

The background of the page is a historical painting, likely from the 19th century, depicting a man in a military uniform sitting at a desk. He is looking to the left. Other figures in uniform are visible in the background. The painting is rendered in a style with visible brushstrokes and a warm, golden-brown color palette. The text 'FINANCIAL STATEMENTS' is overlaid on the right side of the painting.

# FINANCIAL STATEMENTS

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*(TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH)*

# 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, 2021 and 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and explanatory 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, 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 audit. We conducted our audit in accordance with International Standards on Auditing approved for their 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, 2021 and 2020, 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, 2022

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Countersigned by:

A handwritten signature in black ink, which appears to be "Eduardo Alejos". The signature is written in a cursive style and is positioned above a horizontal line.

Eduardo Alejos (Partner)  
Peruvian CPA Registration 29180

## STATEMENT OF FINANCIAL POSITION

As of December 31, 2021 and 2020

	<u>Note</u>	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
<b>Assets</b>			
<b>Gross international reserves</b>			
Cash in foreign currency		388,775	181,280
Deposits at foreign banks	3	70,455,058	66,774,135
Deposits at foreign organizations	4	9,954,474	2,699,723
Securities from international institutions	5	217,661,144	189,558,933
Gold	6	8,094,321	7,645,245
Contributions to international organizations	7	4,676,002	4,071,456
Other available assets		964,695	88,753
		<b><u>312,194,469</u></b>	<b><u>271,019,525</u></b>
<b>Other foreign assets</b>			
Contributions in domestic currency to the IMF	7(b)	5,374,636	5,171,941
Other external assets	11(b)	79,500	72,360
		<b><u>5,454,136</u></b>	<b><u>5,244,301</u></b>
<b>Domestic credit</b>			
	8		
To banks		51,137,613	58,686,202
To public sector		5,084,517	4,316,297
To financial enterprises		205,248	228,841
To other entities and funds		2,760,631	4,019,802
		<b><u>59,188,009</u></b>	<b><u>67,251,142</u></b>
Property, plant and equipment, net	9	155,671	157,883
Other assets	10	936,056	264,364
<b>Total assets</b>		<b><u>377,928,341</u></b>	<b><u>343,937,215</u></b>
Off balance sheet accounts	20	<u>286,098,227</u>	<u>183,649,314</u>

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

	<u>Note</u>	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
<b>Liabilities</b>			
Reserves liabilities		174,897	729,920
<b>Other foreign liabilities</b>			
Equivalent of the contribution in domestic currency to the IMF	7(b)	5,374,636	5,171,941
Other foreign liabilities	11	10,597,267	3,254,533
		<u><b>15,971,903</b></u>	<u><b>8,426,474</b></u>
<b>Sterilized stock</b>			
Issued securities in circulation	12	28,366,413	47,381,052
Deposits in domestic currency	13	108,361,119	105,262,769
		<u><b>136,727,532</b></u>	<u><b>152,643,821</b></u>
<b>Monetary base</b>			
	14		
Currency in circulation		93,541,490	82,688,894
Deposits in domestic currency		3,737,987	3,297,749
		<u><b>97,279,477</b></u>	<u><b>85,986,643</b></u>
Deposits in foreign currency	15	71,981,687	55,025,972
Other liabilities	16	5,583,885	7,142,275
<b>TOTAL LIABILITIES</b>		<u><b>327,719,381</b></u>	<u><b>309,955,105</b></u>
<b>Net equity</b>			
	17		
Capital		1,182,750	1,182,750
Legal reserve		1,182,750	1,182,750
Special statutory reserve requirements		3,132,642	1,832,701
Fair value reserve		(434,582)	1,834,165
Accumulated results		1,433,943	1,733,255
<b>Capital, reserves and results</b>		<u><b>6,497,503</b></u>	<u><b>7,765,621</b></u>
Adjustment for valuation – Article 89 of Organic Act	17.E	43,711,457	26,216,489
<b>Total equity</b>		<u><b>50,208,960</b></u>	<u><b>33,982,110</b></u>
<b>TOTAL LIABILITIES AND NET EQUITY</b>		<u><b>377,928,341</b></u>	<u><b>343,937,215</b></u>
Off balance sheet accounts	20	<u>286,098,227</u>	<u>183,649,314</u>

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2021 and 2020

	<u>Note</u>	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
<b>Financial revenue</b>			
Interest on deposits at foreign banks	3(b)	177,313	476,007
Net return on securities	5	1,539,531	2,202,492
Return on operations with derivative instruments	20(b)	144,668	320,777
Interest on international agreements and deposits at the IMF		3,883	16,615
Profits and dividends from international institutions		119,786	66,024
<b>Return on gross international reserves</b>		<b>1,985,181</b>	<b>3,081,915</b>
Interest and fees on domestic credit operations	8	767,365	539,140
Other finance income	20(h)	111,895	38,684
<b>Total financial income</b>		<b>2,864,441</b>	<b>3,659,739</b>
Non-financial income	16	38,186	9,042
<b>Total income</b>		<b>2,902,627</b>	<b>3,668,781</b>
<b>Financial expenses</b>			
Interest on other abroad liabilities	11	(3,190)	(5,833)
Interest on securities in circulation	12	(374,167)	(515,167)
Interest on domestic currency deposits	13	(580,420)	(656,080)
Interest on foreign currency deposits	15	(14,702)	(276,715)
Other financial expenses	20(h)	(148,262)	(123,863)
<b>Total financial expenses</b>		<b>(1,120,741)</b>	<b>(1,577,658)</b>
Operational expenses	21	(270,833)	(266,289)
Issuance expenses and costs	22	(77,110)	(91,579)
<b>Total expenses</b>		<b>(1,468,684)</b>	<b>(1,935,526)</b>
<b>Net profit (loss)</b>		<b>1,433,943</b>	<b>1,733,255</b>
Other comprehensive income	5 and 8(b)	(2,268,747)	1,025,861
<b>Total other comprehensive income</b>		<b>(834,804)</b>	<b>2,759,116</b>

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

**STATEMENT OF CHANGES IN EQUITY**

For the years ended December 31, 2021 and 2020

Note	Share capital	Legal Reserve	Special legal reserve requirements	Fair value reserve	Accumulated results	Total capital, reserves and profit or loss	Adjustment for Valuation- Article 89 of Organic Act	Total equity
	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)	(\$/000)
<b>Balance as of January 1, 2020</b>	<b>1,182,750</b>	<b>1,182,750</b>	<b>440,470</b>	<b>808,304</b>	<b>1,856,308</b>	<b>5,470,582</b>	<b>10,328,711</b>	<b>15,799,293</b>
Net profit	-	-	-	-	1,733,255	1,733,255	-	1,733,255
Other comprehensive income	-	-	-	1,025,861	-	1,025,861	-	1,025,861
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,025,861</b>	<b>1,733,255</b>	<b>2,759,116</b>	<b>-</b>	<b>2,759,116</b>
Transfer to statutory reserve	-	-	1,392,231	-	(1,392,231)	-	-	-
Transfer of profits to Public Treasury	-	-	-	-	(464,077)	(464,077)	-	(464,077)
Adjustment for valuation – Article 89 of Organic Act	-	-	-	-	-	-	15,887,778	15,887,778
<b>Balance as of December 31, 2020</b>	<b>1,182,750</b>	<b>1,182,750</b>	<b>1,832,701</b>	<b>1,834,165</b>	<b>1,733,255</b>	<b>7,765,621</b>	<b>26,216,489</b>	<b>33,982,110</b>
<b>Balance as of January 1, 2021</b>	<b>1,182,750</b>	<b>1,182,750</b>	<b>1,832,701</b>	<b>1,834,165</b>	<b>1,733,255</b>	<b>7,765,621</b>	<b>26,216,489</b>	<b>33,982,110</b>
Net profit	-	-	-	-	1,433,943	1,433,943	-	1,433,943
Other comprehensive income	-	-	-	(2,268,747)	-	(2,268,747)	-	(2,268,747)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,268,747)</b>	<b>1,433,943</b>	<b>(834,804)</b>	<b>-</b>	<b>(834,804)</b>
Transfer to statutory reserve	-	-	1,299,941	-	(1,299,941)	-	-	-
Transfer of profits to Public Treasury	-	-	-	-	(433,314)	(433,314)	-	(433,314)
Adjustment – Article 89 of Organic Act	-	-	-	-	-	-	17,494,968	17,494,968
<b>Balance as of December 31, 2021</b>	<b>1,182,750</b>	<b>1,182,750</b>	<b>3,132,642</b>	<b>(434,582)</b>	<b>1,433,943</b>	<b>6,497,503</b>	<b>43,711,457</b>	<b>50,208,960</b>

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



## STATEMENT OF CASH FLOWS

As of December 31, 2021 and 2020

	<u>Note</u>	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
<b>Cash flows from operating activities</b>			
Net profit		1,433,943	1,733,255
<b>Adjustments to reconcile the profits to the cash and cash equivalents from operating activities</b>			
Depreciation of property, plant and equipment	9	13,435	13,009
Amortization of intangible assets		1,160	1,555
Fixed assets write-off		884	363
<b>Net changes in assets, liabilities and equity</b>			
Domestic credit		8,063,133	(47,341,098)
Other foreign assets		(209,835)	(251,360)
Other assets		(672,875)	7,437
Reserves liabilities		(555,024)	551,257
Other foreign liabilities		7,545,430	636,548
Securities in circulation		(19,014,638)	19,396,203
Deposits in domestic currency		3,098,350	57,452,602
Deposits of banks, financial enterprises and others (monetary base)		440,237	832,280
Deposits in foreign currency		16,955,715	(20,974,527)
Other liabilities		(1,558,391)	(4,443,373)
Fair value reserve		(2,268,748)	1,025,861
Adjustment for valuation – Article 89 of Organic Act		17,494,969	15,887,778
Transfer of profits to Public Treasury	17.D	(433,314)	(464,077)
<b>Cash and cash equivalents from operating activities</b>		<b>30,334,431</b>	<b>24,063,743</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	9	(12,083)	(6,481)
<b>Cash and cash equivalents used in investing activities</b>		<b>(12,083)</b>	<b>(6,481)</b>
Net increase in cash and cash equivalents		30,322,348	24,057,262
Cash and cash equivalents at the beginning of the year		188,330,631	164,273,369
<b>Cash and cash equivalents at the end of the year</b>	2.B(o)	<b>218,652,979</b>	<b>188,330,631</b>

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



## NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2021 and 2020

### 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 control 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 7 cities of Peru. As of December 31, 2021 and 2020, the Central Bank has 984 and 978 employees, respectively. They include bank workers, temporary workers, and workers with unpaid leave or unpaid temporary assignments.

The Central Bank represents Peru for the purposes specified in the constitutive agreements of the International Monetary Fund (IMF) and the Latin American Reserves Fund (hereinafter "FLAR", for its Spanish acronym) and is responsible for all transactions, operations and formal relationships with these organizations. The Central Bank may also act as a Peruvian Government agent in its relations 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 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 enterprises; hold, directly or indirectly, shares in the capital of commercial, industrial or any other enterprises.
- Own properties additional to those needed for its activities and those transferred in payment of debts (sold within a term of less than 1 year after their acquisition).

The financial statements as of and for the year ended December 31, 2021, prepared in accordance with the accounting policies described in note 2, have been issued with management approval 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 11, 2021, approved the Company's financial statements as of and for the year ended December 31, 2020.

