



FINANCIAL STATEMENTS

Daniel Hernández
Saludo al Presidente Leguía



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Independent auditors' report

To the Directors of
Banco Central de Reserva del Perú

We have audited the accompanying financial statements of Banco Central de Reserva del Perú, which comprise the statement of financial position as of December 31, 2019 and 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting policies described in note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the International Standards on Auditing approved for its application in Peru by the Dean's Council of the Peruvian Professional Associations of Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco Central de Reserva del Perú as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended, in accordance with the accounting policies described in note 2 to the financial statements.

Lima, Peru
February 28, 2020

Countersigned by:

Handwritten signature of Caipo y Asociados in black ink, with a horizontal line underneath the signature.

Handwritten signature of Eduardo Alejos P. in black ink, with a horizontal line underneath the signature.

Eduardo Alejos P. (Partner)
Peruvian CPA Registration 01-29180

STATEMENT OF FINANCIAL POSITION

As of December 31, 2019 and 2018

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
ASSETS			
Gross international reserves			
Cash in foreign currency		165,913	168,834
Deposits at foreign banks	3	62,320,212	51,521,500
Deposits at foreign organizations	4	2,468,937	2,522,915
Securities from international institutions	5	152,435,590	140,937,963
Gold	6	5,607,843	4,809,657
Contributions to international organizations	7	3,210,933	2,801,861
Other available assets		163,162	346,813
		<u>226,372,590</u>	<u>203,109,543</u>
Other foreign assets			
Contributions in domestic currency to the IMF	7	4,926,721	5,449,316
Other foreign assets	11(b)	66,220	67,380
		<u>4,992,941</u>	<u>5,516,696</u>
Domestic credit			
	8		
To banks		17,077,791	13,111,323
To public sector		2,659,746	2,678,213
To financial institutions		42,042	3,509
To other institutions and funds		130,465	14,527
		<u>19,910,044</u>	<u>15,807,572</u>
Property, furniture and equipment, Net	9	164,804	165,126
Other assets	10	273,356	288,514
TOTAL ASSETS		<u>251,713,735</u>	<u>224,887,451</u>
Off balance sheet accounts	20	<u>118,579,709</u>	<u>139,157,713</u>

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

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
LIABILITIES			
Reserves liabilities		178,663	560,989
Other foreign liabilities			
Equivalent of the contribution in domestic currency to IMF	7(b)	4,926,721	5,449,316
Other foreign liabilities	11	2,863,205	2,922,503
		<u>7,789,926</u>	<u>8,371,819</u>
Sterilized stock			
Issued securities in circulation	12	27,984,849	26,777,829
Deposits in domestic currency	13	47,810,167	41,813,456
		<u>75,795,016</u>	<u>68,591,285</u>
Monetary base			
	14		
Currency in circulation		62,099,221	59,244,028
Deposits in domestic currency		2,465,469	2,123,039
		<u>64,564,690</u>	<u>61,367,067</u>
Deposits in foreign currency	15	76,000,499	63,458,373
Other liabilities	16	11,585,648	8,427,555
TOTAL LIABILITIES		<u>235,914,442</u>	<u>210,777,088</u>
Net equity			
	17		
Capital		1,182,750	1,182,750
Legal reserve		1,182,750	804,934
Special statutory reserve		440,470	-
Fair value reserve		808,304	(526,871)
Profit or loss for the period		1,856,308	1,091,049
Capital, reserves and results		<u>5,470,582</u>	<u>2,551,862</u>
Adjustment for valuation – Article 89 of Organic Act	17.E	10,328,711	11,558,501
Total equity		<u>15,799,293</u>	<u>14,110,363</u>
TOTAL LIABILITIES AND NET EQUITY		<u>251,713,735</u>	<u>224,887,451</u>
Off balance sheet accounts	20	<u>118,579,709</u>	<u>139,157,713</u>

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2019 and 2018

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
FINANCIAL INCOME			
Interest on deposits at foreign banks	3(b)	1,283,334	939,541
Net return on securities	5	2,732,147	1,905,579
Return on operations with derivative instruments	20(b)	772,107	651,124
Interest on international agreements and deposits with the International Monetary Fund		33,113	28,459
Profits and dividends from international institutions		54,426	25,255
Return on gross international reserves		4,875,127	3,549,958
Interest and commissions on domestic credit operations	8(c)	424,823	526,359
Other financial income	20(e)	19,633	42,011
Total financial income		5,319,583	4,118,328
Non-financial income		12,147	29,266
TOTAL INCOME		5,331,730	4,147,594
FINANCIAL EXPENSES			
Interest on other abroad liabilities	11(c)	(27,969)	(26,468)
Interest on securities in circulation	12	(736,767)	(844,724)
Interest on domestic currency deposits	13	(921,595)	(933,768)
Interest on foreign currency deposits	15	(1,395,887)	(864,558)
Other financial expenses	20(e)	(15,288)	(26,682)
Total financial expenses		(3,097,506)	(2,696,200)
Operational expenses	21	(276,631)	(274,180)
Issuance expenses and costs	22	(101,285)	(86,165)
TOTAL EXPENSES		(3,475,422)	(3,056,545)
Net profit (loss)		1,856,308	1,091,049
Other comprehensive income	5 and 8(b)	1,335,175	203,772
TOTAL COMPREHENSIVE INCOME		3,191,483	1,294,821

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

STATEMENT OF CHANGES IN EQUITY

As of December 31, 2019 and 2018

Note	Capital stock (\$/000)	Legal reserve (\$/000)	Special statutory reserve (\$/000)	Fair value reserve (\$/000)	Accumulated results (\$/000)	Total capital, reserves and results (\$/000)	Adjustment for valuation - Article 89 of Organic Law (\$/000)	Total equity (\$/000)
Balance as of January 1, 2018	1,182,750	870,911	-	(730,643)	(65,977)	1,257,041	7,384,611	8,641,652
Net profits	-	-	-	-	1,091,049	1,091,049	-	1,091,049
Other comprehensive income	-	-	-	203,772	-	203,772	-	203,772
17.C								
Total comprehensive income	-	-	-	203,772	1,091,049	1,294,821	-	1,294,821
Offsetting losses on legal reserve	-	(65,977)	-	-	65,977	-	-	-
Adjustment for valuation - Article 89 of Organic Act	-	-	-	-	-	-	4,173,890	4,173,890
17.E								
Balance as of December 31, 2018	1,182,750	804,934	-	(526,871)	1,091,049	2,551,862	11,558,501	14,110,363
Balance as of January 1, 2019	1,182,750	804,934	-	(526,871)	1,091,049	2,551,862	11,558,501	14,110,363
Net profits	-	-	-	-	1,856,308	1,856,308	-	1,856,308
Other comprehensive income	-	-	-	1,335,175	-	1,335,175	-	1,335,175
17.C								
Total other comprehensive income	-	-	-	1,335,175	1,856,308	3,191,483	-	3,191,483
Transfer to legal reserve	-	377,816	-	-	(377,816)	-	-	-
Transfer to special statutory reserve	-	-	440,470	-	(440,470)	-	-	-
Transfer of profits to Public Treasury	-	-	-	-	(272,763)	(272,763)	-	(272,763)
Adjustment for valuation - Article 89 of Organic Act	-	-	-	-	-	-	(1,229,790)	(1,229,790)
17.E								
Balance as of December 31, 2019	1,182,750	1,182,750	440,470	808,304	1,856,308	5,470,582	10,328,711	15,799,293

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

STATEMENT OF CASH FLOWS

As of December 31, 2019 and 2018

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Cash flows from operating activities			
Net profits		1,856,308	1,091,049
Adjustments to reconcile the profits to the cash from operating activities			
Depreciation of property, furniture and equipment	9	12,031	12,792
Amortization of intangible assets		1,849	2,220
Fixed assets writte-off		891	473
Net changes in assets, liabilities and equity			
Domestic credit		(4,102,472)	9,383,460
Other foreign assets		523,755	78,345
Other assets		13,309	1,134
Reserves liabilities		(382,326)	203,588
Other foreign liabilities		(581,893)	(38,783)
Securities in circulation		1,207,020	(4,836,625)
Deposits in domestic currency		5,996,711	(2,267,338)
Deposits of banks, financial institutions and others (monetary base)		342,430	186,331
Deposits in foreign currency		12,542,126	(6,277,368)
Other liabilities		3,158,093	(9,125,780)
Fair value reserve		1,335,175	203,772
Adjustment for valuation - Article 89 of Organic Act		(1,229,790)	4,173,890
Transfer of profits to Public Treasury	17.D	(272,763)	-
Cash and cash equivalent from (used in) operating activities		20,420,454	(7,208,841)
Cash flows from investing activities			
Additions to property, furniture and equipment	9	(12,600)	(17,334)
Cash flows used in investing activities		(12,600)	(17,334)
Net increase (decrease) in cash and cash equivalents		20,407,854	(7,226,175)
Cash and cash equivalents at the beginning of the year		143,865,515	151,091,690
Cash and cash equivalents at the end of the year	2.B(o)	164,273,369	143,865,515

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019 and 2018

1. OPERATIONS

Banco Central de Reserva del Perú (hereinafter the “Central Bank”) is an autonomous legal institution of public law incorporated on March 9, 1922, intended to preserve monetary stability in Peru. Its activities are currently governed by Article 84 of the Political Constitution of Peru, dated December 29, 1993, and by the Organic Act approved by Decree-Law 26123, dated December 24, 1992 (hereinafter the “Organic Act”). According to the Organic Act, the Central Bank’s functions are to regulate the money supply, manage international reserves, issue currency, and report on domestic finance.

The Central Bank’s legal address and main office are located at Jr. Santa Rosa No. 441-445 (former Antonio Miró Quesada), Lima. It also has branches in seven cities of Peru. As of December 31, 2019 and 2018, the Central Bank has 974 and 975 employees, respectively. They include bank workers, temporary workers, and workers with unpaid leave or unpaid temporary assignment.

The Central Bank represents Peru for the purposes specified in the articles of the agreements of the International Monetary Fund (IMF) and the Latin American Reserve Fund (FLAR, for its Spanish acronym) and is responsible for all operations and formal relationships with these organizations. The Central Bank may also act as a Peruvian Government agent in its relationships with multilateral credit organizations and financial agencies of foreign governments. The Central Bank has subscribed shares of the Bank for International Settlements (BIS), which is an organization responsible for promoting international financial and economic cooperation and serves as a bank for central banks.

According to the Organic Act, the Bank is not permitted to:

- Grant funds to the Public Treasury, except for acquisitions of securities issued by the Public Treasury in the secondary market in which case the annual increase in such security holding may not exceed at any moment, measured at acquisition cost, 5% of the monetary base at the end of the prior year;
- Grant credits or any other form of financing to financial institutions that have outstanding and past due obligations, as well as grant loans or advanced payments to its Directors;
- Provide guarantees, letters of guarantee or any other guarantee, use any form of indirect financing, or grant any type of insurance, except for operations entered into by the Central Bank in implementing reciprocal payment and credit agreements;
- Provide resources to create special funds aimed at granting credits or making investments to promote non-financial economic activities;
- Issue securities, bonds or contribution certificates of mandatory acquisition;
- Set sector or regional percentages in the composition of the loan portfolio of financial institutions;
- Establish multiple exchange rates regimes;



- Purchase shares, except for those issued by international financial organizations or those needed to be acquired to strengthen banks or financial institutions; hold, directly or indirectly, shares in the capital of commercial, industrial or any other institution; and
- Own properties additional to those needed for its activities and those transferred in payment of debts (sold within a term of less than one year after their acquisition).

The financial statements as of and for the year ended December 31, 2019, prepared in accordance with the accounting policies described in note 2, have been issued with management approval on January 16, 2020, and will be submitted for corresponding approval of the Board of Directors Meeting that will be held within the terms established by the Organic Act. In management's opinion, the accompanying financial statements will be approved without amendments. The Board of Directors Meeting, held March 14, 2019, approved the Company's financial statements as of and for the year ended December 31, 2018.

Equity

According to Article 93 of the Organic Act, if the Central Bank incurs losses, they shall be hedged by the reserve from prior year profits. If the accounting reserve is not enough, the Public Treasury, within thirty days of the approval of the financial statement, issues and grants to the Central Bank negotiable debt securities that bear interest for the non-covered amount.

In order to hedge the 2014 losses, on August 7, 2015, the Central Bank received from the Ministry of Economy and Finance (MEF) sovereign bonds and a promissory note for S/ 716 million, which mature in 20 years at an annual rate of 2.20%, and are payable at maturity or when the call option is exercised. The call option and amortization of interest, commissions and other expenses incurred are charged to the Central Bank's profits corresponding to the Public Treasury, according to Article 92 of the Organic Act.

On June 14, 2019, 25% of the 2018 net profits was used to repay the principal and interest of these bonds for S/ 252 million and S/ 21 million, respectively (note 17.D).

