risk, a higher probability exists of incurring in higher short-term financing, higher use of collaterals, and in any case, an intensified short-term liquidity risk.

The Group and BBVA Perú aim at promoting a sound financing structure to contribute with the sustainability of the business model. For that purpose, the risk model promotes maintaining an adequate number of stable resources in a wholesale diversified financing model that restrict the weight of short-term financing, ensure access to several markets, optimize the costs of financing, and creates a buffer of liquid assets for the Bank to be able to survive under stress scenarios.

The management and monitoring of liquidity risk is carried out comprehensively with a dual approach: short-term and long-term. The short-term liquidity approach, with a time horizon of up to one year, is focused on managing payments and collections from market activities, volatile customer resources and the potential liquidity needs of the Bank as a whole. The second approach, medium-term or financing, is focused on the financial management of the set of assets and liabilities, focusing on the financing structure, and having a time horizon equal to or greater than the annual one.

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Notes to the separate financial statements (continued)

The integral management of liquidity is carried out by COAP, where the Financial Management Unit of the Finance area analyzes the implications, in terms of financing and liquidity of the various Bank projects and their compatibility with the structure of target financing and the situation of financial markets. In this sense, the Financial Management Unit, in accordance with the approved budgets, executes the agreed proposals by the COAP and manages liquidity risk in accordance with wide scheme of limits, sub-limits and approved warnings on which the risk area carries out, independently, its measurement and control work, providing the manager with support tools and metrics for decision-making.

The periodic measurements of the risk incurred and the monitoring of the consumption of limits are carried out by the Structural, Markets and Fiduciary Risks Unit, which monthly reports the liquidity risks level to the COAP; as well as more frequently to the management units. It should be noted that during the beginning of the state of emergency due to the COVID-19 pandemic, the structural risks unit increased the measurement frequency of the main liquidity indicators in order to carry out a daily monitoring that allows anticipating any contingency and supporting the management areas.

Moreover, the Basel Committee on Banking Supervision (BCBS) has proposed a new liquidity regulation scheme based on two ratios: "Liquidity Coverage Ratio" (LCR) that entered into force in 2015 and the "Net Stable Funding Ratio" (NSFR) has been implemented since 2018. Both the Bank and the BBVA Group as a whole participated in the corresponding impact study (QIS) that has included the new regulatory challenges in its new general framework of action in the field of liquidity and financing. At the local level, the SBS has also implemented monitoring of the Liquidity Coverage Ratio (RCL), following the general guidelines of the Basel Committee, although adapting it to the Peruvian reality. This RCL indicator began to be measured from December 2013 and its calculation is daily. The limit established for the RCL is 80% for the period 2014 - 2017, 90% for 2018 and 100% for 2019 onwards, which is being met with ease.

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Notes to the separate financial statements (continued)

In accordance with SBS regulations, the maturities of assets and liabilities as of December 31, 2022 and 2021, including accrued interest on loans and deposits, are as follows:

	Up to 1 month S/(000)	1-3 months S/(000)	Between 3 and 6 months S/(000)	Between 6 months and 1 year S/(000)	Between 1 year and 5 years S/(000)	More than 5 years S/(000)	Sold and under court collection S/(000)	Total S/(000)
2022								
Assets								
Cash and due from banks	9,580,916	250,930	159,722	145,085	1,990,474	220	-	12,127,347
Investments at fair value through profit or loss	3,278,859	-	-	-	-	-	-	3,278,859
Available-for-sale investments	6,871,164	70,508	45,786	-	986,580	318,612	-	8,292,650
Loan portfolio	8,276,036	8,727,045	7,430,104	8,876,959	27,344,612	9,947,233	3,198,454	73,800,443
Trading derivatives	81,384	125,626	88,827	160,245	287,151	606,386	-	1,349,619
Hedging derivatives	-	-	-	-	3,659	-	-	3,659
	<u>28,088,359</u>	<u>9,174,109</u>	<u>7,724,439</u>	<u>9,182,289</u>	<u>30,612,476</u>	<u>10,872,451</u>	<u>3,198,454</u>	<u>98,852,577</u>
Liabilities								
Obligations with the public								
On demand	2,556,312	1,871,329	-	-	18,056,283	-	-	22,483,924
Savings	1,836,092	1,338,309	-	-	21,937,899	-	-	25,112,300
Time deposits	4,835,886	2,769,871	3,819,413	3,411,417	3,284,465	101,000	-	18,222,052
Others	235,476	-	-	-	-	-	-	235,476
Deposits with financial institutions	302,109	242,961	32,607	103	464,572	-	-	1,042,352
Debts and financial obligations	30,191	24,664	11,148	533,740	401,736	3,027,761	-	4,029,240
Trading derivatives	383,109	106,631	51,200	87,052	269,152	348,699	-	1,245,843
Hedging derivatives	-	-	3,081	15,125	85,422	-	-	103,628
Accounts payable	2,136,380	1,068,505	1,204,232	1,033,142	6,770,938	11	-	12,213,208
Other liabilities	<u>1,050,647</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,050,647</u>
	<u>13,366,202</u>	<u>7,422,270</u>	<u>5,121,681</u>	<u>5,080,579</u>	<u>51,270,467</u>	<u>3,477,471</u>	<u>-</u>	<u>85,738,670</u>