During the year 2021, given the restart of economic activities in the country after the health crisis caused by the COVID-19 pandemic, which was accompanied by the development of safe vaccines and the increase in the rate of vaccination worldwide, the Central Bank established different monetary and financial measures aimed at withdrawing the monetary stimulus. Such measures included the progressive increase in the reference interest rate from the historical minimum of 0.25% that was set in April 2020, up to 2.5% in December 2021, likewise, the withdrawal of some stimulus measures implemented began. In 2020, such as the Loan Portfolio Rescheduling Repurchase Agreements in October 2021, and the increase in reserve requirements in domestic currency, also from October 2021.

### **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 legal reserve is not enough, the Public Treasury, within thirty days of the approval of the financial statement, issues and grants to the Central Bank interest bearing negotiable debt securities 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, fees 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 August 14, 2020, 25% of the 2019 net profits was used to cancel the principal and accrued interest of these bonds for S/ 394 million and S/ 43 million, respectively. Also, S/ 27 million were transferred to a MEF's account in domestic currency (note 17.D).

On March 11, 2021, 25% of the net income for 2020 was allocated to the Public Treasury, transferring S/ 433 million to the main account in domestic currency of the MEF (note 17.D).

Profit as of December 31, 2021 (S/ 1,434 million) is associated with the lower income generated by the interest obtained from the investment of the International Reserves, and this is due to the lower average yield recorded this year as a consequence of the continuity of the monetary stimulus of the Federal Reserve of the United States (hereinafter "Fed") and of

the central banks of the main developed economies, reflected in the low international interest rates. Likewise, there was a lower cost of sterilization operations associated with the fact that interest rates in soles remain below their historical averages, and this is consistent with a monetary stimulus policy that has begun to normalize as of the second semester of 2021, with the objective of guaranteeing the return of inflation and its expectations to the 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 power (Article 88 of the Organic Act); and,
- (b) Peruvian Generally Accepted Accounting Principles (Peruvian GAAP) comprising 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 December 31, 2021 and 2020, as applicable for the Central Bank, and the standards established by the Superintendency of Banking, Insurance and Pension Fund Administrator (Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones – SBS). Resolution No. 001-2021-EF/30 issued on November 15, 2021, made official the amendments to IFRS 16 *Leases*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, IAS 1 *Presentation of Financial Statements*, IAS 12 *Income Taxes*; and the complete set of IFRS 2021 that includes the Conceptual Framework for the Financial Reporting.

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

#### i. Recognition of changes in exchange rates

The Central Bank records adjustment 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 Act' in the statement of changes in equity. According to the Peruvian GAAP, the results of the aforementioned valuations shall be included in profit or loss of the period in which they were generated. As of December 31, 2021 and 2020, this adjustment amounted to an increase for S/ 17,495 million and S/ 15,888 million, respectively (note 2.B (d) and 17.E).

BCRP indexed certificates of deposit (CDR BCRP, for its Spanish acronym) are recorded at face value, and the Central Bank recognizes the changes due to fluctuations in exchange rates in 'Adjustment for valuation – Article 89 of Organic Act' in the statement of changes in equity (paragraph (v) below).

#### ii. Recognition of embedded derivatives

According to the Peruvian GAAP, an embedded derivative of a main (or host) agreement must be treated like separated derivative instruments and recorded at their fair value

when the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract.

**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 items indicated in paragraph (2.B(o)) below. Consequently, the format and content of the statement of cash flows adjust to such definition. This accounting practice differs from provisions of the Peruvian GAAP.

**iv. Disclosure of financial instruments**

As of December 31, 2021 and 2020, the Central Bank has not fully applied 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, and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

**v. Measurement of foreign exchange instruments**

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

Gains and losses from changes in fair value and from exchange rate are recorded in 'Adjustment for valuation – Article 89 of Organic Act' in equity, and it does not affect the profit or loss for the period 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 hedge any loss in compliance with Article 93 of the Organic Act (notes 1 and 17.D). Such bonds are recorded as financial assets at 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 entity to the Peruvian government (note 1).

- The Central Bank classifies the financial instruments in foreign currency issued by the MEF as investments 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 measured 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. New 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. Such policies are applicable from January 1, 2021.

The new accounting policies adopted by the Central Bank from January 1, 2021 are the following:

##### ***Assignments of Special Drawing Rights (SDR)***

The recording of SDR allocations implies a charge to an active account in foreign currency that is part of the "Gross International Reserves" and a credit to a liability account in foreign currency, which is part of the item "Other external liabilities" and that it constitutes a long-term obligation. Both items are presented in the statement of financial position of the Central Bank.

##### ***Interest Rate Swaps (IRS) recognition and initial measurement***

The Central Bank recognizes the interest receivable and payable related to these operations in the income statement and other comprehensive income in the period in which they accrue, under the headings "Interest and fees on domestic credit operations" and "Interest on securities in circulation", respectively; with counterpart in the captions other assets and other liabilities of the statement of financial position, respectively.

Furthermore, for interest rate swaps agreed with an original term greater than 15 months, the fluctuations in their fair value are recognized in the statement of income and other comprehensive income, in the captions "Interest and fees on domestic credit operations" or "Interest on securities in circulation", with counterpart in the captions other assets and other liabilities of the statement of financial position, respectively.

The fair value of the interest rate swaps is equal to the difference between the present value of the fixed payments, less the present value of the variable payments, taking the CD BCRP curve and the zero coupon curve as a discount factor based on the yields of the Peruvian Treasury Bonds.

##### ***Effects of changes in accounting policies***

The Central Bank included a new accounting policy applicable to SDR allocations to incorporate the criteria suggested by the IMF regarding long-term liabilities that the Central Bank maintains with this organization. The policy was approved during the Board of Directors Meeting on August 19, 2021.



Additionally, the Central Bank modified its accounting policy applicable to operations with derivative contracts in order to incorporate the accounting treatment of interest rate swaps. This policy was approved during the Board of Directors Meeting on January 6, 2022 for its application as of fiscal year 2021.

## **B. Accounting principles**

The main accounting principles and policies 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 Board of Directors.

The preparation of the accompanying financial statements requires management to formulate estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of significant events in notes to the financial statements. Actual results may differ from these estimates. Estimates are reviewed on an ongoing basis and are based on historical experience and other factors. The most significant estimates related to the financial statements correspond to the valuation of securities from international entities, which include investments at fair value through other comprehensive income - FVOCI, actuarial reserves for retirement, survivor, health care and burial benefits, whose accounting principles are described in the respective 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 they are recognized and measured 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 gives 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 income or expense. Financial instruments are offset when the Central Bank has a legally enforceable right to set them off, and management intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

#### **i. 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.

ii. **Classification**

Securities from international entities are classified as investments at amortized cost and investments at FVOCI. The Central Bank does not use the category of financial assets at 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 fair value through other comprehensive income 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.

iii. **Subsequent measurement**

**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 from its acquisition date to its date of maturity using the effective interest rate. Amortization is calculated by increasing or decreasing the carrying amount of the instrument and is credited to profit or loss. Instruments acquired at face value are not amortized.

**Financial instruments measured at FVOCI**

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

- First, a financial instrument is measured at amortized cost in order to amortize the premiums or discounts on such instrument from its acquisition date to its date of maturity using the effective interest rate. Amortization is calculated by increasing or decreasing the carrying amount of the instrument and is credited to profit or loss for the period. Financial instruments acquired at face value are not amortized.
- In addition, an instrument classified as measured at FVOCI is also measured on a daily basis at market prices, comparing them with the instrument's last





amortized cost or acquisition cost (if it has been recently acquired). Adjustments to market prices are recorded by increasing or decreasing the carrying amount of the instrument. They are credited to 'fair value reserve' in equity.

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

When the investment is sold or realized, gains or losses previously recognized in equity are transferred to the profit or loss for the year, excluding the effects of the exchange rate differences, which are recorded as indicated in paragraph (d) below. If the decrease in the market price of investments is permanent or due to an impairment, respective provision affecting the profit or loss for the year are recorded.

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 return on securities' in the statement of profit or loss and other comprehensive income.

**(c) Cost and expense recognition**

Interest revenues and expense are calculated using the effective interest method (amortized cost) and are recognized in profit or loss of the period on an accrual basis, depending on the term of the generating operations and the agreed upon interest rates, except for interest on investments that are recognized as indicated in paragraph (b) above. Interest revenues include the return on investments in securities from international entities.

Gains and losses on embedded derivatives not related to the exchange rate are recognized in profit or loss for the period on the date of maturity.

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

When there are reasonable uncertainties about the payment of principal of a financial instrument, interest is recognized as revenues if there is reasonable certainty of payment.

**(d) Foreign exchange transactions**

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 in which transactions are entered into and are stated in soles using the buy rate established by the SBS for operations in U.S. dollars. Foreign exchange balances are stated at the exchange rates provided by Bloomberg (note 24.B(iii)).

For paying the liabilities in foreign currency to the Central Bank's suppliers and recording the tax withholding, as applicable, the Central Bank uses the average sell rate of the U.S. dollar related to the sol published by the SBS.

The Central Bank recognizes the adjustment to exchange rates in 'Adjustment for Valuation – Article 89 of Organic Act' in equity.

**(e) Derivative instruments**

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

**i. Held-for-trading instruments**

The reference price (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 value is calculated based on exchange rates, interest rates and market prices.

Interest on investment of the underlying asset plus the higher amount received in the currency used for foreign exchange swaps (using the spot exchange rate and the forward exchange rate), which corresponds to the increase in currency from basis points, are recorded in the statement of profit or loss and other comprehensive income. Thus, the effects recorded in 'Adjustment for Valuation – Article 89 of Organic Act' in equity correspond to the measurement of the underlying asset during the term of the foreign exchange swap plus (less) the exchange rate effects from changes in the foreign currency with respect to the domestic currency.

Gains and losses from changes in the fair value of future and forward operations are recorded in 'return on operations with derivative instruments' in the statement of profit or loss and other comprehensive income and in 'Adjustment for Valuation – Article 89 of Organic Act' in equity, respectively. Assets and liabilities are recognized in the statement of financial position, as applicable.

**ii. Embedded derivatives**

The Central Bank recognizes the measurement of instruments containing embedded derivatives at the reporting date in 'fair value reserve' in net equity. The measurement of instruments, without separating the embedded derivative from its host contract, is obtained from Bloomberg. The effects of the measurement of instruments are recorded on the date of maturity in 'net yield on securities' in the statement of profit or loss and other comprehensive income. As of December 31, 2021 and 2020, the Central Bank does not have instruments containing embedded derivatives.

**(f) Gold**

Gold holdings are valued using the quoted prices in the New York marketplace provided by Bloomberg. The results of such measurement are recorded in 'Adjustment for Valuation – Article 89 of Organic Act' in net equity.

**(g) Contributions to international organizations**

This caption corresponds to contributions made by the Central Bank to the IMF, FLAR and BIS which are at face value, which represents the acquisition cost since it is the amount that the Central Bank would have the right to receive in case it withdrew its membership in some of said institutions. These contributions cannot be traded with third parties.

Returns on such contributions are recognized when accrued and dividends, when declared.

**(h) Collections**

Collections mainly corresponds to artworks (archeological objects, paintings, sculptures, among others) and collectible coins acquired or received as donation. They are valued at their acquisition cost or face value. Due to their nature, these assets have an indefinite useful life. Therefore, they are not depreciated and are recognized in 'other assets' in the statement of financial position (note 10 (c)).