Profits recorded as of December 31, 2019 and 2018 are associated with the highest revenues from International Gross Reserves investment, which reflect an increase in the international interest rate due to thereversal of the Fed' monetary stimulus and the lower operational cost of sterilization, associated with the decrease in the BCRP reference interest rate, consistent with a monetary stimulus policy in the context of a negative product gap and inflation expectations close to the midpoint of the inflation target range.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Central Bank criteria

According to Article 88 of the Organic Act and the criteria approved by the Board of Directors, the accounting policies used by the Central Bank are:

- (a) The criteria approved by the Board of Directors based on its faculties (Article 88 of the Organic Act).
- (b) Peruvian Generally Accepted Accounting Principles (Peruvian GAAP) which comprise the International Financial Reporting Standards (IFRS) issued and adopted by the International Accounting Standards Board (IASB), made official through resolutions issued by the

Peruvian Accounting Board (CNC, for its Spanish acronym), effective from December 31, 2019 and 2018, as applicable for the Central Bank, and the standards established by the Superintendency of Banking, Insurance and Pension Fund Administrators (Superintendencia de Banca, Seguros y Administradoras de Fondos de Pensiones – SBS). As of the reporting date, the CNC made official the application of the 2019 edition of IFRSs from 1 to 17, IASs from 1 to 41, SICs from 7 to 32 and IFRICs from 1 to 23.

The accounting policies established by the Central Bank's Board of Directors that differ from the Peruvian GAAP are mainly:

i. Recognition of changes in exchange rates differences

The Central Bank records adjustments for price valuation and exchange rates of assets and liabilities in gold, silver, currencies, Special Drawing Right (SDR) or other monetary units of international use in 'Adjustment for valuation – Article 89 of Organic Law' in the net equity. In accordance with Peruvian GAAP, the results of the aforementioned valuations shall be included in profit or loss of the year in which they were generated. In 2019 and 2018, this adjustment amounted to a decrease of S/ 1,230 million and an increase of S/ 4,174 million, respectively (note 2.B(e) and 17.E).

ii. Recording of embedded derivatives

As of December 31, 2019 and 2018, BCRP indexed certificates of deposit (CDR BCRP, for its Spanish acronym), are recorded at its face value, recognizing the changes in exchange rate differences in 'Adjustments for valuation – Article 89 of Organic Act' in the statement of changes in equity (see paragraph (v) below).

In accordance with Peruvian GAAP, the embedded derivatives of a main (or host) agreement must be treated like separated derivative instruments and recorded at their fair value if the economic risks and characteristics are not closely related to those of the main agreement.

iii. Statement of cash flows

The preparation of the statement of cash flows is carry out by the Central Bank considering as cash and cash equivalents the captions indicated in paragraph (2.B(o)) below; consequently, the format and content of the above mentioned statements adjust to said definition. This accounting practice differs from provisions of the Peruvian GAAP.

iv. Disclosure of financial instruments

As of December 31, 2019 and 2018, the Central Bank is not fully applying the requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments*. IFRS 7 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance. The latter through the understanding of the nature and extent of the financial instruments to which the Central Bank is exposed; as well as the methods the entity applies to manage the risks arising from said instruments.

v. Measurement of foreign exchange instruments

The Central Bank has foreign exchange instruments such as: transactions with held-for-trading instruments (note 2.B(e.i)), transactions with CDR BCRP (note 2.B(k)) and transactions with foreign exchange swaps (note 2.B(s)).



Gains and losses from changes in fair valued and from exchange rates are recorded in 'valuation – Article 89 of Organic Act' in equity, and profit or loss for the year is not affected in any case.

According to Peruvian GAAP, the aforementioned valuations shall be recorded as a gain or loss in the statement of profit or loss and other comprehensive income.

vi. Securities issued by the MEF

- The Central Bank receives bonds from the MEF to cover losses, in compliance with article 93 of the Organic Act (notes 1 and 17.D), which are recorded as a financial assets at its face value in 'Domestic Credit' in the statement of financial position.

According to Peruvian GAAP, such bonds do not qualify as financial assets since their collection is through dividends paid by the institution to the Government (note 1).

- The Central Bank classifies the financial instruments in foreign currency issued by the MEF as investments at FVOCI measured at fair value through other comprehensive income (FVOCI). They are recorded in 'Domestic Credit' in the statement of financial position. The fair value of these financial instruments is calculated based on market prices.

Changes in the fair value of these financial instruments acquired before December 31, 2015 are determined by comparing the carrying amount (acquisition cost) with the fair value, excluding the amortized cost. They are recorded in equity until the financial instrument is sold or realized. Premiums or discounts arising on the acquisition of the instrument are recorded as revenues or expense when such instrument is settled.

Changes in the fair value of these financial instruments acquired from January 1, 2016 are determined by comparing the fair value with the amortized cost, which is calculated using the effective interest method.

vii. Changes in accounting policies

In preparing the financial statements, the Central Bank used accounting policies that are consistent with those used in previous years, except for new accounting policies approved by the Board of Directors based on its faculties, which are applicable from January 1, 2019.

The new accounting policies adopted by the Central Bank since January 1, 2019 are the following:

Financial instruments

Policy applicable before December 31, 2018

(a) Initial recognition and measurement

At initial recognition, held-for-trading, available-for-sale and held-to-maturity investments are measured at fair value, plus transaction costs that are directly attributable to the acquisition of these instruments.

(b) Classification

Securities from international institutions are classified as available-for-sale or held-to-maturity investments. The Central Bank does not use the category of financial assets at fair value through profit or loss (FVTPL).

Such investments are initially recognized and subsequently measured in accordance with the following criteria:

Available-for-sale investments

A financial instrument is classified as available-for-sale when such instrument is held for an indefinite period and can be sold due to needs for liquidity or changes in interest rates, exchange rates or market prices; or because they do not qualify to be recorded as held-to-maturity.

Held-to-maturity investments

A financial instrument is classified as a held-to-maturity when such instrument may or may not include embedded derivative financial instruments; whose recovery values are fixed or determinable amounts and with definite maturity terms, and for which the Central Bank has the intention and the ability to hold them up to their maturity. As of December 31, 2019 and 2018, the Central Bank does not hold financial instruments classified in this category.

Held-for-trading investments

A financial instrument is classified as held-for-trading when it is measured at fair value through profit or loss (FVTPL); and it is acquired mainly with the purpose of selling it or repurchasing it in the short term. Derivatives are also included in this category, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

(c) Subsequent measurement and gains and losses***Available-for-sale investments*****i. Securities from international institutions acquired before December 31, 2013**

Upon initial recognition, available-for-sale investments are measured at fair value, and any unrealized profit or loss is recorded in 'fair value reserve' in net equity. Unrealized profit or loss result from comparison between the acquisition cost, which includes premiums paid or discounts obtained, and market value. Premiums and discounts included in the acquisition cost are recognized in the statement of profit or loss and other comprehensive income at the date of disposal or maturity of the instruments.

ii. Securities from international institutions acquired from January 1, 2014

After initial recognition, these instruments are measured at fair value, and interest is recorded through the determination of amortized cost,



including any premium or discount in the profit or loss for the year, based on the effective interest rate method. The difference between the fair value and the amortized cost (unrealized profit or loss) is recorded in 'Fair value reserve' in the statement of changes in equity.

iii. Investments Investments in instruments issued by the MEF

At the Board of Directors Meeting held June 2, 2016, it was approved that, since 2016, the measurement of all bonds issued by the MEF in foreign currency would be at fair value, first applying the determination of the amortized cost and recording the difference between these two in the statement of changes in net equity.

When the investment is sold or realized, gains or losses previously recognized as part of equity are transferred to the profit or loss for the year, excluding the effects of the exchange rate differences, which are recorded as stated in paragraph (c) below. If the decrease in the market value of investments is permanent or due to credit impairment, the Central Bank records provisions that affect the profit or loss for the year.

Held-to-maturity investments

A held-to-maturity investment is measured at amortized cost in order to amortize the premiums or discounts on such investment, since its acquisition date until its maturity date using the effective interest rate. Amortization is calculated by increasing or decreasing the carrying amount of the instrument with counterpart on profit or loss for the period.

Instruments acquired at face value are not amortized.

Held-for-trading investments

After initial recognition, held-for-trading investments, including those derivatives classified as assets, are measured at fair value through profit or loss (FVTPL), without deducting the transaction costs incurred in relation to the disposal of the instrument.

Interest earned is calculated and recorded using the nominal interest rate (coupon rate) on the face value of the investment. It is recorded in 'Net yield on securities' in the statement of profit or loss and other comprehensive income.

Policy applicable from January 1, 2019

(a) Initial recognition and measurement

At initial recognition, financial instruments are measured at fair value, plus transaction costs that are directly attributable to the acquisition of these instruments.

(b) Classification

Securities from international institutions are classified as amortized cost investments, and fair value through other comprehensive income (FVOCI)

investments. The Central Bank does not use the category of financial assets at fair value through profit or loss (FVTPL).

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amount.

Financial assets measured at FVOCI

A financial asset is measured at FVOCI if both of the following conditions are met:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amount.

(c) Subsequent measurement and gains and losses

Financial instruments measured at amortized cost

A financial instrument is measured at amortized cost in order to amortize the premiums or discounts on such instrument since its acquisition date until its maturity date using the effective interest rate. The amortization calculated is recorded by increasing or decreasing the carrying amount of the instrument with counterpart on profit or loss for the period. Financial instruments acquired at face value are not amortized.

Financial instruments measured at FVOCI

For securities from international institutions and securities issued by the Public Treasury:

- Firstly a financial instrument is measured at amortized cost in order to amortize the premiums or discounts on such instrument since its acquisition date to its maturity date using the effective interest rate. The amortization calculated is recorded by increasing or decreasing the carrying amount of the instrument with counterpart on profit or loss for the period. Financial instruments acquired at face value are not amortized.
- In addition, instruments classified as measured at fair value through other comprehensive income (FVOCI) are also measured at market value on a daily basis, comparing them with the instrument's last amortized cost or

acquisition cost (if it has been recently acquired). Adjustments to market values are recorded by increasing or decreasing the carrying amount of the instrument with a balancing entry on the equity account 'Fair value reserve'.

Fair value is the market price provided on a daily basis by Bloomberg. In management's opinion, such information reflects reasonably the fair value of investments in international securities, considering the market data and accounting policies established by the Central Bank's Board of Directors.

When the investment is sold or realized, gains or losses previously recognized in equity are transferred to profit or loss for the year, excluding the effects of exchange differences, which are recorded as stated in paragraph (c) below. If the decrease in the market value of investments is permanent or due to an impairment, the Central Bank recognizes a provision that affects profit or loss for the period.

Interest earned is calculated and recorded using the nominal interest rate (coupon rate) on the face value of the investment, and is recorded in 'net yield on securities' in the statement of profit or loss and other comprehensive income.

Effects of changes in accounting policies

The Central Bank modified its financial instruments accounting policy, which was approved at the Board of Directors Meeting held on January 9, 2020. It is effective from January 1st, 2019.

As of January 1st, 2019, effects of changes in accounting policies on the carrying amount of securities from international institutions are solely related to a change in the classification and have not had an effect on retained earnings because they have been recognized and measured according to the same criteria.

The following table shows the original classification under the policy applicable before December 31, 2018 and the new classification under the policy applicable from January 1st, 2019 for securities from international institutions.

	<u>Note</u>	Original classification under policy applicable before December 31, 2018	New classification under policy applicable from January 1, 2019	Original carrying amount under policy applicable before December 31, 2018	New carrying amount under policy applicable from January 1, 2019
Financial assets					
Securities from international institutions		Available-for-sale investments	FVOCI	118,616,565	118,616,565
		Held-to-maturity investments	Amortized cost	22,321,398	22,321,398
	5			<u>140,937,963</u>	<u>140,937,963</u>

Leases

Policy applicable from January 1st, 2019

The Central Bank as lessee

The Central Bank recognizes a lease when the value of each underlying asset is higher than four tax units (4 UIT) and the lease term is more than 12 months.

Leases for which the underlying asset value is lower than that value, and leases with variable lease payments, or leases with a lease term of less than 12 months, are recognized in the financial statements on an accrual basis.

The initial measurement of a right-of-use asset and a lease liability, when the value of each underlying asset is higher than 4 UIT and the lease term is more than 12 months, is as follows:

- The interest rate implicit in the lease is determined as the internal rate of return that makes equal the present value of the underlying asset plus any initial cost charged by the lessor, to the lease payments and the possible unguaranteed residual value.
- If the interest rate implicit in the lease cannot be readily determined, the Central Bank shall use as reference interest rate the average rate of certificates of deposit effective at the initial date of the lease, considering the certificates whose maturity date does not exceed the lease term.
- After determining the interest rate, the Central Bank shall calculate the present value of future lease payments, this amount corresponds to the initial direct costs associated to the right-of-use asset and the lease liability.
- The right-of-use asset is measured at cost model and its useful life is the lease term.
- The lease liability is monthly reduced by the lease payments made, and increased by interest accrued considering the interest rate calculated at the commencement date.

Effects of new accounting policies

Through Board of Directors Meeting, held on January 9, 2020, the Central Bank approved the incorporation of the new accounting policy of Leases, effective from January 1st, 2019.

As of January 1st, 2019, changes in accounting policies on the carrying amount of operating leases have not had an effect on the recognition of assets and liabilities, since the Central Bank only has leases of low value assets and with variable lease payments, thus leases contracts are recognized on an accrual basis.

B. Accounting principles

The main accounting principles and practices used in preparing these financial statements are the following:

(a) Basis of preparation and use of estimates

The financial statements have been prepared in soles from the accounting records held by the Central Bank, in accordance with the accounting policies approved by the Central Bank's Board of Directors.

