

FINANCIAL STATEMENTS

Independent Auditors' Report

To the Directors of Banco Central de Reserva del Perú

1. We have audited the accompanying financial statements of **Banco Central de Reserva del Perú**, which comprises the statements of financial position as of December 31, 2014 and 2013, and the statements of income and other comprehensive income (loss), changes in net equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

2. 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 misstatements, whether due to fraud or error.

Auditor's responsibility

3. Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit as of December 31, 2014 in accordance with the Government Financial Audit Manual, effective as of that date, and our audit as of December 31, 2013 in accordance with International Auditing Standards, approved by the Consejo Directivo de la Junta de Decanos de Colegios de Contadores Públicos del Perú (Board of Deans of the Peruvian Professional Association of Certified Public Accountants) for its application in Peru. Those Manual and standards, as appropriate, require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including a risk assessment for material misstatements in the financial statements, whether due to fraud or error. Upon conducting such risk assessments, the auditor considers internal control relevant to the Central Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Central Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

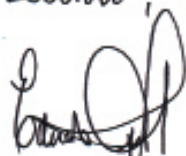
6. In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of **Banco Central de Reserva del Perú** as of December 31, 2014 and 2013, its financial performance and cash flows for the years then ended, in accordance with accounting principles described in Note 2 to the accompanying financial statements.

Other matters

7. The accompanying financial statements were translated into English by the Central Bank for convenience of the English-speaking readers and have been derived from the financial statements originally issued in Spanish.

Countersigned by:

Beltrán, Gris y Asociados S. Civil de R.L.



(Partner)

Eduardo Gris Percovich
CPC Registration No. 12159

February 16, 2015



**STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013**

In thousands of Peruvian nuevos soles (S/. 000)

| | <u>Notes</u> | <u>2014</u> | <u>2013</u> |
|--|-----------------------|---------------------------|---------------------------|
| ASSETS | | | |
| GROSS INTERNATIONAL RESERVES: | | | |
| Cash in foreign currency | | 149,244 | 139,991 |
| Deposits in foreign banks | 4 | 40,575,042 | 28,067,222 |
| Deposits in foreign institutions | 5 | 2,321,112 | 2,312,234 |
| Securities from international entities | 6 | 135,369,689 | 145,887,796 |
| Gold | 7 | 3,933,998 | 3,741,042 |
| Contributions to international organizations | 8 | 2,758,586 | 2,627,554 |
| Other available assets | 21 (c) and (d) | 765,851 | 818,708 |
| | | <u>185,873,522</u> | <u>183,594,547</u> |
| OTHER ASSETS ABROAD: | | | |
| Contributions in local currency to IMF | 8 (a) | 1,723,101 | 1,740,865 |
| Other assets abroad | 12 (b) | 59,620 | 55,880 |
| | | <u>1,782,721</u> | <u>1,796,745</u> |
| DOMESTIC CREDIT: | | | |
| | 9 | | |
| To banks | | 9,770,572 | 949,876 |
| To the public sector | | 2,027,914 | 1,590,755 |
| To financial companies | | 117,786 | - |
| To other entities and funds | | 87,831 | - |
| To the private sector | | 9 | 9 |
| | | <u>12,004,112</u> | <u>2,540,640</u> |
| PROPERTIES, FURNITURE AND EQUIPMENT, NET | 10 | 155,038 | 155,628 |
| OTHER ASSETS | 11 | 1,723,935 | 1,558,390 |
| | | <u>1,723,935</u> | <u>1,558,390</u> |
| TOTAL | | <u>201,539,328</u> | <u>189,645,950</u> |
| OFF-BALANCE SHEET ACCOUNTS | 21 | 118,870,624 | 49,323,117 |
| | | <u>118,870,624</u> | <u>49,323,117</u> |

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

| | <u>Notes</u> | <u>2014</u> | <u>2013</u> |
|--|----------------|---------------------------|---------------------------|
| LIABILITIES AND NET EQUITY | | | |
| RESERVE LIABILITIES | 2.2 (p) | 133,069 | 131,855 |
| OTHER LIABILITIES ABROAD: | | | |
| Equivalent value of the contribution in local currency to IMF | 8 (a) | 1,723,101 | 1,740,865 |
| Other liabilities abroad | 12 | 2,699,238 | 2,673,423 |
| | | <u>4,422,339</u> | <u>4,414,288</u> |
| STERILIZED STOCK: | | | |
| Outstanding securities issued | 13 | 17,911,320 | 21,803,081 |
| Deposits in local currency | 14 | 38,537,142 | 40,495,268 |
| | | <u>56,448,462</u> | <u>62,298,349</u> |
| MONETARY BASE: | | | |
| Currency in circulation | 15 | 47,543,004 | 42,530,188 |
| Deposits in local currency | | 6,321,944 | 9,406,345 |
| | | <u>53,864,948</u> | <u>51,936,533</u> |
| DEPOSITS IN FOREIGN CURRENCY | 16 | 73,343,923 | 70,246,854 |
| OTHER LIABILITIES | 17 | 10,920,176 | 1,762,420 |
| Total liabilities | | <u>199,132,917</u> | <u>190,790,299</u> |
| NET EQUITY: | | | |
| Capital | | 1,182,750 | 1,182,750 |
| Special statutory reserve | | - | 687,851 |
| Fair value reserve | | (1,297,271) | (1,645,076) |
| Retained earnings | | (716,336) | (892,954) |
| | | <u>(830,857)</u> | <u>(667,429)</u> |
| CAPITAL, RESERVES AND RESULTS | | | |
| Valuation readjustments as per article N° 89 - Organic Law | 18 (e) | 3,237,268 | (476,920) |
| Total net equity | | <u>2,406,411</u> | <u>(1,144,349)</u> |
| TOTAL | | <u>201,539,328</u> | <u>189,645,950</u> |
| OFF-BALANCE SHEET ACCOUNTS | 21 | <u>118,870,624</u> | <u>49,323,117</u> |

**STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME (LOSS) FOR
THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

In thousands of Peruvian nuevos soles (S/. 000)

| | <u>Notes</u> | <u>2014</u> | <u>2013</u> |
|--|------------------------|-------------------------|---------------------------|
| FINANCIAL INCOME | | | |
| Interests on deposits in foreign banks | 4 (b) | 121,366 | 112,048 |
| Net yield of securities | 6 (c) | 868,236 | 1,598,907 |
| Interests on international agreements and deposits in IMF | | 3,381 | 3,338 |
| Profit and dividends received from international organizations | | 5,969 | 17,302 |
| Yields on gross international reserves | | 998,952 | 1,731,595 |
| Interests and commissions on domestic credit transactions | 9 (c) | 273,967 | 105,238 |
| Other financial income | | 90,733 | 22,666 |
| Total | | 1,363,652 | 1,859,499 |
| NON-FINANCIAL INCOME | | 6,739 | 21,548 |
| FINANCIAL EXPENSES | | | |
| Interests on liabilities abroad | 12 (c) | (2,263) | (2,060) |
| Interests on outstanding securities issued | 13 (b) | (584,917) | (886,363) |
| Interests on deposits in local currency | 14 (b) | (1,074,787) | (1,484,564) |
| Interests on deposits in foreign currency | 16 (c) | (56,800) | (61,869) |
| Other financial expenses | | (9,669) | (7,851) |
| Total | | (1,728,436) | (2,442,707) |
| OPERATING EXPENSES | 22 | (269,914) | (248,723) |
| ISSUANCE EXPENSES AND COSTS | 23 | (88,377) | (82,571) |
| NET LOSS | | (716,336) | (892,954) |
| OTHER COMPREHENSIVE INCOME (LOSS) | 6 (c) and 9 (b) | 347,805 | (1,417,522) |
| TOTAL COMPREHENSIVE LOSS | | <u>(368,531)</u> | <u>(2,310,476)</u> |

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

**STATEMENTS OF CHANGES IN NET EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

In thousands of Peruvian nuevos soles (S/. 000)

| | Capital | Legal reserve | Special statutory reserve | Fair value reserve | Retained earnings | Total capital, reserves and results | Valuation readjustments as per Article N° 89 - Organic Law | Total net equity |
|--|------------------|---------------|---------------------------|--------------------|-------------------|-------------------------------------|--|------------------|
| | Note 18 (a) | Note 18 (b) | Note 18 (b) | Note 18 (c) | Note 18 (d) | Note 18 (e) | Note 18 (e) | |
| Balances as of January 1, 2013 | 1,182,750 | 979,327 | 871,449 | (227,554) | (1,162,925) | 1,643,047 | (10,030,675) | (8,387,628) |
| Net loss | - | - | - | - | (892,954) | (892,954) | - | (892,954) |
| Other comprehensive income | - | - | - | (1,417,522) | - | (1,417,522) | - | (1,417,522) |
| Total comprehensive income | - | - | - | (1,417,522) | (892,954) | (2,310,476) | - | (2,310,476) |
| Loss coverage as per article N° 93 - Organic Law | - | (1,162,925) | - | - | 1,162,925 | - | - | - |
| Transfer of special statutory reserve | - | 183,598 | (183,598) | - | - | - | - | - |
| Valuation readjustment for the year | - | - | - | - | - | - | 9,553,755 | 9,553,755 |
| Balances as of December 31, 2013 | 1,182,750 | - | 687,851 | (1,645,076) | (892,954) | (667,429) | (476,920) | (1,144,349) |
| Net loss | - | - | - | - | (716,336) | (716,336) | - | (716,336) |
| Other comprehensive income | - | - | - | 347,805 | - | 347,805 | - | 347,805 |
| Total comprehensive income | - | - | - | 347,805 | (716,336) | (368,531) | - | (368,531) |
| Loss coverage as per article N° 93 - Organic Law | - | (687,851) | - | - | 687,851 | - | - | - |
| Transfer of special statutory reserve | - | 687,851 | (687,851) | - | - | - | - | - |
| Loss coverage Ministry of Economy and Finances (MEF) as per D.S. 108-2014-EF | - | - | - | - | 205,103 | 205,103 | - | 205,103 |
| Valuation readjustment for the year | - | - | - | - | - | - | 3,714,188 | 3,714,188 |
| Balances as of December 31, 2014 | 1,182,750 | - | - | (1,297,271) | (716,336) | (830,857) | 3,237,268 | 2,406,411 |

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

In thousands of Peruvian nuevos soles (S/. 000)