The acquisition cost of donated assets is recorded in 'other income' in the statement of profit or loss and other comprehensive income and is determined based on the fair value estimated by specialists when they are received.

**(i) Property, plant and equipment**

**Recognition and measurement**

An item of property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Repair and maintenance expenses 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 to the Central Bank; and ii) the cost can be measured reliably. Cost and 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 period.

Work-in-progress is measured at acquisition cost and is not depreciated until it is in working condition.

**Depreciation**

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

	<u>Years</u>
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 value.

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

Management annually assesses whether the carrying amount exceeds the recoverable amount of long-lived assets based on available market inputs.

**(k) *Sterilized stock***

This caption corresponds to liabilities in domestic currency. It comprises securities in circulation and deposits in domestic currency from the public sector and financial enterprises, which are not included in reserve requirements. The sterilization corresponds to the Central Banks' monetary operations to withdraw liquidity in financial system and deposits at financial institutions which, in case of reversal, would imply an increase in the monetary base.

Securities in circulation are measured at face value, and accrued interest is recognized in profit or loss. Discounts granted at placement are deferred and amortized during the term of the instrument using the effective interest method.

The CDR BCRP's carrying amount is adjusted for changes in the exchange rate of the U.S. dollar with respect to the sol. Those changes are recognized in 'Adjustment in Valuation – Article 89 of Organic Act' in equity.

**(l) *Currency in circulation***

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

Currency not in circulation and in the Central Bank's vaults are measured at 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 Disease, Insurance and Pension Fund of 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 benefit plans:

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

The cost of granting benefits through defined benefits plans is determined separately for each plan, by means of the projected unit credit method. Actuarial gains and losses of the defined benefits plans are fully recognized in profit or loss of the period in which they occur.

Assets or liabilities for defined benefit include the present value of the defined benefit obligation, which is determined using mortality tables and a discount rate based on high-quality corporate bonds (note 16), less the past service cost and the fair value of the plan assets required to settle the obligations. Plan assets comprise assets held by a long-term employee benefit fund. Plan assets are not available to the Central Bank's creditors and cannot be directly paid to the Central Bank. The fair value of these assets is measured based on market data.

The Fund's net assets, which reduce the liabilities of the actuarial reserve, comprise the value of deposits and loans, net of obligations.

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

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

Operational expenses and issue costs of currency are recognized in profit or loss of the period in which they are incurred.

Mint cost of coins and coin blanks includes the expenses for raw materials, labor costs and production overheads.

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

**(o) Cash and cash equivalents**

This caption comprises gross international reserves, net of currency in circulation recorded in 'monetary base' in the statement of financial position, as follows:

	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
Gross international reserves	312,194,469	271,019,525
<b>Less:</b>		
Currency in circulation	<u>(93,541,490)</u>	<u>(82,688,894)</u>
<b>Cash and cash equivalents</b>	<b><u>218,652,979</u></b>	<b><u>188,330,631</u></b>

The difference between total gross international reserves and liabilities reserves (including obligations with international entities) represents net international reserves. Such gross international reserves reflect the international liquidity of the country and its credit rating compared with other countries. They correspond to the Central Bank's resources required to meet its obligations in foreign currency.

**(p) Provisions**

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

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

**(q) Contingencies**

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of economic resources 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 economic benefits is probable.

**(r) Domestic credit**

This caption comprises the following:

- Repos of government-backed credit portfolio represented in securities, in which the participant entity sell government-backed credit portfolio represented in securities to the Central Bank. Such entities pay in domestic currency and agree to repurchase agreements of BCRP at following date at existing exchange rates. These agreements are part of the Reactiva Peru program. Such program was elaborated in order to promote financing of the replacement of working capital funds to entities facing short-term payments and obligations with their employees and good and service providers, to ensure that the economy's chain of payments is not interrupted. Repurchase agreements of securities are recognized as assets in 'deposits at financial enterprises' in the statement of financial position. The amounts in these agreements correspond to the guaranteed amounts of the credits subject to such agreements.
- Repos of credit portfolio represented in securities, in which the participant entity sell credit portfolio represented in securities to the Central Bank. Such entities pay in domestic currency and agree to repurchase agreements of BCRP at following date at existing exchange rates. Repurchase agreements of securities are recognized as assets in 'deposits at financial enterprises' in the statement of financial position.
- Investments in instruments issued by the MEF, which are recognized and classified as investments at FVOCI. They are initially recognized and subsequently measured in accordance with the criteria included in note 2.A(vi).
- Securities from the MEF to hedge losses according to Article 93 of the Organic Act (note 1). They are measured at face value and accrue interest at agreed-upon interest rates (coupon rate).
- Repurchase agreements of securities (Repo transactions) used to inject liquidity in domestic currency into financial enterprises. This operation involves the purchase of securities at the commencement date of the operation (financial enterprises transfer the ownership of securities to the Central Bank) and at the maturity date of the operation (financial enterprises repurchase the same securities and the Central Bank transfers the ownership of such securities). Repurchase agreements of securities are recognized as assets in 'deposits at financial enterprises' in the statement of financial position.

- Repurchase agreements of currencies involve operations in which a market participant sells a domestic or foreign currency to the Central Bank in exchange for a foreign or domestic currency, and agrees to buy the currency back at following date at existing exchange rates. Repurchase agreements of currencies are recognized as assets in 'deposits at financial enterprises' in the statement of financial position.

**(s) Foreign exchange swaps**

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

The Central Bank calculates outstanding interest and interest payable are recognized in 'other financial revenues' and 'other financial expenses' in the statement of profit and loss and other comprehensive income in the period in which they are accrued, and are credited to 'other assets' and 'other liabilities' in the statement of financial position, respectively. Similarly, the exchange difference on the face value in U.S. dollars is recognized in 'Adjustment for Valuation – Article 89 of Organic Act' in equity, and is credited to 'assets' and 'liabilities,' as appropriate.

Upon maturity date, the Central Banks settles the operation in soles using current exchange rates.

**(t) Subsequent events**

Events after the end of the reporting period that provide further evidence of conditions that existed as of the date of the statement of financial position (adjusting events) are included in the financial statements. Significant events after the reporting period that are non-adjusting events are disclosed in notes to the financial statements.

**C. New accounting pronouncements**

A number of new amendments have been issued by the IASB and are effective for annual periods beginning on or after January 1, 2022.

Effective date	Amendments
January 01, 2022	Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
	Annual Improvements to IFRS Standards 2018-2020
	Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)
	Reference to the Conceptual Framework (Amendments to IFRS 3)
January 01, 2023	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
	Definition of Accounting Estimates (Amendments to IAS 8)
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)



Since the afore mentioned standards are solely adopted in addition to those established by the Organic Act and those issued by the Central Bank's Board of Directors. Such standards will not have a significant effect on the preparation of the financial statements. The Central Bank has not measured the effects of adopting such standards in the preparation of the financial statements, if adopted.

### 3. DEPOSITS AT FOREIGN BANKS

As of December 31, this caption comprises the following:

	Note	2021 (S/ 000)	2020 (S/ 000)
Time deposits (a)		70,326,820	66,653,412
Outstanding interest on term deposits (b)		23,339	17,555
		<b>70,350,159</b>	<b>66,670,967</b>
Demand deposits		2,874	6,063
Outstanding interest on gold deposits	6(b)	251	23
Portfolio deposits at foreign entities (c)		86,193	88,290
Investment guarantee at foreign entities (d)		15,581	8,792
		<b>70,455,058</b>	<b>66,774,135</b>

(a) As of December 31, 2021 and 2020, 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\$ 17,692 million and US\$ 18,423 million, respectively.

In 2021, deposits with foreign banks accrued interest at an annual interest rate of 0.32% (2020: 0.36%).

(b) In 2021 and 2020, the Central Bank recognized interest revenues on deposits at foreign banks for S/ 177 million and S/ 476 million, respectively. They are recorded in 'Interest on deposits at foreign banks' in the statement of profit or loss and other comprehensive income.

(c) As of December 31, 2021, corresponds to call deposit accounts for US\$ 12 million and security deposits for financial derivatives for US\$ 10 million (2020: US\$ 20 million and US\$ 4 million, respectively).

(d) As of December 31, 2021, corresponds to guarantees for forwards, forex swap and futures operations for US\$ 3.9 million (2020: US\$ 2.4 million).

### 4. DEPOSITS AT FOREIGN ORGANIZATIONS

As of December 31, 2021 and 2020, this caption corresponds to deposits at the IMF stated in SDR, which accrue interest at annual interest rates of 0.08%. They have free withdrawal option, except when there are actual or potential balance of payments problems that require assistance from the IMF, or when there is a request to cease to be a member of this international organization.



In 2021 and 2020, the delegation framework of a part of the investment portfolio of international reserves held at tier 1 foreign financial institutions was maintained under the guidelines established by the Central Bank. Accordingly, the following firms render services to the Central Bank from July 2020: BNP Paribas Asset Management USA, Inc., Pacific Investment Management Company LLC. and Amundi Asset Management, which are located in the USA.

As of December 31, 2021 and 2020, maturities and nominal interest rates of investments are as follows:

	Maturity		Nominal interest rate (i)						
	2021	2020	2021		2020		2020		
			US\$	Other currencies	US\$	Other currencies	Min.%	Max.%	
<b>Financial assets measured at FVOCI</b>									
<b>At local entities</b>									
Short-term foreign currency certificates of deposit	Jan. 2022/Mar. 2022	Jan. 2021/Jan. 2021	0.27	0.30	0.21	0.29	0.30	0.23	0.24
Short-term sovereign bonds	Jan. 2022/Dec. 2022	Jan. 2021/Dec. 2021	0.13	3.00	(0.25)	6.00	0.22	3.13	(0.29)
Short-term supranational bonds	Jan. 2022/Dec. 2022	Jan. 2021/Dec. 2021	0.13	1.88	2.20	6.00	0.19	3.00	2.25
Long-term sovereign bonds	Jan. 2023/Feb. 2026	Jan. 2022/Sep. 2025	0.13	2.88	0.13	5.50	0.13	3.00	0.13
Long-term supranational bonds	Jan. 2023/Feb. 2026	Jan. 2022/Oct. 2025	0.18	3.00	0.30	4.90	0.13	3.00	0.30
<b>At foreign entities</b>									
Short term securities – PIMCO	Jan. 2022/Nov. 2024	Jan. 2021/Jun. 2021	-	1.75	-	-	-	1.75	-
Fixed income securities – PIMCO	Jan. 2022/Sep. 2051	Dec. 2021/Dec. 2050	-	4.00	0.75	2.50	0.13	4.00	0.25
Fixed income securities – Amundi	Feb. 2022/Aug. 2051	Mar. 2021/Jun. 2050	0.13	4.50	-	4.75	0.13	4.50	-
Fixed income securities – BNP Paribas	Mar. 2021/Mar. 2050	Jun. 2021/Feb. 2050	-	6.5	0.63	0.75	-	6.50	-

(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, 2021 and 2020, securities from international entities are tier 1 and low-risk financial instruments. Securities from international entities or foreign public enterprises have risk ratings of at least A+, according to the credit rating agencies: Moody's and Standard & Poor's. Certificates of deposit and bankers' acceptance have a risk rating of at least A, according to the credit rating agencies: Fitch Group, 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:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Up to 3 months	60,334,035	46,985,311
3–12 months	43,475,322	31,727,670
1 – 3 years	106,143,933	102,381,942
3-5 years	3,850,681	4,790,649
More than 5 years	<u>3,532,670</u>	<u>3,169,538</u>
<b>Total</b>	<b><u>217,336,641</u></b>	<b><u>189,055,110</u></b>

In 2021 and 2020, the Central Bank recognized revenues from net return on securities for S/1,540 million and S/2,202 million, respectively. They are recorded in 'net return on securities' in the statement of profit or loss and other comprehensive income. Likewise, during the year 2021, a decrease of S/ 1,867 million was recorded in the caption 'Fair value reserve' of equity (2020: S/ 1,026 million) (note 17.C).