The preparation of the accompanying financial statements requires management to formulate estimates that affect the reported amounts related to assets, liabilities, incomes and expenses, and the disclosure of significant events in notes to the financial statements. Actual results may differ from those estimates. Estimates are continually evaluated and are based on historical experience and other factors. The most significant estimates related to financial statements correspond to the valuation of securities from international institutions, which include investments at fair value through other comprehensive income (FVOCI), actuarial reserves for supplementing retirement, widow, health care and burial benefits, whose accounting principles are described in the notes to the financial statements.

(b) Financial instruments

According to the Central Bank's policies, securities issued by the MEF are considered as financial assets and their recognition and measurement is performed as indicated in notes 2.A(vi) and 2.B(r).

A financial instrument is classified as asset, liability, or equity according to the contract that give rise to the financial instrument. Interest, dividends, gains and losses generated by a financial instrument classified as an asset or a liability are recorded as incomes or expenses. Financial instruments are offset when the Central Bank has a legally enforceable right to set off the amounts, and management intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets recorded in the statement of financial position correspond to gross international reserves, other foreign assets, domestic credit, assets recorded in 'other assets,' except for those classified as non-financial assets (note 10). Financial liabilities correspond to liabilities in general, except for those classified as non-financial liabilities in 'other liabilities' (note 16). Recognition and measurement policies of these items are disclosed in the accounting policies described in this note.

(c) Cost and expense recognition

Interest income and expense are calculated using the effective interest rate method (amortized cost) and are recognized in profit or loss of the year when they are accrued according to the time of validity of the operations that generated them and the agreed interest rates, except for interests related to investments which are recognized as indicated in paragraph (b) above. Interest income includes the yields of investments on securities issued by international institutions

Gains and losses generated by embedded derivatives not related to exchange rate of investments are recognized in the profit or loss for the year as of the date of their maturity.

Other income and expenses are recognized as earned or incurred in the year when they are accrued.

When there is reasonable doubt regarding the collectability of the principal of any financial instrument, interest is recognized as income to the extent that there is reasonable certainty of collection.

(d) Foreign exchange operations

The Central Bank prepares and presents its financial statements in soles, which is its functional and presentation currency.

Assets and liabilities in foreign currency are recorded at the exchange rate of the date when transactions are performed and are stated in soles every day using the buying rate established by the SBS for transactions in U.S. dollars. Balances in other currencies are expressed according to the exchange rates provided by Bloomberg (note 24.B(iii)).

To pay Bank's suppliers for foreign currency liabilities, and to record the tax withholding, as applicable, the Central Bank uses the average of the U.S. dollar selling rate related to sol published by the SBS.

The Central Bank records the exchange rate adjustment in 'Adjustment for valuation – Article 89 - Organic Act' in net equity.

(e) Derivative financial instruments

The Central Bank holds held-for-trading instruments and embedded derivatives.

i. Held-for-trading instruments

The reference value (committed face value) of forward and future operations is recorded in 'off-balance sheet accounts' (notes 20(b) and 20(d)), which are subsequently measured at fair value. Fair values are estimated based on exchange rates, interest rates and market prices. As of December 31, 2019, the Central Bank does not have future operations. As of December 31, 2018, the Central Bank had future operations whose underlying assets were investments in international securities and forward operations in foreign currency.

Interest on investment of the underlying asset plus the higher amount received in the foreign currency in which foreign exchange swaps are invested (using the spot exchange rate and the forward exchange rate), which corresponds to the foreign currency increase generated by forward points negotiated. The latter is registered in the statement of profit and loss and other comprehensive income. Thus, the effect recorded in 'Adjustment for valuation – Article 89 of Organic Act' from net equity, corresponds to the valuation of the underlying asset during the life of the forex-swap plus (less) the exchange rate effect from changes in the foreign currency with respect to the local currency.

Gains and losses from changes in the fair value of future and forward exchange rate operations are recorded in 'Yield from transactions with derivative instruments' from the statement of profit or loss and other



comprehensive income and in 'Adjustment for valuation – Article 89 of Organic Act' from net equity, respectively, recognizing either an asset or and liability in the statement of financial position, as applicable.

ii. Embedded derivatives

The Central Bank records the measurement of instruments with embedded derivatives at the date of the financial statements presentation, affecting the 'fair value reserve' from net equity. Instruments measurement, without separating the embedded derivative from its host contract, is obtained from Bloomberg information service. The effect of instruments measurement is recorded at instrument maturity in 'Net yield on securities' from the statement of profit or loss and other comprehensive income. As of December 31, 2019 and 2018, the Central Bank does not have instruments containing embedded derivatives.

(f) Gold

Gold holdings are valued using the New York market price provided daily by Bloomberg. The results of such valuation are recorded in 'Adjustment for valuation – Article 89 of Organic Act' from net equity.

(g) Contributions to international organizations

Correspond to contributions made by the Central Bank to the IMF, FLAR and BIS, which are recorded at face value of the contribution, which represents their acquisition cost, since this amount corresponds to the value that the Central Bank would have the right to receive in case it withdrew its membership in some of said organizations. These contributions cannot be negotiated with third parties.

Yields from these contributions are recognized when accrued and dividends when declared.

(h) Collections

Collections mainly correspond to artwork (archeological objects, paintings, sculptures, among others) and collectible coins that have been purchased or received as donation. They are recorded at their acquisition cost or face value. Due to their nature, these assets are considered to have an indefinite useful life. Therefore, they are not depreciated and are recorded in 'Other assets' in the statement of financial position (note 10(b)). The acquisition cost of donated assets is recorded in 'Other income' in the statement of profit or loss and other comprehensive income and is calculated based on the fair value estimated by specialists at the moment they are received.

(i) Property, furniture and equipment

Recognition and measurement

An item of property, furniture and equipment is recorded at its acquisition cost, less accumulated depreciation and accumulated amount of impairment losses, if applicable. Repair and maintenance costs are charged to profit or loss, and significant renewals and improvements are capitalized when: i) it is probable that

future economic benefits associated with the asset will flow from the renewal or improvement; and ii) the cost can be measured reliable. The cost and corresponding accumulated depreciation of disposed of or sold assets are removed from their accounts, and any resulting gain or loss is recorded in profit or loss for the year.

Work-in-progress and in transit are measured at acquisition cost and are not depreciated until they are in working condition.

Depreciation

Land is not depreciated. Depreciation of these assets is calculated on a straight-line basis using the following estimated useful lives:

	Years
Buildings and other constructions	100
Machinery and equipment	10
Vehicles	5
IT equipment	3

(j) Impairment of long-lived assets

Whenever events or changes in the economic environment indicate that the carrying amount of a long-lived tangible asset may not be recovered, the Central Bank reviews the carrying amount of its assets in order to verify if there is no permanent impairment in their values.

When the carrying amount of a tangible asset exceeds its recoverable value, an impairment loss is recognized in the statement of profit or loss and other comprehensive income. The recoverable value is the higher between the asset's net selling price and its value in use. Net selling price is the amount that would be received from the sale of a tangible asset in a free market. Value in use is the present value of the estimated future cash flows provided by the continuous use of an asset and its disposal at the end of its useful life. Recoverable amounts are estimated for each asset or, if not possible, for each cash-generating unit.

Management performs an annual assessment of whether the carrying amount exceeds the recoverable amount of its long-lived tangible assets based on available market data.

(k) Sterilized stock

Sterilized stock is the liability in domestic currency comprised by issued securities in circulation and deposits in domestic currency from the public sector and financial institutions which are not included in reserve requirements. The sterilized stock is the result from Central Banks' monetary operations to withdraw liquidity from the financial system and deposits of financial institutions, which, in case of reversal, would imply an increase in the monetary base.

Issued securities in circulation are measured at face value, recognizing the interest accrued in profit or loss for the year. Discounts granted at their placing date are deferred and amortized during the term of validity of the instrument using the effective interest rate method.



Indexed certificates of deposits -CDR BCRP- are adjusted for changes in the exchange rate of the U.S. dollar with respect to the sol. Those changes are recognized in the 'Adjustment for valuation – Article 89 of Organic Act' from net equity.

(l) *Currency in circulation*

It includes banknotes and coins in legal tender issued by the Central Bank, which are held by the public and are recorded as liabilities in the statement of financial position at their face value in 'Monetary base'.

Currency not in circulation and kept in the Central Bank's vaults are recorded at their face value in off-balance sheet accounts.

(m) *Employee benefits*

According to Article 58 of the Bylaws, the Central Bank annually transfers resources to the Fund for Diseases, Insurance and Pensions of the Central Bank's Employees (hereinafter the Fund) to meet the payment of obligations to its employees. The amount of transfers from the Central Bank to the Fund is approved on an annual basis by the Board of Directors.

The Central Bank has the following defined benefits plans:

- Supplementing retirement, widow, and burial benefits; and
- Other supplementing retirement benefits, related to health care benefits granted by the Central Bank.

The cost to the Central Bank of granting the benefits included in defined benefits plans is estimated separately for each plan using the projected unit credit method. Actuarial gains and losses of the defined benefits plans are fully recognized in profit or loss of the year in which they occur.

Assets or liabilities for defined benefits include the present value of the obligation, which is determined using mortality tables and a discount rate based on high quality corporate bonds (note 16), less costs for past services and fair value of the plan assets that will be used to settle said obligations. Plan assets are managed by long-term benefits fund for the personnel. Plan assets are neither available for creditors of the Central Bank nor can be directly paid to the Central Bank. The fair value of these assets is based on the information of market prices.

The Fund's net assets, which are considered by the Central Bank to reduce the actuarial reserve liabilities, are made up by the value of deposits and loans, net of obligations.

Supplementing retirement, widow, and burial benefits and other benefits less present value of the Fund's net assets, are recorded in 'Other liabilities' in the statement of financial position (note 16).

(n) *Operational expenses and issuance costs of currency*

Operational expenses and expenses for transporting currency are recognized in profit or loss of the year in which they are incurred.

Cost of minting coins and coin blanks includes the cost of raw materials, labor costs and production overheads.

At initial recognition, printing costs of banknotes and costs of minting coins are recognized in 'other assets' in the statement of financial position (note 10(a) and (c)), and subsequently they are recognized in profit or loss of the period in which currency is set available for circulation for the first time.

(o) Cash and cash equivalents

Cash and cash equivalents comprises gross international reserves, net of currency in circulation recorded in 'Monetary base' in the statement of financial position, as follows:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Gross international reserves	226,372,590	203,109,543
Less:		
Currency in circulation	<u>(62,099,221)</u>	<u>(59,244,028)</u>
Cash and cash equivalents	<u>164,273,369</u>	<u>143,865,515</u>

The difference between total gross international reserves and reserves liabilities (consisting of obligations with international institutions) represents net international reserves. Such gross international reserves reflect the international liquidity of the country and its financial capacity in relation to other countries. They correspond to the Central Bank's available resources to meet its obligations in foreign currency.

(p) Provisions

A provision is only recognized when the Central Bank has a present (legal or implicit) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle such obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed each year, and are adjusted to reflect the best estimates as of the date of the statement of financial position. When the effect of the time value of money is material, the amount of a provision shall be the present value of future payments expected to be required to settle the obligation.

Expenses related to any provision are shown in the statement of profit or loss and other comprehensive income, net of any related refunds.

(q) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements, unless the possibility of an outflow of resources to cover a contingent liability is remote.

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

(r) Domestic credit

Domestic credit comprises the following:

- Investments in securities issued by the MEF, which are recorded and classified as investments at FVOCI. They are initially recognized and subsequently measured in accordance with the criteria described in note 2.A(vi).
- Securities received from the MEF to hedge losses according to Article 93 of the Organic Act (note 1), which are recorded at their face value and accrue interest at agreed interest rates (coupon rate).
- Security repurchase agreements (Repo transactions) used to inject liquidity in domestic currency into financial institutions. This operation involves the purchase of securities at the commencement date of the operation, when financial institutions transfer the ownership of securities to the Central Bank, and at the maturity date of the operation, financial institutions repurchase the same securities and the Central Bank transfers the ownership of such securities. These transactions are recognized as assets in the statement of financial position with the counterpart amount in the deposit account of financial institutions.
- Currency repo transactions involve operations in which a market participant sells domestic or foreign currency to the Central Bank in exchange for a foreign or domestic currency, and agrees to re-purchase the sold currency at current market exchange rates. These transactions are recognized as assets in the statement of financial position with the counterpart amount in the deposit account of financial institutions in the currency lend.

(s) Foreign exchange swaps

Foreign exchange swaps, whose notional value is recorded in off-balance sheet accounts (note 20(e)), involves operations in which one counterparty pays a variable interest rate over a domestic currency notional amount in exchange that the counterparty pays a fixed interest rate over an equivalent notional amount in U.S. dollars, and also pays the exchange difference on the notional value in U.S. dollars.

The Central Bank calculates outstanding interest and interest payable, which are recognized in the statement of profit and loss and other comprehensive income in the year in which they are accrued, and are recorded into 'other financial incomes' and 'other financial expenses' with a counterpart amount in 'Other assets' and 'Other liabilities' in the statement of financial position, respectively. Similarly, the Central Bank recognizes the changes in the exchange difference on the notional amount in U.S. dollars in 'Adjustment for valuation – Article 89 of Organic Act' in equity, with a counterpart amount to 'assets' and 'liabilities,' mentioned above, as appropriate.

Upon maturity date, the Central Bank settles the operation in soles using prevailing market exchange rates.

