



FINANCIAL STATEMENTS

Fernando de Szyszlo (1925-2017)

Abstracción

Grabado. 0,54 x 0,74 m.

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 statements of financial position as of December 31, 2017 and 2016, and the related statements of income and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes (included in notes 1 to 27 attached).

Management's responsibility for the financial statements

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

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 Auditing Standards, approved for its application in Peru by the Board of Deans of Peruvian Public Accountants Schools. Those standards require that we comply with ethical requirements and plan and perform the audit to have reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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 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.

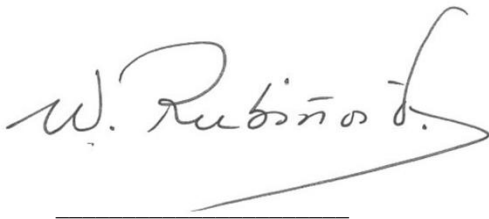
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Banco Central de Reserva del Perú as of December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended, in accordance with accounting principles described in note 2.

Lima, Peru
February 21, 2018

Countersigned by:

A handwritten signature in black ink, appearing to read 'W. Rubiños', with a long horizontal line extending from the end of the signature.

Wilfredo Rubiños
C.P.C.C. Registration N° 9943

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017 and 2016

| | <u>Note</u> | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|--------------|---------------------------|---------------------------|
| ASSETS | | | |
| Gross international reserves: | | | |
| Cash in foreign currency | | 162,273 | 167,886 |
| Deposits in foreign banks | 3 | 73,747,067 | 72,652,393 |
| Deposits in foreign institutions | 4 | 2,479,371 | 2,422,318 |
| Securities from international institutions | 5 | 122,620,805 | 125,166,480 |
| Gold | 6 | 4,700,546 | 4,300,434 |
| Contributions to international institutions | 7 | 2,538,742 | 2,074,050 |
| Other available assets | | <u>113,551</u> | <u>188,920</u> |
| | | <u>206,362,355</u> | <u>206,972,481</u> |
| Other assets abroad: | | | |
| Contributions in local currency to IMF | 7(c) | 5,530,281 | 5,876,659 |
| Other assets abroad | 11(c) | <u>64,760</u> | <u>67,040</u> |
| | | <u>5,595,041</u> | <u>5,943,699</u> |
| Domestic credit: | | | |
| | 8 | | |
| To banks | | 21,974,975 | 28,778,238 |
| To the public sector | | 3,095,850 | 3,067,297 |
| To other entities and funds | | <u>120,207</u> | <u>139,371</u> |
| | | <u>25,191,032</u> | <u>31,984,906</u> |
| Property, furniture and equipment, net | 9 | <u>161,057</u> | <u>166,587</u> |
| Other assets | 10 | <u>291,868</u> | <u>283,482</u> |
| TOTAL ASSETS | | <u>237,601,353</u> | <u>245,351,155</u> |
| Off-balance sheet accounts | 20 | <u>90,599,179</u> | <u>84,747,493</u> |

The accompanying notes are an integral part of these statements.

| | <u>Note</u> | <u>2017</u> (\$/ 000) | <u>2016</u> (\$/ 000) |
|---|--------------|--------------------------|--------------------------|
| LIABILITIES AND NET EQUITY | | | |
| Reserve liabilities | | 357,402 | 202,546 |
| Other liabilities abroad: | | | |
| Equivalent of the contribution in local currency to IMF | 7(c) | 5,530,281 | 5,876,659 |
| Other liabilities abroad | 11 | 2,880,321 | 2,819,320 |
| | | <u>8,410,602</u> | <u>8,695,979</u> |
| Sterilized stock: | | | |
| Outstanding securities issued | 12 | 31,614,454 | 23,083,724 |
| Deposits in local currency | 13 | 44,080,794 | 30,856,046 |
| | | <u>75,695,248</u> | <u>53,939,770</u> |
| Monetary base: | | | |
| | 14 | | |
| Currency in circulation | | 55,270,665 | 51,056,385 |
| Deposits in local currency | | 1,936,709 | 2,318,388 |
| | | <u>57,207,374</u> | <u>53,374,773</u> |
| Deposits in foreign currency | 15 | 69,735,741 | 89,831,931 |
| Other liabilities | 16 | 17,553,334 | 28,440,828 |
| TOTAL LIABILITIES | | <u>228,959,701</u> | <u>234,485,827</u> |
| Net equity | | | |
| | 17 | | |
| Capital | | 1,182,750 | 1,182,750 |
| Legal reserve | | 870,911 | 686,917 |
| Fair value reserve | | (730,643) | (889,064) |
| Retained earnings | | (65,977) | 245,325 |
| | | <u>1,257,041</u> | <u>1,225,928</u> |
| Capital, reserves and retained earnings | | 1,257,041 | 1,225,928 |
| Readjustment for valuation article N°89 – Organic Act | 17(e) | 7,384,611 | 9,639,400 |
| Total net equity | | <u>8,641,652</u> | <u>10,865,328</u> |
| TOTAL LIABILITIES AND NET EQUITY | | <u>237,601,353</u> | <u>245,351,155</u> |
| Off-balance sheet accounts | 20 | <u>90,599,179</u> | <u>84,747,493</u> |

STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

| | <u>Note</u> | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|----------------------|-------------------------|-------------------------|
| FINANCIAL INCOME | | | |
| Interest on deposits in foreign Banks | 3(c) | 805,223 | 358,774 |
| Net yield on securities | 5(e) | 932,066 | 504,905 |
| Yield from transactions with derivatives | 2.2(f) | 277,981 | 2,462 |
| Interest on international agreements and deposits in IMF | | 12,847 | 2,246 |
| Profits and dividends received from international insti- tutions | | 31,178 | 21,834 |
| Yield on gross international reserves | | 2,059,295 | 890,221 |
| Interest and commissions on domestic credit operations | 8(d) | 1,067,413 | 1,345,924 |
| Other financial income | 20(f) | 6,549 | 601,471 |
| Total financial income | | <u>3,133,257</u> | <u>2,837,616</u> |
| Non-financial income | | <u>4,557</u> | <u>6,665</u> |
| TOTAL INCOME | | <u>3,137,814</u> | <u>2,844,281</u> |
| FINANCIAL EXPENSES | | | |
| Interest on liabilities abroad | 11(d) | (14,552) | (2,398) |
| Interest on outstanding securities issued | 12(c) | (1,236,384) | (903,082) |
| Interest on local currency deposits | 13(c) | (1,020,996) | (949,561) |
| Interest on foreign currency deposits | 15(d) | (573,010) | (291,660) |
| Other financial expenses | 20(f) | (8,477) | (91,993) |
| Total financial expenses | | <u>(2,853,419)</u> | <u>(2,238,694)</u> |
| Operating expenses | 21 | <u>(267,590)</u> | <u>(275,699)</u> |
| Expenses and cost of issuance | 22 | <u>(82,782)</u> | <u>(84,563)</u> |
| TOTAL EXPENSES | | <u>(3,203,791)</u> | <u>(2,598,956)</u> |
| (Loss) net profit | | (65,977) | 245,325 |
| Other comprehensive income: | 5(e) and 8(c) | 158,421 | 725,763 |
| TOTAL COMPREHENSIVE INCOME | | <u>92,444</u> | <u>971,088</u> |

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2017 and 2016

| | Capital, reserves and retained earnings | | | | Readjustment for valuation article N°89 – Organic Act | Total net equity |
|--|---|---------------|--------------------|-------------------|---|------------------|
| | Capital | Legal reserve | Fair value reserve | Retained earnings | | |
| | (\$/ 000) | (\$/ 000) | (\$/ 000) | (\$/ 000) | (\$/ 000) | (\$/ 000) |
| Balance as of January 1, 2016 | 1,182,750 | - | (1,614,827) | 915,890 | 483,813 | 10,136,048 |
| Net profit | - | - | - | 245,325 | 245,325 | 245,325 |
| Other comprehensive income, notes 5(e) and 8(c) | - | - | 725,763 | - | 725,763 | 725,763 |
| Total comprehensive income | - | - | 725,763 | 245,325 | 971,088 | 971,088 |
| Transfers to legal reserve, note 17(b) | - | 686,917 | - | (686,917) | - | - |
| Transfer of profit to the Public Treasury, note 17(d) | - | - | - | (228,973) | (228,973) | (228,973) |
| Readjustment for valuation of the year, note 2(b.1), 17(e) and 25(iii.c) | - | - | - | - | - | (12,835) |
| Balance as of December 31, 2016 | 1,182,750 | 686,917 | (889,064) | 245,325 | 1,225,928 | 10,865,328 |
| Net loss | - | - | - | (65,977) | (65,977) | (65,977) |
| Other comprehensive income, notes 5(e) and 8(c) | - | - | 158,421 | - | 158,421 | 158,421 |
| Total comprehensive income | - | - | 158,421 | (65,977) | 92,444 | 92,444 |
| Transfers to legal reserve, note 17(b) | - | 183,994 | - | (183,994) | - | - |
| Transfer of profit to the Public Treasury, note 17(d) | - | - | - | (61,331) | (61,331) | (61,331) |
| Readjustment for valuation of the year, note 2(b.1), 17(e) and 25(iii.c) | - | - | - | - | - | (2,254,789) |
| Balance as of December 31, 2017 | 1,182,750 | 870,911 | (730,643) | (65,977) | 1,257,041 | 8,641,652 |

The accompanying notes are integral part of these statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|---------------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| (Loss) net profit | (65,977) | 245,325 |
| Adjustments to reconcile net profit to net cash and cash equivalents (used in) provided by operating activities: | | |
| Depreciation of property, furniture and equipment, note 9(a) | 12,135 | 11,545 |
| Amortization of intangible assets | 2,407 | 1,915 |
| Write-offs of fixed assets | 933 | 721 |
| Net changes in assets, liabilities and equity accounts: | | |
| Decrease (increase) of domestic credit | 6,793,873 | 1,409,179 |
| Increase of other assets abroad | 348,658 | (3,805,635) |
| Decrease (increase) of other assets | (10,794) | 111,763 |
| Increase of reserve liabilities | 154,856 | 25,075 |
| Increase of other liabilities abroad | (285,377) | 3,676,261 |
| Increase of outstanding securities issued | 8,530,731 | 539,724 |
| Decrease of deposits in local currency (sterilized stock) | 13,224,748 | (1,400,007) |
| Decrease of deposits in local currency (monetary base) | (381,680) | (83,067) |
| (Decrease) increase of deposits in foreign currency | (20,096,191) | (3,763,681) |
| (Decrease) increase of other liabilities | (10,887,492) | (2,344,076) |
| Increase (decrease) of fair value reserve | 158,421 | 725,763 |
| (Decrease) increase of readjustment in valuation article N°89 - Organic Act | (2,254,788) | (12,835) |
| Transfer of profit to the Public Treasury, note 17(d) | (61,331) | (228,973) |
| Cash and cash equivalents used in operating activities | <u>(4,816,868)</u> | <u>(4,891,003)</u> |
| Cash flows from investing activities: | | |
| Additions to property, furniture and equipment, note 9(a) | (7,538) | (20,848) |
| Cash and cash equivalents used in investing activities | <u>(7,538)</u> | <u>(20,848)</u> |
| Net decrease in cash and cash equivalents | (4,824,406) | (4,911,851) |
| Cash and cash equivalents at the beginning of the year | 155,916,096 | 160,827,947 |
| Cash and cash equivalents at the end of the year (note 2.2(p)) | <u>151,091,690</u> | <u>155,916,096</u> |

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

As of December 31, 2017 and 2016

1. OPERATIONS

Banco Central de Reserva del Perú (hereinafter the “Central Bank”) is an autonomous legal entity of public law incorporated on March 9, 1922, intended to preserve monetary stability in Peru. Its activities are currently governed by article N°84 of the Peruvian Constitution, dated December 29, 1993, and by its Organic Act approved by Decree-Law N°26123 of December 24, 1992 (hereinafter “the Organic Act”). The Organic Act establishes that the Bank’s functions are to regulate the amount of money, administrate international reserves, issue bills and coins; as well as report on the finances of Peru.

The Central Bank has its legal address and headquarters at Jr. Santa Rosa 441-445 (previously named Antonio Miró Quesada), Lima, and has branches in seven provinces of the country. As of December 31, 2017 and 2016, the number of employees hired to develop its activities was 977 (It includes bank workers, temporary workers, workers on leave without pay or on temporary assignment (without pay)).

The Central Bank represents Peru for the purposes set forth in the articles of the agreements of the International Monetary Fund (hereinafter “IMF”) and the Latin American Reserve Fund (hereinafter “FLAR” for its Spanish acronym) and is responsible for all transactions, operations and official relations with these institutions. 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 (hereinafter “BIS”), institution responsible for promoting international financial and monetary cooperation and is a bank for central banks.

As established in its Organic Act, the Bank is not allowed to:

- Grant funding to the Public Treasury, except in the form of acquisitions of securities issued by the Public Treasury in the secondary market in which case the holding of such securities may not exceed at any moment, valued at their acquisition cost, 5 percent of the balance of the monetary base at the closing date of the previous year.
- Grant credits or any other form of funding to financial institutions that maintain past due obligations. Moreover, the Central Bank is not allowed to grant loans or advanced payments to its Directors.
- Extend guarantees, letters of guarantee or any other guarantees, or use any form of indirect funding, or grant insurance of any type. It should be mentioned that the operations conducted by the Central Bank in implementing payment and reciprocal credit agreements are not subject to the aforementioned prohibition.
- Allocate resources for the creation of special funds aimed at granting credits or making investments to promote nonfinancial economic activities.
- Issue securities, bonds or contribution certificates of mandatory acquisition.
- Impose sector or regional coefficients in the composition of the loan portfolio of financial institutions.
- Establish multiple exchange rate regimes.



- Purchase shares, except those issued by international financial agencies or those needed to be acquired to strengthen banks or financial entities; participate, directly or indirectly, in the capital of commercial, industrial or any other companies.
- Own more real estate properties than those required for its activities and those that were transferred in payment of debts. The latter must be sold not later than one year after their acquisition.