## 6. GOLD

As of December 31, this caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
<b>In Peru</b>		
Gold coins (a)	4,010,214	3,787,680
Provision for costs of converting gold into high purity or good delivery gold bars	<u>(2,714)</u>	<u>(2,470)</u>
	<b>4,007,500</b>	<b>3,785,210</b>
<b>Abroad</b>		
Gold bars (b)	<u>4,086,821</u>	<u>3,860,035</u>
<b>Total</b>	<b><u>8,094,321</u></b>	<b><u>7,645,245</u></b>

- (a) As of December 31, 2021 and 2020, 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.
- (b) As of December 31, 2021 and 2020, 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, 2021, such term deposits accrue interest at an annual interest rate between 0.035% and 0.045%, and have a term of 63 days from the date of their constitution (2020: accrued interest at an annual interest rate between 0.02% and 0.035%, and had term between 20 and 21 days from the date of their constitution).

The accrued interest in 2021 and 2020, 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:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Contributions to the FLAR (a)	2,260,735	1,949,906
Contributions to the IMF (b)	2,049,687	1,779,132
Contributions to the BIS (c)	<u>365,580</u>	<u>342,418</u>
	<b><u>4,676,002</u></b>	<b><u>4,071,456</u></b>

(a) This contribution grants Peru access to financing facilities from the FLAR. As of December 31, 2021, contributions paid to the FLAR amount to US\$ 569 million, equivalent to S/ 2,260 million (2020: US\$ 539 million equivalent to S/ 1,950 million). As of December 31, 2021 and 2020, Peru's participation in the FLAR is 17% of its subscribed capital. Likewise, as of December 31, 2021, the Central Bank holds contributions pending capitalization for US\$ 95 million, equivalent to S/ 377 million (2020: US\$ 125 million equivalent to S/ 451 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, 2021 and 2020, amounts to SDR 1,335 million; made up by contributions in SDR and soles. As of December 31, 2021 and 2020, Peru's participation in the total quota subscriptions of the IMF's member countries is 0.28% and comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
<b>Contribution in SDR</b>		
Contribution to the IMF in SDR (i)	<u>2,049,687</u>	<u>1,779,132</u>
<b>Domestic currency contributions</b>		
Contribution to the IMF, equivalent in domestic currency (ii)	5,447,462	5,132,010
Revaluations to be settled – contribution to the IMF in domestic currency (iii)	<u>(72,826)</u>	<u>39,931</u>
	<b><u>5,374,636</u></b>	<b><u>5,171,941</u></b>
<b>Total contribution to the IMF</b>	<b><u>7,424,323</u></b>	<b><u>6,951,073</u></b>

(i) As of December 31, 2021 and 2020, it corresponds to contributions granted by Peru to the IMF for SDR 368 million and SDR 341 million, respectively.

(ii) For contributions in soles, the Central Bank did not disburse any funds but issued promissory notes in favor of the IMF and it can collect such contributions at any moment. Therefore, the counter 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 adjustments of the contribution in domestic currency between April 30 and December 31 of every year. These revaluations are settled at the closing of IMF's financial year, which takes place every year on April 30.

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

- (c) The Central Bank is member of the IMF since 2011. The BIS determines the percentage of participation of member countries. Peru's participation corresponds to 3,000 shares. As of December 31, 2021 and 2020, 25% of the market value of such shares has been paid, corresponding to SDR 66 million, equivalent to S/ 365 million as of December 31, 2021 (2020: S/ 342 million).

The 75% of the market value of such shares, corresponding to SDR 197 million, equivalent to S/ 1,097 million as of December 31, 2021 (2020: S/ 1,027 million), was 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:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
<b>To banks (a)</b>		
Repurchase agreements of currency	2,041,200	5,190,000
Repurchase agreements of securities	6,337,491	5,011,275
Repurchase agreements of portfolio	6,440,707	463,568
Repos of government-backed credit portfolio	36,203,871	47,795,675
Outstanding fees from repurchase agreements of currencies	40,671	107,607
Outstanding interest from repurchase agreements of portfolio	21,254	248
Outstanding interest from repos of government-backed credit portfolio	52,419	117,829
	<b><u>51,137,613</u></b>	<b><u>58,686,202</u></b>
<b>To the public sector (b)</b>		
Bonds issued by the MEF in foreign currency	2,274,813	2,252,368
Bonds issued by the MEF in domestic currency	1,729,685	1,305,132
Repurchase agreements of currencies	992,000	720,000
Outstanding interest from securities issued in Peru	79,424	33,825
Outstanding fees from repurchase agreements of currencies	8,595	4,972
	<b><u>5,084,517</u></b>	<b><u>4,316,297</u></b>
<b>To other entities and funds</b>		
Repurchase agreements of currencies	304,900	60,000
Repurchase agreements of securities	-	1,249,133
Repos of government-backed credit portfolio	2,452,356	2,705,411
Outstanding interest from repos of government-backed credit portfolio	2,977	4,137
Outstanding fees from repurchase agreements of currencies	398	1,121
	<b><u>2,760,631</u></b>	<b><u>4,019,802</u></b>
<b>To financial enterprises</b>		
Repurchase agreements of securities	29,987	-
Repurchase agreements of currencies	4,000	-
Repos of government-backed credit portfolio	171,086	228,377
Outstanding interest from report of government-backed credit portfolio	174	464
Outstanding fees from repurchase agreements of currencies	1	-
	<b><u>205,248</u></b>	<b><u>228,841</u></b>
<b>Total</b>	<b><u>59,188,009</u></b>	<b><u>67,251,142</u></b>

- (a) As of December 31, 2021 and 2020, the Central Bank carried out repurchase agreements of currencies with financial enterprises, whereby such enterprises 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 fee equivalent to the interest rate offered by each financial enterprise in auctions, less a discount established in the corresponding announcement. As of December 31, 2021, these operations had interest rates ranging from 1,76% to 3,29%, with settlement dates between January 2022 and April 2023 (2020: interest rates from 0,29% to 3,51%, with settlement dates between February 2021 and September 2024).

Also, as of December 31, 2021, the Central Bank has current repurchase agreements of certificates of deposit and treasury bonds with banks at an average annual interest rate of 1,58%, with settlement dates between January 2022 and September 2025 (2020: average annual interest rate of 1,08%, with settlement dates between March 2021 and July 2024).

As of December 31, 2021, the Central Bank has current repurchases agreements of portfolio represented in securities with banks, which have an average annual interest rate of between 0.50% and 3.50%, with settlement date between January 2022 and September 2025 (2020: average annual interest rate of 0.50%, with settlement dates between January 2021 and October 2024).

As of December 31, 2021, the Central Bank has current report of government-backed credit portfolio represented in securities in the Reactiva Peru program. Such program was elaborated in order to ensure that the chain of payments is not interrupted regarding the impact the COVID-19 outbreak has had on different entities. This program allows the Central Bank to provide liquidity to financial institutions participating in it, and they are granted government-backed loans in exchange. As of December 31, 2021, the balance of these operations has an average annual interest rate of 0.50%, with settlement dates between May 2023 and December 2025 (2020: average annual interest rate of 0.50%, with settlement dates between May and December 2023). It is worth mentioning that these operations had a grace period of up to 12 months, which matures in 2021.

- (b) As of December 31, 2021 and 2020, 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 at rates ranging from 7.35% to 8.75%, respectively.

Furthermore, the Central Bank holds MEF's bonds issued in Peruvian soles acquired in the secondary market between December 2020 and June 2021, which mature between August 2037 and February 2055, and accrue interest at rates ranging from 5.35% to 6.90%, respectively.

Such instruments are classified and valued as financial assets measured at FVOCI. As of December 31, 2021, a decrease in fair value for S/ 402 million (2020: increase of S/ 110 million) was recorded in 'fair value reserve' in the statement of financial position (note 17.C).

Likewise, as of December 31, 2021 and 2020, the Central Bank carried out repurchase agreements of currencies with public sector enterprises, whereby such enterprises sold foreign or domestic currency to the Central Bank in exchange for domestic or foreign currency. They also agreed to repurchase the sold currency at following date to the exchange rate current at the repurchase date. The Central Bank charges a fee equivalent to the interest rate offered by each sector public enterprise in auctions, less a discount established in the corresponding announcement. As of December 31, 2021, these operations had interest rates ranging from 0.18% to 3.43%, with settlement dates between February 2022 and May 2024 (2020: interest rates from 0.29% to 3.51%, with settlement dates in September 2024).

In 2021 and 2020, the Central Bank recognized interest revenues and fees from domestic credit operations for S/ 767 million and S/ 539 million, respectively. Such revenues are recorded in 'financial revenues' in the statement of profit or loss and other comprehensive income.



**9. PROPERTY, PLANT AND EQUIPMENT, NET**

The movement of property, plant and equipment for the years 2021 and 2020, and the accumulated depreciation are as follows:

	Land	Building and other constructions	Furniture and office equipment	Vehicles	Various equipment	Goods in transit	Total
	(S/000)	(S/000)	(S/000)	(S/000)	(S/000)	(S/000)	(S/000)
<b>Costs</b>							
<b>Balance as of January 1, 2020</b>	28,419	172,251	7,282	3,980	116,504	521	328,957
Additions	-	1,117	117	-	3,710	1,537	6,481
Transfers	-	442	3	-	76	(521)	-
Disposals and others	-	(663)	(274)	-	(7,898)	(12)	(8,847)
<b>Balance as of December 31, 2020</b>	28,419	173,147	7,128	3,980	112,392	1,525	326,591
Additions	-	2,513	173	212	8,224	961	12,083
Transfers	-	1,108	-	-	423	(1,531)	-
Disposals and others	-	(1,693)	-	-	18	6	(1,669)
<b>Balance as of December 31, 2021</b>	<b>28,419</b>	<b>175,075</b>	<b>7,301</b>	<b>4,192</b>	<b>121,057</b>	<b>961</b>	<b>337,005</b>
<b>Accumulated depreciation</b>							
<b>Balance as of January 1, 2020</b>	-	75,472	4,950	3,527	80,204	-	164,153
Depreciation	-	3,739	376	161	8,733	-	13,009
Disposals and others	-	(313)	(272)	-	(7,869)	-	(8,454)
<b>Balance as of December 31, 2020</b>	-	78,898	5,054	3,688	81,068	-	168,708
Depreciation	-	3,839	368	153	9,075	-	13,435
Disposals and others	-	(809)	-	-	-	-	(809)
<b>Balance as of December 31, 2021</b>	-	<b>81,928</b>	<b>5,422</b>	<b>3,841</b>	<b>90,143</b>	-	<b>181,334</b>
<b>Carrying amount</b>							
<b>Balance as of January 1, 2020</b>	28,419	96,779	2,332	453	36,300	521	164,804
<b>Balance as of December 31, 2020</b>	<b>28,419</b>	<b>94,249</b>	<b>2,074</b>	<b>292</b>	<b>31,324</b>	<b>1,525</b>	<b>157,883</b>
<b>Balance as of December 31, 2021</b>	<b>28,419</b>	<b>93,147</b>	<b>1,879</b>	<b>351</b>	<b>30,914</b>	<b>961</b>	<b>155,671</b>

As of December 31, 2021 and 2020, the Central Bank has fully depreciated items of property, plant and equipment. Such items are still in use for S/60 million.