| | 2014 | 2013 |
|--|---------------------------|---------------------------|
| OPERATING ACTIVITIES: | | |
| Net loss | (716,336) | (892,954) |
| Adjustments to reconcile net loss with cash and cash equivalents provided by (used in) operating activities: | | |
| Depreciation of properties, furnitures and equipment | 11,121 | 10,988 |
| Amortization of intangibles | 2,894 | 3,111 |
| Fixed asset disposal | 923 | 1,149 |
| Recovery provision | - | (16,925) |
| Net changes in assets, liabilities and equity accounts: | | |
| Increase of domestic credit | (9,258,369) | (1,711,189) |
| Decrease (increase) of other assets abroad | 14,023 | (69,421) |
| Increase of other assets | (168,439) | (86,535) |
| Increase (decrease) of reserve liabilities | 1,214 | (14,448) |
| Increase of other liabilities abroad | 8,052 | 296,429 |
| (Decrease) increase of outstanding securities issued | (3,891,761) | 1,451,323 |
| Decrease of deposits in local currency | (1,958,125) | (9,715,700) |
| Decrease of deposits of banks, financial companies and others | (3,084,402) | (5,504,785) |
| Increase of deposits in foreign currency | 3,097,070 | 23,687,589 |
| Increase of other liabilities | 9,157,757 | 61,253 |
| Increase (decrease) of fair value reserve | 347,805 | (1,417,522) |
| Increase of valuation readjustment as per Article N° 89 - Organic Law | 3,714,187 | 9,553,756 |
| Cash and cash equivalents (used in) provided by operating activities | (2,722,386) | 15,636,119 |
| CASH FLOWS OF INVESTMENT ACTIVITIES: | | |
| Purchases of properties, furnitures and equipment | (11,455) | (8,612) |
| Sale of vehicles | - | 186 |
| Cash and cash equivalents provided by (used in) investment activities | (11,455) | (8,426) |
| Net (decrease) increase of cash and cash equivalents | (2,733,841) | 15,627,693 |
| Cash and cash equivalents at the beginning of the year | 141,064,359 | 125,436,666 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 2.2 (p)) | <u>138,330,518</u> | <u>141,064,359</u> |

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(In thousands of Peruvian nuevos soles (S/.000), unless otherwise stated)

1. OPERATIONS, APPROVAL OF THE FINANCIAL STATEMENTS AND NET EQUITY

(a) Operations

Banco Central de Reserva del Peru (Central Reserve Bank of Peru, hereinafter "Central Bank") is an autonomous public legal entity incorporated on March 9, 1922 in order to preserve monetary stability in Peru. At present, its activities are governed by the provisions set forth in Article N° 84 of the *Constitución Política del Perú* (Political Constitution of Peru) dated December 29, 1993, and by its *Ley Orgánica* (Organic Law) approved by Decree Law N° 26123 dated December 24, 1992 (hereinafter "the Organic Law"). The Organic Law establishes functions for the Central Bank, such as regulating the amount of currency, manage international reserves, issuance of bills and coins, and report on the finances of Peru.

The legal address and main headquarter of the Central Bank is Jr. Antonio Miro Quesada 441- 445, Lima, and has branch offices in seven cities of the country. As of December 31, 2014 and 2013, the number of employees hired by the Central Bank to develop its activity was 1,025 and 968, respectively.

The Central Bank represents Peru for purposes established in constitutive agreements of the International Monetary Fund (hereinafter "IMF") and the Latin-American Reserve Fund (hereinafter "FLAR"), and is in charge of all transactions, operations and official relations with these institutions. Additionally, the Central Bank may act as a Peruvian Government agent in its relations with multi-lateral credit organizations and foreign government financial agencies. Furthermore, the Central Bank has subscribed shares of the Bank for International Settlements (hereinafter "BIS").

(b) Approval of financial statements

The financial statements for the year ended December 31, 2014 prepared in accordance with accounting principles described in Note 2, were approved for issuance by the Central Bank's Management and will be submitted for approval of the Board of Directors whose meeting will be held within the terms established by the Organic Law. Management believes that such financial statements shall be approved without modifications. The financial statements for the year ended December 31, 2013, prepared in accordance with accounting principles described in Note 2, were approved by the Board of Directors at their meeting held on March 13, 2014.

(c) Net equity and net loss

According to Article N° 93 of the Organic Law, in the event that the Central Bank incurs in losses, these shall be covered by the accounting reserve constituted from previous periods' profit. If such reserve is insufficient, the Public Treasury, within thirty days from the approval of the statements of financial position, shall issue and deliver negotiable debt securities that accrue interests to the Central Bank, for the uncovered amount.

The Central Bank shall request in due course the negotiable debt securities that completely cover losses from the period 2014. In order to cover losses from 2013, on May 30, 2014, the Central Bank received from the Ministry of Economy and Finances (hereinafter "MEF") sovereign bonds and a promissory note for a total amount of



S/. 205 million, which mature in 20 years with an annual rate of 2.45%, payable at the maturity date or when the redemption option is used.

In 2014 and 2013, profit or loss for the year is mainly associated to the exceptional circumstances of low international interest rates and holdings of international reserves necessary to face negative external scenarios. It is important to remark that, given the level and quality of the Central Bank's assets, mainly international reserves, and support received from the Public Treasury to its equity position, according to effective legal standards, the Central Bank believes that the current equity situation does not affect its capacity to comply with its objectives.

(d) Explanation added for translation into the English language of the original financial statements issued in Spanish

These financial statements were translated into English by the Central Bank for convenience of the English-speaking readers and have been derived from the financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

2. MAIN ACCOUNTING PRINCIPLES

2.1. Criteria of the Central Bank

As of December 31, 2014 and 2013, according to Article N° 88 of the Organic Law and criteria approved by the Board of Directors, the main accounting principles applied by the Central Bank comprise the following:

- (a) Criteria approved by the Board of Directors based on its faculties (Article N° 88 of the Organic Law).
- (b) Generally Accepted Accounting Principles in Peru (GAAP), which comprise: standards and interpretations issued and adopted by the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or by the former Standing Interpretations Committee (SIC), adopted by the IASB, made official by Resolutions issued by the Consejo Normativo de Contabilidad (Accounting Standards Committee - CNC in Spanish), effective as of December 31, 2014 and 2013, as applicable (see Note 2.2 (t)), whichever is applicable to the Central Bank, and standards established by the Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Superintendence of Banks, Insurance and Private Pensions Funds Administrators) for such purpose. As of the date of these financial statements, the CNC approved the application of versions effective for 2014 of IFRS 1 to 15, IAS 1 to 41, SIC 7 to 32 and IFRIC 1 to 21.