(t) Subsequent events

Events after the end of the reporting period that provide additional information about the financial situation of the Central Bank at the date of the statement of financial position (adjusting events) are included in the financial statements. Significant subsequent events that are not adjusting events are disclosed in notes to the financial statements.

C. New accounting pronouncements

The following modifications, amendments and interpretations have been issued by the IASB and are effective for annual periods beginning on or after January 1, 2020.

IFRSs, amendments and interpretations	Effective date
Amendments to References to the Conceptual Framework in IFRS Standards	Annual periods beginning on or after January 1, 2020.
Definition of a Business (Amendments to IFRS 3)	Annual periods beginning on or after January 1, 2020.
Definition of Material (Amendments to IAS 1 and IAS 8)	Annual periods beginning on or after January 1, 2020.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Available for optional adoption/ effective date deferred indefinitely.

Since the standards indicated in paragraph (C) solely adopted in addition to those established by the Organic Act and those issued by the Central Bank's Board of Directors, they will not have a significant effect in the preparation of the financial statements. The Central Bank has not measured the effects of adopting such standards on its financial statements, if adopted.

3. DEPOSITS AT FOREIGN BANKS

As of December 31, this caption comprises the following:

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Term deposits (a)		62,237,563	51,436,775
Outstanding interest on term deposits (b)		<u>79,544</u>	<u>74,237</u>
		62,317,107	51,511,012
Demand deposits		3,028	9,770
Outstanding interest on gold deposits	6(b)	<u>77</u>	<u>718</u>
Total		<u><u>62,320,212</u></u>	<u><u>51,521,500</u></u>

- (a) As of December 31, 2019 and 2018, term deposits are held at tier 1 foreign banks, accrue interest at international market rates and are mainly stated in U.S. dollars for US\$ 16,082 million and US\$ 9,727 million, respectively.

As of December 31, 2019, deposits at foreign banks accrued interest at an annual interest rate of 1.66% (2018: 1.68%).

- (b) As of December 31, 2019 and 2018, the Central Bank recognized revenues from interest on deposits at foreign banks for S/ 1,283 million and S/ 940 million, respectively. They are recorded in 'financial revenues' in the statement of profit or loss and other comprehensive income.

4. DEPOSITS AT FOREIGN ORGANIZATIONS

As of December 31, 2019 and 2018, this caption corresponds to deposits at the IMF stated in SDR, which accrue interest at annual interest rates of 0.74% and 1.09%, respectively, and are not unrestricted, except when there are actual or potential balance of payments problems that require assistance from the IMF, or when there is a request of withdrawal from the membership of this international organization.

5. SECURITIES FROM INTERNATIONAL INSTITUTIONS

As of December 31, this caption comprises the following:

	2019			2018		
	Cost (i)	Unrealized gains and losses		Cost (i)	Unrealized gains and losses	
		Increase	Decrease (ii)		Increase	Decrease (ii)
	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)
Financial assets measured at FVOCI						
Short-term foreign currency certificates of deposit (vi)	19,106,376	-	-	18,620,241	-	18,620,241
Short-term sovereign securities (iv)	50,007,545	22,428	(7,198)	53,544,404	131	53,315,268
Short-term supranational securities (v)	4,296,772	8,157	(649)	3,979,052	449	3,959,783
Long-term sovereign securities (iv)	73,512,645	625,472	(44,531)	56,211,465	132,443	56,035,385
Long-term supranational securities (v)	4,171,954	169,221	(114)	8,474,593	105,360	8,537,284
	151,095,292	825,278	(52,492)	140,829,755	238,383	140,467,961
Accrued interest	-	-	-	-	-	470,002
						140,937,963

(i) The cost of financial assets measured at FVOCI is the amortized cost.

(ii) As of December 31, 2019 and 2018, the decrease in the fair value reserve corresponds to the temporary decrease in the market price of investments.

(iii) The carrying amount corresponds to the estimated market price for financial assets measured at FVOCI.

(iv) As of December 31, 2019 and 2018, it corresponds to securities issued by central governments. The Central Bank's portfolio was mainly invested in sovereign bonds issued by the U.S. Government.

(v) As of December 31, 2019 and 2018, it corresponds to securities issued by supranational entities, such as the Andean Development Corporation (CAF, for its Spanish acronym), European Investment Bank (EIB), International Bank for Reconstruction and Development (IBRD), BIS, Asian Development Bank, among others.

(vi) As of December 31, 2019 and 2018, it mainly includes certificates of deposit.

As of December 31, 2019 and 2018, maturities and nominal interest rates of investments are as follows:

	Maturity		Nominal interest rate (i)							
	2018		2019		2018		2018			
	2019	2018	US\$	Other currencies	US\$	Other currencies	Min.%	Max.%		
			Min.%	Max.%	Min.%	Max.%	Min.%	Max.%		
Financial assets measured at FVOCI										
Short-term foreign currency certificates of deposit	Jan.2020 / Feb.2020	Jan.2019 / Mar.2019	2.08	2.30	(0.45)	1.96	2.46	3.13	(0.45)	2.22
Short-term sovereign securities	Jan.2020 / Dec.2020	Jan.2019 / Dec.2019	1.25	2.75	(0.49)	4.75	0.75	2.81	(0.32)	4.50
Short-term supranational securities	Jan.2020 / Nov.2020	Jan.2019 / Dec.2019	1.63	3.00	0.63	5.75	0.88	2.81	1.50	1.50
Long-term sovereign securities	Jan.2021 / May.2023	Jan.2020 / Aug.2023	1.13	3.13	0.50	6.50	1.13	3.13	0.38	6.50
Long-term supranational securities	Jan.2021 / Sep.2022	Jan.2020 / Dec.2021	1.63	3.00	1.70	6.00	1.63	3.05	0.63	6.00

(i) It corresponds to the coupon rate for investments in bonds, and the discount rate for certificates of deposit, bankers' acceptance, commercial papers, and other fixed income securities, excluding premiums or discounts obtained on the acquisition date of the instruments at coupon rate.

As of December 31, 2019 and 2018, securities from international institutions are tier 1 and low-risk financial instruments. Securities issued by international institutions or foreign public institutions have risk ratings of at least A+, according to the credit rating agencies: Moody's and Standard & Poor's. Certificates of deposit and Bankers' acceptances have a minimum rating of A, according to Fitch, Standard & Poor's and Moody's. These securities accrue interest at international market rates and are held at tier 1 foreign banks.

The following table shows the maturities of financial assets measured at FVOCI, excluding interest:

	2019 (S/ 000)	2018 (S/ 000)
Up to 3 months	56,744,358	41,497,513
3-12 months	16,689,073	34,397,779
1-3 years	75,586,328	61,960,275
3-5 years	1,047,665	820,939
More than 5 years	<u>1,800,654</u>	<u>1,791,455</u>
Total	<u>151,868,078</u>	<u>140,467,961</u>

As of December 31, 2019 and 2018, the Central Bank recognized income from net yield of securities for S/ 2,732 million and S/ 1,906 million, respectively. They are recorded in 'financial revenues' in the statement of profit or loss and other comprehensive income. Likewise, in 2019 and 2018, it was recognized an increase of S/ 1,135 million and S/ 282 million, respectively, in 'Fair value reserve' in equity (note 17.C).

6. GOLD

As of December 31, this caption comprises the following:

	2019 (S/ 000)	2018 (S/ 000)
In Peru		
Gold coins (a)	2,778,514	2,383,215
Provision for costs of converting gold into high purity or good delivery gold bars	<u>(2,261)</u>	<u>(2,300)</u>
	<u>2,776,253</u>	<u>2,380,915</u>
Abroad		
Gold bars (b)	<u>2,831,590</u>	<u>2,428,742</u>
Total	<u>5,607,843</u>	<u>4,809,657</u>

(a) As of December 31, 2019 and 2018, it corresponds to 552,101 gold troy ounces in commemorative coins deposited in the vaults of the Central Bank, which are valued at quotation value per troy ounce as of the aforementioned dates.

(b) As of December 31, 2019 and 2018, it corresponds to 562,647 gold troy ounces in high purity or good delivery gold bars deposited in tier 1 foreign banks under term deposits. As of December 31, 2019, these term deposits accrue interest at an annual rate between 0.01% and 0.03% and have a term between 88 and 153 days since the date of their

constitution (2018: accrued interest at an annual rate between 0.10% and 0.23% and had a term between 88 and 94 days since the date of their constitution). The accrued interest as of December 31, 2019 and 2018, was recorded in 'Deposits at foreign banks' in the statement of financial position (note 3).

7. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

As of December 31, this caption comprises the following:

	2019 (S/ 000)	2018 (S/ 000)
Contributions to the FLAR (a)	1,722,275	1,700,108
Contributions to the IMF (b)	1,187,792	793,855
Contributions to the BIS (c)	300,866	307,898
	<u>3,210,933</u>	<u>2,801,861</u>

(a) This contribution grants Peru access to financing facilities from the FLAR. As of December 31, 2019, paid contributions to FLAR amount to US\$ 520 million, equivalent to S/ 1,722 million (2018: US\$ 505 million equivalent to S/ 1,700 million). As of December 31, 2019 and 2018, Peru's participation in FLAR accounts for 17% of its subscribed capital. Likewise, as of December 31, 2019, the Central Bank holds contributions pending of capitalization for US\$ 143 million, equivalent to S/ 475 million (2018: US\$ 159 million equivalent to S/ 535 million), which were recorded as outstanding accounts and accounts payable, and are recorded, net, in the statement of financial position (note 2.B(g)).

(b) Contribution to IMF grants Peru access to IMF's financing facilities. The IMF determines Peru's contribution as a participating country, which, as of December 31, 2019 and 2018, amounts to SDR 1,335 million; made up by contributions in SDR and in soles. As of December 31, 2019 and 2018, Peru's participation in the total shares held by the IMF's member countries is 0.28% and comprises the following:

	2019 (S/ 000)	2018 (S/ 000)
Contribution in SDR		
Contribution to the IMF in SDR (i)	1,187,792	793,855
Contribution in domestic currency		
Contribution to the IMF, equivalent in domestic currency (ii)	4,945,577	5,380,115
Revaluations to be settled – contribution to the IMF in domestic currency (iii)	(18,856)	69,201
	<u>4,926,721</u>	<u>5,449,316</u>
Total contribution to IMF	<u>6,114,513</u>	<u>6,243,171</u>

(i) As of December 31, 2019 and 2018, it corresponds to contributions granted by Peru to the IMF for SDR 259 million and SDR 169 million, respectively.

(ii) For contributions in soles, the Central Bank did not disburse any funds but constituted promissory notes in favor of the IMF, through which said institutions can arrange the cashing of the aforementioned contributions at any moment. Therefore, said counterpart account is recorded as a liability with the IMF in 'other foreign liabilities'

in the statement of financial position. This obligation does not accrue interest and can be requested at any moment.

- (iii) It corresponds to the exchange rate difference generated by the remeasurements of the contribution in domestic currency between April 30 and December 31 of each year. These remeasurements are settled at the closing of IMF's financial year, which takes place on April 30 every year.

Through Law N° 29823, published on December 29, 2011, the Congress of the Republic approved the increase in the Peru's quota in the IMF from SDR 638 million to SDR 1,335 billion.

- (c) The Central Bank participates as a member of that international institution since 2011. The BIS determines the percentage of participation of member countries, and in the case of Peru, its participation amounts to 3,000 shares. As of December 31, 2019 and 2018, 25% of the market value of such shares has been paid, corresponding to SDR 66 million, equivalent to S/ 301 million (2018: S/ 308 million). The 75% of the market value of said shares, corresponding to SDR 197 million, equivalent to S/ 903 million as of December 31, 2019 (2018: S/ 924 million), were recorded as outstanding accounts and accounts payable, which are recorded, net, in the statement of financial position (note 2.B(g)).

8. DOMESTIC CREDIT

As of December 31, this caption comprises the following:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
To banks (a)		
Currency repo transactions	10,687,500	7,278,000
Security repo transactions	6,284,135	5,816,908
Outstanding commissions from currency repo transactions	106,156	16,415
	<u>17,077,791</u>	<u>13,111,323</u>
To the public sector (b)		
Bonds issued by the MEF in foreign currency	2,004,696	1,892,585
Securities issued by the MEF in domestic currency	393,740	645,231
Currency repo transaction	191,900	62,000
Outstanding interest	67,713	78,381
Outstanding commissions from currency repo transactions	1,697	16
	<u>2,659,746</u>	<u>2,678,213</u>
To other entities and funds		
Currency repo transactions	129,000	14,500
Outstanding commissions from Currency repo transactions	1,465	27
	<u>130,465</u>	<u>14,527</u>
To financial institutions		
Currency repo transactions	41,700	3,500
Outstanding commissions from currency repo transactions	342	9
	<u>42,042</u>	<u>3,509</u>
Total	<u><u>19,910,044</u></u>	<u><u>15,807,572</u></u>

- (a) As of December 31, 2019 and 2018, the Central Bank carried out Currency repo transactions with financial institutions, whereby such institutions sold foreign or domestic currency to the Central Bank in exchange for domestic or foreign currency and, simultaneously, agreed to repurchase the sold currency at a later date at the exchange rate current at the repurchase date. The Central Bank charges a commission equivalent to the interest rate offered by each financial institution in auctions, less a discount established in the respective auction. As of December 31, 2019, these operations had interest rates ranging from 1.03% to 3.46%, with settlement dates between February 2020 and October 2020 (2018: interest rates from 0.65% to 3.40%, with settlement dates between January 2019 and October 2020).