The financial statements as of and for the year ended December 31, 2017, prepared in accordance with accounting principles described in note 2, were approved for issuance by the Central Bank's Management on January 18, 2018 and will be submitted for approval of the Board of Directors within the period established by the Organic Act. In Management's opinion, such financial statements will be approved without modifications. The financial statements as of and for the year ended December 31, 2016, were approved by the Board of Directors at their meeting held on March 9, 2017.

Net equity

According to Article N° 93 of the BCRP Organic Law, in case the Central Bank obtains losses, these losses should be compensated with the accounting reserve constituted with previous year profits. If the accounting reserve isn't enough to cover the losses, the Public Treasury, within thirty days of the financial statement approval, issues and grants to the Central Bank negotiable debt securities that bear interests, for the amount of losses not covered.

With the purpose of covering 2014 losses, on August 7, 2015 the Central Bank received from the Ministry of Economy and Finance (hereinafter "MEF"), sovereign bonds and a promissory note for a total amount of S/ 716 million which mature in 20 years with an annual rate of 2.20 percent, payable at the maturity date or when the call option is exercised. The call and the amortization of interest, fees and other expenses incurred by these bonds, is supported by the Central Bank's profits corresponding to the Treasury, according to the provisions of Article No. 92 of the Organic Act.

On March 19, 2017, 25 percent of net income for the year 2016 was used to repay the principal of these bonds and the corresponding accrued interest for the amounts of S/ 59 million and S/ 2 million, respectively, see note 17(d).

The loss recorded as of December 31, 2017 is due to the increase in interest expenditures for deposits in foreign currency (mainly constituted by special deposits of the Ministry of Economy and Finances – MEF) and the increase in the cost of sterilization operations, related to the increase of CDBCRP issuance, in order to withdraw the banking liquidity surplus, which is associated to the purchase of US dollars by the Central Bank (Specially during the third quarter of 2017). These measures were implemented to reduce exchange rate volatility, in a context of increased capital inflows, specially towards fixed rate markets in domestic currency.

2. SIGNIFICANT ACCOUNTING PRINCIPLES

2.1 Central Bank criteria

According to article N°88 of the Organic Act and the criteria approved by the Board of Directors, the accounting principles used by the Central Bank are:

- (a) The criteria approved by the Board of Directors based on the Board's power and authority (article N°88 of the Organic Act) and,

- (b) Peruvian generally accepted accounting principles (“Peruvian GAAP”) which comprise: the International Financial Reporting Standards (IFRS) issued and adopted by the IASB (International Accounting Standards Board), formalized through Resolutions issued by the Peruvian Accounting Council (hereafter “CNC” for its Spanish acronym) and current as of December 31, 2017 and 2016, accordingly (note 2.2(v)), as applicable for the Central Bank and the standards established by the Superintendencia de Banca, Seguros y AFP (SBS). As of the date of these financial statements, the CNC has formalized the application of the 2016 versions of IFRS 1 to 16, IAS 1 to 41, SIC 7 to 32 and IFRIC 1 to 22.

The accounting principles established by the Central Bank Board of Directors’ that differ from generally accepted accounting principles in Peru are mainly:

(i) Recognition of exchange rate differences

The Central Bank records adjustments for price valuation and exchange rates, of the assets and obligations in gold, silver, currencies, SDR or other monetary units of international use in the caption “Readjustment in valuation article N°89 – Organic Act” of the statements of changes in equity. In accordance with Peruvian GAAP, the results of the aforementioned valuations must be included in the results of the period in which they were generated. As of December 31, 2017 and 2016, this adjustment amounted to a decrease of S/ 2,255 million and S/ 13 million, respectively; see paragraph 2.2(e) below and note 17(e).

(ii) Recording of embedded derivatives

As of December 31, 2017 and 2016, indexed certificates of deposit (CDR BCRP for its Spanish acronym), are accounted at its nominal value, recognizing the currency valuation difference in the item “Adjustments for valuation article N° 89 - Organic Act” of the statements of changes in equity, see (vi) below.

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

(iii) Valuation of financial instruments classified as available-for-sale investments

The Central Bank calculates the fair value of its financial instruments classified as available-for-sale investments based on market prices. For instruments classified as available-for-sale in the item “Securities from international entities” acquired until December 31, 2013, see note 2.2 (c.i), as well as securities issued by MEF in foreign currency that are part of the item “Domestic credit” until December 31, 2015, see note 2.2 (c.ii), the Central Bank calculates their higher or lower value by comparing the carrying amount (acquisition cost) with fair value, without determining the amortized cost of those investments, and records changes in net equity until investments are sold or realized. Additionally, premiums or discounts generated in their acquisition are recorded as income or expense when settled.

According to Peruvian GAAP, to calculate the higher or lower value of representative debt instruments classified as available-for-sale investments, fair value is compared to amortized cost, which is calculated by applying the effective interest rate method.

It is worth to mention that in order to determine the greater or lesser value of the instruments classified as available-for-sale in the item “Securities from international entities” acquired since January 1, 2014 and securities issued by MEF in foreign currency which are part of the caption “Domestic Credit”, as of January 1, 2016, the

fair value is compared to the amortized cost; the amortized cost is determined using the effective interest rate methodology, see note 2.2(c.ii).

(iv) Statements of cash flow

The preparation of the statements of cash flow is carried out by the Central Bank considering as cash and cash equivalents the items indicated in paragraph 2.2(p) below; consequently, the format and content of the above mentioned statements adjust to said definition. This accounting practice differs from what is stated under Peruvian GAAP.

(v) Disclosure of financial instruments

As of December 31, 2017 and 2016, the Central Bank is not fully applying the requirements of IFRS 7 – Financial Instruments: Disclosures and certain disclosures required by IFRS 9 – Financial Instruments. The objective of these standards is to provide disclosures in the financial statements that enable users to evaluate the significance of financial instruments for the Central Bank's financial position and performance, through the understanding of the nature and extent of the financial instruments to which the Central Bank is exposed; as well as the methods the Central Bank applies to manage the risks arising from said instruments.

(vi) Valuation of instruments related to exchange rate

The Central Bank has instruments related to exchange rate, such as: (i) transactions with trading derivatives, note 2.2 (f); (ii) operations with indexed certificates of deposit (CDR BCRP), note 2.2 (l) and; (iii) foreign exchange swap transactions, note 2.2 (t).

Gains and losses from changes in fair value and from exchange rates are recorded in the item "Adjustment for valuation No.89 - Organic Act" of the statements of changes in equity, and the income statement of the period is not affected in any case.

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

(vii) Securities issued by MEF

Bonds that the Central Bank receives from MEF to cover losses, in compliance with Article No. 93 of Organic Act (see note 1 and 17(d)), are recorded as a financial asset at its nominal value in the item "Domestic Credit" of the statements of financial position.

According to Peruvian generally accepted accounting principles, such bonds do not qualify as financial assets, because their collection is through dividends paid by the Bank to the State, see note 1.

2.2 Accounting criteria

The main accounting principles and practices used in the preparation of the accompanying financial statements, are as follows:

(a) Basis for preparation and use of estimates

The accompanying financial statements have been prepared in Soles from the accounting records of the Central Bank in accordance with the accounting principles approved by the Central Bank Board of Directors'.

The preparation of the accompanying financial statements requires Management to formulate estimates that affect the reported amounts related to, assets, liabilities, incomes

and expenditures, and the disclosure of significant events in notes to the financial statements. Actual results could differ from those estimates. Estimates are continually evaluated and are based on historical experience and other factors. The most significant estimations related to financial statements correspond to the valuation of securities from international institutions, which include available for sale financial assets, actuarial provision for supplemental retirement, widowhood, health care and burial benefits, which accounting principles are described in the notes to the financial statements.

(b) Financial instruments

According to Central Bank's policies, securities issued by MEF are not considered as financial assets and its recognition and measurement is performed according to what is explained in notes 2.1(vii) and 2.2 (s) attached.

The other financial instruments are classified as assets, liabilities or equity according to the substance of the contractual agreement that originated them. Interests, dividends, gains and losses generated by financial instruments classified as assets or liabilities are recorded as income or expense. Financial instruments are offset when the Central Bank has a legal enforceable right to offset them and Management has the intention to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets recorded in the financial statements correspond to the gross international reserves, the other assets abroad, domestic credit, assets recorded in the item "Other assets", with the exception of those detailed as non-financial assets (see note 10); and the financial liabilities correspond to liabilities in general, except for those detailed as non-financial liabilities in the item "Other liabilities" (see note 16). The specific accounting policies on recognition and measurement of these items are disclosed in the accounting policies described in this note.

(c) Available-for-sale and held-to-maturity investments

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

The initial recognition and the subsequently measurements of the investments mentioned above are carried out in accordance with the following criteria:

Classification

- Available-for-sale investments:

Available-for-sale investments are designated as such because they are held for an indefinite time and can be sold due to needs for liquidity or changes in interest rates, exchange rates or market prices; or because they do not qualify to be recorded as held-to-maturity.

- Held-to-maturity investments:

Financial assets that may or may not include embedded derivative financial instruments, whose recovery values are fixed or determinable amounts and with definite maturity terms, and for which the entity has both the intention and the ability to hold them up to their maturity. As of December 31, 2017 the Central Bank does not hold financial instruments classified in this category.

Initial recognition

Initial recognition of available-for-sale and held-to-maturity investments is performed at fair value, plus the transaction costs that are directly attributable to the acquisition of said investments.

Valuation of available – for – sale investments: -

- (i) For securities from international institutions acquired until December 31, 2013

Upon initial recognition, available-for-sale investments are measured at fair value, and unrealized gains and losses are recorded in the caption “Fair value reserve” of the statements of changes in equity. Unrealized gains or losses result from the comparison between the acquisition cost, which includes premiums paid or discounts obtained, and market value. Premiums and discounts included in the acquisition cost are recognized in the statements of income and other comprehensive income at the date of sale or maturity of the instruments.

- (ii) For securities from international institutions acquired since January 1, 2014

After initial recognition, these instruments are carried at fair value and the interests are recorded through the determination of amortized cost method, including any premium or discount in the income statements of the period, based in the effective interest rate. The difference between fair value and amortized cost (unrealized profit or loss) is recorded in the caption “Fair value reserve” of the statements of changes in equity.

- (iii) For securities issued by MEF

At the Board of Directors Meeting held on June 2, 2016, it was approved that since 2016, the measurement of all bonds issued by MEF in foreign currency would be at fair value, first applying the determination of the amortized cost and recording the difference between these two in the statements of changes in equity. The Central Bank has decided to apply this change prospectively, without affecting the 2015 financial statements.

Fair value is the market price provided daily by Bloomberg or Reuters. In Management’s opinion, such information reflects reasonably the value of investments in international securities, considering the market information and the accounting policies established by the Central Bank Board of Directors’.

When the investment is sold or realized, gains or losses previously recognized as part of equity are transferred to the results of the period, excluding the effects of the exchange rate differences, which are recorded as stated in paragraph (e) below. On the other hand, in case that the decrease in the market value of the investments is permanent or due to credit deterioration, the respective provisions are made, which affect the result of the period.

Interest earned is calculated and recorded using the nominal interest rate (coupon rate) on the nominal value of the investment, and is recorded in the caption “Net yield of securities” of the statements of income and other comprehensive income.

(d) Recognition of revenues and expenses

Interest revenues and expenses are calculated using the effective interest rate method (amortized cost) and are recognized in the results of the period they are accrued according

to the time of validity of the operations that generate them and the agreed interest rates, except for interests related to investments, which are recognized as indicated by paragraph (c) above. Interest revenues include the yields of investments on securities issued by international entities.

Gains and/or losses generated by embedded derivatives in investments that are not related to exchange rates are recognized in income as of the date of their maturity.

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

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

(e) Transactions in foreign currency

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

Assets and liabilities in foreign currencies are recorded at the purchase exchange rate of the date when transactions are performed and are expressed in Soles every day using closing purchase exchange rate; in the case of the U.S. dollar the exchange rate used is the established by the SBS and balances in other currencies are expressed according to the exchange rates provided by Bloomberg and Reuters, see note 25(iii).

To pay Bank suppliers for foreign currency liabilities, and to record the tax withholding, as applicable, it is used the US dollar average sale rate related to local currency published by the SBS.

The Central Bank records the exchange rate adjustment in the item "Adjustment for valuation article N°89 - Organic Act" of the statements of changes in equity.

(f) Derivative financial instruments

The Central Bank holds trading and embedded derivatives financial instruments.

(i) Trading derivatives

The reference value (nominal amount committed) of forward and future operations is recorded in "Off-balance sheet accounts", notes 20(b) and (f), and are subsequently measured at their fair value. Fair values are estimated based on the market exchange rates, interest rates and market prices. The Central Bank maintains operations with futures which underlying assets are investments in international securities and forward exchange operations.

On Board of Directors session dated May 25, 2017, it was approved that starting from 2017, interest from underlying investment plus the higher amount received in the foreign currency in which Forex-Swaps are invested (simultaneous buy and sell of foreign currency transactions, one using the "spot" exchange rate and the other using the "forward" exchange rate) which corresponds to the foreign currency increase generated by forward points negotiated, be registered in the Income Statement. Thus, the effect recorded in the caption "Adjustment for valuation article N°89 – Organic Act" from Net Equity, correspond to the valuation of the underlying asset during the life of the Forex-Swap plus (minus) the exchange effect from the foreign currency fluctuation with respect to the local currency. The Central Bank has decided to apply this change prospectively, without affecting 2016 financial statements.



Profits and loss from fair value changes of future and forward exchange rate transactions are recorded on the caption "Yield from transactions with derivatives" from the Statement of Income and Other Comprehensive Income, and in the caption "Adjustment for valuation article N°89 – Organic Act" from Net Equity, respectively, recognizing either an asset or a liability in the Statement of Financial Situation, as applicable.

Until December 31, 2016 the valuation of these instruments was totally recorded, without splitting the effect between spot and forward exchange rates of the transaction in the caption "Adjustment for valuation article N°89 – Organic Act" from Net Equity.

(ii) Embedded derivatives

The Central Bank records the valuation of instruments with embedded derivatives at the date of the financial statements presentation, affecting the caption "Fair Value Reserve" from Net Equity. Instruments valuation, without splitting the embedded derivative, is obtained from Bloomberg information service. The effect of instrument valuation is recorded at instrument maturity in the caption "Net Yield on Securities" from the Statement of Income and Other Comprehensive Income. As of December 31, 2017, and of 2016, the Central Bank does not have instruments containing embedded derivatives.