The principles established by the Board of Directors of the Central Bank, different from GAAP in Peru, mainly correspond to:

(i) Recording of changes due to exchange differences

The Central Bank records the valuation readjustment of prices and exchange rates, corresponding to assets and obligations in gold, silver, currency, Special Drawing Rights (hereinafter "SDR") or other monetary units internationally used, under the item "Valuation readjustments as per Article N° 89 - Organic Law" in net equity. According to GAAP in Peru, the results from the aforementioned adjustments must be included in profit or loss for the year they were generated. As of December 31, 2014 and 2013, the amount of this readjustment was S/. 3,237 million (positive) and S/. 477 million (negative), respectively (Paragraph 2.2 (e) and Note 18 (e)).

(ii) Record of embedded derivatives

The Central Bank records its investments in structured instruments that hold embedded derivatives as held-to-maturity investments, and as of January 1, 2014, these are valued without separating the embedded derivatives. Before this date, they were valued at amortized cost by applying the effective interest rate method, without considering the effects of embedded derivatives.

According to GAAP in Peru, embedded derivatives in a main (or host) contract must be considered as separate derivatives and recorded at fair value. If their economic characteristics and risks are not closely related to those of the main contract, the structured instrument is fully recorded at fair value.

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

Up to December 31, 2013, the Central Bank calculated fair value of its financial instruments classified as available-for-sale investments based on market prices. Also, up to December 31, 2013, the Central Bank calculated the higher or lower value of these investments by comparing the carrying amount (acquisition cost) with fair value, without determining amortized cost, and records changes in net equity until investments are sold or realized. Additionally, premiums or discounts generated in their acquisition up to December 31, 2013 are recorded as income or expense when settled.

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

It is worth mentioning that, for these values acquired as from January 2014, fair value is compared to amortized cost. The latter is calculated by applying the effective interest rate method.

(iv) Statement of cash flows

The Central Bank prepares the statement of cash flows considering the items indicated in paragraph 2.2 (p) as cash and cash equivalents. As a result, format and content of the statement is adapted to such definition. This accounting practice differs from GAAP in Peru regarding the aforementioned.

(v) Disclosures on financial instruments

As of December 31, 2014 and 2013, the Central Bank has not been applying completely the requirements established in IFRS 7 - Financial Instruments: Disclosures. The objective of this standard is to provide disclosures in financial statements that allow users to assess the importance of financial instruments in the financial position and performance of the Central Bank, by understanding the nature and extension of financial instruments which risk the Central Bank is exposed to; as well as methods used by the Central Bank to manage risks derived from such instruments.

(vi) Valuation of instruments related to exchange rate

The Central Bank initially recognizes face value engaged in derivatives for trade in "off-balance sheet accounts" of the statement of financial position, and subsequent to their initial recognition, they are held at its fair value. Fair values are obtained based on exchange rates and market interest rates. Profit and loss for changes in fair value are recorded in the item "Valuation readjustments as per Article N° 89 - Organic Law" in net equity, recognizing an asset or liability in the statement of financial position, as applicable.

Also, the Central Bank records the exchange rate adjustment of re-adjustable certificates of deposit (CDR BCRP for its acronyms in Spanish) and the exchange rate effect of



exchange swap operations in the item "Valuation readjustments as per Article N° 89 - Organic Law" in net equity.

According to GAAP in Peru, valuation of such instruments must be recorded as profit or loss in the statement of income and other comprehensive income (loss).

2.2. Accounting criteria

(a) Basis of preparation and use of estimates

The accompanying financial statements have been prepared in Peruvian nuevos soles (S/.) based on the Central Bank's accounting records, in accordance with accounting principles regulated by Article N° 88 of the Organic Law, and approved by the Central Bank's Board of Directors according to their legal attributions.

The preparation of the accompanying financial statements require that the Management makes estimates affecting reported amounts of assets, liabilities, income and expenses and disclosure of significant events in the notes to the financial statements. Final results may differ from such estimates. Estimates are continuously assessed and are based on historical experience and other factors. The most significant estimates related to the accompanying financial statements correspond to the valuation of securities from international entities, which include available-for-sale and held-to-maturity financial assets (the latter including mainly financial instruments with embedded derivatives), the transformation factor of monetary gold, provision for social benefits, actuarial allowance provisions for complementing retirement benefits, and additional widowhood benefits, health benefits and burial allowance, whose accounting criteria are described in this note.

(b) Financial instruments

Financial instruments are classified in assets, liabilities or equity according to the substance of the contractual agreement generating them. Interests, dividends, profit and losses generated by a financial instrument classified as asset or liability are recorded as income or expense. Financial instruments are offset when the Central Bank has a legal right to offset them and Management intends to settle them over a net basis, or simultaneously realize the asset and settle the liability.

Financial assets and financial liabilities presented in the statement of financial position correspond to gross international reserves, except for gold, other assets abroad, domestic credit, certain assets recorded in the item "Other assets" (see Note 11), and liabilities in general, except for non-financial liabilities detailed in item "Other liabilities" (see Note 17).

Accounting policies on recognition and valuation of these items are presented in the pertinent accounting policies described in this note.

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

Securities from international entities are classified as available-for-sale and held-to-maturity investments.

Initial recording and subsequent measurement of the aforementioned investments, according to their classification, is made according to criteria described below:

Classification**(i) Available-for-sale investments:**

Investments are designated as available-for-sale due to the fact they are held for indefinite time and may be sold given the need of liquidity or changes in interest rates, exchange rates or market prices; or that they do not qualify to be recorded as investments at fair value through profit or loss or as held-to-maturity investments.