Also, as of December 31, 2019, the Central Bank had current repurchase agreements of certificates of deposit and treasury bonds (security repos) with banks at an average annual interest rate of 3.78%, with settlement dates between January 2020 and November 2020 (2018: average annual interest rate of 3.95%, with settlement dates between January 2019 and July 2020).

- (b) As of December 31, 2019 and 2018, the Central Bank holds MEF's bonds issued in U.S. dollars acquired in the secondary market, which mature between July 2025 and November 2033, and accrue interest rates ranging from 7.35% to 8.75%, respectively. Such instruments are classified and valued as financial assets measured at FVOCI. As of December 31, 2019, an increase in fair value for S/ 201 million (2018: decrease of S/ 78 million) was recorded in 'fair value reserve' in the statement of financial position (note 17.C).

On the other hand, the Central Bank holds securities issued by the MEF that were received in August 2015 (after amortizations made during 2019, 2017 and 2016), which are intended to hedge 2014 losses. These securities were issued with a 20-year term at an annual interest rate of 2.20%, and shall be settled at maturity or when the call option is exercised. Such call option and amortization of interest, commissions and other expenses incurred by these bonds shall be debited to the Central Bank's profits (note 1).

Likewise, as of December 31, 2019 and 2018, the Central Bank carried out currency repo transactions with public institutions, whereby the institutions sold foreign or domestic currency to the Central Bank in exchange for domestic or foreign currency and, simultaneously, agreed to repurchase the sold currency at a later date at the exchange rate current at the repurchase date. The Central Bank charges a commission equivalent to the interest rate offered by each financial institution in auctions, less a discount established in the respective auction. As of December 31, 2019, these operations had interest rates ranging from 1.24% to 1.69%, with settlement dates in July 2020 (2018: interest rates from 1.40% to 1.48%, with settlement dates in June 2019).

- (c) In 2019 and 2018, the Central Bank recognized interest income and commissions from domestic credit transactions for S/ 425 million and S/ 526 million, respectively, which are recorded in 'Financial income' in the statement of profit or loss and other comprehensive income.

9. PROPERTY, FURNITURE AND EQUIPMENT, NET

The movement of property, furniture and equipment for the years 2019 and 2018, and the accumulated depreciation are as follows:

	Land	Building and other constructions	Furniture and office equipment	Vehicles	Various equipment	Units in transit	Total
	(S/000)	(S/000)	(S/000)	(S/000)	(S/000)	(S/000)	(S/000)
Cost							
Balance as of January 1, 2018	24,056	166,333	6,922	3,639	100,127	657	301,734
Additions	4,363	6,650	180	119	5,870	152	17,334
Transfers	-	120	-	-	429	(549)	-
Disposals and others	-	(735)	-	-	-	(108)	(843)
Balance as of December 31, 2018	28,419	172,368	7,102	3,758	106,426	152	318,225
Additions	-	1,751	180	222	9,926	521	12,600
Transfers	-	-	-	-	152	(152)	-
Disposals and others	-	(1,868)	-	-	-	-	(1,868)
Balance as of December 31, 2019	28,419	172,251	7,282	3,980	116,504	521	328,957
Accumulated depreciation							
Balance as of January 1, 2018	-	69,479	4,192	3,076	63,930	-	140,677
Depreciation	-	3,652	384	268	8,488	-	12,792
Disposals and others	-	(370)	-	-	-	-	(370)
Balance as of December 31, 2018	-	72,761	4,576	3,344	72,418	-	153,099
Additions	-	3,688	374	183	7,786	-	12,031
Disposals and others	-	(977)	-	-	-	-	(977)
Balance as of December 31, 2019	-	75,472	4,950	3,527	80,204	-	164,153
Carrying amount							
As of January 1, 2018	24,056	96,854	2,730	563	36,197	657	161,057
As of December 31, 2018	28,419	99,607	2,526	414	34,008	152	165,126
As of December 31, 2019	28,419	96,779	2,332	453	36,300	521	164,804

As of December 31, 2019 and 2018, the Central Bank has fully depreciated items of property, furniture and equipment, which are still in use for S/ 61 million and S/ 52 million, respectively.

The Central Bank has insurances on its main assets, according to policies established by management and the Board of Directors.

In 2019 and 2018, depreciation of property, furniture and equipment amounted to S/ 12 million and S/ 13 million, respectively, and is included in 'Operational expenses' and 'Issuance expenses and costs' for S/ 9 million and S/ 3 million, and S/ 10 million and S/ 3 million, respectively (notes 21 and 22).

Management annually performs an assessment to determine whether the carrying amount exceeds the recoverable value of its long-lived assets based on available market data. In management's opinion, there is no evidence of impairment of the long-lived assets held by the Central Bank as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the Central Bank did not grant any asset as guarantee.

10. OTHER ASSETS

As of December 31, this caption comprises the following:

	2019 (S/ 000)	2018 (S/ 000)
Financial instruments		
Outstanding interest	20,677	5,088
Outstanding accounts from personnel	2,989	933
	23,666	6,021
Non-financial instruments		
Raw material, semi-finished and finished goods (a)	92,897	91,021
Collections (b)	79,543	81,818
Deferred charges (c)	46,611	87,294
Advance payments to suppliers	14,236	9,989
Intangible assets	9,157	8,699
Outstanding accounts (d)	4,573	-
Silver	1,076	2,161
Others	1,597	1,511
	249,690	282,493
Total	273,356	288,514

(a) Raw material comprises supplies acquired by the Central Bank for coin minting and is valued at average cost. The value of semi-finished and finished goods comprises cost of raw material, direct labor and manufacturing overhead.

(b) Collections comprise paintings, archaeological pieces, sculptures, collections of coins and banknotes, and other objects acquired by or donated to the Central Bank and maintained for display.

(c) Deferred charges mainly comprise cost of printing banknotes, which is charged to expenses when such banknotes enter circulation for the first time.

- (d) It mainly corresponds to the mortgage guarantee in favor of the Central Bank arising from lawsuits with third parties.

11. OTHER FOREIGN LIABILITIES

As of December 31, this caption comprises the following:

	2019 (S/ 000)	2018 (S/ 000)
SDR allocations and revaluations to be settled (a)	2,794,944	2,852,607
Allocation in Andean pesos (b)	66,220	67,380
Others	<u>2,041</u>	<u>2,516</u>
Total	<u>2,863,205</u>	<u>2,922,503</u>

- (a) As of December 31, 2019 and 2018, the account's balance is equivalent to SDR 610 million and corresponds to the distribution that the IMF made to Peru in proportion to its quota, according to the provisions of the IMF's Articles of Agreement. The balance at the aforementioned dates comprises exchange difference generated by revaluation of SDR allocation received from the IMF from the date of the account's last movement (December 26 and June 20, for years 2019 and 2018, respectively) until December 31 of each year, which amounts to S/ 11 million and S/ 36 million (negative revaluation).

SDR allocations accrue interest according to the conditions of the Articles of Agreement. As of December 31, 2019 and 2018, the annual interest rate was 0.74% and 1.10%, respectively.

- (b) The allocation in Andean pesos corresponds to those delivered by the FLAR for 20 million Andean pesos, equivalent to S/ 66 million and S/ 67 million as of December 31, 2019 and 2018, respectively. Said allocation neither accrues interest nor has a defined maturity for its cancellation. The counterpart account is an outstanding account recorded in 'Other foreign assets' in the statement of financial position.

In 2019 and 2018, the Central Bank recognized interest for approximately S/ 28 million and S/ 26 million, respectively, corresponding to its foreign liabilities, mainly for the obligations for SDR allocations, which are recorded in 'financial expenses' in the statement of profit or loss and other comprehensive income.

12. SECURITIES IN CIRCULATION

As of December 31, this caption comprises the following:

	2019 (S/ 000)	2018 (S/ 000)
Certificates of deposit (CDBCRP)	28,364,500	27,060,900
Discounts on sale	<u>(379,651)</u>	<u>(283,071)</u>
	<u>27,984,849</u>	<u>26,777,829</u>

As of December 31, 2019 and 2018, issued securities in circulation mainly comprise certificates of deposit in domestic currency, which are placed by the auction mechanism or by direct placement to withdraw liquidity surpluses from the financial system.

As of December 31, 2019, S/ 4,147 billion of certificates of deposit guarantee security repo transaction (2018: S/ 3,596 billion in guarantee).

In 2019 and 2018, the Central Bank recognized interest expense for issued securities in circulation for S/ 737 million and S/ 845 million, respectively, which is recorded in 'financial expenses' in the statement of profit or loss and other comprehensive income.

As of December 31, certificates of deposit issued by the Central Bank were acquired by:

	2019 (S/ 000)	2018 (S/ 000)
Banks	21,066,304	21,236,100
Deposit Insurance Fund	3,216,300	2,259,100
Banco de la Nación	2,750,000	2,537,600
Mutual funds and funds of administrators of pension funds	47,700	162,800
Financial institutions	524,196	428,400
Other institutions	760,000	436,900
	28,364,500	27,060,900
Discounts on sale	(379,651)	(283,071)
Total	27,984,849	26,777,829

As of December 31, 2019, certificates of deposit issued by the Central Bank mature between January 2020 and August 2021, and accrue interest at discount rates between 2.02% and 3.12% (2018: mature between January 2019 and June 2020, and accrued interest between 2.47% and 3.80%).

13. DEPOSITS IN DOMESTIC CURRENCY

As of December 31, this caption comprises the following:

	2019 (S/ 000)	2018 (S/ 000)
Public sector	34,624,447	33,236,837
Banco de la Nación	11,038,351	6,302,707
Banks	1,130,000	217,000
Municipal savings and credit institutions	603,600	1,163,000
Financial institutions	334,300	389,500
Deposit Insurance Fund	24,997	465,104
Rural savings and credit institutions	47,500	32,600
Other institutions and funds	6,972	6,708
	47,810,167	41,813,456

As of December 31, deposits in domestic currency, per type of transaction, are classified as follows:

Type	Interest rate %	Maturity	2019 (S/ 000)	2018 (S/ 000)
Checking accounts	0 to 1.75	Without maturity	5,056,415	5,534,838
Term deposits	1.85 to 2.20	Jan. to Dec. 2020	35,600,000	28,163,511
Special deposits (overnight)	1.00 to 1.75	3 days	7,153,752	8,115,107
			47,810,167	41,813,456

In 2019 and 2018, the Central Bank recognized interest on deposits in domestic currency for S/ 922 million and S/ 934 million, respectively, which is recorded in 'financial expenses' in the statement of profit or loss and other comprehensive income.

14. MONETARY BASE

As of December 31, this caption comprises the following:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Currency in circulation (a)	62,099,221	59,244,028
Deposits in domestic currency (b)		
Banks	1,331,858	1,156,006
Municipal savings and credit institutions	465,257	409,956
Financial institutions	289,715	209,527
Banco de la Nación	280,000	250,000
Rural savings and credit institutions	98,636	97,516
Others	3	34
	<u>2,465,469</u>	<u>2,123,039</u>
	<u>64,564,690</u>	<u>61,367,067</u>

(a) Denomination of currency in circulation is as follows:

	<u>2019</u>		<u>2018</u>	
	Units	S/ (000)	Units	S/ (000)
Banknotes				
Denomination S/ 10	122,434,297	1,224,343	122,030,357	1,220,303
Denomination S/ 20	159,078,805	3,181,576	156,085,303	3,121,706
Denomination S/ 50	157,463,575	7,873,179	154,518,313	7,725,916
Denomination S/ 100	422,741,940	42,274,194	404,983,920	40,498,392
Denomination S/ 200	23,613,450	4,722,690	20,110,759	4,022,152
	-	<u>59,275,982</u>	-	<u>56,588,469</u>
Coins				
Denomination S/ 0.01	347,783,003	3,478	348,299,850	3,483
Denomination S/ 0.05	503,823,268	25,191	505,101,884	25,255
Denomination S/ 0.10	1,680,412,491	168,041	1,577,194,631	157,719
Denomination S/ 0.20	481,713,078	96,343	451,273,728	90,255
Denomination S/ 0.50	518,062,042	259,031	499,117,550	249,559
Denomination S/ 1.00	998,615,722	998,616	940,019,580	940,920
Denomination S/ 2.00	200,744,382	401,489	181,338,570	362,677
Denomination S/ 5.00	173,855,691	869,278	164,785,794	823,929
	-	<u>2,821,467</u>	-	<u>2,653,797</u>
Commemorative coins	-	1,772	-	1,762
		<u>62,099,221</u>		<u>59,244,028</u>

(b) As of December 31, 2019 and 2018, it corresponds to deposits in domestic currency of financial institutions subject to reserve requirements in the domestic financial system. Such funds are intended to hedge the amount of legal reserves required by the Central Bank for obligations subject to reserve requirements in domestic currency, which do not have maturity. Additionally, the amount of legal reserve requirements may be hedged with cash in domestic currency from institutions subject to reserve requirements.

Legal reserve requirements comprise minimum legal reserves and additional reserve requirements, which are defined as the part of the legal reserve requirements that exceeds the minimum legal reserves. As of December 31, 2019 and 2018, the minimum legal reserves had a rate of 5.0% for obligations subject to reserve requirements in domestic currency. Also, the obligations subject to reserve requirements are classified into two regimes: general and special.