(g) Gold

Gold holdings are valued using the New York market price provided daily by Bloomberg and Reuters. The results of such valuation are recorded in the caption "Adjustment for valuation article N°89 – Organic Act" of the statements of changes in equity.

(h) Contributions to international organizations -

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

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

(i) Collections

Collections consist mainly of artwork (archeological objects, paintings, sculptures, among others) and collectible coins that have been purchased and/or received as donation, and are recorded at their acquisition cost or nominal value. Due to their nature, these assets are considered to have an indefinite useful life, so they do not depreciate and are recorded in the caption "Other assets" of the statements of financial position, note 10. The acquisition cost of donations is recorded in the caption "Non-financial income" of the statements of income and other comprehensive income and is calculated based on the fair value estimated by specialists at the moment they are received.

(j) Property, furniture and equipment and depreciation

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

Units in transit are accounted at their acquisition cost and are not depreciated until they are placed into service.

Land is not depreciated. Depreciation is computed on a straight-line basis over the following estimated useful lives:

| | Years of useful lives |
|-----------------------------------|----------------------------------|
| Buildings and other constructions | 100 |
| Machinery and equipment | 10 |
| Vehicles | 5 |
| Computer hardware | 3 |

(k) Impairment of long-lived assets

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

When the book value of the asset exceeds its recoverable value, a loss for impairment is recognized in the statements of income and other comprehensive income. The recoverable value is the highest between the net sale price and its value in use. The net sale price is the amount that can be obtained from the sale of a tangible asset in a free market, while the value in use is the present value of the estimated future cash flows provided by the continuous use of an asset and its disposal at the end of its useful life. The recoverable amounts are estimated for each asset or, if not possible, for each cash generating unit.

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

(l) Sterilized stock

Sterilized stock is the liability in local currency comprised by outstanding securities issued and deposits in local currency from the public sector and financial entities which are not part of the reserve requirements. The sterilized stock is the result from monetary operations to take out liquidity from the financial system and deposits from financial entities, which in case of reversal, would imply an increase in the monetary base.

Outstanding securities are measured at nominal value, recognizing the interests accrued in income of the period. The discounts granted at their placing date are deferred and amortized during the term of validity of the instrument using the effective interest rate method.

Indexed certificates of deposits are adjusted for the variation of the Sol / U.S. Dollar exchange rate, this variation is registered in the caption "Readjustment for valuation article N°89 - Organic Act" of the statements of changes in equity.

(m) Currency in circulation

This includes bills and coins in legal tender issued by the Central Bank which are held by the public; and are recorded as a liability in the statements of financial position at their nominal value in the caption "Monetary Base".

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

(n) Employee benefits

According to article N°58 of its by-laws, the Central Bank transfers annually financial resources to the Fund for Disease, Insurance and Pensions of the Central Bank's Employees (hereinafter

“the Fund”) with the purpose of supplementing the funds necessary to pay the benefits to its personnel. The total amount of the transfers from the Central Bank to the Fund is approved by the Board of Directors every year.

The Central Bank maintains the following defined benefits plans:

- Supplemental pensions’ subvention, widowhood pensions and burial subsidy.
- Other supplemental benefits to retirement, related to the healthcare benefits granted by the Central Bank.

The cost of granting benefits through defined benefit plans is determined separately for each plan, by means of the projected credit unit method. Actuarial gains and losses of both defined benefit plans are fully recognized in the income statement of the period when they occur.

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

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

The concepts of subvention for supplemental retirement pensions, widowhood, burial subsidy and other supplemental benefits to retirement, deducted from present value of the Fund’s net assets, are recorded in the caption “Other liabilities” of the statements of financial position, note 16(b).

(o) Operating expenses and issuance costs of bills and coins -

Operating expenses and the expenses of transporting bills and coins are recognized in the income statement of the year when they are incurred.

The cost of making coins and coin blanks includes the cost of raw materials, labor and production overhead.

The cost of printing bills and manufacturing coins is initially recognized in the caption “Other assets” of the statements of financial position (note 10(b) and (d)), and subsequently are recognized in results of the year in which bills and coins are set available to be in circulation for the first time.

(p) Cash and cash equivalents

Cash and cash equivalents comprise gross international reserves, net of bills and coins in circulation issued as part of the caption “Monetary base” of the statements of financial position. As shown below:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|----------------------------------|-------------------------|-------------------------|
| Gross international reserves | 206,362,355 | 206,972,481 |
| Less: | | |
| Currency in circulation | <u>(55,270,665)</u> | <u>(51,056,385)</u> |
| Cash and cash equivalents | <u>151,091,690</u> | <u>155,916,096</u> |

The difference between total gross international reserves and reserve liabilities (consisting of obligations with international entities), represent net international reserves. These gross international reserves show the international liquidity of the country and its financial capacity in relation to other countries, and are the resources available to the Central Bank to meet its obligations in foreign currency.

(q) Provisions

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

The expense relating to any provision is presented in the statements of income and other comprehensive income, net of any related refund.

(r) Contingencies

Contingent liabilities are not recognized in the financial statements, they are only disclosed in their notes, except when the possibility of an outflow of resources to cover a contingent liability is remote.

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

(s) Domestic credit

Domestic credit comprises the following:

- Securities issued by MEF, which are recorded and classified as available for-sale investments. Initial recording and subsequent measurement of such investments are made in accordance with the criteria described in paragraph (c) above.
- Securities received from MEF to cover losses according to the provisions of Article No. 93 of Organic Act (see notes 1 and 17(d)) which are recorded at their nominal value and bear interest at the agreed interest rate (coupon rate).
- Security re-purchase agreements (repos) used to inject liquidity in local currency to companies of the financial system. This transaction consists in the purchase of securities at the beginning of the operation, when companies of the financial system transfer the ownership of securities to the Central Bank and at the maturity date of the repo transaction, the companies of the financial system re-purchase the same securities, and the Central Bank transfers the ownership to them. These transactions are recognized as assets in the statements of financial position with the balancing entry in the deposit account of the companies of the financial system.
- Currency reporting operations, which are transactions where the participating entities sell domestic or foreign currency to the Central Bank in exchange of foreign or domestic currency, and are committed to re-purchase the sold currency at a later date at current market exchange rates under the same agreement. These operations are recognized as assets in the statements of financial position with the balancing entry in the deposit account of the companies of the financial systems in the currency lend.

(t) Foreign exchange swaps

Foreign exchange swaps, which nominal value is recorded in off - balance sheet accounts (see note 20(f)) correspond to transactions in which one party agrees to pay a variable interest rate over a local currency notional amount in exchange that the counterparty pays a fixed interest rate over an equivalent notional amount in U.S. dollars and also pays the exchange valuation on the notional value in U.S. dollars.

The Central Bank calculates interest receivable and payable, which are recognized in the statements of income and other comprehensive income in the period in which they accrue, under the captions "Other financial income" and "Other financial expenses" with counterpart in the captions "Other assets" and "Other liabilities" in the statements of financial position, respectively. Similarly, the Central Bank recognizes the exchange valuation difference on the notional amount committed in U.S. dollars in the caption "Readjustment for valuation article N°89 -Organic Act" of the statements of changes in equity, with counterpart in the asset and liability captions mentioned above, as appropriate.

Transaction settlement is made at maturity, in Soles, using prevailing market exchange rates.

(v) Subsequent events

Events after reporting date which provide additional information about the financial situation of the Central Bank at the date of the statements of financial position (adjustment events) are included in the financial statements. Significant subsequent events that do not imply adjustments to the financial statements are disclosed in notes to the financial statements.

(v) New pronouncements**(i) IFRS issued and in effect in Peru as of December 31, 2017:**

During 2017, the Accounting Standards Council (herein after "CNC" for its Spanish acronym) issued the following resolutions, which made official the following standards:

- Resolution N°001-2017-EF/30 issued on January 13, 2017 which made official the modifications of IFRS 4 Insurance Contracts.
- Resolution N°002-2017-EF/30 issued on April 28, 2017 which made official the annual improvements to the IFRS standards cycle 2014-2016, IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, and changes to IAS 40 Investment Property.
- Resolution N°003-2017-EF/30 issued on August 23, 2017, by which was made official the 2017 version of International Financial Reporting Standards (IAS, IFRS, IFRIC, and SIC), including the Conceptual framework for financial information.
- Resolution N°004-2017-EF/30 issued on September 26, 2017, by which was made official IFRS 17 and IFRIC 23.

The new versions implementation take effect according to the effective date of each specific standard, with the exception of IFRS 15 "Revenue from Contracts with Customers" which mandatory effective date was postponed as of January 1st, 2019, by Resolution N°005-217-EF/30 issued on December 13, 2017.

(ii) IFRS internationally issued, but not effective as of December 31, 2017*Issued on 2017:*

- IAS 28 “Investments in Associates and Joint Ventures” modifications, applicable for annual periods starting on or after January 1st, 2019.
- IFRS 9 “Financial Instruments” modifications, applicable for annual periods starting on or after January 1st, 2019.
- IFRIC 23 “Uncertainty over Income Tax Treatments” applicable for annual periods starting on or after January 1st, 2019.
- Improvements to IFRS 1 “First Time Adoption of IFRS” (cycles 2015 – 2017), IAS 28 “Investments in Associates and Joint Ventures”, IAS 23 “Borrowing Costs”, IAS 12 “Income Taxes”, IFRS 3 “Business Combinations”, and IFRS 11 “Joint Arrangements”, effective for annual periods starting on or after January 1, 2018.

Issued until 2016:

- IFRS 9 “Financial Instruments: Classification and Measurement”, effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 “Revenue from Contracts with Customers”, effective for annual periods beginning on or after January 1, 2018.
- IFRS 16 “Leases”, effective for annual periods beginning on or after January 1, 2019.
- IFRIC 22 “Foreign Currency Transactions and Advance Payments”, effective for annual periods beginning on or after January 1, 2018.
- Amendments to IAS 40 “Investment Property”, effective for annual periods beginning on or after January 1, 2018.
- Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”, effective for annual periods beginning on or after January 1, 2018.
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”, effective for annual periods beginning on or after a date to be determined by the IASB.
- Clarifications to IFRS 15 “Revenue from Contracts with Customers”, effective for annual periods beginning on or after January 1, 2018.
- Improvements (cycles 2014 - 2016) to IFRS 12 “Disclosures about Investments in Other Entities”, effective for annual periods beginning on or after January 1, 2017; and IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 28 “Investments in Associates and Joint Ventures”, effective for annual periods beginning on or after January 1, 2018.

Because standards detailed in paragraph (v) solely apply in a supplementary manner with those developed by the Organic Act and the standards issued by the Central Bank Board of Directors', they will not have a significant effect in the preparation of the accompanying financial statements.

The Central Bank has not estimated the effect on its financial statements, of the adoption of the above mentioned standards, if adopted.

3. DEPOSITS IN FOREIGN BANKS

(a) This item is made up as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|--|---------------------------------|---------------------------------|
| Time deposits (b) | 73,689,434 | 72,599,980 |
| Accrued interest (c) | <u>46,909</u> | <u>45,867</u> |
| | 73,736,343 | 72,645,847 |
| Demand deposits | 9,596 | 6,058 |
| Accrued interest from gold deposits, note 6(c) | <u>1,128</u> | <u>488</u> |
| Total | <u><u>73,747,067</u></u> | <u><u>72,652,393</u></u> |

(b) As of December 31, 2017 and 2016, time deposits are held in first class banks, bear interest in accordance with international market rates and are mainly denominated in U.S. dollars, amounting to US\$ 20,169 million and US\$ 17,970 million, respectively.

As of December 31, 2017, deposits in foreign banks accrued an average annual interest rate of 1.42 percent (0.75 percent as of December 31, 2016).

(c) As of December 31, 2017 and 2016, the Central Bank recognized interest income for deposits in foreign banks for S/ 805 million and S/ 359 million, respectively, which is presented in the caption "Financial income" of the statements of income and other comprehensive income.

4. DEPOSITS IN INTERNATIONAL INSTITUTIONS

As of December 31, 2017 and 2016, correspond to deposits in IMF, denominated in SDR, which bear interest at average annual rates of 0.74 and 0.24 percent, respectively, and are not unrestricted, except for certain situations such as the presence of effective or potential balance of payments needs that require assistance from the IMF, or in case of a request of withdrawal from the membership of this international organization.

5. SECURITIES FROM INTERNATIONAL INSTITUTIONS

(a) This item is made up as follows:

| | 2017 | | | 2016 | | | |
|---|-------------|-------------------------|---------------|-------------|-------------------------|---------------|---------------------|
| | Cost (i) | Unrealized gross amount | | Cost (i) | Unrealized gross amount | | Book value (iii) |
| | | Increase | Decrease (ii) | | Increase | Decrease (ii) | |
| | (\$/000) | (\$/000) | (\$/000) | (\$/000) | (\$/000) | (\$/000) | (\$/000) |
| Available-for-sale investments | | | | | | | |
| Deposit certificates | 12,571,152 | - | - | 12,571,152 | - | - | 12,989,020 |
| Short-term sovereign securities (iv) | 49,450,220 | 8,601 | (187,907) | 49,270,914 | 8,270 | (350,585) | 50,585,724 |
| Short-term supranational securities (v) | 901,417 | - | (549) | 900,868 | 1,955 | (8,980) | 9,679,234 |
| Long-term sovereign securities (iv) | 58,931,749 | 6,134 | (491,529) | 58,446,354 | 15,744 | (320,583) | 43,965,040 |
| Long-term supranational securities (v) | 1,109,087 | 24,394 | (3,021) | 1,130,460 | 26,763 | (39,346) | 7,720,693 |
| Balance of available-for-sale and held-to-maturity investments (d) | 122,963,625 | 39,129 | (683,006) | 122,319,748 | 52,732 | (719,494) | 124,939,711 |
| Accrued interest | | | | | | | 226,769 |
| Total | | | | | | | 125,166,480 |

(i) Available for sale security's cost correspond to acquisition cost for securities acquired until December 31, 2013, and to amortized cost for securities acquired since January 1, 2014.