(ii) Held-to-maturity investments:

For the Central Bank, their financial assets may or may not include embedded derivative financial instruments. These are collected for fixed or determinable amounts with defined maturity, and the entity has the effective intention as well as the ability to maintain them up to maturity.

Initial recognition

Initial recognition of available-for-sale and held-to-maturity investments is made at fair value plus transaction costs directly attributable to the acquisition of such investments.

Valuation**(i) Available-for-sale investments:**

- For securities acquired up to December 31, 2013

After initial recognition, available-for-sale investments are measured at fair value, recording unrealized profit and loss in the item "Fair value reserve" in net equity. Unrealized profit or loss result from comparing acquisition cost, which includes paid premiums or discounts obtained, and market value. Premiums and discounts included in acquisition cost are recognized in the statement of income and other comprehensive income (loss) at the date of sale or maturity of the instruments.

- For securities acquired as of January 1, 2014

After initial recognition, premiums and discounts are amortized, according to the amortized cost method, recording the effects in the statement of income; after this, they are measured at fair value, recording unrealized profit and loss in the item "Fair value reserve" in net equity in the statement of income. Unrealized profit or loss result from comparing acquisition cost and market value.

The Fair value is the market price provided daily by Bloomberg and Reuters. Management believes that they fairly reflect the value of investments in international securities, considering effective market data and accounting policies established by the Board of Directors of the Central Bank.

When an investment is sold or realized, profit or loss previously recognized as part of equity are transferred to profit/loss for the year, excluding effects of exchange difference recorded as detailed in paragraph (e). On the other hand, in the event that the decrease in the market value of investments is permanent or caused by credit impairment, corresponding provisions are established, affecting profit/loss for the year.



Accrued interest is calculated and recorded using a nominal interest rate (coupon rate) on the investment's par value, and recorded in the statement of income and other comprehensive income (loss) in item "Net yield of securities".

Exchange difference arising from valuation of these investments is recognized in equity according to paragraph (e).

(ii) Held-to-maturity investments:

After initial recognition, held-to-maturity investments are subsequently measured at amortized cost by applying the effective interest rate method.

Any premium or discount of representative debt instruments classified as held-to-maturity instruments is considered when determining amortized cost by applying the effective interest rate method, recognizing the accrued interest in item "Net yield of securities" in the statement of income and other comprehensive income (loss).

Securities classified as held-to-maturity correspond to structured bonds obtained in order to diversify investments, according to the Board of Directors. These securities have embedded derivatives related to other underlying assets that are not separated and are valued on a regular basis (see paragraph (f)).

(d) Recognition of income and expenses

Interest income and expenses are calculated at nominal rates over par values and recognized in profit/loss for the period when accrued, based on the effective period of operations generating them and agreed interest rates; except for interests related to held-to-maturity investments, which are recognized according to paragraph (c). Interest income includes yields of investments in securities from international entities.

Profit or loss generated by investments containing embedded derivatives are recognized in profit/loss for the period at their maturity dates.

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

When there are reasonable doubts regarding the collectability of the principal of any financial instrument, interests are recognized as income to the extent that there is a reasonable certainty of its collection.

(e) Foreign currency transactions

The Central Bank prepares and presents its financial statements in Peruvian nuevos soles (S/.), which is its functional and presentation currency.

Assets and liabilities in foreign currency are recorded at the exchange rate as of the date of transactions and are expressed in Peruvian nuevos soles as of the daily closing, using the buying exchange rate established by the SBS for the U.S. dollar. Balances in other currencies are expressed according to exchange rates provided by Bloomberg and Reuters (see Note 3).

On the Board of Directors' meeting held on December 15, 2011, it was approved that as from the period 2011, every exchange rate difference generated shall be permanently recorded in item "Valuation readjustments as per Article N° 89 – Organic Law" in net equity.

(f) Derivative financial instruments

The Central Bank holds derivative financial instruments for trading and embedded derivatives.

(i) Derivatives for trading

The reference value (committed face value) of futures and forwards operations is recorded in item "Off-balance sheet accounts" in the statement of financial position, Note 21(c) and (d), and then they are held at fair value. Fair values are obtained based on exchange rates, interest rates and market prices. The Central Bank holds operations with futures of prices whose underlying items are investments in international securities and exchange rate forwards operations.

Profit and loss for changes in fair value of futures operations are recorded in item "Net yield of securities" in the statement of income and other comprehensive income (loss), generating an asset or liability in the statement of financial position, as applicable.

Profit and loss for changes in fair value of exchange rate forwards operations are recorded in item "Valuation Readjustments as per Article N° 89 – Organic Law" in net equity, recognizing an asset or liability in the statement of financial position, as applicable. At the maturity of these last instruments, the asset or liability is settled and the result is recorded in item "Valuation Readjustments as per Article N° 89 – Organic Law" in net equity.

(ii) Embedded derivatives

The Central Bank holds structured instruments to maturity in item "Securities from international entities" in the statement of financial position (Note 6), which have yields indexed to variables such as inflation of the United States of America, gold price changes, among others.

As of January 1, 2014, the Central Bank records the valuation of instruments that included embedded derivatives as of the presentation date of the financial statements, with effects on an equity account. Valuation of these instruments, without separating embedded derivatives, is obtained from Bloomberg's data service. The effect of instrument valuation is recorded in the profit/loss at its maturity date, in item "Net yield of securities" in the statement of income and other comprehensive income (loss).

Before January 1, 2014, the Central Bank recorded embedded derivatives in a main (or host) contract at the maturity of the operation, based on realized cash, recognizing in that moment profit or loss generated in item "Net yield of securities" in the statement of income and other comprehensive income (loss).