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

In 2021 and 2020, depreciation of items of property, plant and equipment amounted to S/ 13 million, and is included in 'operational expenses' and 'issuance expenses and costs' for S/ 11 million and S/ 2 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 input. In management's opinion, there is no evidence of impairment of items of property, plant and equipment held by the Central Bank as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, the Central Bank did not grant any asset as guarantee.

## 10. OTHER ASSETS

As of December 31, this caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
<b>Financial instruments</b>		
Outstanding interest foreign exchange swap	601,213	13,783
Outstanding interest rate swap	2,019	-
Outstanding accounts from personnel	2,798	2,876
	<b>606,030</b>	<b>16,659</b>
<b>Non-financial instruments</b>		
Raw material, semi-finished and finished goods (a)	102,069	112,497
Collections (b)	79,368	79,454
Deferred charges (c)	127,167	34,828
Advance payments to suppliers	45	3,356
Intangible assets	12,618	9,097
Outstanding accounts (d)	5,582	5,148
Silver	1,598	1,731
Others	1,579	1,594
	330,026	247,705
<b>Total</b>	<b>936,056</b>	<b>264,364</b>

(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, medals and other objects acquired by or donated to the Central Bank and maintained for display.

(c) Deferred charges mainly comprise cost of printing banknotes. Such cost is charged to expenses when banknotes are available for 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 EXTERNAL LIABILITIES

As of December 31, this caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
SDR allocations and revaluations to be settled (a)	10,508,932	3,176,330
Allocation in Andean pesos (b)	79,500	72,360
Others	8,835	5,843
<b>Total</b>	<b><u>10,597,267</u></b>	<b><u>3,254,533</u></b>

- (a) As of December 31, 2021 and 2020, the account's balance is equivalent to SDR 1,889 million and SDR 610 million, respectively, 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 afore mentioned dates comprises exchange difference generated by revaluation of SDR allocation received from the IMF from the date of the account's last movement (July 31 and December 16, for years 2021 and 2020, respectively). As of July 31, 2020, it amounts to S/ 98 million (2020: S/ 25 million) (positive revaluation).

SDR allocations accrue interest according to the conditions of the Articles of Agreement. As of December 31, 2021 and 2020, the effective annual interest rate was 0.077 and 0.08 employees, respectively.

- (b) As of December 31, 2021 and 2020, the allocation in Andean pesos corresponds to those delivered by the FLAR for 20 million Andean pesos, equivalent to S/ 80 million and S/ 72 million, respectively. Such allocation does not accrue interest or has a defined maturity for its cancellation. The counterpart account is an outstanding account recorded in 'other external assets' in the statement of financial position.

In 2021 and 2020, the Central Bank recognized interest expense for approximately S/3 million and S/ 6 million, respectively. Such expense correspond to its external liabilities, mainly for the obligations for SDR allocations, which are recorded in 'interest on other external liabilities' in the statement of profit or loss and other comprehensive income.

## 12. SECURITIES IN CIRCULATION

As of December 31, this caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
BCRP certificates of deposit (CD BCRP)	14,346,900	41,067,000
BCRP certificates of deposit at a variable rate (CDV BCRP)	12,685,910	-
BCRP indexed certificates of deposit (CDR BCRP)	1,352,636	6,406,958
Sale discounts on CD BCRP, CDR BCRP and CDV BCRP	(19,033)	(92,906)
	<b><u>28,366,413</u></b>	<b><u>47,381,052</u></b>

As of December 31, 2021 and 2020, securities in circulation comprise certificates of deposit and indexed certificates of deposit, which are placed by the auction mechanism or by direct placement to withdraw liquidity surpluses from the financial system. Likewise, as of December 31, 2021, comprises certificates of deposit at a variable rate placed through the auction or direct placement mechanism, which are subject to a readjustment based on the reference interest rate for monetary policy.

As of December 31, 2021 and 2020, S/ 1,168 million and S/ 894 million of certificates of deposit guarantee repurchase transactions with securities, respectively.

In 2021 and 2020, the Central Bank recognized interest expense for securities in circulation for S/ 374 million and S/ 515 million, respectively. Such expense is recorded in 'interest on securities in circulation' in the statement of profit or loss and other comprehensive income.

In 2021, the Central Bank recognized interest revenues on certificates deposits at a variable rate for S/ 28 million. They are recorded in 'other financial revenues' 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:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Banks	24,707,409	39,279,708
Insurance Deposit Fund	415,500	1,220,000
Banco de la Nación	1,975,000	3,000,000
Mutual funds and funds of administrators of pension funds	75,400	52,400
Financial institutions	351,222	740,400
Other institutions	860,915	3,181,450
	<b>28,385,446</b>	<b>47,473,958</b>
Sale discounts on CD BCRP, CDR BCRP and CDV BCRP	(19,033)	(92,906)
<b>Total</b>	<b>28,366,413</b>	<b>47,381,052</b>

As of December 31, 2021, certificates of deposit issued by the Central Bank mature between January 2022 and March 2023, and accrue interest at discount rates between 0.30% and 2.49% (2020: maturity between January 2021 and August 2023, and accrued interest between -0.05% and 2.69%).

### 13. DEPOSITS IN DOMESTIC CURRENCY

As of December 31, this caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Public sector	65,439,042	38,217,654
Banco de la Nación	22,553,505	20,259,903
Banks	13,123,829	40,609,828
Municipal Savings and Credit Unions	1,652,136	1,963,292
Financial enterprises	872,008	1,342,282
Insurance Deposit Fund	3,258,500	2,620,700
Rural Savings and Credit Unions	18,450	243,900
Other entities and funds	1,443,649	5,210
	<b>108,361,119</b>	<b>105,262,769</b>

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

Type	Interest rate	Maturity date	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Checking accounts	0-2.00	No maturity	17,624,869	4,203,847
Time deposits	0.29-2.50	Between January 2022 and April 2023	87,246,700	84,793,700
<i>Special deposits (overnight)</i>	0.85	3 days	3,489,550	16,265,222
			<b>108,361,119</b>	<b>105,262,769</b>

In 2021 and 2020, the Central Bank recognized interest on deposits in domestic currency for S/ 580 million and S/ 656 million, respectively. Such interest is recorded in 'interest on deposits in domestic currency' in the statement of profit or loss and other comprehensive income.

## 14. MONETARY BASE

As of December 31, this caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
<b>Currency in circulation (a)</b>	<b>93,541,490</b>	<b>82,688,894</b>
<b>Deposits in domestic currency (b)</b>		
Banks	2,483,426	2,250,353
Municipal Savings and Credit Unions	465,169	474,412
Financial enterprises	285,989	150,444
Banco de la Nación	420,000	280,000
Rural Savings and Credit Unions	83,403	142,540
	<b>3,737,987</b>	<b>3,297,749</b>
	<b>97,279,477</b>	<b>85,986,643</b>

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

	<b>2021</b>		<b>2020</b>	
	Units	S/ (000)	Units	S/ (000)
<b>Banknotes</b>				
Denomination S/ 10	162,576,372	1,625,764	149,039,583	1,490,396
Denomination S/ 20	189,857,867	3,797,158	192,783,682	3,855,674
Denomination S/ 50	275,983,765	13,799,188	239,034,100	11,951,705
Denomination S/ 100	624,272,081	62,427,208	553,667,383	55,366,738
Denomination S/ 200	43,560,926	8,712,185	35,512,161	7,102,432
		<b>90,361,503</b>		<b>79,766,945</b>
<b>Coins</b>				
Denomination S/ 0.01	347,732,298	3,477	347,760,038	3,478
Denomination S/ 0.05	503,680,635	25,184	503,735,095	25,187
Denomination S/ 0.10	1,876,270,464	187,627	1,764,033,822	176,403
Denomination S/ 0.20	543,141,160	108,628	504,875,224	100,975
Denomination S/ 0.50	589,717,668	294,859	547,684,968	273,843
Denomination S/ 1.00	1,122,431,562	1,122,432	1,030,356,377	1,030,356
Denomination S/ 2.00	229,699,853	459,400	208,681,166	417,362
Denomination S/ 5.00	195,315,891	976,579	178,513,816	892,569
		<b>3,178,186</b>		<b>2,920,173</b>
Commemorative coins		1,801		1,776
		<b>93,541,490</b>		<b>82,688,894</b>

(b) As of December 31, 2021 and 2020, 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 reserve required by the Central Bank for obligations subject to reserve requirements in domestic currency and do not have maturity. Additionally, the legal reserve requirements may be hedged with cash in domestic currency from entities subject to reserve requirements.

Legal reserve requirements include minimum legal reserve and additional reserve requirements. Additional reserve requirements are defined as the part of the legal reserve requirements that exceeds the minimum legal reserves.

As of December 31, 2021 and 2020, the minimum legal reserves had a rate of 5.0% and 4.0%, respectively, for obligations subject to reserve requirements in domestic currency. Also, the obligations subject to reserve requirements are classified into 2 regimes: general and special.

As of December 31, 2021 and 2020, only additional reserve requirements in domestic currency are required for institutions exceeding the limits of foreign currency sale operations through forward contracts and swaps, as well as entities that have obligations subject to the special regime. As of December 31, 2021, reserve requirement funds corresponding to the additional reserve requirements of the general and special regime in soles, which are deposited with the Central Bank, accrue interest of 1.85% (2020: 0.00%). Also, such rate equals the highest rate divided by 0% and interest rate of overnight deposits in domestic currency with the Central Bank less 195 bps.

On October 26, 2021, the Central Bank issued Official Letter 0031-2021-BCRP, referring to reserve requirements in domestic currency, with which it has resolved to increase the minimum legal reserve requirement from 4.0% in October 2021 to 4.5% in November 2021, to 4.75% in December 2021, and to 5.0% from January 2022; and establish that the average reserve requirement rate of the obligations subject to the general regime has a maximum limit of 6.0% as of November 2021.

On August 30, 2021, the Central Bank issued Official Letter 0024-2021-BCRP, referring to reserve requirements in domestic currency, with which it resolved: a) to establish a marginal reserve rate of 25% for obligations subject to the general regime that exceed the average level of the base period, which corresponds to July 2021; b) establish a minimum average reserve requirement rate of 4.0% applied to obligations subject to the general regime, which will increase to 4.25% in the October 2021 and to 4.50% as of November 2021; and c) increase the minimum level of deposits in checking accounts that entities subject to reserve requirements must maintain in the Central Bank as reserve funds from 0.75% to 1.0% of the total obligations subject to reserve requirements as of October 2021.

On March 31, 2020, the Central Bank issued Official Letter 0010-2020-BCRP, referred to the provisions of reserve requirements in domestic currency. Such Official Letter reduced the minimum legal reserves rate and the reserve requirements rate for obligations subject to general regime from 5.0% to 4.0%. It also reduced the minimum amount of deposits in current accounts that financial institutions subject to reserve requirements shall have with the Central Bank as reserve requirement funds, from 1.0% to 0.75% of the total obligations subject to reserve requirements.