As of December 31, 2019 and 2018, only additional reserve requirements in domestic currency are required for those institutions exceeding the limits of foreign currency sale transactions through forward contracts and swaps, as well as those entities that have obligations subject to the special regime. As of December 31, 2019, reserve requirement funds corresponding to the additional reserve requirements of the general and special regime in soles, which are deposited with the Central Bank, did not accrue interest, since the remuneration rate of deposits in domestic currency was zero. Such rate is equivalent to the remuneration rate of overnight deposits in domestic currency with the Central Bank (2019: 1.00%) less 195 bps (2018: remuneration rate of deposits in domestic currency was 0.00%).

On December 26, 2019, the Central Bank issued Circular 0018-2017-BCRP, referred to the provisions of reserve requirements in domestic currency, which amended the limits for the weekly and monthly agreed transactions for selling foreign currency in exchange for domestic currency through forward contracts and swaps.

On June 28, 2018, the Central Bank issued Circular 0023-2018-BCRP referred to the provisions of reserve requirements in domestic currency, which states that the reserve requirements rate shall be reduced from 36% to 35% for indexed obligations of the special regime of reserve requirements, and amends the limits for the weekly and monthly agreed transactions for selling foreign currency in exchange for domestic currency through forward contracts and swaps.

15. DEPOSITS IN FOREIGN CURRENCY

As of December 31, this caption comprises the following:

	2019 (S/ 000)	2018 (S/ 000)
Banks (a)	44,432,869	34,622,246
Public sector (b)	28,561,028	27,463,400
Other financial institutions (a)	788,018	910,160
Banco de la Nación (a)	1,861,377	170,250
Financial institutions (a)	357,204	292,316
Other institutions and funds	<u>3</u>	<u>1</u>
	<u>76,000,499</u>	<u>63,458,373</u>

- (a) As of December 31, 2019 and 2018, it corresponds to deposits in foreign currency of institutions subject to reserve requirements in the domestic financial system. Such funds are intended to hedge the amount of legal reserve required by the Central Bank for obligations subject to reserve requirements in foreign currency which do not have maturity.

Legal reserve requirements comprise minimum legal reserves, which, as of December 31, 2019 and 2018, had a rate of 9% for obligations subject to reserve requirements in foreign currency, and additional reserve requirements, which are defined as the part of the legal reserve requirements that exceeds the minimum legal reserves. As of December 31, 2019, the rate of the additional reserve requirements in foreign currency for banks was in average 26.5% (2018: 26.2%)

As of December 31, 2019, the reserve requirements funds corresponding to the additional reserve requirements of the general and special regime, which are deposited with the Central Bank, accrued interest at an annual rate of 1.2534% equivalent to the one-month LIBOR less 50 bps (2018: 1.9542%)

On December 26, 2019, the Central Bank issued Circular 0031-2019-BCRP, referred to the provisions of reserve requirements in foreign currency, which amended one of the limits to determine the additional reserve requirements according to the evolution of credit in foreign currency.

On June 28, 2018, the Central Bank issued Circular 0024-2018-BCRP, referred to the provisions of reserve requirements in foreign currency, which states that the upper limit for the average reserve requirements rate and the marginal reserve requirements rate for obligations subject to the general regime shall be reduced from 36% to 35%.

- (b) As of December 31, 2019 and 2018, deposits in foreign currency of public institutions are stated in U.S. dollars and mainly comprise agreements entered into with the General Directorate of Public Treasury of the MEF, which establish the conditions for deposit-taking activities from said institution. As of December 31, 2019, such deposits correspond to demand and term deposits, which accrued interest at an effective annual rate between 0.30% and 2.02% (2018: between 1.14% and 2.83%). Time deposits have maturities between January and March 2020 (2018: between January and March 2019).

In 2019 and 2018, the Central Bank recognized interest on deposits in foreign currency amounting to S/ 1,396 million and S/ 865 million, respectively, which is recorded in 'financial expenses' in the statement of profit or loss and other comprehensive income.

16. OTHER LIABILITIES

As of December 31, this caption comprises the following:

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Financial liabilities			
Reverse repurchase agreements of foreign currencies	8(a)/(b)	11,026,680	7,627,182
Interest and commissions payable		355,224	574,915
Deposit Insurance Fund		12,621	35,211
Accounts payable		8,028	5,116
Fund for diseases, insurance and pensions of Central Bank's employees		1,798	685
		<u>11,404,351</u>	<u>8,243,109</u>
Non-financial liabilities			
Actuarial liabilities		140,784	142,631
Other provisions		35,450	36,075
Others		5,063	5,740
		<u>181,297</u>	<u>184,446</u>
		<u>11,585,648</u>	<u>8,427,555</u>

As of December 31, 2019 and 2018, it comprises a provision for actuarial liabilities corresponding to an allowance for supplementing retirement, widow and burial benefits, and a reserve of current risks of health care services calculated by an actuary, less the value of the Fund's net assets (note 2.B(m)).

The Fund is a private institution incorporated by Decree-Law 7137, which is intended to provide assistance to the Central Bank's active and retired employees, as well as to their spouses, children and parents, in accordance with its regulations. This assistance is additional to social security benefits and other social benefits granted by Law (EsSalud, National Pension System - Decree-Law 19990, and Private Pension System). According to IAS 19 Employee Benefits, the aforementioned assistance corresponds to a defined benefits plan.

As of December 31, 2019 and 2018, 12.7% and 5.0% of the Fund's assets, respectively, are deposited with the Central Bank, and they mainly comprise deposits in domestic currency which accrue interest at an effective annual rate between 4.02% and 4.18%, respectively, and loans to employees of the Central Bank, which are directly discounted on the payroll.

Provision recovery and/or net expense recognized in the statement of profit or loss and other comprehensive income for employee benefits (note 21) comprises the following:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Changes in net assets of the Employees' Fund	8,216	2,975
Changes in reserves calculated by the actuary	521	(12,760)
	<u>8,737</u>	<u>(9,785)</u>

As of December 31, 2019 and 2018, the movement of the obligation for employee benefits and the fair value of the benefits' assets are the following:

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Balance at the beginning of the year		142,631	163,694
Transfers to the Fund during the year		(10,584)	(11,278)
Provision (recovery) for employee benefits	21	8,737	(9,785)
		<u>140,784</u>	<u>142,631</u>

In January 2019 and 2018, the Central Bank's Board of Directors authorized the transfer to the Fund for Diseases, Insurance and Pensions of Central Bank's Employees of S/ 49 million and S/ 45 million, respectively. In 2019, from the aforementioned amount, S/ 10.6 million were used to pay pensions of retired personnel, which decreased the actuarial liability by the same amount (2018: S/ 11.3 million) and S/ 35.9 million were transferred to the Fund for health expenses of active personnel, which increased the balance of 'operational expenses' (2018: S/ 32.1 million) (note 21), and S/ 2.5 million were transferred to health expenses of National Mint (CNM) personnel, which were recognized in cost of issued coins (2018: S/ 1.6 million).

The main categories of the Fund's assets as a percentage of the fair value of total liquid assets are the following:

	2019		2018	
	S/ (000)	%	S/ (000)	%
Deposits with the Central Bank	1,802	13.0	685	5.0
Outstanding accounts from personnel	12,064	87.0	12,954	95.0
Total	13,866	100.0	13,639	100.0

The main hypotheses used when determining the actuarial liability for employee benefits are the following:

	2019	2018
Discount rate	6.00%	6.00%
(Decrease) increase in pensions	(4.6)%	(16.6)%
Average period for amortization of pensions	9.40	8.86
Active and retired personnel as of the date of the statement of financial position		
Males	1,018	968
Females	598	558
Mortality tables		
Males	SP-2005-H	SP-2005-H
Females	SP-2005-M	SP-2005-M

The sensibility of the actuarial assumptions in the Central Bank's profit or loss is as follows:

Year	Increase/decrease in discount rate	Effects on reserve for the year
		S/ 000
2019	+50 pbs	(6,295)
	(50 pbs)	6,835
2018	+50 pbs	(6,765)
	(50 pbs)	7,339
Year	Increase/decrease in life expectancy	Effects on reserve for the year
	Years	S/ 000
2019	+1	1,900
	(1)	2,712
2018	+1	2,421
	(1)	(2,257)

17. EQUITY

A. Capital

As of December 31, 2019 and 2018, the authorized, subscribed and paid-in capital by the Peruvian Government in accordance with regulations amounts to S/ 1,183 million.

The capital is not represented by shares and its value is only disclosed in 'capital' in the statement of financial position. Likewise, through a Supreme Decree countersigned by the MEF, the Central Bank's authorized capital may be adjusted.

B. Reserves***Legal reserve***

According to Article 92 of its Organic Act, the Central Bank shall distribute its net profits annually as follows: (i) 25% for the Public Treasury and (ii) 75% for the constitution and increase up to 100% of its capital of a reserve which, preferably, shall be used for capitalization.

On March 14, 2019, after the approval of the 2018 financial statements, the constitution of the legal reserve was agreed for 75% of the profit or loss for year 2018, applying S/ 378 million and becoming equivalent to the capital.

On March 26, 2018, after the approval of the 2017 financial statements, a part of the legal reserve was applied to hedge the 2017 loss for approximately S/ 66 million.

Special statutory reserve

According to Article 63 of the Central Bank's Bylaws, the surplus generated by the application of Article 92 of the Organic Act shall be used for the constitution of a special reserve.

On March 14, 2019, after the approval of the 2018 financial statements, the constitution of a special reserve was agreed for S/ 440 million, for the surplus of 75% of the profits corresponding to the Central Bank, since the legal reserve was equivalent to 100% of the capital.

C. Fair value reserve

The movement of this caption for the years 2019 and 2018 is as follows:

	<u>Note</u>	Securities from international institutions S/ (000)	Bonds issued by the MEF S/ (000)	Total S/ (000)
Balance as of January 1, 2018		(643,877)	(86,766)	(730,643)
Gains from fluctuations	5 and 8 (b)	296,080	-	296,080
Loss from fluctuations	5 and 8 (b)	(13,997)	(78,311)	(92,308)
Balance as of December 31, 2018		(361,794)	(165,077)	(526,871)
Gains from fluctuations	5 and 8 (b)	1,139,968	200,595	1,340,563
Loss from fluctuations	5 and 8 (b)	(5,388)	-	(5,388)
Balance as of December 31, 2019		772,786	35,518	808,304

D. Accumulated results

Article 93 of the Organic Act states that in case of losses, the legal reserves shall be applied to offset them. If said amount is insufficient, within 30 days from the approval of the statement of financial position, the Public Treasury shall issue and deliver to the Central Bank, for the unhedged amount, negotiable debt securities that shall accrue interest.

On March 14, 2019, after the approval of the 2018 financial statements, the transfer of S/ 273 million to the Public Treasury was approved for amortizing the bonds received from the Public Treasury and the corresponding interest, as described in note 1.

On March 26, 2018, a part of the legal reserve was applied to hedge the 2017 loss for S/ 66 million.

E. Adjustment for valuation Article 89 – Organic Act

In accordance with the accounting policies approved by the Board of Directors based on Article 89 of the Organic Act, the exchange rate differences resulting from the valuation in domestic currency of the Central Bank's assets and liabilities in gold, silver, currencies, SDR or other monetary units of international use, are debited or credited in this account but not considered as gains or losses for the year (note 2.B (d)).

The movement of this caption as of December 31, 2019 and 2018 is as follows:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Balance at the beginning of the year	11,558,501	7,384,611
Plus (less)		
Valuation of derivative instruments transactions and others related to exchange rate	(539,917)	631,671
Valuation of metals (gold)	798,286	109,150
Valuation of IMF's contribution and obligations	55,143	(40,319)
Valuation of U.S. dollars	(1,270,716)	3,356,532
Valuation of other currencies	(272,586)	116,856
Balance at the end of the year	<u>10,328,711</u>	<u>11,558,501</u>

18. TAX MATTERS

In accordance with the Income Tax Law, Peruvian public institutions are not subject to income tax. The Central Bank, as a withholding agent, is only subject to self-employment income tax, regular employment income tax, and social contributions.

The Tax Authorities are entitled to review and, if applicable, to amend the taxes calculated by the Central Bank within the 4 years following the year of the tax return filing. The Central Bank's tax returns for the years 2015 through 2019 are open for review by the Tax Authorities. Since discrepancies may arise over the interpretation 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 Central Bank. Therefore, any additional taxes, moratory interest or fines that might arise from eventual tax assessments should be applied to profit or loss of the year in which they are determined. In management's opinion, any possible additional settlement of taxes would not be significant for the financial statements of the Central Bank as of December 31, 2019 and 2018.

19. CONTINGENCIES

Certain civil and labor lawsuits have been filed against the Central Bank, for which the pertinent legal instruments and actions have been submitted and conducted. Therefore, the Central Bank's management and its legal advisors consider that, as of December 31, 2019 and 2018, it is not necessary to record a provision for possible losses as a result of these legal contingencies.