(g) Gold

Gold holdings are valued using quotations of New York Stock Exchange, provided daily by Bloomberg and Reuters.

(h) Contributions to international organizations

These contributions correspond to amounts paid by the Central Bank to IMF, FLAR and BIS, recorded at face value of the contribution, which represents its acquisition cost, due to the fact that such amount corresponds to the amount that the Central Bank would be entitled to collect if the Central Bank would no longer be a member of any of the aforementioned organizations.



These contributions cannot be traded with third parties.

Yields of these contributions are recognized as accrued and dividends as declared.

(i) Collections

Collections mainly correspond to pieces of art (archeological pieces, paints, sculptures, among others) and coins collection acquired and/or received as donation, and recorded at their acquisition cost or face value. These assets, by nature, are considered to have an indefinite useful life; therefore, they are not depreciated and are presented in item "Other assets" in the statement of financial position (Note 11). Acquisition cost of donations is determined based on fair value estimated by specialists as received.

(j) Properties, furniture and equipment, and depreciation

Properties, furniture and equipment are recorded at historical acquisition cost less accumulated depreciation and accumulated amount of impairment losses of the asset, if applicable. Maintenance and repair costs are charged to the income statement, and all renewal and significant improvement is capitalized, as long as: a) it is probable for the entity to obtain future economic benefits derived therein; and b) its cost may be reliably measured. Cost and corresponding accumulated depreciation of sold or disposed assets are deleted from the corresponding accounts and profit or loss generated is included in the statement of income.

Units in transit are recorded at acquisition cost. These goods do not depreciate until they are operating conditions.

Lands are not depreciated. Depreciation of assets comprised in this item is calculated by applying the straight-line method, based on the years stated below:

| | <u>Years</u> |
|---|--------------|
| Buildings and other constructions | 100 |
| Furniture and office equipment and sundry equipment | 10 |
| Vehicles | 5 |
| Computing equipment | 3 |

(k) Impairment of long-lived assets

When there are events or economic changes indicating that the value of a long-lived tangible asset may not be recoverable, the Central Bank reviews the carrying amount of its assets to verify that there is no permanent impairment in their values.

When the carrying amount of the tangible asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income and other comprehensive income (loss). Recoverable amount is the higher between net sale price and value in use. Net sale price is the amount that could be obtained from selling a tangible asset in a free market, while value in use is the present value of future flows estimated from the continuous use of an asset and disposition at the end of its useful life. Recoverable amounts are estimated for each asset or, when not possible, for the pertinent cash-generating unit.

Every year, Management conducts an assessment to determine if the carrying amount exceeds the recoverable amount of their long-lived tangible assets based on available market data.

(l) Sterilized stock

Sterilized stock is a liability in local currency constituted by outstanding securities issued and deposits in local currency of the public sector and entities of the financial system, that are

not part of the reserve requirements. Sterilized stock is the result of monetary operations carried out by the Central Bank to remove liquidity from the financial system, as well as for deposits of financial entities that, if reverted, would imply an increase in monetary base.

Outstanding securities issued are accounted at face value, recognizing accrued interests accrued in the profit/loss for the year. Discounts granted in loans are deferred and amortized during the effective period of the instrument, by applying the effective interest rate method.

(m) Bills and coins issued

It refers to legal tender bills and coins issued by the Central Bank in public domain, which are recorded in liabilities of the statement of financial position at face value in item "Monetary base".

Bills and coins not circulating, located in the Central Bank's vault, are recorded in off-balance sheet accounts at their par value.

(n) Employee benefits

According to Article N° 58 of its Articles of Incorporation, the Central Bank annually transfers resources to the "Fondo para Enfermedades, Seguros y Pensiones de Empleados del Banco Central" (Fund for Diseases, Insurance and Pensions of Employees of the Central Bank, hereinafter "the Fund") in order to pay benefits to its employees. The amount of the transfers from the Central Bank to the Fund is approved by the Board of Directors every year.

The Central Bank holds the following defined benefit plans:

- Subsidy for the complementary allowance for retirement and widowhood pensions and burial allowance.
- Other benefits, complementary to retirement, related to health care benefits granted by the Central Bank.

The cost of granting benefits through defined benefit plans is determined separately for each plan through the projected unit credit method. Actuarial profit and loss of both defined benefit plans are fully recognized in the income statement for the year when they occur.

Asset or liability for defined benefits include the present value of the obligation, which is determined using a discount rate based on high-quality negotiable obligations (see Note 17 (a)), less costs for previous services and fair value of the plan's assets to be used in settling these obligations. Plan assets are managed by a long-term benefit fund for employees. Plan assets are not available for creditors of the Central Bank, nor can they be directly paid to the Central Bank. The fair value of these assets is based in market price data.

Net assets of the Fund considered to be deducted from the amount of actuarial reserve comprise the present value of deposits and loans, net of obligations. Provision for actuarial reserve has been calculated using mortality and market interest rates (see Note 17 (a)).

Subsidy concepts for complementary retirement and widowhood pensions, burial subsidy and other benefits complementary when retirement, deducted from the present value of net assets of the Fund, are recorded in item "Other liabilities" in the statement of financial position (see Note 17 (a)).

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

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

Production cost of coins and coin blanks include the cost of raw materials, labor and indirect production costs.

The printing bills expenses and coins production costs are recognized in profit/loss for the year when they are set available for circulation for the first time.