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	Up to 1 month S/(000)	1-3 months S/(000)	Between 3 and 6 months S/(000)	Between 6 months and 1 year S/(000)	Between 1 year and 5 years S/(000)	More than 5 years S/(000)	Sold and under court collection S/(000)	Total S/(000)
2021								
Assets								
Cash and due from banks	14,502,378	164,513	46,374	67,296	1,467,323	-	-	16,247,884
Interbank funds	-	-	-	-	-	-	-	-
Investments at fair value through profit or loss	4,129,581	-	-	-	-	-	-	4,129,581
Available-for-sale investments	4,131,160	43,335	2,607	796,423	307,755	299,166	-	5,580,446
Loan portfolio	6,546,559	8,206,497	7,745,944	8,290,753	27,421,118	14,119,761	2,755,251	75,085,883
Trading derivatives	41,085	192,642	262,774	238,881	356,740	675,610	-	1,767,732
Hedging derivatives	-	-	235	53,319	22,251	-	-	75,805
	<u>29,350,763</u>	<u>8,606,987</u>	<u>8,057,934</u>	<u>9,446,672</u>	<u>29,575,187</u>	<u>15,094,537</u>	<u>2,755,251</u>	<u>102,887,331</u>
Liabilities								
Deposits and obligations								
Demand deposits	2,476,778	1,812,755	-	-	20,597,504	-	-	24,887,037
Savings accounts	2,508,338	1,759,651	-	-	24,225,054	-	-	28,493,043
Time deposits	2,137,060	1,915,120	1,272,887	2,055,379	2,344,850	-	-	9,725,296
Others	91,485	-	-	-	-	-	-	91,485
Interbank funds	-	-	-	-	-	-	-	-
Deposits with financial institutions	400,186	258,213	69,208	125,057	229,953	-	-	1,082,617
Debts and financial obligations	54,708	77,108	428,670	2,507,707	1,617,808	2,154,554	-	6,840,555
Trading derivatives	127,439	123,859	231,400	107,251	475,044	507,027	-	1,572,020
Hedging derivatives	-	-	1,565	3,391	30,103	-	-	35,059
Accounts payable	1,813,016	648,460	969,896	2,451,469	10,608,108	617,881	-	17,108,830
Other liabilities	602,266	-	-	-	-	-	-	602,266
	<u>10,211,276</u>	<u>6,595,166</u>	<u>2,973,626</u>	<u>7,250,254</u>	<u>60,128,424</u>	<u>3,279,462</u>	<u>-</u>	<u>90,438,208</u>

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Notes to the separate financial statements (continued)

Operational risk:

The Bank articulates an operational risk management model implemented throughout the organization, based on methodologies and procedures for the identification, assessing and monitoring of operational risk, and supported by tools that allow qualitative and quantitative management.

This model is based on a decentralized management of operational risk carried out by operational risk management teams in the two lines of defense. In the first line we have the Risk Control Assurer whose objective is to promote the adequate management of operational risk in their respective management areas. The previous by extending the methodology of risk identification and establishment of controls, and working for this with the owners of the processes who are those responsible for implementing mitigation plans and execution of controls. In the second line of defense, there is a Risk Control Specialist team who define mitigation and control frameworks in their area of specialty (across the entire organization) and contrast with the one implemented by the first line.

Both control teams are in constant coordination of a methodological unit and constantly report to the corresponding Internal Control and Operational Risk Committees. From the internal control and compliance area, the non-financial risk unit is in charge of the implementation of corporate management tools, the training of both control teams (Risk Control Assurer and Risk Control Specialist), coordination for updating the risk map and monitoring of mitigation plans.