(ii) As of December 31, 2017 and 2016, the decrease in the amount of the fair value reserve mainly corresponds to premiums paid at the date of acquisition of available for sale securities acquired until December 31, 2013, which are recognized in the income statement at maturity of the instrument, as indicated in note 2.2 (c)(i).

(iii) The carrying amount corresponds to estimated market value for available for sale securities.

(iv) Correspond to securities issued by central governments. It is worth mentioning that as of December 31, 2017 and 2016, the Central Bank's portfolio was mainly invested in sovereign bonds issued by the US Treasury.

(v) As of December 31, 2017 and 2016 correspond to securities issued by supranational entities such as the Andean Development Corporation (CAF for its Spanish acronym), the European Investment Bank (EIB), the World Bank, International Bank for Reconstruction and Development (IBRD), the BIS, among others.



(b) As of December 31, 2017 and 2016, the maturities and the nominal annual interest rates on investments are as follows:

| | Maturity | | Nominal interest rate (*) | | | | | | | |
|---|---------------------|---------------------|---------------------------|-------|--------|--------|------------------|-------|-------|-------|
| | 2017 | 2016 | 2017 | | 2016 | | Other currencies | | | |
| | | | US\$ | Max.% | Min.% | Max.% | US\$ | Max.% | Min.% | Max.% |
| Available-for-sale investments - | | | | | | | | | | |
| Deposit certificates | Jan.2018 / Mar.2018 | Jan.2017 / Feb.2017 | 1.51 | 1.92 | (0.43) | (0.40) | 0.85 | 1.68 | 0.28 | 0.40 |
| Short-term sovereign securities | Jan.2018 / Dec.2018 | Jan.2017 / Dec.2017 | 0.13 | 4.50 | (0.21) | 3.53 | 0.13 | 5.50 | 0.39 | 2.70 |
| Short-term supranational securities | Jan.2018 / Jul.2018 | Jan.2017 / Dec.2017 | 1.35 | 1.37 | 3.25 | 3.25 | 0.55 | 2.38 | 2.00 | 2.00 |
| Long-term sovereign securities | Jan.2019 / Ago.2022 | Jan.2018 / Oct.2021 | 0.75 | 2.88 | 0.38 | 4.75 | 0.13 | 4.50 | 1.00 | 4.50 |
| Long-term supranational securities | Feb.2019 | Jan.2018 / Dec.2019 | 1.25 | 1.88 | 0.63 | 1.50 | 0.75 | 2.00 | 0.75 | 4.75 |
| Held-to-maturity investments - | | | | | | | | | | |
| Supranational securities | - | - | - | - | - | - | - | - | - | - |

(*) The nominal rate corresponds to the coupon rate for investments in bonds, and to the discount rate for deposit certificates, commercial papers, and other fixed income instruments, without considering the premiums or discounts obtained at the acquisition of the instruments detailed above.

- (c) As of December 31, 2017 and 2016, securities from international institutions are first category and low-risk financial instruments. Securities issued by international institutions or foreign public entities have risk ratings of at least A+, according to rating agencies Moody's and Standard & Poor's. Deposit certificates have a minimum rating of A according to Fitch, Standard & Poor's and Moody's agencies. These securities bear interest at international market rates and are kept in first class foreign banks.
- (d) Balance due on available-for-sale and held-to-maturity investments, without including interest, is as follows:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|-------------------------|---------------------------|---------------------------|
| Up to 3 months | 38,376,642 | 35,436,806 |
| From 3 months to 1 year | 24,366,290 | 37,817,172 |
| From 1 to 3 years | 58,414,316 | 50,481,051 |
| From 3 to 5 years | 685,124 | 742,501 |
| More than 5 years | <u>477,376</u> | <u>462,181</u> |
| Total | <u>122,319,748</u> | <u>124,939,711</u> |

- (e) As of December 31, 2017 and 2016, the Central Bank recognized revenues for net yields of securities for S/ 932 million and S/ 505 million, respectively, which are part of the caption "Financial income" of the statements of income and other comprehensive income. Likewise, during 2017 and 2016, it was recognized an increase of S/ 23 million and a decrease of S/ 597 million, respectively, in the caption "Fair value reserve" of the statements of changes in equity, see note 2.2(c)(i) and 17(c).

6. GOLD

- (a) This item is made up as follows:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|---|-------------------------|-------------------------|
| In the country | | |
| Gold coins (b) | 2,329,125 | 2,131,176 |
| Provision for cost of converting gold coins to high purity or "good delivery" gold bars | <u>(2,211)</u> | <u>(2,288)</u> |
| | 2,326,914 | 2,128,888 |
| Abroad - | | |
| Gold bars (c) | <u>2,373,632</u> | <u>2,171,546</u> |
| Total | <u>4,700,546</u> | <u>4,300,434</u> |

- (b) As of December 31, 2017 and 2016, corresponds to 552,101 and 552,191 troy ounces of gold, respectively, in commemorative coins deposited in the vault of the Central Bank, which are valued at quotation value the per-troy ounce as of the aforementioned dates.
- (c) As of December 31, 2017 and 2016, corresponds to 562,651 gold troy ounces in high purity bars or "good delivery" deposited in first class foreign banks, 249,702 troy ounces are under custody and 312,949 troy ounces are under term deposit. As of

December 31, 2017, this term deposit accrued interests at an 0.26 percent annual rate and have 180 day term since the date of its constitution (as of December 31, 2016 it accrued interest at 0.47 percent annual rate and had 62 day term since the date of its constitution). The accrued interests as of December 31, 2017 and 2016 were recorded in the caption "Deposits in foreign banks" from the Statement of Financial Situation, note 3.

7. CONTRIBUTIONS TO INTERNATIONAL INSTITUTIONS

- (a) This item is made up as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---------------------------|-------------------------|-------------------------|
| Contributions to FLAR (b) | 1,612,153 | 1,641,062 |
| Contributions to IMF (c) | 623,569 | 136,877 |
| Contribution to BIS (d) | <u>303,020</u> | <u>296,111</u> |
| | <u>2,538,742</u> | <u>2,074,050</u> |

- (b) This contribution grants Peru access to financing facilities from FLAR. As of December 31, 2017, paid contributions to FLAR amounted to US\$498 million, equivalent to S/ 1,612 million (US\$ 490 million equivalent to S/ 1,641 million, as of December 31, 2016). As of December 31, 2017 and 2016, Peru's participation in FLAR accounts for 17 percent of its subscribed capital. Also, as of December 31, 2017, the Central Bank holds contributions pending of capitalization for an amount of US\$ 166 million, equivalent to S/ 536 million (US\$ 174 million equivalent to S/ 583 million, as of December 31, 2016), which were recorded as receivables and payables, and are presented net in the statements of financial position, see note 2.2(h).
- (c) Contribution to IMF grants Peru access to IMF's financing facilities. IMF determines Peru's contribution as a participating country, which as of December 31, 2017 and 2016 amounts to SDR 1,335 million; made up by contributions in SDR and contributions in Soles. As of December 31, 2017 and 2016, Peru's participation in the total share held by IMF member countries is 0.28 percent and comprises the following:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|-------------------------|-------------------------|
| Contribution in SDR: | | |
| Contribution to IMF in SDR (i) | <u>623,569</u> | <u>136,877</u> |
| Contribution in local currency: | | |
| Contribution to IMF, equivalent in local currency (ii) | 5,554,846 | 6,046,039 |
| Revaluations to be liquidated – contribution to IMF in local currency (iii) | <u>(24,565)</u> | <u>(169,380)</u> |
| Total contribution in local currency | <u>5,530,281</u> | <u>5,876,659</u> |
| Total contribution to IMF | <u>6,153,850</u> | <u>6,013,536</u> |

- (i) As of December 31, 2017 and 2016, it corresponds to contributions granted by Peru to the IMF of SDR 135 million and SDR 30 million, respectively.
- (ii) For contributions in Soles, the Central Bank did not disburse any funds but constituted promissory notes in favor of the IMF, through which said organization can arrange the cashing of the above mentioned contributions at any moment; therefore, said balancing entry is recorded as a liability with

the IMF in the caption "Other liabilities abroad" of the statements of financial position. This obligation does not generate interests and can be requested at any moment.

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

By Law N° 29823, published on December 29, 2011; the Congress of the Republic approved the increase of Peru's quota in the IMF from SDR 638 million to SDR 1,335 million. On January 26, 2016, the IMF informed the Central Bank that, as of December 31, 2015, the conditions set forth in the Articles of Agreement of the IMF, required to execute the increase, were fulfilled; therefore it was registered in February 2016.

- (d) Since 2011 the Central Bank participates as a member of that international organization. BIS determines the percentage of participation of member countries and in the case of Peru, its participation amounts to 3,000 shares. As of December 31, 2017 and 2016, 25 percent of market value of such shares has been paid, which are equivalent to SDR 66 million, equivalent to S/ 303 million (equivalent to S/ 296 million, as of December 31, 2016). The 75 percent of the market value of said shares, corresponding to SDR 197 million, equivalent to S/ 909 million (equivalent to S/ 888 million, as of December 31, 2016), were recorded as receivables and payables, and are presented net in the statements of financial position, see note 2.2(h).

8. DOMESTIC CREDIT

- (a) This caption is made up as follows:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|---|--------------------------|--------------------------|
| To banks (b): | | |
| Currency repo transactions | 16,146,400 | 26,125,600 |
| Security repo transactions | 5,249,690 | 2,057,119 |
| Commissions receivable for currency repo transactions | <u>578,885</u> | <u>595,519</u> |
| | <u>21,974,975</u> | <u>28,778,238</u> |
| To the public sector (c): | | |
| Bonds issued by MEF in foreign currency | 1,941,973 | 1,928,942 |
| Securities issued by MEF in local currency | 645,231 | 704,246 |
| Currency repo transactions | 442,600 | 380,600 |
| Interest receivable | 63,015 | 51,658 |
| Commissions receivable for currency repo transactions | <u>3,031</u> | <u>1,851</u> |
| | <u>3,095,850</u> | <u>3,067,297</u> |
| To other entities and funds (b): | | |
| Currency repo transactions | 91,100 | 123,600 |
| Security repo transactions | 28,495 | 14,993 |
| Commissions receivable for currency repo transactions | <u>612</u> | <u>778</u> |
| | <u>120,207</u> | <u>139,371</u> |
| Total | <u>25,191,032</u> | <u>31,984,906</u> |



- (b) As of December 31, 2017 and 2016, the Central Bank carried out currency repos with companies of the financial system, under which these companies sold foreign or local currency to the Central Bank in exchange of local or foreign currency and were committed, under the same act, to repurchase the sold currency at a later date at the exchange rate current at the repurchase date. The Central Bank charges a commission equivalent to the interest rate offered by each company of the financial system in bidding sessions, less a discount established in the pertinent call. As of December 31, 2017, these transactions had interest rates which ranged between 1.69 and 5.89 percent, with settlement dates between January 2018 and October 2020 (as of December 31, 2016 they had interest rates between 2.16 and 5.97 percent and settlement dates between January 2017 and October 2020).

Also, as of December 31, 2017, BCRP had current purchase transactions with repurchase commitment of certificates of deposit (security repos) with banks at an average interest rate of 3.8 percent and which settlement date is due between January 2018 and July 2020 (as of December 31, 2016, security repo transactions were held at an average interest rate of 5.4 percent with settlement dates between January and June 2017).

- (c) As of December 31, 2017 and 2016, the Central Bank held MEF bonds issued in U.S. dollar acquired in the secondary market, which mature between July 2025 and November 2033, and accrue interests at rates ranging between 7.35 percent and 8.75 percent, respectively. Such instruments are classified and valued as available-for-sale investments. As of December 31, 2017, an increase of S/ 135 million (an increase of S/ 129 million, as of December 31, 2016) in fair value were recorded in the caption "Fair value reserve" of the statements of financial position, note 17(c).

On the other hand, the Central Bank holds securities issued by the MEF that were received in August 2015 (after amortizations made during 2017 and 2016, see note 17(d)), intended to cover losses for the year 2014. These securities were issued with a 20 years term at an interest rate of 2.20 percent per annum, settled at maturity or when the call option is exercised. Such call and amortization of interest, fees and other expenses incurred by these bonds, will be supported by Central Bank's profits, see note 1.

Also, as of December 31, 2017 and 2016, the Central Bank carried out currency repos with public sector companies, whereby the companies sold foreign or domestic currency to the Central Bank in exchange for domestic or foreign currency, and simultaneously agree to repurchase the currency sold at a later date with the exchange rate prevailing at the repurchasing date. The Central Bank charges a commission equivalent to the interest rate offered by each company of the financial system in the auctions, less a discount that is announced in the respective auction. As of December 31, 2017, these operations had interest rates ranging from 2.53 to 4.83 percent, with settlement dates between March 2018 and June 2019 (as of December 31, 2016, these operations had interest rates ranging from 5.01 to 6.10 percent, with settlement dates between March and June 2018).

- (d) As of December 31, 2017 and 2016, the Central Bank recognized interest income and commissions from domestic credit operations for S/ 1,067 million and S/ 1,346 million, respectively, which are part of the caption "Financial income" of the statements of income and other comprehensive income.