20. OFF-BALANCE SHEET ACCOUNTS

As of December 31, this caption comprises the following:

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Currency in circulation (a)		30,863,904	51,029,138
Forward operations (b)		80,124,565	77,783,541
Securities held in custody (c)		3,436,741	3,789,388
Futures operations (d)		-	137,563
Foreign exchange swaps (e)	2.B(s)	1,781,354	3,376,960
Public Treasury securities with repurchase agreement (f)		2,006,622	2,621,723
Others		366,523	419,400
Total		<u>118,579,709</u>	<u>139,157,713</u>

- (a) As of December 31, 2019 and 2018, it corresponds to the currency not in circulation that the Central Bank holds in its vaults. It comprises the following:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
New	26,306,090	45,598,690
Available	3,894,303	3,281,731
To be classified	456,637	1,766,565
To be destroyed	195,603	354,740
In transit	11,271	27,412
Total	<u>30,863,904</u>	<u>51,029,138</u>

The movement of 'currency in circulation' as of December 31, 2019 and 2018, is as follows:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Balance at the beginning of the year	51,029,138	44,453,379
Acquisition of currency	832,309	23,162,598
Destruction of currency	(18,142,350)	(12,613,477)
Removal of circulation, net of revenues	(2,855,193)	(3,973,362)
Balance at the end of the year	<u>30,863,904</u>	<u>51,029,138</u>

- (b) As of December 31, 2019 and 2018, it corresponds to the reference value (committed face value) of the Central Bank's forward operations in foreign currency, classified as held-for-trading instruments. As of December 31, 2019, the Central Bank has 85 forward operations with maturities between January and March 2020 (2018: 87 forward operations with maturities between January and November 2019). Likewise, as of December 31, 2019, the valuation of said instruments generated an asset for S/ 32 million (2018: S/ 133 million), which was recorded in 'Other available assets', and a liability for S/ 172 million (2018: S/ 461 million), which was recorded in 'Reserves liabilities.' Said valuation was recorded in 'Adjustment for valuation Article 89 – Organic Act' in equity (note 17.E). During 2019, the Central Bank recognized revenues for the forward contracts traded for S/ 768 million, which are included in 'return on operations with derivative instruments' in the statement of profit or loss and other comprehensive income (2018: S/ 651 million).

As of December 31, 2019 and 2018, the face value of forward operations per type of currency is as follows:

	2019 (S/ 000)	2018 (S/ 000)
Purchase of U.S. dollar / sell of currencies other than sol	38,951,778	38,147,951
Sell of Japanese yen / purchase of currencies other than sol	31,968,117	13,425,183
Sell of euro / purchase of currencies other than sol	6,949,334	17,401,037
Purchase of Canadian dollar / sell of currencies other than sol	535,428	-
Purchase of pound sterling / sell of currencies other than sol	-	76,630
Sell of pound sterling / purchase of currencies other than sol	789,627	3,649,240
Sell of Canadian dollar / purchase of currencies other than sol	-	4,441,616
Sell of Swiss francs / purchase of currencies other than sol	342,055	-
Purchase of Australian dollar / sell of currencies other than sol	588,226	641,884
Total	<u>80,124,565</u>	<u>77,783,541</u>

- (c) As of December 31, 2019 and 2018, securities held in custody mainly comprise promissory notes in guarantee for operations with the IMF.
- (d) As of December 31, 2018, it corresponds to the reference value (committed face value) of the Central Bank's futures transactions classified as held-for-trading instruments, which are managed directly by the BIS, according to guidelines approved by the Central Bank. As of December 31, 2018 the Central Bank had 352 future contracts, whose underlying assets are bonds of the U.S. Treasury issued in U.S. dollars, and whose maturities are in March 2019. Likewise, the estimated market value, provided by the BIS, generated an asset for S/ 1,282 thousand and a liability for S/ 86 thousand, which were recorded in 'other assets' and 'reserves liabilities', respectively, in the statement of financial position and 'net yield on securities', respectively, in the statement of profit or loss and other comprehensive income. As of December 31, 2019, the Central Bank does not have futures operations.
- (e) As of December 31, 2019, the Central Bank has 13 operations with banks, which are called foreign exchange swaps, whereby the notional value in soles in favor of the Central Bank is S/ 900 million, and the counterpart account in favor of other banks is US\$ 266 million (2018: 46 operations, with a notional value in soles in favor of the Central Bank for S/ 1,690 million and a counterpart account in favor of other banks for US\$ 501 million). The maturity of such operations is between January and February 2020 (2018: between January and February 2019). The interest rate for the notional value in soles equals to the capitalization of the Cumulative Overnight Interbank Transactions Index calculated and published by the Central Bank, which, as of December 31, 2019, was 2.25% (2018: 3.38%). On the aforementioned date, the average interest rate in U.S. dollars, determined by auction, amounted to -0.03% (2018: 1.88%).

In 2019, the Central Bank recognized interest income and expense paid and received on foreign exchange swaps for S/ 17 million and S/ 7 million, which are recorded in 'Other financial income' and 'Other financial expense' in the statement of profit or loss and other comprehensive income, respectively (2018: S/ 38 million and S/ 19 million, respectively). Additionally, during said period, the Central Bank recognized the effect of changes in the exchange rate on the notional amount in U.S. dollars as a debit to 'Adjustment for valuation – Article 89 of Organic Act' in equity for S/ 57 million, corresponding to financial institutions (note 17.E.).

- (f) As of December 31, 2019, the Central Bank has effective repurchase agreements of treasury bonds with banks for S/ 2,007 million (2018: S/ 2,622 million).

21. OPERATIONAL EXPENSES

This caption comprises the following:

	<u>Note</u>	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Personnel expenses and social benefits	23	155,432	157,170
Administrative expense (a)		56,530	54,626
Health expenses of active personnel	16(a)(i)	35,915	32,111
Expenses for actuarial provision (b)	16(a)	8,737	-
Depreciation	9	8,966	9,567
Amortization		1,849	2,220
Others		9,202	18,486
Total		<u>276,631</u>	<u>274,180</u>

- (a) In 2019 and 2018, administrative expenses mainly correspond to expenses for surveillance, data supplies, public utilities, trainings, advisory, insurance, among others.
- (b) As of December 31, 2019, expenses for actuarial provision amounted to S/ 8,7 million. As of December 2018, the Central Bank recorded a provision recovery for S/ 9.7 million in 'non-financial income' in the statement of profit or loss and other comprehensive income.

22. ISSUANCE EXPENSES AND COSTS

This caption comprises the following:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Cost of minting issued coins	57,317	45,497
Expenses for printing issued banknotes	41,524	36,860
Expenses for transporting currency	2,444	3,808
	<u>101,285</u>	<u>86,165</u>

23. REMUNERATIONS AND SOCIAL BENEFITS

This caption comprises the following:

	<u>2019</u> (S/ 000)	<u>2018</u> (S/ 000)
Salaries	85,830	85,863
Legal bonuses and vacations	26,682	28,728
Bonuses and allocations	17,731	17,375
Retirement compensation arrangement	9,423	9,477
EsSalud	8,859	8,971
Training	2,942	3,057
Others	3,965	3,699
	<u>155,432</u>	<u>157,170</u>

24. FINANCIAL INSTRUMENTS
A. Accounting classifications and fair values

The following table shows the carrying amount and fair value of financial assets and financial liabilities held by the Central Bank, including their levels in the fair value hierarchy.

Note	As of December 31, 2019				Fair value			
	At amortized cost	At FVOCI	Financial liabilities	Total	Level 1	Level 2	Level 3	Total
	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)
Financial assets								
	165,913	-	-	165,913	-	-	-	-
3	62,320,212	-	-	62,320,212	-	-	-	-
4	2,468,937	-	-	2,468,937	-	-	-	-
5	19,109,291	133,326,299	-	152,435,590	133,326,299	-	-	133,326,299
7	3,210,933	-	-	3,210,933	-	-	-	-
	2,356	160,806	-	163,162	-	160,806	-	160,806
	66,220	-	-	66,220	-	-	-	-
8	17,875,748	2,034,296	-	19,910,044	2,034,296	-	-	2,034,296
10	2,989	20,677	-	23,666	-	20,677	-	20,677
	105,222,599	135,542,078	-	240,764,677	135,360,595	181,483	-	135,542,078
Financial liabilities								
	-	171,833	6,830	178,663	-	171,833	-	171,833
7 and 11	-	-	7,789,926	7,789,926	-	-	-	-
12 and 13	-	-	75,795,016	75,795,016	-	-	-	-
14	-	-	64,564,690	64,564,690	-	-	-	-
15	-	-	76,000,499	76,000,499	-	-	-	-
16	-	-	11,404,351	11,404,351	-	-	-	-
	-	171,833	235,561,312	235,733,145	-	171,833	-	171,833

Note	As of December 31, 2018				Fair value			
	At amortized cost	At FVOCI	Financial liabilities	Total	Level 1	Level 2	Level 3	Total
	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)
Financial assets								
	168,834	-	-	168,834	-	-	-	-
3	51,521,500	-	-	51,521,500	-	-	-	-
4	2,522,915	-	-	2,522,915	-	-	-	-
5	22,321,398	118,616,565	-	140,937,963	118,616,565	-	-	118,616,565
7	2,801,861	-	-	2,801,861	-	-	-	-
	3,860	342,953	-	346,813	-	342,953	-	342,953
	67,380	-	-	67,380	-	-	-	-
8	13,814,868	1,992,704	-	15,807,572	1,992,704	-	-	1,992,704
10	933	5,088	-	6,021	-	5,088	-	5,088
	93,223,549	120,957,310	-	214,180,859	120,609,269	348,041	-	120,957,310
Financial liabilities								
	-	461,155	99,834	560,989	-	461,155	-	461,155
7 and 11	-	-	8,371,819	8,371,819	-	-	-	-
12 and 13	-	-	68,591,285	68,591,285	-	-	-	-
14	-	-	61,367,067	61,367,067	-	-	-	-
15	-	-	63,458,373	63,458,373	-	-	-	-
16	-	3,635	8,243,109	8,246,744	-	3,635	-	3,635
	-	464,790	210,131,487	210,596,277	-	464,790	-	464,790

B. Financial risk management

Due to the nature of its activities, the Central Bank is exposed to liquidity risk, credit risk, exchange risk, interest rate risk and operational risk. The Central Bank's risk management aims to reduce the potential adverse effects on its financial performance.

The Central Bank's statement of financial position mainly comprises financial instruments, as described in note 2.B(b). Gross international reserves are a relevant component of such instruments (they represent 89.9% and 90.3% as of December 31, 2019 and 2018, respectively). Reserve management adheres to the principles of security, liquidity and profitability indicated in Article 71 of the Organic Act. International reserves contribute to the country's economic and financial stability, insofar as they guarantee availability of foreign currency in extraordinary situations, such as in the case of an eventual significant withdrawal of foreign currency deposits from the domestic financial system or temporary external shocks, which may cause imbalances on the real economy and feedback expectations. Likewise, a suitable availability of currency helps to reduce the country risk and improve Peru's credit ratings, which results in better conditions for private and public Peruvian companies to obtain foreign credits, and contributes to the foreign investment growth in the country.

Financial risk management mainly focuses on foreign liquid reserves assets, which are traded in international markets. These assets comprise deposits with foreign institutions and organizations, securities from international institutions, and foreign gold holdings.

Risk management is carried out considering the following criteria:

- The Central Bank's reserve management policy prioritizes the preservation of capital while ensuring the liquidity of reserves. Once these conditions are met, yield of foreign assets is maximized.
- Management of foreign assets is closely related to the origin and characteristics of sources of foreign currency resources—i.e. Central Bank's liabilities—regarding the amount, currency, term, and volatility. In this sense, the Central Bank seeks to minimize the financial risks that may affect the value and availability of the resources managed by the Central Bank.

Foreign assets managed by the Central Bank are exposed to liquidity, credit, exchange rate and interest rate risks.

The Central Bank's management is well aware of the current market conditions and, based on its knowledge and experience, controls the aforementioned risks following the policies approved by the Board of Directors. The most important aspects for risk management are the following:

i Liquidity risk

It arises from the impossibility of trading securities at the appropriate moment. To mitigate this risk, fixed income instruments' degree of liquidity is controlled by selecting values from deep markets, establishing minimum amounts with respect to the issuance size and a limit for the percentage acquired in each issuance. The liquidity of instruments is reflected in a low bid-ask spread in their market price.

The Central Bank also minimizes this risk by dividing the investment portfolio into tranches that reflect the required liquidity to manage withdrawals associated with the different nature of reserve sources. This portfolio is divided into:

- Immediate availability tranche: It includes very short-term investments mainly to face obligations with local banks and unexpected events.
- Intermediation and liquidity tranches: It corresponds to deposits in foreign currency of financial (mainly for reserve requirements) and public institutions with the Central Bank. These resources help to make investments, which mainly comprise bank deposits with staggered maturity and high-liquidity fixed income instruments in international financial markets.
- Investment and diversification tranches: It comprises Central Bank's resources (foreign exchange position) and is aimed for investments including securities with terms generally longer than one year (mainly bonds), which may generate higher yield and support risk diversification.