In connection with qualitative management, the Support Tool for Operational Risk Management (MIGRO tool) makes it possible to record the operational risks identified by associating them with a taxonomy of processes and their quantification, as well as recording the evaluation periodical controls associated with critical risks. In 2021, risks and controls are being updated, maintaining the validity of the model.

In addition, there is a database, Integrated Operational Risk System (SIRO), which includes all operational risk events that represent a loss for the Bank and subsidiaries, is the fundamental quantitative tool for risk management operational

The Bank is authorized to use the alternative standard method for calculating the effective equity requirement for operational risk, which allows it to optimize the regulatory capital requirement for operational risk management.

The effective equity requirement for operational risk based on the alternative standard method as of December 31, 2022 amounts to S/655 million (S/602 million as of December 31, 2021).

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30. Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

Management used its best judgment in measuring the fair value of financial instruments; however, there are inherent weaknesses in any valuation technique. Thus, the fair value may not be an indicative of the net realizable value or the liquidation value of such financial instruments.

Regarding the methodology and assumptions used in estimating the fair value of the Bank financial instruments, the following should be considered:

- (i) Financial instruments whose fair value is similar to the carrying amount
This assumption applies for those assets and liabilities with current maturity, with variable interest rate and those whose fair value corresponds to the carrying amount according to the SBS Official Letter 43078-2014-SBS.
- (ii) Financial instruments at fixed rate
The methodology of future flows projection discounted at market interest rates is used, for instruments with similar characteristics.
- (iii) Financial instruments measured at fair value
The fair value hierarchy categorizes into 3 levels the inputs to valuation techniques used to measure fair value:

Level 1:

If the observed value in an active market does not refer to the financial instrument as a whole, but there is an active market for its components, fair value shall be determined based on relevant market prices of those components.

Level 2:

For instruments quoted in non-active markets, fair value is determined by using a valuation technique or model, which use as much as possible data from the market and minimize internally calculated data.

Level 3:

For unquoted instruments, fair value is determined using valuation techniques or models.

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Notes to the separate financial statements (continued)

Financial assets at fair value through profit or loss and available-for-sale financial assets are measured at market prices, which are determined based on the published share prices of mutual funds and quoted prices, respectively.

The fair value of derivative instruments is determined through the use of valuation techniques.

Carrying amount and fair value of financial assets and financial liabilities:

Taking into account the fair value considerations and the Official Letter 43078-2014- SBS, in which the SBS determined that the fair value corresponds to the carrying amount of loans and deposits, as of December 31, 2022 and 2021 the carrying amount and fair value of financial assets and financial liabilities are shown as follows:

	Carrying amount		Fair value	
	2022 S/(000)	2021 S/(000)	2022 S/(000)	2021 S/(000)
Assets				
Cash and due from banks	12,127,347	16,247,884	12,127,347	16,247,884
Investment at fair value through profit or loss				
Debt instruments	3,278,859	4,129,581	3,278,859	4,129,581
Investments available-for-sale				
Equity instruments	24,236	25,972	24,236	25,972
Debt instruments	8,268,414	5,554,474	8,268,414	5,554,474
Loan portfolio	69,087,751	70,381,769	69,087,751	70,381,769
Trading derivatives	1,349,619	1,767,732	1,349,619	1,767,732
Hedging derivatives	3,659	75,805	3,659	75,805
Accounts receivable, note 11	157,778	34,085	157,778	34,085
Other assets, note 11	974,748	550,167	974,748	550,167
	<u>95,272,411</u>	<u>98,767,469</u>	<u>95,272,411</u>	<u>98,767,469</u>
Liabilities				
Obligations with the public	66,053,752	63,196,861	66,053,752	63,196,861
Deposits in local and foreign financial institutions	1,042,352	1,082,617	1,042,352	1,082,617
Debts and financial obligations	4,029,240	6,840,555	3,943,359	6,885,495
Trading derivatives	1,245,843	1,572,020	1,245,843	1,572,020
Hedging derivatives	103,628	35,059	103,628	35,059
Accounts payable, note 14	12,213,208	17,108,830	12,213,208	17,108,830
	<u>84,688,023</u>	<u>89,835,942</u>	<u>84,602,142</u>	<u>89,880,882</u>

Translation of financial statements originally issued in Spanish - Note 32

Notes to the separate financial statements (continued)

Assets and liabilities recorded at fair value based on the hierarchy level are recorded as follows:

Financial instruments recorded at fair value and value hierarchy

	2022				2021			
	Fair Value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Assets								
Investments at fair value through profit of loss								
Debt instruments	3,278,859	316,774	2,962,085	-	4,129,581	204,934	3,924,647	-
Available-for-sale investments								
Equity instruments	23,115	23,115	-	-	24,850	24,850	4,164,561	-
Debt instruments	8,268,414	4,307,377	3,961,037	-	5,554,474	1,389,913	1,767,732	-
Trading derivatives	1,349,619	-	1,349,619	-	1,767,732	-	75,805	-
Hedging derivatives	3,659	-	3,659	-	75,805	-	-	-
	<u>12,923,666</u>	<u>4,647,266</u>	<u>8,276,400</u>	<u>-</u>	<u>11,552,442</u>	<u>1,619,697</u>	<u>9,932,745</u>	<u>-</u>
Liabilities								
Debt and financial obligations	1,845,663	-	1,845,663	-	3,251,564	-	3,251,564	-
Trading derivatives	1,245,843	-	1,245,843	-	1,572,020	-	1,572,020	-
Hedging derivatives	103,628	-	103,628	-	35,059	-	35,059	-
	<u>3,195,134</u>	<u>-</u>	<u>3,195,134</u>	<u>-</u>	<u>4,858,643</u>	<u>-</u>	<u>4,858,643</u>	<u>-</u>

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Notes to the separate financial statements (continued)

Description of the valuation techniques for instruments recorded at fair value

Level 2	Valuation techniques / Hypothesis	Main inputs used
Fixed and variable rate	<p>Fixed rate: Present value of cash flows from bonds (coupons and face value):</p> $Price_{bond} = \sum_{n=1}^N \frac{Coupon}{(1+YTM)^n} + \frac{Face\ value}{(1+YTM)^N}$ <p>These cash flows are discounted at yield to maturity (YTM)</p> <p>Variable rate: The closing price taken is the one consigned in a public source of information (Price Vendors). The Bank does not have trading portfolio of variable rate.</p>	<p>Fixed rate: Bonds details (coupon rate, coupons payment frequency, face value) "Yield to Maturity" (YTM): Obtained from operations traded in Datatec in such a way that the transaction greater than or equal to S/2 million (internally defined condition).</p> <p>Variable rate: closing price of Bloomberg, Reuter or the website of the BVL.</p>
Derivatives (a) - Forwards, IRS and CCS	<p>Calculation of the present value of each of the components of the derivative (fixed/variable) considering market interest rates and converting it to soles with the Exchange rate of the day, if necessary. The following are taken into account: variable flows (if any), the projection of flows, the discount curves for each underlying and the current market interest rates</p>	<ul style="list-style-type: none"> - Forward points. - Fixed vs variable price. - Exchange rate at closure. - Market interest rate curves.
(b) Options	<p>For options on shares, currency and raw materials</p> <p>The hypothesis derived from the use of the Black-Scholes model takes into account the possible adjustments to convexity.</p> <p>For derivatives on interest rates</p> <p>The hypothesis derived from the use of the Black-Scholes assumes a lognormal process of forward rates and model considers the possible adjustment to convexity.</p>	<p>Derivatives on shares, currency and raw materials:</p> <ul style="list-style-type: none"> - Forward structure of the underlying. - Changes in options. - Observable correlations between underlying. <p>Derivatives on interest rates:</p> <ul style="list-style-type: none"> - Maturity structure of interest type curve. - Underlying volatility

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Notes to the separate financial statements (continued)

31. Subsequent events

The Bank is not aware of any subsequent event occurring between the closing date and the issuing date of these separate financial statements that may affect it significantly.

32. Additional explanation for English translation

The accompanying separate financial statements are presented based on the generally accepted accounting principles in Peru for financial entities. Certain accounting practices applied by the Bank, that conform to generally accepted accounting principles in Peru for financial entities, may differ in certain significant respects from generally accepted accounting principles in other countries. In the event of any discrepancy, the Spanish-language version prevails.



Constancia de Habilitación

El Decano 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 SOCIEDAD CIVIL
DE R.L.
N.º MATRICULA: S0761**

Se encuentra **HABIL**, para el ejercicio de las funciones profesionales que le faculta la Ley N.º 13253 y su modificación Ley N.º 28951 y conforme al Estatuto y Reglamento Interno de 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 SETIEMBRE 2023.

Lima, 7 de MARZO 2023.

CPC. RAFAEL ENRIQUE VELASQUEZ SORIANO
DECANO

CPC. DAVID EDUARDO BAUTISTA IZQUIERDO
DIRECTOR SECRETARIO