## 15. DEPOSITS IN FOREIGN CURRENCY

As of December 31, this caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Banks (a)	60,711,855	40,524,448
Public sector (b)	7,689,625	11,052,797
Other financial enterprises (a)	424,933	758,820
Banco de la Nación (a)	2,977,673	2,501,344
Financial institutions (a)	177,601	188,563
	<b><u>71,981,687</u></b>	<b><u>55,025,972</u></b>

- (a) As of December 31, 2021 and 2020, it corresponds to deposits in foreign currency of financial 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 and do not have maturity.

Legal reserve requirements include minimum legal reserves and additional reserve requirements. As of December 31, 2021 and 2020, minimum legal reserves had a rate of 9% for obligations subject to reserve requirements in foreign currency. Additional reserve requirements are defined as the part of the legal reserve requirements that exceeds the minimum legal reserves. As of December 31, 2021, the rate of the additional reserve requirements in foreign currency for banks was 24.8% on average (2020: 25.4%).

As of December 31, 2021, reserve requirement funds corresponding to the additional reserve requirements of the general and special regime, which are deposited with the Central Bank, did not accrue interest, since the remuneration rate of deposits in foreign currency was 0.00% (2020: 0.006%). Such rate is equal to the higher rate between 0% and 25% of the difference between the London Interbank Offered Rate (LIBOR) for one month minus one eighth of 1%.

On March 22, 2021, the Central Bank issued Official Letter 0005-2021-BCRP, referred to the provisions of reserve requirements in foreign currency, which amended one of the requirements to determine the additional reserve requirements according to the evolution of credit in foreign currency.

On December 19, 2020, the Central Bank issued Official Letter 0034-2020-BCRP, referred to the provisions of reserve requirements in foreign currency, which extended the temporary suspension of additional reserve requirements according to the evolution of credit in foreign currency until April 2021.

On March 31, 2020, the Central Bank issued Official Letter 0011-2020-BCRP, referred to the provisions of reserve requirements in foreign currency, which reduced the reserve requirements rate for obligations with average terms of less than 2 years with foreign financial institutions, subject to special regime from 50% to 9%. It also suspended additional reserve requirements for 2020 according to the evolution of credit in foreign currency.

- (b) As of December 31, 2021 and 2020, 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. Such agreements establish the conditions for receiving deposits from such institution. As of December 31, 2021, such deposits correspond to demand and term deposits, which accrued interest at an effective annual rate between 0% and 0.18% (2020: between 0% and 0.22%). As of December 31, 2021, term deposits have maturity between January and March 2022 (2020: maturity in January 2021).

In 2021 and 2020, the Central Bank recognized interest on deposits in foreign currency for S/ 15 million and S/ 277 million, respectively. Such interest 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>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
<b>Financial liabilities</b>			
Reverse repurchase agreements of foreign currencies	8(a)/(b)	3,508,814	6,304,903
Interest and fees payable		923,816	165,854
Deposit Insurance Fund		939,138	461,943
Accounts payable		47,831	10,865
Fund for diseases, insurance and pensions of Central Bank's employees		11,164	13,464
		<u>5,430,763</u>	<u>6,957,029</u>
<b>Non-financial liabilities</b>			
Actuarial liabilities		109,614	143,446
Other provisions		36,553	37,622
Others		6,955	4,178
		<u>153,122</u>	<u>185,246</u>
		<u>5,583,885</u>	<u>7,142,275</u>



As of December 31, 2021 and 2020, actuarial liabilities comprise the provision 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. Such Decree aims to provide assistance to the Central Bank's active and retired employees, as well as 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 afore mentioned assistance corresponds to a defined benefits plan.

As of December 31, 2021 and 2020, 45.01% and 54.63% of the Fund's assets are deposited with the Central Bank, respectively. Such assets mainly comprise deposits in domestic currency which accrue interest at an effective annual rate between 2.52% and 2.48%, respectively, and loans to employees of the Central Bank, which are directly discounted on the payroll.

The recovery of the provision and the net expense for employee benefit is recognized in the statement of profit and loss and other comprehensive income within the captions non-financial income and operational expenses, respectively, and comprises the following:

	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
Changes in net assets of the Employees' Fund	3,342	14,704
Changes in reserves calculated by the actuary	(28,098)	(2,211)
	<u><b>(24,756)</b></u>	<u><b>12,493</b></u>

As of December 31, 2021 and 2020, the movement in the obligation for employee benefits and the fair value of the benefits' assets are the following:

	<u>Note</u>	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
Opening balance		143,446	140,784
Transfers to the Fund during the year		(9,076)	(9,831)
Provision for employee benefits	21	-	12,493
Recovery for employee benefits	16	(24,756)	-
		<u><b>109,614</b></u>	<u><b>143,446</b></u>

In December 2021 and 2020, the Central Bank's Board of Directors authorized the transfer to the Fund for Diseases, Insurance and Pensions of Central Bank's Employees for S/ 54.5 million and S/ 52.5 million, respectively. In 2021, from the aforementioned amount, S/ 9.1 million were used to pay pensions of retired personnel, which decreased the actuarial liability by the same amount (2020: S/ 9.8 million); S/ 42.9 million were transferred to the Fund for health expenses of active personnel, which increased the balance of 'operational expenses' (2020: S/ 40.3 million) (note 21); and approximately S/ 2.2 million were transferred to health expenses of National Mint (CNM) personnel, which were recognized in cost of issued coins (2020: S/ 2.4 million).

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

	<b>2021</b>		<b>2020</b>	
	S/ (000)	%	S/ (000)	%
Deposits with the Central Bank	11,164	45.0	13,464	55.0
Outstanding accounts from personnel	13,634	55.0	11,178	45.0
<b>Total</b>	<b>24,798</b>	<b>100.0</b>	<b>24,642</b>	<b>100.0</b>

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

	<b>2021</b>	<b>2020</b>
Discount rate (%)	6.0	5.5
Increase (decrease) in pensions (%)	(20.4)	0.1
Average period for amortization of pensions	8.81	9.68
<b>Active and retired personnel as of the date of the statement of financial position</b>		
Males	1,058	1,043
Females	624	617
<b>Mortality tables</b>		
Males	SP-2005-H	SP-2005-H
Females	SP-2005-M	SP-2005-M

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

Year	<b>Increase/decrease in discount rate</b>	<b>Effects on reserve for the year in thousands of soles</b>
		S/ 000
2021	50bps	(6,236)
	(50bps)	6,911
2020	50pbs	(6,761)
	(50bps)	7,377

  

Year	<b>Increase/decrease in life expectancy</b>	<b>Effects on reserve for the year in thousands of soles</b>
	Years	S/ 000
2021	1	1,055
	(1)	1,656
2020	1	3,372
	(1)	3,595

## 17. EQUITY

### A. Capital

As of December 31, 2021 and 2020, 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 for a reserve which, preferably, shall be used for capitalization.

In 2021 and 2020, the Central Bank has not constituted a legal reserve since the reserves accumulated as of December 31 of 2021 and 2020 were equivalent to 100% its capital.

### *Special legal reserve requirements*

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 11, 2021, after the approval of the 2020 financial statements, the constitution of a special reserve was agreed for S/ 1,300 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.

On March 05, 2020, after the approval of the 2019 financial statements, the constitution of a special reserve was agreed for S/ 1,392 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 2021 and 2020 is as follows:

	<u>Note</u>	<b>Securities from international entities</b> S/ (000)	<b>Bonds issued by the MEF</b> S/ (000)	<b>Total</b> S/ (000)
<b>Balance as of January 1, 2020</b>		<b>772,786</b>	<b>35,518</b>	<b>808,304</b>
Gains from fluctuations	5 and 8 (b)	916,309	124,650	1,040,959
Loss from fluctuations	5 and 8 (b)	(256)	(14,842)	(15,098)
<b>Balance as of December 31, 2020</b>		<b>1,688,839</b>	<b>145,326</b>	<b>1,834,165</b>
Gains from fluctuations	5 and 8 (b)	126,074	-	126,074
Loss from fluctuations	5 and 8 (b)	(1,992,747)	(402,074)	(2,394,821)
<b>Balance as of December 31, 2021</b>		<b>(177,834)</b>	<b>(256,749)</b>	<b>(434,583)</b>

## D. Accumulated results

Article 93 of the Organic Act states that in case of losses, the legal reserve 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 negotiable debt securities that shall accrue interest for the unhedged amount.

On March 11, 2021, after the approval of the financial statements for the year 2020, it was agreed to transfer S/ 433 million to the Public Treasury, corresponding to 25% of the profit for that year. On May 6, 2021, the transfer was made to the main account in Domestic Currency of the MEF.

On March 5, 2020, after approval of the 2019 financial statements, it was agreed to distribute 2019 profits, corresponding to Public Treasury for S/ 464 million. Such profits will be used for amortization of sovereign bonds transferred by the MEF. On August 14, 2020, 25% of the 2019 net profits was used to cancel the principal and accrued interest of these bonds for S/ 394 million and S/ 43 million, respectively. Also, S/ 27 million were transferred to a MEF's account in domestic currency.

#### **E. Adjustment for Valuation – Article 89 of 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. However, such differences are not considered as gains or losses for the year (note 2.B (d)).

The movement of this caption for the years 2021 and 2020 is as follows:

	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
<b>Opening balance</b>	<b>26,216,489</b>	<b>10,328,711</b>
<b>Plus (less)</b>		
Valuation of derivative instruments operations and others related to exchange rate	1,286,338	(2,542,901)
Valuation of metals (gold)	449,274	2,243,205
Valuation of IMF's contribution and obligations	(234,343)	(381,415)
Valuation of U.S. dollars	14,884,730	6,861,098
Valuation of other currencies	2,035,910	9,834,426
Valuation of indexed certificates of deposit	(926,941)	(126,635)
<b>Closing balance</b>	<b><u>43,711,457</u></b>	<b><u>26,216,489</u></b>

## **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 audit and, if applicable, to correct the tax calculated by the Central Bank within the 4 years following the year of the tax return filing. The Central Bank's income tax returns from 2017 to 2021 are open for review by the Tax Authorities. Due to the possible varied interpretations of the current laws by the Tax Authorities, it is not possible to determine, to date, whether a future tax assessment will result in liabilities for the Central Bank. Therefore, any major tax, moratory interest or penalty that might arise from eventual tax assessments would be applied to profit or loss of the period in which they are determined. In management's opinion, any possible additional settlement of taxes

would not be significant for the Central Bank's financial statements as of December 31, 2021 and 2020.