9. PROPERTY, FURNITURE AND EQUIPMENT, NET

(a) The movement of this caption for the years ended December 31, 2017 and 2016 is as follows:

| Description | Land (\$/000) | Buildings and other construction (\$/000) | Furniture and office equipment (\$/000) | Vehicles (\$/000) | Miscellaneous equipment (\$/000) | Units in transit (\$/000) | Total (\$/000) |
|--|------------------|--|--|----------------------|--|------------------------------|-------------------|
| Cost - | | | | | | | |
| Balance as of January 1, 2016 | 24,056 | 163,858 | 4,497 | 3,663 | 83,572 | 5,666 | 285,312 |
| Additions | - | 2,030 | 85 | 212 | 16,850 | 1,671 | 20,848 |
| Transfers | - | 146 | 2,422 | - | 3,055 | (5,623) | - |
| Disposals and other | - | (1,113) | - | (306) | (160) | (43) | (1,622) |
| Balance as of December 31, 2016 | 24,056 | 164,921 | 7,004 | 3,569 | 103,317 | 1,671 | 304,538 |
| Additions | - | 1,750 | 204 | 70 | 5,282 | 232 | 7,538 |
| Transfers | - | 1,218 | 23 | - | (4) | (1,237) | - |
| Disposals and other | - | (1,556) | (309) | - | (8,468) | (9) | (10,342) |
| Balance as of December 31, 2017 | 24,056 | 166,333 | 6,922 | 3,639 | 100,127 | 657 | 301,734 |
| Accumulated depreciation - | | | | | | | |
| Balance as of January 1, 2016 | - | 63,948 | 3,942 | 2,578 | 56,839 | - | 127,307 |
| Depreciation of the year (d) | - | 3,202 | 203 | 420 | 7,720 | - | 11,545 |
| Disposals and other | - | (448) | - | (306) | (147) | - | (901) |
| Balance as of December 31, 2016 | - | 66,702 | 4,145 | 2,692 | 64,412 | - | 137,951 |
| Depreciation of the year (d) | - | 3,424 | 355 | 384 | 7,972 | - | 12,135 |
| Disposals and other | - | (647) | (308) | - | (8,454) | - | (9,409) |
| Balance as of December 31, 2017 | - | 69,479 | 4,192 | 3,076 | 63,930 | - | 140,677 |
| Net book value | | | | | | | |
| As of December 31, 2016 | <u>24,056</u> | <u>98,219</u> | <u>2,859</u> | <u>877</u> | <u>38,905</u> | <u>1,671</u> | <u>166,587</u> |
| As of December 31, 2017 | <u>24,056</u> | <u>96,854</u> | <u>2,730</u> | <u>563</u> | <u>36,197</u> | <u>657</u> | <u>161,057</u> |

- (b) As of December 31, 2017 and 2016, the Central Bank keeps fully depreciated properties, furniture and equipment which are still in use for S/ 45 million and S/ 49 million, respectively.
- (c) The Central Bank maintains insurances on its main assets, in conformity with the policies established by Management and the Board of Directors.
- (d) During the year 2017 and 2016, depreciation of property, furniture and equipment amounted to S/ 12 million, and is included in the captions "Operating expenses" and "Issuances expenses and costs" for S/ 9 million and S/ 3 million, respectively, see notes 21 and 22.
- (e) Management reviews every year whether the carrying amount exceeds the recoverable value of its long-lived assets based on available market information. In Management's opinion, there is no evidence of impairment of the long-lived assets held by the Central Bank as of December 31, 2017 and 2016.
- (f) As of December 2017 and 2016, no Central Bank asset was granted as collateral.

10. OTHER ASSETS

- (a) This caption is made up as follows:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|---|-------------------------|-------------------------|
| Financial instruments - | | |
| Interests receivable | - | 11,015 |
| Accounts receivable from personnel | 923 | 1,065 |
| | <u>923</u> | <u>12,080</u> |
| Non-financial instruments - | | |
| Raw material, semi-finished and finished products (b) | 98,151 | 101,764 |
| Collections (c) | 94,786 | 94,775 |
| Deferred charges (d) | 71,234 | 64,136 |
| Advance payments to suppliers | 14,521 | 1,419 |
| Intangibles | 6,944 | 4,391 |
| Silver | 2,287 | 2,233 |
| Other | 3,022 | 2,684 |
| | <u>290,945</u> | <u>271,402</u> |
| Total | <u>291,868</u> | <u>283,482</u> |

- (b) Raw material comprises the supplies acquired by the Central Bank for the minting of coins, and is valued at average cost. The value of semi-finished and finished products is comprised by the cost of raw material, direct labor and manufacturing overhead.
- (c) Collections comprise paintings, archaeological pieces, sculptures, numismatic collections of coins and bills and other objects acquired by or donated to the Central Bank and maintained for display.
- (d) Deferred charges mainly comprise the cost of printing bills, which is charged to expenses when such bills are set available for circulation for the first time.

11. OTHER LIABILITIES ABROAD

- (a) This caption is made up as follows:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|--|-------------------------|-------------------------|
| SDR allocations and revaluations to be settled (b) | 2,812,433 | 2,748,306 |
| Allocation in Andean pesos (c) | 64,760 | 67,040 |
| Other | <u>3,128</u> | <u>3,974</u> |
| Total | <u>2,880,321</u> | <u>2,819,320</u> |

- (b) As of December 31, 2017 and 2016, the balance account is equivalent to SDR 610 millions, 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 previously mentioned dates includes the exchange difference generated by updating the value of the SDR allocation received from the IMF from the date of the account's last movement (December 20 and April 30, for the years 2017 and 2016, respectively) until December 31 of each year, which amounts to S/ 12 million and S/ 79 million (negative update).

SDR allocations accrue interests according to the conditions of the Constitutive Agreement. Annual interest rate as of December 31, 2017 and 2016 was 0.74 and 0.24 percent, respectively.

- (c) The allocation of Andean pesos corresponds to those delivered by FLAR amounting to 20 million Andean pesos, equivalent to S/ 65 million and S/ 67 million as of December 31, 2017 and 2016, respectively; this allocation does not generate interests, does not have any defined maturity for its settlement, and the counterpart has been recorded as an account receivable in the caption "Other assets abroad" of the statements of financial position.
- (d) During 2017 and 2016, the Central Bank recorded interests for approximately S/ 15 million and S/ 2 million, respectively, corresponding to its liabilities abroad, mainly for the obligations for SDR allocations, which are recorded in the caption "Financial expenses" of the statements of income and other comprehensive income.

12. OUTSTANDING SECURITIES ISSUED

- (a) This caption is made up as follows:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|--|--------------------------|--------------------------|
| Certificates of deposit (CDBCRP) | 30,747,100 | 22,964,400 |
| Indexed certificates of deposit (CDRBCRP) | 829,039 | 792,218 |
| Certificates of deposit settled in US dollars (CDLDBCRP) | 400,000 | - |
| CDRBCRP Sales' premium | 1,360 | - |
| Discounts for the sale of CDBCRP, CDRBCRP and CDVBCRP | <u>(363,045)</u> | <u>(672,894)</u> |
| | <u>31,614,454</u> | <u>23,083,724</u> |

- (b) As of December 31, 2017 and 2016, outstanding securities issued comprise mainly certificates of deposit in local currency, which are placed by the auction mechanism or by direct placement with the purpose of withdrawing liquidity surpluses from the financial system.
- (c) During 2017 and 2016, the Central Bank registered expenses for interests on outstanding securities issued for S/ 1,236 million and S/ 903 million, respectively, which are part of the caption "Financial expenses" of the statements of income and other comprehensive income.
- (d) As of December 31, 2017 and 2016, certificates of deposits issued by the Central Bank were acquired by:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|--|-------------------------|-------------------------|
| Banks | 26,807,382 | 16,223,247 |
| Deposit Insurance Fund | 1,912,400 | 1,527,100 |
| Banco de la Nación | 1,747,300 | 4,498,571 |
| Mutual funds and pension fund administrators' funds | 655,420 | 963,328 |
| Financial companies | 435,700 | 232,300 |
| Other entities | 417,937 | 312,072 |
| Subtotal | 31,976,139 | 23,756,618 |
| Discounts for the sale of CDBCRP, CDRBCRP and CDLDBCRP | (363,045) | (672,894) |
| CDRBCRP Sales' premium | 1,360 | - |
| Total | 31,614,454 | 23,083,724 |

- (e) As of December 31, 2017, certificates of deposits issued by the Central Bank have maturity dates between January 2018 and June 2019, they accrued interests at discount rates between 1.30, and 4.78 percent (as of December 31, 2016, they had maturity dates between January 2017, and June 2018, and accrued interests between 3.59 and 5.55 percent).

13. DEPOSITS IN LOCAL CURRENCY

- (a) This caption is made up as follows:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|------------------------------------|-------------------------|-------------------------|
| Public sector | 35,570,093 | 23,061,428 |
| Banco de la Nación | 6,598,876 | 5,405,295 |
| Banks | 869,060 | 1,735,800 |
| Municipal savings and credit banks | 364,400 | 222,700 |
| Financial companies | 349,900 | 133,255 |
| Deposits Insurance Fund | 319,375 | 274,478 |
| Rural savings and credit banks | 8,750 | 5,500 |
| Other entities and funds | 340 | 17,590 |
| Total | 44,080,794 | 30,856,046 |

- (b) As of December 31, 2017 and 2016, deposits in local currency are classified by type of transaction as follows:

| Type | Interest rate % | Maturity | 2017 (S/ 000) | 2016 (S/ 000) |
|------------------------------|---------------------------|-----------------------------------|-------------------------|-------------------------|
| Current accounts | Between 0 and 2.00 | No maturity | 3,996,976 | 3,572,696 |
| Time deposits | Between 2.00 and 3.20 | Between January and December 2018 | 31,866,882 | 19,776,800 |
| Special deposits (overnight) | 2.00 | 5 days | 8,216,936 | 7,506,550 |
| Total | | | 44,080,794 | 30,856,046 |

- (c) During 2017 and 2016, the Central Bank recognized interest on deposits in local currency for S/ 1,021 million and S/ 950 million, respectively, which are recorded in the caption "Financial expenses" of the statements of income and other comprehensive income.

14. MONETARY BASE

(a) This caption is made up as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|--------------------------|--------------------------|
| Currency in circulation (b) - | 55,270,665 | 51,056,385 |
| Deposits in local currency (c) - | | |
| Deposits from banks | 1,184,050 | 1,280,124 |
| Municipal savings and credit banks | 325,183 | 536,421 |
| Banco de la Nación | 250,000 | 350,000 |
| Deposits from financial institutions | 113,188 | 116,308 |
| Rural savings and credit banks | 64,263 | 35,463 |
| Other | 25 | 72 |
| | <u>1,936,709</u> | <u>2,318,388</u> |
| Total | <u>57,207,374</u> | <u>53,374,773</u> |

(b) Composition of currency in circulation is as follows:

| | <u>2017</u> | | <u>2016</u> | |
|---------------------|---------------|--------------------------|---------------|--------------------------|
| | Units | S/ (000) | Units | S/ (000) |
| Bills- | | | | |
| Denomination S/10 | 125,823,850 | 1,258,239 | 126,314,554 | 1,263,145 |
| Denomination S/20 | 150,297,696 | 3,005,954 | 138,225,617 | 2,764,512 |
| Denomination S/50 | 143,216,649 | 7,160,832 | 125,300,842 | 6,265,042 |
| Denomination S/100 | 379,277,962 | 37,927,796 | 353,616,856 | 35,361,686 |
| Denomination S/200 | 17,269,153 | 3,453,831 | 15,553,519 | 3,110,704 |
| Subtotal | | <u>52,806,652</u> | | <u>48,765,089</u> |
| Coins- | | | | |
| Denomination S/0.01 | 348,413,882 | 3,484 | 348,479,196 | 3,485 |
| Denomination S/0.05 | 480,288,189 | 24,014 | 449,424,774 | 22,471 |
| Denomination S/0.10 | 1,480,203,027 | 148,020 | 1,392,364,334 | 139,237 |
| Denomination S/0.20 | 422,402,536 | 84,481 | 391,132,250 | 78,226 |
| Denomination S/0.50 | 468,734,451 | 234,367 | 443,576,575 | 221,788 |
| Denomination S/1.00 | 860,345,159 | 860,345 | 784,515,011 | 784,515 |
| Denomination S/2.00 | 167,851,070 | 335,702 | 151,308,575 | 302,617 |
| Denomination S/5.00 | 154,369,493 | 771,847 | 147,445,301 | 737,227 |
| Subtotal | | 2,462,260 | | 2,289,566 |
| Commemorative coins | | 1,753 | | 1,730 |
| Total | | <u>55,270,665</u> | | <u>51,056,385</u> |

(c) As of December 31, 2017 and 2016, corresponds to deposits in local currency of the financial entities subject to reserve requirements in the national financial system. Such funds are intended to cover the amount of reserves required by the Central Bank for obligations subject to reserve requirements in local currency which do not have maturity. Additionally, the amount of reserve requirements may be covered with cash in local and foreign currency, note 15(b), and in cash of the entity subject to reserve requirements.

The required reserve comprises a minimum reserve requirement and an additional reserve, which is defined as the part of the required reserve that exceeds the legal minimum reserve requirement. As of December 31, 2017 and 2016, the minimum reserve requirement in local currency had a rate of 5.0 percent and 6.5 percent, respectively, for obligations subject to reserve requirements in local currency. Also, the obligations subject to reserve requirements are classified in two regimes: general and special.

As of December 31, 2017 and 2016, only local currency additional reserve is required for those entities that exceed the limits of foreign currency sale transactions through forwards and swaps, as well as those that have obligations subject to the special regime. As of December 31, 2017, reserve requirements funds corresponding to the additional reserve of the general regime and special regime, that were deposited in the Central Bank and earned interests at an annual rate of 0.05 percent, equivalent to the rate of remuneration of overnight deposits at the Central Bank minus 195 basis point (as of December 31, 2016, the rate was 1.05 percent).

On May 12th, 2017, the Central Bank issued Circular No. 018-2017-BCRP, referred to the provisions of reserve requirements in national currency, which states that starting on the publication date, the limits are expanded for the weekly and monthly agreed transactions for selling foreign currency in exchange for domestic currency through forwards and swaps. Through Circulars issued on the same year, it was decided to reduce from 6.0 to 5.0 percent the minimum legal reserve requirement rate and the reserve requirement applied to the liabilities under the general regime, as well as to reduce the reserve requirement rate for indexed obligations from 48 to 44 percent. These measures were implemented to provide the necessary liquidity to enable the orderly evolution of credit. Circular N ° 018-2017-BCRP was in force as of December 31, 2017.

On December 27, 2016, the Central Bank issued Circular No. 029-2016-BCRP, referring to the local currency reserve requirements, which states that since January 2017 reserve period, the minimum legal reserve rate and the reserve ratio applied to obligations subject to the general regime will be reduced from 6.5 to 6.0 percent. Likewise, the rate of reserve requirements for indexed bonds will reduce from 70 to 48 percent. These new rules are intended to provide the necessary liquidity to continue promoting the orderly evolution of credit. Which was effective as of December 31, 2016.