(p) Cash and cash equivalents

Cash and cash equivalents comprise gross international reserves, net of issued bills and coins in circulation, in item "Monetary base" in the statement of financial position. As presented below:

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|---|---------------------------|---------------------------|
| Gross international reserves | 185,873,522 | 183,594,547 |
| Less: | | |
| Issued bill and coins | <u>(47,543,004)</u> | <u>(42,530,188)</u> |
| Cash and cash equivalents | <u>138,330,518</u> | <u>141,064,359</u> |

Difference between the total gross international reserves and reserve liabilities (comprised by obligations with international entities) represent net international reserves. These reserves present international liquidity of the country and its financial capacity in relation to other countries and are resources of the Central Bank to address its obligations in foreign currency.

(q) Provisions

A provision is recognized only when the Central Bank has a present obligation (legal or implicit) as a result of a past event, it is probable to require resources to settle the obligation, and the amount of the obligation can be reliably measured. Provisions are reviewed every period and adjusted to reflect the best estimate as of the date of the statement of financial position. When the effect of time value of money is material, the amount of the provision is the present value of disbursements expected to be incurred to settle it.

The expense related to any provision is presented in the statement of income and other comprehensive income (loss), net of any related reimbursement.

(r) Contingencies

Contingent liabilities are not recognized in the financial statements, they are only disclosed in a note, 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 a note when it is probable that an inflow of resources will take place.

(s) Domestic credit

Domestic credit comprises the following:

- Investments in instruments issued by the Ministerio de Economía y Finanzas (Ministry of Economy and Finances, hereinafter "MEF"), which are recorded and classified as available-for-sale investments. Initial recording and subsequent measurement of such investments, according to their classification, are made in accordance with the criteria described in paragraph (c) above.

- Securities re-purchase agreements (repo transaction) in order 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 in the assets of the statement of financial position with balancing entry in the deposit account of the companies of the financial system.
- Currency reporting operations are transactions under which the Participating Entities sell domestic or foreign currency to the Central Bank in exchange of foreign or domestic currency, and under the same act are committed to, re-purchase the sold currency at a later date. These operations are recognized in the assets of the statement of financial position with a balancing entry in the deposit account of the companies of the financial systems in the currency lend. Also, the deposit received as guarantee should be recorded in the item "Other liabilities" with a balancing entry in the deposit accounts of the participating entities for the amount of the foreign currency received.

(t) New accounting pronouncements

- (i) IFRS issued and effective in Peru as of December 31, 2014** – The CNC, by means of Resolutions N° 054, 055, 056 and 057-2014-EF/30, approved the application of versions effective for period 2014 of IFRS 1 to 13, IAS 1 to 41, SIC 7 to 32 and IFRIC 1 to 21, the Conceptual Framework for Financial Reporting, IFRS 14 Regulatory Deferral Accounts, the final version of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, the amendments to IAS 16 Property, Plant and Equipment, IAS 27 Separate Financial Statements, IAS 28 Investments in Associates and Joint Ventures, IAS 38 Intangible Investments, IAS 41 Agriculture, IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements, as well as the annual improvements to IFRS 2012-2014 cycle.

The effective date of application of these versions are detailed in each specific standard.

- (ii) IFRS issued and effective in Peru as of December 31, 2013** – The CNC, by means of Resolution N° 053-2013-EF/30 issued on September 11, 2013, approved the application of versions effective for period 2013 of IFRS 1 to 13, IAS 1 to 41, SIC 7 to 32 and IFRIC 1 to 20, as well as IFRIC 21 Levies. The effective date of application of these versions are detailed in each specific standard.

New standards and amendments to standards detailed in paragraphs (i) and (ii) have not made a significant impact on the preparation of the accompanying financial statements, except for issues described in Note 2.1 above. The Central Bank has not estimated the effect on its financial statements of non-applicable standards indicated in Note 2.1 if adopted.

3. FOREIGN CURRENCY TRANSACTIONS AND EXPOSURE TO EXCHANGE RISK

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

As of December 31, 2014, free market buying exchange rate published by the SBS for transactions in U.S. dollars was S/. 2.981 for each Peruvian Nuevo Sol (S/. 2.794 as of December 31, 2013). Balances in other currencies have been expressed in U.S. dollars at the closing exchange rate of the New York Stock Exchange as detailed in paragraph (b) below.

The assets and liabilities of the Central Bank in foreign currency are detailed as follows:



| In thousands of U.S. dollars (US\$ 000) | 2014 | 2013 |
|--|--------------------------|--------------------------|
| Assets | | |
| Cash in foreign currency | 50,065 | 50,104 |
| Deposits in foreign banks | 13,611,218 | 10,045,534 |
| Deposits in foreign institutions | 778,635 | 827,571 |
| Securities from international entities | 45,410,832 | 52,214,673 |
| Gold | 1,319,691 | 1,338,956 |
| Contributions to international organizations | 925,389 | 940,427 |
| Other available assets | 256,855 | 293,024 |
| Other assets abroad | 20,000 | 20,000 |
| Domestic credit | 610,489 | 569,346 |
| Other assets | 494,051 | 509,344 |
| Total | <u>63,477,225</u> | <u>66,808,979</u> |
| Liabilities | | |
| Reserve liabilities | 44,639 | 47,192 |
| Other liabilities abroad | 20,000 | 20,001 |
| Deposits in foreign currency | 24,603,798 | 25,142,038 |
| Other liabilities | 3,440,000 | 502,172 |
| Total | <u>28,108,437</u> | <u>25,711,403</u> |
| Net asset position | <u>35,368,788</u> | <u>41,097,576</u> |