## 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, 2021 and 2020, 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>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
Currency in circulation (a)		33,565,948	15,199,651
Forward operations (b)		99,029,403	89,191,048
Securities held in custody (c)		3,450,857	3,079,442
Future operations (d)		3,044,714	3,119,989
Foreign exchange swaps (e)	2.B(s)	75,785,051	16,273,154
Public Treasury securities with repurchase agreement (f)		5,684,547	5,129,761
Government-backed credits (g)		38,826,663	50,730,995
Interest rate swaps (h)		20,044,900	-
Securities portfolio credits (i)		6,474,037	537,123
Others		192,107	388,151
<b>Total</b>		<b><u>286,098,227</u></b>	<b><u>183,649,314</u></b>

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

	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
New	27,756,640	8,519,000
Available	4,598,984	3,559,546
To be classified	971,858	3,015,381
To be destroyed	142,186	46,204
In transit	96,280	59,520
<b>Total</b>	<b><u>33,565,948</u></b>	<b><u>15,199,651</u></b>

The movement of 'currency in circulation' in 2021 and 2020, is as follows:

	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
<b>Opening balance</b>	<b>15,199,651</b>	<b>30,863,904</b>
Acquisition of currency	29,223,692	9,119,904
Destruction of currency	(4,800)	(4,194,483)
Removal of circulation, net of revenues	(10,852,595)	(20,589,674)
<b>Closing balance</b>	<b><u>33,565,948</u></b>	<b><u>15,199,651</u></b>

- (b) As of December 31, 2021 and 2020, 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, 2021, the Central Bank has 68 forward operations with maturities between January and February 2022 (2020: 53 forward operations with maturities between January and March 2021). Likewise, as of December 31, 2021, the valuation of such instruments generated an asset for S/ 916 million (2020: S/ 41 million), which was recorded in 'other available assets,' and a liability for S/ 141 million (2020: S/ 711 million), which was recorded in 'reserves liabilities.' Such valuation was recorded in 'Adjustment for Valuation Article 89 – Organic Act' in equity (note 17.E) In 2021, the Central Bank recognized revenues for the forward contracts traded for S/ 2,136 million, which are included in 'return on operations with derivative instruments' in the statement of profit or loss and other comprehensive income (2020: S/ 831 million).

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

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Purchase of U.S. dollar / sale of currencies other than sol	48,462,450	42,695,567
Sale of U.S. dollar / purchase of currencies other than sol	243,381	269,641
Purchase of British pound sterling / sale of currencies other than sol	468,092	346,226
Sale of British pound sterling / purchase of currencies other than sol	1,606,391	3,624,578
Purchase of Japanese yen / sale of currencies other than sol	18,777	99,250
Sale of Japanese yen / purchase of currencies other than sol	34,274,643	38,206,334
Purchase of euro / sale of currencies other than sol	8,326	25,560
Sale of euro / purchase of currencies other than sol	1,392,880	2,170,478
Purchase of Swedish krona / sale of currencies other than sol	5,347	13,540
Sale of Swedish krona / purchase of currencies other than sol	9,163	10,416
Purchase of Norwegian krone / sale of currencies other than sol	2,593	16,669
Sale of Norwegian krone / purchase of currencies other than sol	29,401	50,256
Purchase of Canadian dollar / sale of currencies other than sol	197,863	411,663
Sale of Canadian dollar / purchase of currencies other than sol	11,345,687	297,976
Purchase of Chinese RMB / sale of currencies other than sol	2,801	11,101
Purchase of Singapore dollar / sale of currencies other than sol	2,063	10,947
Sale of Singapore dollar / purchase of currencies other than sol	2,064	21,949
Purchase of Australian dollar / sale of currencies other than sol	732,986	620,302
Sale of Australian dollar / purchase of currencies other than sol	114,486	191,514
Purchase of New Zealand dollar / sale of currencies other than sol	18,545	19,245
Sale of New Zealand dollar / sale of currencies other than sol	62,723	27,928
Purchase of Swiss francs / sale of currencies other than sol	2,990	13,509
Sale of Swiss francs / purchase of currencies other than sol	25,751	36,399
<b>Total</b>	<b><u>99,029,403</u></b>	<b><u>89,191,048</u></b>

- (c) As of December 31, 2021 and 2020, securities held in custody mainly comprise promissory notes in guarantee for operations with the IMF.
- (d) It corresponds to the reference value (committed face value) of the Central Bank's futures operations classified as held-for-trading instruments. Such operations are managed directly by BNP Paribas Asset Management USA, Inc., Pacific Investment Management Company LLC., and Amundi Asset Management, according to guidelines approved by the Central

Bank. As of December 31, 2021 the Central Bank had 4,941 future contracts (2020: 4,190 contracts). Such contracts' underlying assets are bonds of the U.S. Treasury issued in U.S. dollars, pound sterling, Canadian dollar, euro and Australian dollar. Likewise, the estimated market value, provided by the 3 aforementioned entities, generated an asset for S/ 3,408 million and a liability for S/ 10,185 million (2020: S/ 2,109 million and S/ 1,404 million, respectively). They were recorded in 'other available assets' and 'liabilities reserves', respectively, in the statement of financial position and 'net return on securities' in the statement of profit or loss and other comprehensive income.

- (e) As of December 31, 2021, the Central Bank has 607 operations with banks. Such operations are called foreign exchange swaps, whereby the face value in soles in favor of the Central Bank is S/ 37,777 million, and the counter account in favor of other banks is US\$ 9,562 million (2020: 235 operations, with a face value in soles in favor of the Central Bank for S/ 8,135 million and a counter account in favor of other banks for US\$ 2,249 million). Such operations mature between January and December 2022 (2020: between January and June 2021). The interest rate for the notional value in soles equals the capitalization of the Cumulative Overnight Interbank Transactions Index calculated and published by the BCRP. As of December 31, 2021, it was 2.50% (2020: 2.25%).

In 2021, the Central Bank recognized interest revenues and expenses paid and received on foreign exchange swaps for S/ 226 million and S/ 85 million. Such revenues and expenses are recorded in interest and fees on domestic credit and interest on securities in circulation in the statement of profit or loss and other comprehensive income, respectively (2020: S/ 36 million and S/ 6 million, respectively). Likewise, during such period, the Central Bank recognized the effect of changes in the exchange rate on the face value in U.S. dollars as a debit to 'Adjustment for Valuation – Article 89 of Organic Act' in equity for S/ 2 million, corresponding to financial institutions (2020: S/ 9 million) (note 17.E).

- (f) As of December 31, 2021, the Central Bank has effective repurchase agreements of treasury bonds with banks for S/ 5,685 million (2020: S/ 5,130 million).
- (g) It corresponds to government-backed credits for the financial enterprises which benefit from the Reactiva Peru program. The Central Bank has S/ 38,827 million at face value of report of government-backed credit portfolio (2020: S/ 50,731 million).
- (h) As of December 31, 2021, the Central Bank maintains 607 operations with banking companies called interest rate swaps, in which the notional amount in domestic currency in favor of the Central Bank is S/ 20,045 million. Such operations mature between January and September 2022. The interest rate for the notional value in soles equals the capitalization of the Cumulative Overnight Interbank Transactions Index calculated and published by the BCRP. As of December 31, 2021, it was 2.5%. As of December 31, 2020, the Central Bank did not have this operation.

In 2021, the Central Bank recognized interest revenues and expenses paid and received on foreign exchange swaps for S/ 4,513 million and S/ 15,476 million. Such revenues and expenses are recorded in 'other financial revenues' and 'other financial expense' in the statement of profit or loss and other comprehensive income, respectively.

- (i) As of December 31, 2021, the Central Bank has effective loan portfolio repurchase agreements with banks for S/ 6,474 million (2020: S/ 537 million).

## 21. OPERATIONAL EXPENSES

This caption comprises the following:

	<b>Note</b>	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Personnel expenses and social benefits	23	154,422	145,758
Administrative expenses		56,254	51,459
Health expenses of active personnel	16(a)	42,996	40,279
Depreciation	9	10,555	10,146
Amortization		1,161	1,555
Expenses for actuarial provision	16	-	12,493
Others		5,445	4,599
<b>Total</b>		<b><u>270,833</u></b>	<b><u>266,289</u></b>

In 2021 and 2020, administrative expenses mainly correspond to expenses for surveillance, data supplies, public utilities, training, advisory, and insurance, among others.

## 22. ISSUANCE EXPENSES AND COSTS

This caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Cost of minting issued coins	48,832	38,313
Expenses for printing issued banknotes	24,250	49,586
Expenses for transporting currency	4,028	3,680
	<b><u>77,110</u></b>	<b><u>91,579</u></b>

## 23. PERSONNEL EXPENSES AND SOCIAL BENEFITS

This caption comprises the following:

	<b>2021</b> (S/ 000)	<b>2020</b> (S/ 000)
Salary	83,534	85,926
Legal bonuses and holidays	26,333	25,712
Bonuses and allowances	21,689	11,653
Retirement compensation arrangement	8,983	9,097
EsSalud	8,595	8,579
Training	3,566	2,269
Others	1,722	2,522
	<b><u>154,422</u></b>	<b><u>145,758</u></b>







Note	As of December 31, 2020				Fair value			
	At amortized cost	At FVOCI	Financial liabilities measured at amortized cost	Total	Level 1	Level 2	Level 3	Total
	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)
<b>Financial assets</b>								
Cash in foreign currency	181,280	-	-	181,280	-	-	-	-
Deposits at foreign banks	66,774,135	-	-	66,774,135	-	-	-	-
Deposits at foreign organizations	2,699,723	-	-	2,699,723	-	-	-	-
Securities from international entities	180,882	189,378,052	-	189,558,934	189,378,051	-	-	189,378,051
Contributions to international organizations	4,071,456	-	-	4,071,456	-	-	-	-
Other available assets	250	88,503	-	88,753	-	88,503	-	88,503
Other foreign assets	72,360	-	-	72,360	-	-	-	-
Domestic credit	63,659,817	3,591,325	-	67,251,142	3,591,325	-	-	3,591,325
Other financial assets	2,876	13,783	-	16,659	-	13,783	-	13,783
	<b>137,642,779</b>	<b>193,071,663</b>	-	<b>330,714,442</b>	<b>192,969,376</b>	<b>102,286</b>	-	<b>193,071,662</b>
<b>Financial liabilities</b>								
Reserve liabilities	-	721,472	8,447	729,919	-	721,472	-	721,472
Other foreign liabilities	-	-	8,426,473	8,426,473	-	-	-	-
Sterilized stock	-	-	152,643,820	152,643,820	-	-	-	-
Monetary base	-	-	85,986,643	85,986,643	-	-	-	-
Deposits in foreign currency	-	-	55,025,972	55,025,972	-	-	-	-
Other financial liabilities	-	-	6,957,029	6,957,029	-	-	-	-
	-	<b>721,472</b>	<b>309,048,384</b>	<b>309,769,856</b>	-	<b>721,472</b>	-	<b>721,472</b>

## B. Financial risk management

The Central Bank is exposed to the following risks related to the use of financial instruments: liquidity risk, credit risk, currency 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 (as of December 31, 2021 and 2020, they represent 82.61% and 78.8%, respectively). Reserve management complies with 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, to the extent that they guarantee availability of 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 feed expectations. Likewise, a suitable availability of currency helps to reduce Peru's risk and improve its credit ratings, which results in better conditions for private and public Peruvian companies to obtain foreign credits, and contributes to the growth of foreign investment in the country.

Financial risk management mainly focuses on the investment portfolio. Such portfolio is the assets that are easily tradable 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 considers it a priority to preserve capital and guarantee the liquidity of reserves. Once these conditions are met, the Central Bank seeks to maximize the return of foreign assets.
- 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. Accordingly, 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.

Management is aware of the current market conditions and, based on its knowledge and experience, it manages the aforementioned risks in accordance with the policies approved by the Board of Directors. Major aspects in 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' liquidity degree is controlled by selecting securities from deep markets, establishing minimum amounts according to the issuance size and a limit for the percentage acquired in each issuance. Liquidity of instruments is reflected in a low bid-ask spread in their market price.

Likewise, the Central Bank also minimizes such 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) for investments including securities with terms generally longer than one year (mainly bonds), which may generate higher returns and support risk diversification.