On February 26, 2016, the Central Bank issued Circular No. 005-2016-BCRP, referred to local currency reserve requirements, increases from 0.75 to 1.00 percent the minimum level of current account deposits that entities subject to reserve requirements must maintain at the Central Bank as reserve funds, in order to ensure an adequate level of liquidity in the interbank lending market. These measures were in force as of December 31, 2017, and 2016.

15. DEPOSITS IN FOREIGN CURRENCY

(a) This caption is made up as follows:

| | 2017 (S/ 000) | 2016 (S/ 000) |
|---|-------------------------|-------------------------|
| Banks (b) | 37,750,375 | 36,257,866 |
| Public sector (c) | 30,271,313 | 50,498,515 |
| Other financial system institutions (b) | 603,187 | 934,159 |
| Banco de la Nación (b) | 507,746 | 1,265,421 |
| Financial companies (b) | 342,460 | 682,559 |
| Other entities and funds | 260,660 | 193,411 |
| Total | 69,735,741 | 89,831,931 |

- (b) As of December 31, 2017 and 2016, correspond to deposits in foreign currency made by entities subject to reserve requirements in the national financial system. Such funds are intended to cover the amount of reserves required by the Central Bank for obligations subject to reserve requirements in foreign currency which do not have maturity.

The required reserve comprise minimum reserve requirements, which as of December 31, 2017 and 2016, had a rate of 9 percent for the obligation subject to reserve requirements in foreign currency, and additional reserves, which is the part of the reserves required that exceeds the legal minimum reserve requirements. As of December 31, 2017, the additional reserve rate in foreign currency fluctuated between 16.6 and 35.7 percent (between 16.0 and 44.6 percent as of December 31, 2016).

As of December 31, 2017, the reserve funds corresponding to the additional reserves of the general and special regimes that were deposited in the Central Bank accrued interests at annual rates of 0.3729 percent, equivalent to 25 percent of the annual average 1-month LIBOR (as of December 31, 2016, such rate was 0.1789 percent).

On December 22, 2017, the Central Bank issued Circular No. 037-2017-BCRP, referred to legal reserve requirements in foreign currency, by which reduced from 49 to 29 percent the upper limit for the average reserve requirement rate, and the marginal reserve requirement rate for liabilities subject to general regime. These measures look forward to keep credit conditions stable, in a scenario of credit deceleration and higher international interest rates, which were on force as of December 31, 2017.

On December 27, 2016, the Central Bank issued Circular No. 030-2016-BCRP, referred to foreign currency reserve requirements, which states that from January 2017 reserve period, the upper limit of the average rate of reserve requirements will be reduced from 60 to 48 percent, and the marginal reserve ratio of the obligations subject to the general regime will be reduced from 70 to 48 percent. These new rules seek to maintain stable credit conditions, in a context of credit slowdown and higher international interest rates. Which were in force as of December 31, 2016.

- (c) As of December 31, 2017 and 2016, deposits in foreign currency of the public sector entities are denominated in U.S. dollar, comprise mainly contracts subscribed with the General Direction of the Public Treasury of the MEF, which establishes the conditions for the reception of the deposits from said entity. As of December 31, 2017, such deposits correspond to demand and time deposits, which accrued interests at an effective annual rates between 0.33 and 1.63 percent (as of December 31, 2016, the effective annual rates ranged between 0.11 and 0.93 percent). Time deposits have maturities between January 2018 and February 2018 (as of December 31, 2016, between January 2017 and February 2018).
- (d) During 2017 and 2016, the Central Bank recognized interests on deposits in foreign currency amounting to S/ 573 million and S/ 292 million, respectively, which are included in the caption "Financial expenses" of the statements of income and other comprehensive income.

16. OTHER LIABILITIES

(a) This caption is made up as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|--------------------------|--------------------------|
| Financial liabilities - | | |
| Re-sale commitment of foreign currency, note 8(b) | 16,774,557 | 27,609,349 |
| Interest and commissions payable | 545,771 | 330,231 |
| Deposits Insurance Fund | 18,640 | 282,246 |
| Accounts payable | 4,623 | 4,099 |
| Fund for diseases, insurance and pension of Central Bank employees | <u>491</u> | <u>1,351</u> |
| | <u>17,344,082</u> | <u>28,227,276</u> |
| Non-financial liabilities - | | |
| Actuarial liability (b) | 163,694 | 163,995 |
| Other provisions | 39,591 | 40,682 |
| Other | <u>5,967</u> | <u>8,875</u> |
| | <u>209,252</u> | <u>213,552</u> |
| Total | <u>17,553,334</u> | <u>28,440,828</u> |

(b) As of December 31, 2017 and 2016, includes the allowance for the actuarial obligation corresponding to the subvention of supplemental retirement pensions, widowhood, burial subsidy and reserve of current risks of healthcare services calculated by an actuary, deducting the value of net assets of the Fund, note 2.2(n).

The Fund is a private legal entity incorporated by Law Decree N°7137, which is intended to provide assistance to the Central Bank's active and retired employees; as well as to their spouses, children and parents, as established in its regulations. This assistance is additional to social security benefits and other social benefits granted by Law (ESSALUD, National Pension System - Decree Act N°19990, and the Private Pensions System). According to IAS 19 – Employee Benefits, the aforementioned assistance correspond to a defined benefits plan.

As of December 31, 2017 and 2016, 3.2 and 9.6 percent of the Fund's assets, respectively, are deposited in the Central Bank, which accrued interests at an annual effective rates of 4.37 and 5.07 percent, respectively, and the difference which has been granted as loans to the Central Bank's employees is directly discounted from the payroll.

The net expense recognized in the statements of income and other comprehensive income for employee benefits, see note 21, is made up as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|-------------------------|-------------------------|
| Variation of the net assets of the Fund | (500) | 5,934 |
| Variation of reserves calculated by the actuary | <u>10,901</u> | <u>14,945</u> |
| Balance at the end of the period | <u>10,401</u> | <u>20,879</u> |

As of December 31, 2017 and 2016, the movement in provision for actuarial obligation for retired and active employees of the Central Bank is as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|-------------------------|-------------------------|
| Balance at the beginning of the year | 163,995 | 154,910 |
| Transfers to the Fund during the year (i) | (10,702) | (11,794) |
| Allowance for employee benefit plans, note 21 | <u>10,401</u> | <u>20,879</u> |
| Balance at the end of the year | <u>163,694</u> | <u>163,995</u> |

- (i) In January 2017 and 2016 the Central Bank's Board authorized the transfer to the Fund for Disease, Insurance and Pensions for Central Bank's Employees of S/ 39.7 million and S/ 33.7 million, respectively. During year 2017, from the amount indicated above, S/ 10.7 million were used to pay pensions of retired personnel, that generated a decrease in the actuarial liability by the same amount (S/ 11.8 million during fiscal year 2016) and S/ 27.7 million were transferred to the Fund for health expenses of active personnel increasing the balance of "Operating expenses" account (S/ 20.6 million during fiscal year 2016), see note 21; and approximately S/ 1.3 million was transferred for health expenses of National Mint (CNM) personnel, which were recognized in cost of coins issued (S/ 1.3 million during fiscal year 2016).

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

| | <u>2017</u> | | <u>2016</u> | |
|------------------------------------|----------------------|---------------------|----------------------|---------------------|
| | S/ (000) | % | S/ (000) | % |
| Deposits in Central Bank | 508 | 3.2 | 1,416 | 8.5 |
| Accounts receivable from employees | <u>15,023</u> | <u>96.8</u> | <u>15,283</u> | <u>91.5</u> |
| Total | <u>15,531</u> | <u>100,0</u> | <u>16,699</u> | <u>100,0</u> |

The main hypothesis used when determining the actuarial liability for employee benefit plans are shown below:

| | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Discount rate | 6.00% | 6.00% |
| Increase of pensions | 0.80% | 1.90% |
| Average period of amortization of pensions | 9.55 | 8.97 |
| Retired employees as of the date of financial statements: | | |
| Men | 957 | 946 |
| Women | 562 | 575 |
| Mortality tables: | | |
| Men | SP 2005 H | SP 2005 H |
| Women | SP 2005 M | SP 2005 M |

The following chart presents the sensibility of the actuarial assumptions in the results of the Central Bank:

| | Increase / decrease of the discount rate | Effect in reserve from the period |
|------|---|--------------------------------------|
| | | S/ 000 |
| 2017 | +50bps | (7,911) |
| | -50bps | 8,591 |
| 2016 | +50bps | (7,501) |
| | -50bps | 8,168 |
| | Increase / decrease of the discount rate | Effect in reserve from the period |
| | Years | (S/ 000) |
| 2017 | +1 | 152 |
| | -1 | (475) |
| 2016 | +1 | 2,326 |
| | -1 | (2,043) |

17. NET EQUITY

(a) Capital

As of December 31, 2017 and 2016, authorized capital of the Central Bank, subscribed and paid-in by the Peruvian State in accordance with law, amounts to S/ 1,183 million.

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

(b) Reserves

Legal reserve

According to the article N°92 of its Organic Act, the Central Bank must distribute its net income annually as follows: (i) 25 percent for the Public Treasury and (ii) 75 percent for the constitution and increase up to 100 percent of its capital of a reserve which, preferably, will be used for capitalization. During 2017 and 2016, the Central Bank has made no capitalization of reserves.

During the Board of Directors' Meeting held on March 9, 2017, it was agreed to establish a legal reserve, corresponding to 75 percent of the profits for the fiscal year 2016, for approximately S/ 184 million.

During the Board of Directors' Meeting held on March 17, 2016, it was agreed to establish a legal reserve, corresponding to 75 percent of the profits for the fiscal year 2015, for approximately S/ 687 million.

Special statutory reserve

According to article N°63 of the Central Bank Bylaw, the surplus generated by the application of article N°92 of the Organic Act shall be destined to the constitution of a special reserve.

(c) Fair value reserve

Below we show the movement of the caption during the years 2017 and 2016:

| | Securities from International Institutions S/ (000) | Bonds issued by the MEF S/ (000) | Structured bonds S/ (000) | Total S/ (000) |
|--|--|---|---------------------------------|-------------------------|
| Balance as of January 1, 2016 | (1,263,840) | (350,979) | (8) | (1,614,827) |
| Fluctuation profit | 604,618 | 128,677 | 8 | 733,303 |
| Fluctuation loss | (7,540) | - | - | (7,540) |
| Balance as of December 31, 2016 | <u>(666,762)</u> | <u>(222,302)</u> | <u>-</u> | <u>(889,064)</u> |
| Fluctuation profit | 24,471 | 135,536 | - | 160,007 |
| Fluctuation loss | (1,586) | - | - | (1,586) |
| Balance as of December 31, 2017 | <u>(643,877)</u> | <u>(86,766)</u> | <u>-</u> | <u>(730,643)</u> |

(d) Retained earnings

Article N°93 of the Organic Act indicates that in case of losses, the reserve shall be applied to offset them; if said amount is insufficient, the Public Treasury within 30 days from the approval of the statement of financial position must issue and deliver to the Central Bank, for the non-covered amount, negotiable debt securities that accrue interests.

In this sense, the loss for the year 2014 was covered by bonds and a promissory note issued by MEF in August 2015, as described in note 1. Subsequently, through the Board of Directors' Meeting held on March 9, 2017, it was approved the transfer to the Public Treasury of approximately S/ 61 million, corresponding to 25 percent of the profits for the year 2016, which were used to amortize the balance of the bonds received from the Public Treasury as described in note 1.

During the Board of Directors' Meeting held on March 17, 2016, it was approved the transfer to the Public Treasury of approximately S/ 229 million, corresponding to 25 percent of the profits for the year 2015, which were used to amortize the balance of the bonds received from the Public Treasury.

(e) Adjustment for valuation article N°89 - Organic Act

In accordance with the accounting policies approved by the Board of Directors based on article N°89 of the Central Bank's Organic Act, the exchange rate differences that result from the valuation in local currency of assets and obligations of the Central Bank in gold, silver, currencies, SDR or other monetary units of international use, are debited or credited in this account but not considered as gains or losses of the period, note 2.2 (e).

The movement of this item as of December 31, 2017 and 2016, is as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|--|-------------------------|-------------------------|
| Balance at the beginning of the year | 9,639,400 | 9,652,235 |
| Plus (less): | | |
| Valuation of derivatives and other operations related to exchange rate | (1,243,931) | 2,572,083 |
| Valuation of metals (gold) | 400,449 | 276,642 |
| Valuation of IMF contribution and obligations | (62,757) | 131,943 |
| Valuation of U.S. dollar | (1,944,543) | (1,089,922) |
| Valuation of other currencies | 595,993 | (1,905,771) |
| Valuation of other | - | 2,190 |
| Balance at the end of the year | <u>7,384,611</u> | <u>9,639,400</u> |

18. TAX SITUATION

In accordance with the Income Tax Law, entities of the national governmental sector are not subject to income tax. The Central Bank, as a withholding agent, is only subject to the fourth and fifth-category income taxes, and to social contributions.

The Tax authority is entitled to review and, if necessary, amend the taxes calculated by the Central Bank during the last four years, counted as from the date of filing of the related tax returns. The tax and contribution returns for the years 2013 through 2017, inclusive, are open to fiscal review. Since discrepancies may arise over the interpretation by the Tax Authority of the rules applicable to the Central Bank, to date it is not possible to foresee whether any additional tax liabilities will arise as a result of eventual reviews of the financial statements. Therefore, any additional taxes, fines and interest, arising from such reviews, will be recognized in the year when the disagreement with Tax Authority is resolved. The Central Bank's Management consider no significant ultimate liabilities will arise as a result of any possible fiscal reviews for financial statements as of December 31, 2017 and 2016.

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 Management of the Central Bank and its legal consultants consider that, as of December 31, 2017 and 2016, it is not necessary to record a provision for possible losses as a result of these legal contingencies.