As of December 31, the distribution of investments into tranches is reflected in the percentage composition by term at maturity of the investment portfolio as follows:

	<u>2019</u> (%)	<u>2018</u> (%)
Maturity		
0–3 months	55	49
3–12 months	8	17
More than 1 year	37	34
	<u>100</u>	<u>100</u>

The table below presents the Central Bank's undiscounted cash flows payable according to agreed contractual terms:



As of December 31, 2019

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Without maturity	Total
	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)
Financial liabilities per type (i)							
Sterilized Stock							
Certificates of deposit	1,909,617	4,749,219	16,901,945	4,424,068	-	-	27,984,849
Deposits in domestic currency	13,353,751	10,000,000	19,400,000	-	-	5,056,416	47,810,167
Monetary base	-	-	-	-	-	64,564,690	64,564,690
Deposits in foreign currency	25,959,309	10,280,655	-	-	-	39,760,535	76,000,499
Other financial liabilities		6,830	11,404,352	2,041	7,787,884	-	19,201,107
Total non-derivative liabilities (ii)	41,222,677	25,036,704	47,706,297	4,426,109	7,787,884	109,381,641	235,561,312
Accounts payable on derivative instruments	146,306	25,526	-	-	-	-	171,832
	41,368,983	25,062,230	47,706,297	4,426,109	7,787,884	109,381,641	235,733,144

As of December 31, 2018

	Up to 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Without maturity	Total
	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)
Financial liabilities per type (i)							
Sterilized stock							
Certificates of deposit	3,184,008	8,820,660	13,581,329	1,191,832	-	-	26,777,829
Deposits in domestic currency	17,615,106	5,766,341	12,897,171	-	-	5,534,838	41,813,456
Monetary base	-	-	-	-	-	61,367,067	61,367,067
Deposits in foreign currency	22,308,406	7,816,080	-	-	-	33,333,886	63,458,372
Other financial liabilities	613,115	4,180,652	2,547,117	916,200	8,457,592	-	16,714,676
Total non-derivative financial liabilities (ii)	43,720,635	26,583,733	29,025,617	2,108,032	8,457,592	100,235,791	210,131,400
Accounts payable on derivative instruments	378,008	29,078	54,155	-	-	-	461,241
	44,098,643	26,612,811	29,079,772	2,108,032	8,457,592	100,235,791	210,592,641

(i) As of December 31, 2019 and 2018, financial liabilities do not include non-accrued interest.

(ii) As of December 31, 2019 and 2018, it corresponds to the valuation of held-for-trading instruments.

ii Credit risk

Credit risk refers to the possibility that a counterparty may be unable to meet an obligation with the Central Bank on a timely basis. In order to face this risk, investments are diversified into:

- Deposits with tier one foreign banks, according to the capital involved and to short-term and long-term risk ratings assigned by the main international credit rating agencies, such as Standard & Poor's, Moody's and Fitch.
- Fixed income securities issued by international organizations or foreign public institutions. As of December 31, 2019 and 2018, these securities shall have a long-term rating assigned in one of the five highest ratings from the more than twenty long-term ratings assigned by credit rating agencies.
- Debt investments of private institutions are not allowed.

The magnitude and concentration of the Central Bank's exposure to credit risk can be observed directly from the statement of financial position, which describes the size and composition of the Central Bank's financial assets.

The following is a summary of the risk rating of the investment portfolio as of December 31:

	<u>2019</u> (%)	<u>2018</u> (%)
Long-term rating		
AAA	42	53
AA+/AA/AA-	25	19
A+/A/A-	33	28
	<u>100</u>	<u>100</u>

Based on the obtained risk ratings and management's analysis, as of December 31, 2019 and 2018, the Central Bank has no exposure in countries or institutions with debt issues that may pose a credit risk for its deposits with foreign banks and investments.

iii Exchange rate risk

It refers to the risk to which the Central Bank is exposed due to fluctuations in the value of financial assets and financial liabilities arising from changes in exchange rates. The magnitude of the risk depends on:

- The imbalance between the Central Bank's assets and liabilities in foreign currency.
- The exchange rate of foreign currency transactions pending at the end of the period.

The Central Bank's assets are mostly invested in U.S. dollars, which reflects both the denomination of liabilities in foreign currency (mainly bank reserve requirements and special resident deposits) and the currency used by the Central Bank for intervention in the domestic foreign exchange market.

Foreign currency transactions are carried out at the free-market exchange rates.

As of December 31, 2019, the free market buying rate published by the SBS for transactions in U.S. dollars was S/3.311 (2018: S/3.369). Balances in other currencies have been stated in U.S. dollars at the exchange rate provided daily by Bloomberg, as described in paragraph (c) below.



(a) As of December 31, 2019, the Central Bank's assets and liabilities in foreign currency are as follows:

	2019			2018		
	U.S. Dollar (US\$ 000)	Other currencies (US\$ 000)	Total (US\$ 000)	U.S. Dollar (US\$ 000)	Other currencies (US\$ 000)	Total (US\$ 000)
Monetary assets						
Cash in foreign currency	50,110	-	50,110	50,114	-	50,114
Deposits at foreign banks	16,103,241	2,718,931	18,822,172	9,743,799	5,549,018	15,292,817
Deposits at foreign organizations	-	745,677	745,677	-	748,862	748,862
Securities from international institutions	33,483,332	12,555,807	46,039,139	32,646,207	9,187,561	41,833,768
Gold	-	1,693,701	1,693,701	-	1,427,621	1,427,621
Contributions to international institutions	520,168	449,609	969,777	504,633	327,026	831,659
Other available assets	40,798	8,481	49,279	101,439	1,503	102,942
Other foreign assets	-	20,000	20,000	-	20,000	20,000
Domestic credit	614,405	-	614,405	570,705	-	570,705
Other assets	5,869	369	6,238	3,013	717	3,730
	50,817,923	18,192,575	69,010,498	43,619,910	17,262,308	60,882,218
Monetary liabilities						
Reserves liabilities	52,518	1,442	53,960	156,417	10,098	166,515
Other foreign liabilities	-	20,000	20,000	-	20,000	20,000
Deposits in foreign currency	22,953,941	-	22,953,941	18,835,967	-	18,835,967
Other liabilities	3,362,926	-	3,362,926	2,310,659	257	2,310,916
	26,369,385	21,442	26,390,827	21,303,043	30,355	21,333,398
Subtotal	24,448,538	18,171,133	42,619,671	22,316,867	17,231,953	39,548,820
Derivative Instruments						
Forwards position, net	11,764,355	(11,756,412)	7,943	11,323,226	(11,338,249)	(15,023)
Net monetary position	36,212,893	6,414,721	42,627,614	33,640,093	5,893,704	39,533,797

- (b) Balances in foreign currency, SDR and precious metals as of December 31, 2019 and 2018, excluding derivative instruments, stated in their equivalence to thousands of U.S. dollars, are summarized as follows:

	2019 (US\$ 000)	2018 (US\$ 000)
Assets		
U.S. dollar	50,817,241	43 619 225
Japanese yen (i)	9,656,088	3 985 844
Euro	2,099,303	5 168 305
Gold	1,694,427	1 428 360
SDR (ii)	1,195,287	1 075 889
Pound sterling	724,283	1 525 147
Other currencies	2,823,869	4 079 448
	69,010,498	60 882 218
Liabilities		
U.S. dollar	26,369,385	21 303 043
SDR (ii)	1,096	1 522
Other currencies	20,346	28 833
	26,390,827	21 333 398
Net assets	42,619,671	39 548 820

- (i) As of December 31, 2019 and 2018, there is no exposure to this currency, since it is fully hedged by forward operations (note 20 (b)).
- (ii) The SDR is a foreign reserve asset created by the IMF and allocated to its member countries in proportion to their share as a country member. The SDR value is calculated daily by adding the U.S. dollar values (noon London quotation) of a basket of five currencies (U.S. dollar, Euro, Chinese yuan renminbi, Japanese yen and pound sterling). The amounts of each currency of the SDR basket are calculated according to agreed percentages.
- (c) The main foreign exchange rates used by the Central Bank in relation to the U.S. dollar as of December 31, 2019 and 2018 are the following:

	2019 (S/ 000)	2018 (S/ 000)
Gold troy ounce	1,519.970000	1,281.280000
Pound sterling	1.324000	1.275200
SDR	1.382830	1.390790
Euro	1.121700	1.145700
Japanese yen	0.009205	0.009124

According to Article 89 of the Organic Act, as of December 31, 2019, the Central Bank registered a net negative Adjustment for valuation of foreign currency for S/ 690 million (2018: net positive Adjustment for valuation for S/ 3,554 million) in 'Adjustment for valuation Article 89 – Organic Act' in equity (note 17.E.).

The following table shows the sensitivity analysis on changes in the price of the main currencies to which the Central Bank is exposed as of December 31, 2019 and 2018. The analysis determines the effect of devaluation or revaluation of a reasonably possible change in the exchange rate of soles against foreign currencies, and assumes that all other variables remain constant in the statement of profit or loss and other comprehensive income. A negative amount reflects a net potential decrease in equity, while a positive amount reflects a potential net increase. In both cases, these changes do not affect the Central Bank's profits because both are recorded as exchange differences in equity.

Sensitivity analysis	Change in exchange rates (%)	2019 (S/ 000)	2018 (S/ 000)
Devaluation			
U.S. dollar	5	7,055,687	6,661,999
U.S. dollar	10	14,111,373	13,323,997
Pound sterling	5	119,905	256,909
Pound sterling	10	239,810	513,819
Japanese yen	5	1,598,699	671,421
Japanese yen	10	3,197,399	1,342,841
Euro	5	66,800	870,172
Euro	10	133,599	1,740,343
Revaluation			
U.S. dollar	5	(7,055,687)	(6,661,999)
U.S. dollar	10	(14,111,373)	(13,323,997)
Pound sterling	5	(119,905)	(256,909)
Pound sterling	10	(239,810)	(513,819)
Japanese yen	5	(1,598,699)	(671,421)
Japanese yen	10	(3,197,399)	(1,342,841)
Euro	5	(66,800)	(870,172)
Euro	10	(133,599)	(1,740,343)

iv Interest rate risk

It is associated with unexpected changes in the market yield rates of the portfolio's fixed income assets, which could affect the market value of investments before their maturity. The longer the maturity period of investments, the greater the impact of changes in the yield on the market value of such investments. The measurement of such impact is reflected in the portfolio's duration, which reflects risk-return preferences of the Board of Directors.

The Central Bank faces this risk by considering the maturity structure of the liabilities for the maturity composition of its assets. This makes the total portfolio duration to be low, so the impact of changes in interest rates on the market value of the portfolio is limited. Likewise, maximum investment terms have been established, in line with the desired market risk profile for each portfolio instrument.

As of December 31, 2019 and 2018, the average duration of the investment portfolio (including internally managed foreign assets, deposits with foreign banks, investments in securities and gold holdings) was 0.73 years.

v. Operational risk

It refers to the effect of the uncertainty that the Bank faces on its ability to meet its strategic objectives and functions, safeguard its equity and protect its reputation, image and credibility. The latter as a result of internal process and control failures, human errors, information systems and supporting technology failures, breach of legal provisions and internal regulations, or occurrence of external events.

Operational risk management is part of all Central Bank's processes, involves all levels within the organization and is based on the application of a structured process under the "Three Lines of Defense" model, which guarantees a comprehensive operational risk management by promoting coordinated action among the different roles with a separation and independence level that maximizes their efficiency and effectiveness.

Risk Management and the Bank's managements perform operational risk assessments that include the following activities:

- Setting up framework and mapping of processes.
- Identifying risks to which processes are exposed, and controls applied to mitigate them.
- Performing risks analysis and assessment, as well as determining additional controls that need to be implemented in cases where assessment is above the Central Bank's tolerance level.

Once management has performed the risk assessment and determined the additional controls that shall be implemented, the Risk Management submits the assessments to the Risk Committee, which is the supervisory body in charge of approving policies and recommending actions regarding risk management and continuity of operations, as well as preventive actions and resolution of events that affect the Central Bank, and evaluating reports and proposals submitted by the Risk Management.

25. INFORMATION ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value or estimated market value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date.

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

When a financial instrument is traded in an active and liquid market, its fixed price in the market through real transactions offers the best evidence of its fair value. When a quoted market price is not available, or it cannot be an indicative of the fair value of the financial instrument, the fair value may be determined using the market value of another instrument that is substantially the same, the analysis of discounted cash flows or other valuation techniques, which may be significantly affected by the different assumptions made. Management has used its best judgment in the fair value measurement of its financial instruments. Fair value



estimates may not be an indicative of the net realizable value or the liquidation value of said instruments.

The methodologies and assumptions applied to determine estimated market values as of December 31, 2019 and 2018, in the applicable cases according to the policies of the Central Bank, depend on the terms and risk characteristics of the different financial instruments, as shown below:

- Cash in foreign currency and deposits with foreign banks represent cash and term deposits with banks, with terms up to 90 days, which do not represent significant credit risks or interest rate risks.
- The carrying amount of securities issued by international institutions classified as investments measured at FVOCI corresponds to their estimated market value.
- The carrying amount of gold corresponds to its market value.
- The value of the contributions to international institutions and of deposits with international institutions corresponds to their fair values, since they represent the amount the Central Bank would receive if it withdrew its membership from said institutions. Additionally, contributions to international institutions cannot be traded with third parties and accrue interest at interest rates based on their market risk.
- Issued securities in circulation accrue interest at fixed and variable rates according to the respective issuance.
- Deposits in domestic and foreign currency accrue interest at fixed and variable rates, which are fixed in periods under a year by the Central Bank.
- The carrying amount of currency held by the Central Bank recognized in 'Monetary base' corresponds to its market value, since it represents the currency in circulation in the Peruvian economy.

Consequently, as of December 31, 2019 and 2018, the Central Bank's management considers that the estimated fair values of its financial instruments does not differ significantly from their corresponding carrying amount.

26. SUBSEQUENT EVENTS

From December 31, 2019, to the date of the independent auditors' report, there have not been any material events that may affect the Central Bank's financial statements.