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

	<u>2021</u> (%)	<u>2020</u> (%)
<b>Maturity</b>		
0-3 months	46	46
3-12 months	15	12
More than 1 year	<u>39</u>	<u>42</u>
	<u><b>100</b></u>	<u><b>100</b></u>

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

## As of December 31, 2021

	Less than 1 month	1 – 3 days	3–12 months	1–5 years	More than 5 years	No maturity	Total
	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)
<b>Financial liabilities per type (i)</b>							
Sterilized stock							
Certificates of deposit	9,950,226	17,104,401	835,508	476,278	-	-	28,366,413
Deposits in domestic currency	89,638,420	9,697,100	7,112,300	1,000,000	-	913,299	108,361,119
Monetary base	-	-	-	-	-	97,279,476	97,279,476
Deposits in foreign currency	23,085,732	2,710,950	-	-	-	46,185,005	71,981,687
Other financial liabilities	-	39,429	5,430,763	8,831	15,963,072	-	21,442,095
<b>Total non-derivative liabilities (ii)</b>	<b>122,674,378</b>	<b>29,551,880</b>	<b>13,378,571</b>	<b>1,485,109</b>	<b>15,963,072</b>	<b>144,377,781</b>	<b>327,430,791</b>
Accounts payable for derivatives	127,359	8,108	-	-	-	-	135,467
	<b>122,801,737</b>	<b>29,559,988</b>	<b>13,378,571</b>	<b>1,485,109</b>	<b>15,963,072</b>	<b>144,377,781</b>	<b>327,566,258</b>

## As of December 31, 2020

	Less than 1 month	1 – 3 days	3–12 months	1–5 years	More than 5 years	No maturity	Total
	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)	(\$' 000)
<b>Financial liabilities per type (i)</b>							
Sterilized stock							
Certificates of deposit	15,225,629	26,912,268	1,448,283	2,219,910	1,574,962	-	47,381,052
Deposits in domestic currency	65,372,049	12,500,000	23,931,700	3,000,000	-	459,019	105,262,768
Monetary base	-	-	-	-	-	85,986,643	85,986,643
Deposits in foreign currency	12,272,150	-	-	-	-	42,753,822	55,025,972
Other financial liabilities	-	30,542	6,950,647	30,368	8,396,104	-	15,407,662
<b>Total non-derivative liabilities (ii)</b>	<b>92,869,828</b>	<b>39,442,810</b>	<b>32,330,630</b>	<b>5,250,278</b>	<b>9,971,066</b>	<b>129,199,484</b>	<b>309,064,097</b>
Accounts payable for derivatives	392,583	306,794	-	-	-	-	699,377
	<b>93,262,411</b>	<b>39,749,604</b>	<b>32,330,630</b>	<b>5,250,278</b>	<b>9,971,066</b>	<b>129,199,484</b>	<b>309,763,474</b>

- (i) As of December 31, 2021 and 2020, financial liabilities do not include non-accrued interest.  
(ii) As of December 31, 2021 and 2020, 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, 2021 and 2020, these securities shall have a long-term rating assigned in 1 of the 5 highest ratings from the more than 20 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.

As of December 31, the risk rating of the investment portfolio is summarized as follows:

	<u>2021</u> (%)	<u>2020</u> (%)
<b>Long-term rating</b>		
AAA	56	58
AA+/AA/AA-	25	23
A+/A/A-	19	19
	<u>100</u>	<u>100</u>

Based on the obtained risk ratings and management's analysis as of December 31, 2021 and 2020, the Central Bank has no exposure in countries or institutions with debt issues that may represent 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. They reflect 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 operations are carried out at the free-market exchange rates.

As of December 31, 2021, the free market buy rate, published by the SBS for transactions in U.S. dollars, is S/ 3.975 (2020: S/ 3.618). Balances in other currencies were stated in U.S. dollars at the exchange rate daily provided by Bloomberg, as described in paragraph (c) below.

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

	2021			2020		
	U.S. Dollar (US\$ 000)	Other currencies (US\$ 000)	Total (US\$ 000)	U.S. Dollar (US\$ 000)	Other currencies (US\$ 000)	Total (US\$ 000)
<b>Monetary assets</b>						
Cash in foreign currency	97,805	-	97,805	50,105	-	50,105
Deposits at foreign banks	15,601,587	2,122,956	17,724,543	15,803,503	2,652,587	18,456,090
Deposits at foreign organizations	-	2,504,270	2,504,270	-	746,192	746,192
Securities from international entities	41,136,128	13,621,392	54,757,520	39,321,601	13,071,692	52,393,293
Gold	-	2,036,307	2,036,307	-	2,113,113	2,113,113
Contributions to international organizations	568,739	607,614	1,176,353	538,946	586,387	1,125,333
Other available assets	231,179	11,512	242,691	12,623	11,908	24,531
Other external assets	-	20,000	20,000	-	20,000	20,000
Domestic credit	731,212	-	731,212	631,485	-	631,485
Other assets	1,514	403	1,917	2,431	526	2,957
	<b>58,368,164</b>	<b>20,924,454</b>	<b>79,292,618</b>	<b>56,360,694</b>	<b>19,202,405</b>	<b>75,563,099</b>
<b>Monetary liabilities</b>						
Reserve liabilities	42,309	1,690	43,999	201,011	736	201,747
Other foreign liabilities	-	2,663,757	2,663,757	-	20,000	20,000
Deposits in foreign currency	18,108,600	-	18,108,600	15,208,947	-	15,208,947
Other liabilities	1,123,482	7,724	1,131,206	1,874,034	-	1,874,034
	<b>19,274,391</b>	<b>2,673,171</b>	<b>21,947,562</b>	<b>17,283,992</b>	<b>20,736</b>	<b>17,304,728</b>
<b>Subtotal</b>	<b>39,093,773</b>	<b>18,251,283</b>	<b>57,345,056</b>	<b>39,076,702</b>	<b>19,181,669</b>	<b>58,258,371</b>
<b>Derivatives</b>						
Net forward contract position	12,273,284	(11,780,814)	492,470	11,726,347	(11,898,789)	(172,441)
<b>Net monetary position</b>	<b>51,367,057</b>	<b>6,470,469</b>	<b>57,837,526</b>	<b>50,803,049</b>	<b>7,282,880</b>	<b>58,085,930</b>

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

	<u>2021</u> (US\$ 000)	<u>2020</u> (US\$ 000)
<b>Assets</b>		
U.S. dollar	58,367,489	56,360,011
Japanese yen (i)	8,614,090	10,550,781
Euro	323,898	595,678
Gold	2,036,990	2,113,839
SDR (ii)	3,208,642	1,332,580
British pound sterling	784,308	1,412,966
Other currencies	6,033,968	3,154,778
	<u><b>79,369,385</b></u>	<u><b>75,520,633</b></u>
<b>Liabilities</b>		
USD	19,274,399	17,284,160
SDR (ii)	2,643,999	153
Other currencies	29,172	407
	<u>21,947,570</u>	<u>17,284,720</u>
<b>Net assets</b>	<u><b>57,421,815</b></u>	<u><b>58,235,913</b></u>

- (i) As of December 31, 2021 and 2020, 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 quota as a member country. The value of the SDR is based on a basket of 5 currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. The amounts of each currency of the SDR basket are calculated according to agreed percentages.
- (c) As of December 31, the main foreign exchange rates used by the Central Bank in relation to the U.S. dollar are as follows:

	<u>2021</u> (S/ 000)	<u>2020</u> (S/ 000)
Gold troy ounce	1,827.310000	1,896.210000
Pound sterling	1.353300	1.366600
SDR	1.399590	1.440270
Euro	1.138400	1.221000
Japanese yen	0.008688	0.009682

According to Article 89 of the Organic Act, the Central Bank registered a net positive adjustment for valuation of foreign currency for S/ 17,495 million in 2021 (2020: net negative adjustment for S/ 15,888 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, 2021 and 2020. The analysis determines the devaluation or revaluation effects of a reasonably possible change in the exchange rate of soles against foreign currencies. It also assumes that all other variables remain constant in the statement of profit or loss and other comprehensive income. A negative amount reflects a potential net 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 since they are recorded as exchange differences in equity.

Sensitivity analysis	Change in exchange rates	2021 (S/ 000)	2020 (S/ 000)
<b>Devaluation</b>			
U.S. dollars	5%	11,412,585	10,534,877
U.S. dollars	10%	22,825,171	21,069,753
British pound sterling	5%	155,877	255,602
British pound sterling	10%	311,755	511,204
Japanese yen	5%	1,712,047	1,908,636
Japanese yen	10%	3,424,094	3,817,273
Euro	5%	62,806	107,698
Euro	10%	125,612	215,396
<b>Revaluation</b>			
U.S. dollars	5%	(11,412,585)	(10,534,877)
U.S. dollars	10%	(22,825,171)	(21,069,753)
British pound sterling	5%	(155,877)	(255,602)
British pound sterling	10%	(311,755)	(511,204)
Japanese yen	5%	(1,712,047)	(1,908,636)
Japanese yen	10%	(3,424,094)	(3,817,273)
Euro	5%	(62,806)	(107,698)
Euro	10%	(125,612)	(215,396)

#### iv. **Interest rate risk**

It is associated with unexpected changes in the market return rates of the portfolio's fixed income assets. Such changes may affect the market value of investments before their maturity. The longer the maturity period of investments, the greater the impact of changes in the return on the market value of such investments. The measurement of such impact is reflected in the portfolio's duration. It 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 lower, so the impact of changes in interest rates on the market value of the portfolio is limited. Likewise, maximum investment terms have been established. Such terms are consistent with the market risk profile intended for each portfolio instrument.

As of December 31, 2021 and 2020, the average duration of the investment portfolio (including internally managed foreign assets, deposits with foreign banks, investments in securities and gold holdings) is 0.94 and 0.90 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 the processes of the Central Bank, involves all levels within the organization and is based on the application of a structured process under the “Three Lines of Defense” model. Such model guarantees a comprehensive operational risk management by promoting coordinated action among the different roles with a separation and independence level that maximizes efficiency and effectiveness.

Risk Management and the Central 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 when 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, Risk Management submits the assessments to the Risk Committee. Such entity is the supervisory body in charge of approving policies and recommending actions regarding risk management and continuity of activities. It also recommends preventive actions and resolution of events that affect the Central Bank, and assesses reports and proposals submitted by Risk Management.

**25. INFORMATION ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

When measuring fair value, the Company uses the assumptions that market participants would use when pricing the asset or the 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 discounted cash flow analysis or other valuation techniques, which are significantly affected by the different assumptions made. Management has used its best judgment in the financial instruments’ fair value measurement. Fair value estimates may not indicate the net realizable or settlement value of such instruments.

Methodologies and assumptions applied to determine estimated market values as of December 31, 2021 and 2020, in the applicable cases according to the policies of the Central Bank, depend on the risk terms and 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 less than 90 days, respectively. Such cash and deposits do not represent significant credit risks or interest rate risks.
- The carrying amount of securities issued by international institutions classified as financial assets 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 and deposits with international organizations corresponds to their fair values, since they represent the amount the Central Bank would receive if it is no longer a member of such organizations. Additionally, contributions to international organizations cannot be traded with third parties. Such contributions accrue interest at interest rates based on their market risk.
- 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. Such rates are fixed in terms less than 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, 2021 and 2020, management considers that the estimated fair values of its financial instruments do not differ significantly from their corresponding carrying amount.

## **26. SUBSEQUENT EVENTS**

No material events that may have an impact on the Central Bank's financial statements, have occurred between December 31, 2021 and the date of the independent auditors' report.