20. OFF – BALANCE SHEET ACCOUNTS

(a) This caption is made up as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|--------------------------|--------------------------|
| Bills and coins in stock (b) | 44,453,379 | 38,271,706 |
| Forward transactions (c) | 39,237,049 | 40,510,374 |
| Securities held in custody (d) | 4,380,486 | 4,439,669 |
| Future transactions (e) | 948,766 | 60,336 |
| Foreign exchange swap operations, (f) and note 2.2(t) | - | 1,018,047 |
| Other | 1,579,499 | 447,361 |
| Total | <u>90,599,179</u> | <u>84,747,493</u> |

(b) As of December 31, 2017 and 2016, the bills and coins that the Central Bank holds in its vaults, which are not in circulation, are as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---------------------------------|--------------------------|--------------------------|
| New | 41,101,190 | 34,013,690 |
| Available | 2,628,232 | 2,852,236 |
| To be classified | 540,374 | 1,114,466 |
| To be incinerated and/or melted | 182,163 | 228,214 |
| In transit | 1,420 | 63,100 |
| Total | <u>44,453,379</u> | <u>38,271,706</u> |

The movement of the account of bills and coins in inventory for the year ended December 31, 2017 and 2016 has been as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|--------------------------|--------------------------|
| Balance at the beginning of year | 38,271,706 | 52,273,808 |
| Acquisition of bills and coins | 23,132,217 | 166,656 |
| Destruction of bills and coins | (12,736,264) | (12,002,401) |
| Removal of circulation, net of income | (4,214,280) | (2,166,357) |
| Balance at the end of year | <u>44,453,379</u> | <u>38,271,706</u> |

- (c) As of December 31, 2017 and 2016, corresponds to the reference value (nominal amount committed) of the forward exchange transactions maintained by the Central Bank for trading purposes. As of December 31, 2017, the Central Bank maintains 48 forward operations, which maturities are between January and February 2018 (as of December 31, 2016 corresponds to 42 forward operations which maturities were between January and February 2017). Likewise, as of December 31, 2017 the valuation of said instruments generated an asset for an amount of S/ 32 million (S/ 181 million as of December 31, 2016), which was recorded as a part of the caption "Other available assets" and a liability for an amount of S/ 247 million (S/ 75 million as of December 31, 2016), which was recorded in the caption of "Reserve liabilities". Said valuation was recorded against the caption "Readjustment for valuation article N°89 - Organic Act" of the statements of changes in equity.

As of December 31, 2017 and 2016, the nominal values of the forward transactions according to the currency are as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|--------------------------|--------------------------|
| Purchase of U.S. dollar / sale of other currencies different from the sol | 19,296,977 | 20,309,410 |
| Sell of Japanese yen / purchase of currency different from sol | 10,202,298 | - |
| Sell of Euro / purchase of currency different from sol | 7,218,588 | - |
| Sell of Sweden Crown / purchase of currency different from sol | 2,258,796 | - |
| Purchase of Sterling Pound / sell of currency different from sol | 260,390 | - |
| Sale of Sterling pound / purchase of other currencies different from sol | - | 19,463,885 |
| Sale of Canadian dollar / purchase of other currencies different from sol | - | 737,079 |
| Total | <u>39,237,049</u> | <u>40,510,374</u> |

- (d) As of December 31, 2017 and 2016, securities in custody included mainly guaranteed promissory notes for operations with the IMF.
- (e) As of December 31, 2017 and 2016, corresponds to the reference value (nominal amount committed) of future transactions, maintained by the Central Bank for trading purposes, which are managed directly by the BIS, according to guidelines approved by the Central Bank. As of December 31, 2017 and 2016, the Central Bank maintains 631 and 90 contracts of price future transactions, respectively, which underlying assets are bonds of the United States Treasury issued in U.S. dollars, and which maturities between March 2018 and December 2019 (in March 2017, as of December 31, 2016). Likewise, the estimated fair value, provided by the BIS, generated an asset for an amount of S/ 582,000 and a liabilities for an amount of S/ 522,000 (an asset for an amount S/ 15,000 as of December 31, 2016), which were recorded in the caption "Other available assets" and "Reserve liabilities", respectively of the statements of financial position and "Net yield on securities" of the statements of income and other comprehensive income.
- (f) As of December 31, 2016, the Central Bank had 6 operations denominated "currency swaps" with banking entities in which the notional amount in Soles in favor of the Central Bank is S/ 514 million and the counterpart in favor of banking entities is

US\$ 151 million. The maturity of these operations had between January and February 2017 and the interest rate on the notional in Soles equals the capitalization of the Cumulative Overnight Interbank Operations Index (ION for its Spanish acronym), calculated and published by the Central Bank, which as of December 31, 2016 has 4.25 percent. On the previously mentioned date, the average interest rate in U.S. dollars determined by auction amounted to 0.08 percent.

During 2016, the Central Bank recognized income and expenses due to interests paid and received on exchange swap for S/ 599 and S/ 84 million, which are part of the item "Other financial income" and "Other financial expenses" of the statements of income and other comprehensive income, respectively. Also, in those dates the Central Bank recognized the effect of the variation of the exchange rate on the notional amount committed in U.S. dollars as a debit to the "Readjustment for valuation article N°89 - Organic Act" of the statements of changes in equity by S/ 874 million, corresponding to financial entities.

21. OPERATING EXPENSES

(a) This item is made up as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|--|-------------------------|-------------------------|
| Remunerations and social benefits, note 23 | 155,602 | 162,149 |
| Administrative expenses (b) | 54,618 | 54,521 |
| Expense for health of employees, note 16(b)(i) | 27,660 | 20,622 |
| Expense for actuarial allowance, note 16(b) | 10,401 | 20,879 |
| Depreciation, note 9(d) | 8,712 | 8,894 |
| Amortization | 2,407 | 1,916 |
| Other | 8,190 | 6,718 |
| Total | <u>267,590</u> | <u>275,699</u> |

(b) As of December 31, 2017 and 2016, corresponds mainly to the expenses of public services, maintenance, vigilance, advisories, data supplies, and other.

22. EXPENSES AND COST OF ISSUANCE

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|---|-------------------------|-------------------------|
| Cost of production of coins issued | 45,524 | 51,683 |
| Expenses for printing of bills issued | 34,854 | 30,487 |
| Expenses for transporting bills and coins | 2,404 | 2,393 |
| Total | <u>82,782</u> | <u>84,563</u> |

23. REMUNERATIONS AND SOCIAL BENEFITS

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|------------------------------------|-------------------------|-------------------------|
| Salaries | 86,396 | 90,183 |
| Legal gratifications and vacations | 26,743 | 29,428 |
| Bonuses and assignments | 16,890 | 17,767 |
| Severance compensations | 9,493 | 9,820 |
| Social security | 9,015 | 9,334 |
| Training | 2,630 | 2,464 |
| Other | 4,435 | 3,153 |
| Total | <u>155,602</u> | <u>162,149</u> |

24. FINANCIAL INSTRUMENTS CLASSIFICATION

The following are the carrying amounts of financial assets and liabilities of the captions in the statements of financial position classified by category in accordance with IAS 39 "Financial Instruments":

| | As of December 31, 2017 | | | As of December 31, 2016 | | | | |
|---|-----------------------------------|--|---|-------------------------|-----------------------------------|--|---|--------------------|
| | Loans and receivables (S/ 000) | Available-for-sale investments (S/ 000) | Financial liabilities at amortized cost (S/ 000) | Total (S/ 000) | Loans and receivables (S/ 000) | Available-for-sale investments (S/ 000) | Financial liabilities at amortized cost (S/ 000) | Total (S/ 000) |
| Financial assets | | | | | | | | |
| Cash in foreign currency | 162,273 | - | - | 162,273 | 167,886 | - | - | 167,886 |
| Deposits in foreign banks | 73,747,067 | - | - | 73,747,067 | 72,652,393 | - | - | 72,652,393 |
| Deposits in foreign institutions | 2,479,371 | - | - | 2,479,371 | 2,422,318 | - | - | 2,422,318 |
| Securities from international institutions | - | 122,620,805 | - | 122,620,805 | - | 125,166,480 | - | 125,166,480 |
| Gold | 4,700,546 | - | - | 4,700,546 | 4,300,434 | - | - | 4,300,434 |
| Contributions to international institutions | 2,538,742 | - | - | 2,538,742 | 2,074,050 | - | - | 2,074,050 |
| Other available assets | 113,551 | - | - | 113,551 | 188,920 | - | - | 188,920 |
| Other assets abroad | 64,760 | - | - | 64,760 | 5,943,699 | - | - | 5,943,699 |
| Domestic credit | 23,220,112 | 1,970,920 | - | 25,191,032 | 30,025,997 | 1,958,909 | - | 31,984,906 |
| Other financial assets | 923 | - | - | 923 | 12,080 | - | - | 12,080 |
| | <u>107,027,345</u> | <u>124,591,725</u> | <u>-</u> | <u>231,619,070</u> | <u>117,787,777</u> | <u>127,125,389</u> | <u>-</u> | <u>244,913,166</u> |
| Financial liabilities | | | | | | | | |
| Reserve liabilities | - | - | 357,402 | 357,402 | - | - | 202,546 | 202,546 |
| Other liabilities abroad | - | - | 8,410,602 | 8,410,602 | - | - | 8,695,979 | 8,695,979 |
| Sterilized stock | - | - | 75,695,248 | 75,695,248 | - | - | 53,939,770 | 53,939,770 |
| Monetary base | - | - | 57,207,374 | 57,207,374 | - | - | 53,374,773 | 53,374,773 |
| Deposits in foreign currency | - | - | 69,735,741 | 69,735,741 | - | - | 89,831,931 | 89,831,931 |
| Other financial liabilities | - | - | 17,344,082 | 17,344,082 | - | - | 28,227,276 | 28,227,276 |
| | <u>-</u> | <u>-</u> | <u>228,750,449</u> | <u>228,750,449</u> | <u>-</u> | <u>-</u> | <u>234,272,275</u> | <u>234,272,275</u> |

25. RISK ASSESSMENT

Due to the nature of its activities, the Central Bank is exposed to liquidity, credit, exchange and interest rate, and operational risks. The risk management actions of the Central Bank aim to minimize potential adverse effects on its financial performance.

The Bank's statements of financial position mostly comprise financial instruments, as described in note 2.2(b). Gross international reserves are a relevant component of such instruments (represents 86.8 and 84.5 percent as of December 31, 2017 and 2016, respectively) and reserve management adheres to the principles of security, liquidity and profitability indicated in article N°71 of its Organic Act. International reserves contribute to the country's economic and financial stability insofar as they guarantee availability of foreign exchange in extraordinary situations, such as in the case of an eventual significant withdrawal of foreign currency deposits from the national financial system or temporary external shocks which could cause imbalances in the real sector of the economy and feedback expectations. Likewise, a suitable availability of currency contributes to the reduction of the country risk and to the improvement of Peru credit ratings, which results in better conditions for obtaining foreign credits on the part of the private and public Peruvian companies and, also contributes to the expansion of foreign investment in the country.

Financial risks management focuses mainly on international liquid reserve assets, which are traded in international markets. These assets consist of deposits in foreign institutions and entities, securities from international entities, gold holdings abroad and SDRs holdings in the IMF.

Risk management is carried out taking into account the following criteria:

- The Central Bank's reserve management policy prioritizes the preservation of capital and guaranteeing the liquidity of reserves. Once these conditions are met, yield of international assets are maximized.
- The management of international assets is closely related to the origin and characteristics of sources of foreign currency resources (i.e. Central Bank liabilities), in terms of amount, currency, term, and volatility. The Central Bank seeks to minimize in this way the market risks that may affect the value and availability of the resources managed by the Central Bank.

International assets managed by the Central Bank are exposed to liquidity risk, credit risk, foreign exchange and interest rate risk.

The Central Bank's Management is well aware of the existing market conditions and, on the basis of its knowledge and experience; it controls the aforementioned risks, following the

policies approved by the Board. The most important aspects for risk management are the following:

(i) Liquidity risk

It is defined as the impossibility of negotiating securities at the appropriate moment. To mitigate this risk, fixed income instruments degree of liquidity is controlled by selecting values from active markets, establishing minimum amounts with respect to the issuance size and a limit to the percentage acquired in each issuance. Instruments liquidity is reflected in a low bid-offer spread in their market price.

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

- Immediate availability section: includes very short-term investments mainly to face obligations with local banks and unforeseen events.
- Intermediation and liquid sections: Correspond to deposits in foreign currency made by financial entities (mainly for reverse requirement obligations) and public sector in the Central Bank. With these resources, investments can be made, which mainly comprise bank deposits with staggered maturity and high-liquidity fixed income instruments in international money markets.
- Diversification and investment sections: it comprises Central Bank resources (exchange position), and is aimed for investments including securities with terms generally for more than one year (mainly bonds), which may generate higher yield and support risk diversification.

The distribution of investments into tranches is reflected in the percentage composition by term at maturity of the international reserve assets as shown below:

| | <u>2017</u> (%) | <u>2016</u> (%) |
|-------------------------|--------------------|--------------------|
| Maturity - | | |
| Up to 3 months | 56 | 55 |
| From 3 months to 1 year | 12 | 18 |
| More than 1 year | 32 | 27 |
| Total | <u><u>100</u></u> | <u><u>100</u></u> |

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



As of December 31, 2017

| | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Without maturity | Total |
|---|-------------------|--------------------|-------------------------|-------------------|------------------|-------------------|--------------------|
| | (S/000) | (S/000) | (S/000) | (S/000) | (S/000) | (S/000) | (S/000) |
| Financial liabilities by type (*) - | | | | | | | |
| Sterilized stock | | | | | | | |
| Outstanding securities issued | 4,057,243 | 12,895,420 | 13,911,046 | 750,745 | - | - | 31,614,454 |
| Deposits in local currency | 23,116,936 | 7,487,800 | 9,479,082 | - | - | 3,996,976 | 44,080,794 |
| Monetary base | - | - | - | - | - | 57,207,374 | 57,207,374 |
| Deposits in foreign currency | 22,165,460 | 11,912,782 | - | - | - | 35,657,499 | 69,735,741 |
| Other financial liabilities | 1,087,890 | 1,725,413 | 11,014,721 | 3,628,821 | 8,407,474 | - | 25,864,319 |
| Total non-derivatives financial liabilities (**) | 50,427,529 | 34,021,415 | 34,404,849 | 4,379,566 | 8,407,474 | 96,861,849 | 228,502,682 |
| Derivative financial liabilities | 247,245 | 522 | - | - | - | - | 247,767 |
| Total | 50,674,774 | 34,021,937 | 34,404,849 | 4,379,566 | 8,407,474 | 96,861,849 | 228,750,449 |

As of December 31, 2016

| | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Without maturity | Total |
|---|-------------------|--------------------|-------------------------|-------------------|------------------|-------------------|--------------------|
| | (S/000) | (S/000) | (S/000) | (S/000) | (S/000) | (S/000) | (S/000) |
| Financial liabilities by type (*) - | | | | | | | |
| Sterilized stock | | | | | | | |
| Outstanding securities issued | 2,150,491 | 2,546,641 | 12,514,236 | 5,872,356 | - | - | 23,083,724 |
| Deposits in local currency | 12,306,550 | 3,776,800 | 11,200,000 | - | - | 3,572,696 | 30,856,046 |
| Monetary base | - | - | - | - | - | 53,374,773 | 53,374,773 |
| Deposits in foreign currency | 28,718,198 | 17,686,992 | 10,755,840 | 1,323,703 | - | 31,347,198 | 89,831,931 |
| Other financial liabilities | 1,184,399 | 1,296,099 | 9,926,051 | 15,952,517 | 8,692,005 | - | 37,051,071 |
| Total non-derivatives financial liabilities (**) | 44,359,638 | 25,306,532 | 44,396,127 | 23,148,576 | 8,692,005 | 88,294,667 | 234,197,545 |
| Derivative financial liabilities | 74,730 | - | - | - | - | - | 74,730 |
| Total | 44,434,368 | 25,306,532 | 44,396,127 | 23,148,576 | 8,692,005 | 88,294,667 | 234,272,275 |

(*) As of December 31, 2017 and 2016, financial liabilities do not include future interest.

(**) As of December 31, 2017 and 2016, corresponds to the valuation of derivatives for trading.

(ii) Credit risk

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

- Deposits in first-class foreign banks, according to the capital involved and to short-term and long-term risk ratings assigned by the main international risk rating agencies, such as Standard & Poor's, Moody's and Fitch.
- Fixed income securities issued by international organizations or foreign public organizations. As of December 31, 2017 and 2016 these securities must be long-term bonds assigned with one of the five highest ratings from the more than twenty long-term ratings assigned by risk rating agencies.
- Investments in private debt bonds are not allowed.

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

The following is a summary of the risk classification of liquid reserve assets:

| | <u>2017</u> (%) | <u>2016</u> (%) |
|-------------------------------------|--------------------|--------------------|
| Long – term classification - | | |
| AAA | 50 | 42 |
| AA+/AA/AA- | 23 | 38 |
| A+/A/A- | 27 | 20 |
| Total | <u><u>100</u></u> | <u><u>100</u></u> |

Based on the obtained risk ratings and analysis of Management, as of December 31, 2017 and 2016, the Central Bank has no exposure in countries or entities with debt problems that may pose a credit risk for its deposits on foreign banks and investments.

(iii) Foreign exchange rate risk

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

- The imbalance between the Bank's assets and liabilities in foreign currency.
- The exchange rate of transactions in foreign currency pending at the close of the business day.

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

Foreign currency transactions are made at the free market exchange rates.

As of December 31, 2017, the free market buying exchange rate published by SBS for transactions in U.S. dollars was S/ 3.238 (S/ 3.352 as of December 31, 2016). Balances in other currencies have been expressed in U.S. dollars at the exchange rate provided daily by Bloomberg or Reuters as mentioned in paragraph (c) below.



(a) As of December 31, 2017 and 2016, the assets and liabilities of the Central Bank in foreign currencies were as follows:

| | 2017 | | | 2016 | | |
|---|-------------------------|------------------------------|-------------------|-------------------------|------------------------------|-------------------|
| | U.S. Dollar (S/ 000) | Other currencies (S/ 000) | Total (S/ 000) | U.S. Dollar (S/ 000) | Other currencies (S/ 000) | Total (S/ 000) |
| Monetary assets - | | | | | | |
| Cash in foreign currency | 50,115 | - | 50,115 | 50,085 | - | 50,085 |
| Deposits in foreign banks | 20,184,523 | 2,590,976 | 22,775,499 | 17,984,653 | 3,689,689 | 21,674,342 |
| Deposits in foreign institutions | - | 765,711 | 765,711 | - | 722,648 | 722,648 |
| Securities from international institutions | 33,625,849 | 4,243,455 | 37,869,304 | 34,201,928 | 3,138,907 | 37,340,835 |
| Gold | - | 1,451,682 | 1,451,682 | - | 1,282,946 | 1,282,946 |
| Contributions to international institutions | 497,885 | 286,161 | 784,046 | 489,577 | 129,173 | 618,750 |
| Other available assets | 33,581 | 1,487 | 35,068 | 56,361 | - | 56,361 |
| Other assets abroad | - | 20,000 | 20,000 | - | 20,000 | 20,000 |
| Domestic credit | 608,685 | - | 608,685 | 584,400 | - | 584,400 |
| Other assets | 4,804 | 706 | 5,510 | 657 | 666 | 1,323 |
| | <u>55,005,442</u> | <u>9,360,178</u> | <u>64,365,620</u> | <u>53,367,661</u> | <u>8,984,029</u> | <u>62,351,690</u> |
| Monetary liabilities - | | | | | | |
| Reserve liabilities | 107,281 | 3,096 | 110,377 | 60,131 | 294 | 60,425 |
| Other liabilities abroad | - | 20,000 | 20,000 | - | 20,000 | 20,000 |
| Deposits in foreign currency | 21,536,671 | - | 21,536,671 | 26,799,502 | - | 26,799,502 |
| Other liabilities | 5,205,198 | 281 | 5,205,479 | 8,355,378 | 353 | 8,355,731 |
| | <u>26,849,150</u> | <u>23,377</u> | <u>26,872,527</u> | <u>35,215,011</u> | <u>20,647</u> | <u>35,235,658</u> |
| Subtotal | <u>28,156,292</u> | <u>9,336,801</u> | <u>37,493,093</u> | <u>18,152,650</u> | <u>8,963,382</u> | <u>27,116,032</u> |
| Derivatives | | | | | | |
| Forwards position net | 5,959,536 | (5,997,310) | (37,774) | 6,058,893 | (6,026,541) | 32,352 |
| Net monetary position | <u>34,115,828</u> | <u>3,339,491</u> | <u>37,455,319</u> | <u>24,211,543</u> | <u>2,936,841</u> | <u>27,148,384</u> |

In addition, the Central Bank has issued indexed certificates of deposit (CDR BCRP) in local currency, which are readjusted for the variation of the Sol/U.S. Dollar exchange rate and are settled at maturity in Soles. As of December 31, 2017, the balance of CDR BCRP issued corresponds to S/ 829 million, which represent US\$ 256 million (as of December 31, 2016, the balance was S/ 792 million, representing US\$ 236million), note 12.

- (b) Balances in foreign currency, SDRs and precious metals as of December 31, 2017 and 2016, not including financial derivatives, expressed in thousands of U.S. dollars, are summarized as follows:

| | <u>2017</u> (S/ 000) | <u>2016</u> (S/ 000) |
|--------------------|--------------------------|--------------------------|
| Assets | | |
| U.S. dollar | 55,004,687 | 53,366,979 |
| Japanese yen (*) | 3,150,963 | - |
| Euro | 2,231,877 | - |
| Gold | 1,452,437 | 1,283,628 |
| SDR (**) | 1,051,872 | 851,821 |
| Sterling pound | 402,787 | 6,288,388 |
| Other currencies | 1,070,997 | 560,874 |
| | <u>64,365,620</u> | <u>62,351,690</u> |
| Liabilities | | |
| U.S. dollar | 26,849,149 | 35,215,011 |
| SDR (**) | 1,039 | 294 |
| Other currencies | 22,339 | 20,353 |
| | <u>26,872,527</u> | <u>35,235,658</u> |
| Net assets | <u>37,493,093</u> | <u>27,116,032</u> |

(*) As of December 31, 2016 there is no exposure to this currency, since it is fully covered by forward transactions (note 20 (c)).

(**) SDR is an international reserve asset created by the IMF and allocated to its member countries in proportion to its share of membership as a country member. SDRs value is calculated daily by adding the U.S. dollar values (noon London quotation) of a basket of four currencies (U.S. dollar, Euro, Japanese yen and Sterling pound). The amounts of each currencies of the SDR basket are calculated according to agreed percentages.

- (c) Quotations of the principal currencies used by the Central Bank in relation to the U.S. dollar as of December 31, 2017 and 2016 are as follows:

| | <u>2017</u> | <u>2016</u> |
|-----------------|-------------|--------------|
| Gold troy ounce | 1,302.86000 | 1,151.400000 |
| Sterling pound | 1.351700 | 1.232100 |
| SDR | 1.424130 | 1.344330 |
| Euro | 1.201000 | 1.053100 |
| Japanese yen | 0.008878 | 0.008562 |

According to article No.89 of the Organic Law, as of December 31, 2017, the Central Bank registered a negative net foreign currency valuation adjustment of S/ 2,255

million (net positive adjustment of S/ 13 million as of December 31, 2016) in the item "Adjustment for valuation article N°89 - Organic Act" of the statements of changes in equity, see note 17(e).

- (d) The following table shows the sensitivity analysis for changes in the price of the main currencies to which the Central Bank is exposed as of December 31, 2017 and 2016. The analysis determines the effect of devaluation or revaluation of a reasonably possible variation of the exchange rate of sol against foreign currencies, considering constant the other variables in the income statement and other comprehensive income. A negative amount means a net potential reduction in equity, while a positive amount reflects a net potential increase:

| Sensitivity analysis | Change in Exchange rates (%) | 2017 (S/ 000) | 2016 (S/ 000) |
|-----------------------------|---|--------------------------|--------------------------|
| Devaluation - | | | |
| U.S. dollar | 5 | 6,070,132 | 4,544,647 |
| U.S. dollar | 10 | 12,140,264 | 9,089,294 |
| Sterling pounds | 5 | 65,211 | 1,053,934 |
| Sterling pounds | 10 | 130,422 | 2,107,868 |
| Japanese yen | 5 | 510,124 | - |
| Japanese yen | 10 | 1,020,248 | - |
| Euro | 5 | 361,341 | - |
| Euro | 10 | 722,682 | - |
| Revaluation - | | | |
| U.S. dollar | 5 | (6,070,132) | (4,544,647) |
| U.S. dollar | 10 | (12,140,264) | (9,089,294) |
| Sterling pounds | 5 | (65,211) | (1,053,934) |
| Sterling pounds | 10 | (130,422) | (2,107,868) |
| Japanese yen | 5 | (510,124) | - |
| Japanese yen | 10 | (1,020,248) | - |
| Euro | 5 | (361,341) | - |
| Euro | 10 | (722,682) | - |

(iv) Interest rate risk

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

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

As of December 31, 2017 and 2016, the average duration of the portfolio investment, consisting of internally managed international assets, deposits with foreign banks, investments in securities and gold holdings, was 0.60 and 0.58 years.

(v) Operational risk

It is defined as the possibility that a negative event that impacts on the Bank's equity occurs, or that it affects the Bank's compliance of its critical objectives and functions, or its reputation and image, as a result of internal processes and controls failures, human errors, information systems failures, or failures in the technology that supports them, or due to external events.

The operational risks of the Central Bank are classified as people related risks, external events, processes, information technology and communication, technology, procurement, legal, compliance, physical security, information security, and health and safety at the workplace.

Risk management is based on the Central Bank's processes and, given that risk management is a self-assessment process, organizational units along with the Risk Management perform the following, among others:

- Mapping of its processes; that is, identifying activities that support a process.
- Risks and controls identification, which pursues the identification of risks in the activities and the controls that are applied to mitigate those risks.
- Risks assessment and the identification of additional controls in cases where the result is above the organization's tolerance level.

Once the risks have been quantified, and the additional controls that should be implemented have been evaluated, the Risk Management presents them to the Risk Committee. The Risk Committee is responsible for approving the policies and recommending actions regarding risk management and operations continuity, recommending actions to prevent and mitigate events that affect the Central Bank, and evaluating the reports and proposals presented by the Risk Management.

26. INFORMATION ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

When a financial instrument is traded on an active and liquid market, its price is stipulated by said market through real transactions that offers the best evidence of its fair value. When a price is not stipulated in the market, or cannot be an indicative of the fair value of the instrument to determine said fair value, one can use either the market value of a similar instrument, the analysis of discounted flows or other applicable techniques, which may be affected in a significant way by the assumptions made. Management has used its best judgment in the estimation of the fair values of its financial instruments. Fair value may not be an indicative of the net realizable value or the liquidation value of said instruments.



The methodologies and assumptions applied to determine the estimated market values as of December 31, 2017 and 2016, in all cases applicable according to the Central Bank's policies, depend on the terms and risk characteristics of the diverse financial instruments, as detailed below:

- (a) Cash in foreign currency and deposits in foreign banks represent cash and up to 90 days bank deposits, respectively, which do not represent significant credit risks or interest rate risks.
- (b) The book value of securities issued by international entities classified as available-for-sale investments corresponds to their estimated market value.
- (d) The book value of gold corresponds to its market value.
- (e) The value of the contributions to international organizations and of deposits in international organizations is considered to correspond to their fair values because they represent the amount the Bank would receive if it withdrew its membership from said organizations. Additionally, contributions to international organizations cannot be traded with third parties. These contributions generate interest rates that depend on their market risk.
- (f) Securities in circulation generate interests at fixed and variable rates according to the respective issuance.
- (g) Deposits in local and foreign currency generate interests at fixed and variable rates which are fixed in periods under a year by the Central Bank.
- (h) The book value of bills and coins maintained by the Central Bank as part of the "Monetary base" caption correspond to their market value because it represents the currency in circulation in the Peruvian economy.

Consequently, as of December 31, 2017 and 2016, the Central Bank's Management considers that the estimated fair values of the financial instruments of the Central Bank do not differ significantly from their book values.

27. SUBSEQUENT EVENTS

From December 31, 2017 as of the date of the independent auditors' report, no significant event that affects the financial statements has occurred.

28. EXPLANATION ADDED FOR ENGLISH TRANSLATION

The accompanying translated financial statements were originally issued in Spanish and are presented on the basis of accounting principles approved by the Central Bank Board, described in note 2. Certain accounting principles applied by the Central Bank that conform to accounting principles approved by the Central Bank Board may differ in certain respects to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.