- (a) Balances in foreign currency, SDR and precious metals as of December 31, 2014 and 2013, expressed in their equivalence in thousands of U.S. dollars, are summarized as follows:

| In thousands of U.S. dollars (US\$ 000) | 2014 | 2013 |
|---|--------------------------|--------------------------|
| Assets | | |
| U.S. dollar | 49,314,201 | 49,549,000 |
| Euro | 4,809,073 | 5,294,114 |
| Australian dollar | 2,668,080 | 3,447,868 |
| Japanese Yen (*) | 2,578,274 | 4,060,057 |
| Other currency | 1,279,913 | 1,527,895 |
| SDR (**) | 1,507,311 | 1,590,407 |
| Gold | 1,320,373 | 1,339,638 |
| Total | <u>63,477,225</u> | <u>66,808,979</u> |
| Liabilities | | |
| U.S. dollar | 27,801,250 | 25,383,949 |
| SDR (**) | 285,687 | 303,753 |
| Other currency | 21,500 | 23,701 |
| Total | <u>28,108,437</u> | <u>25,711,403</u> |
| Net asset position | <u>35,368,788</u> | <u>41,097,576</u> |

(*) There is no exposure to this currency, given that it is totally hedged with forwards operations (Note 21 (c)).

(**) SDR is an international reserve asset created by IMF and assigned to its member countries proportionally to their installments. SDR value is daily calculated adding values in U.S. dollars (midday London quote) of a basket of four currencies (U.S. dollar, euro, Japanese yen and pound sterling). Amounts of each currency of the basket of SDR are calculated according to agreed percentages.

- (b) Quotations of main currencies used by the Central Bank in relation to the U.S. dollar as of December 31, 2014 and 2013 are detailed as follows:

| | <u>2014</u> | <u>2013</u> |
|--------------------|--------------------|--------------------|
| Troy ounce of gold | 1,184.360000 | 1,201.640000 |
| SDR | 1.448810 | 1.540000 |
| Euro | 1.210200 | 1.375000 |
| Australian dollar | 0.817300 | 0.892800 |
| Japanese yen | 0.008344 | 0.009500 |

According to Article N° 89 of the Organic Law, as of December 31, 2014, the Central Bank recorded a positive readjustment for foreign currency valuation for S/. 3,714 million (positive readjustment of S/. 9,554 million as of December 2013) presented in item "Valuation readjustments as per Article N° 89 – Organic Law" in net equity (see Note 18 (e)).

4. DEPOSITS IN FOREIGN BANKS

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|--|---------------------------------|---------------------------------|
| Time deposits (a) | 40,553,676 | 28,047,839 |
| Interests receivable from time deposits (b) | <u>11,295</u> | <u>6,319</u> |
| | <u>40,564,971</u> | <u>28,054,158</u> |
| Demand deposits | <u>9,725</u> | <u>12,881</u> |
| Interests receivable from gold deposits, Note 7(b) | <u>346</u> | <u>183</u> |
| Total | <u><u>40,575,042</u></u> | <u><u>28,067,222</u></u> |

- (a) As of December 31, 2014 and 2013, time deposits are deposited in first-category foreign banks, accrue interests according to international market rates, and are mainly comprised in U.S. dollars for US\$ 12,122 million and US\$ 9,274 million, respectively.

As of December 31, 2014, deposits in foreign banks accrued an annual average interest rate of 0.31 percent (0.32 percent as of December 2013).

- (b) As of December 31, 2014 and 2013, the Central Bank recognized interest income on deposits in foreign banks for S/. 121 million and y S/. 112 million, respectively, in item "Financial income" in the statement of income and other comprehensive income (loss).

5. DEPOSITS IN FOREIGN INSTITUTIONS

As of December 31, 2014 and 2013, this item refers to deposits in International Monetary Fund (IMF), expressed in SDR, which accrued interests at annual average rates of 0.05 percent and 0.13 percent, respectively, and are freely available.

**6. SECURITIES FROM INTERNATIONAL ENTITIES**

In thousands of Peruvian nuevos soles (S/. 000)

| | 2014 | | 2013 | |
|--|----------------------------|---|----------------------------|---|
| | Carrying amount (*) | Unrealized gross amount Increase Decrease (**) (c) | Carrying amount (*) | Unrealized gross amount Increase Decrease (**) (c) |
| Available-for-sale investments | | | | |
| Short-term banking | 2,885,170 | - | 5,898,044 | 681 |
| Short-term sovereign securities | 54,521,577 | 10,779 | 45,205,272 | 26,202 |
| Short-term supranational securities | 15,796,259 | 1,482 | 10,975,812 | 15,699 |
| Long-term sovereign securities | 50,641,605 | 134,363 | 69,503,494 | 72,560 |
| Long-term supranational securities | 9,389,364 | 37,026 | 7,512,299 | 3,505 |
| | 133,233,975 | 183,650 | 139,094,921 | 118,647 |
| | | (1,312,174) | | (1,492,840) |
| | Carrying amount (*) | | Carrying amount (*) | |
| | S/. 000 | | S/. 000 | |
| Held-to-maturity investments | | | | |
| Sovereign securities | 1,042,012 | - | 1,459,544 | |
| Supranational securities | 751,005 | (1,166) | 4,857,612 | |
| | 1,793,017 | (1,166) | 6,317,156 | |
| Balance of available-for-sale and held-to-maturity investments (b) | 135,026,992 | | 145,412,077 | |
| Accrued interests | 342,697 | | 475,719 | |
| | <u>135,369,689</u> | | <u>145,887,796</u> | |

(*) The carrying amount refers to estimated market value for available-for-sale investments, and amortized cost for held-to-maturity investments.

(**) As of December 31, 2014 and 2013, decrease in the amount of fair value reserve mainly corresponds to the decrease in value market of investment prices.

Maturities and annual interest nominal rates of investments are detailed as follows:

| | Maturity | | Annual nominal rate (coupon rate) (*) | | | | | | | | | |
|---------------------------------------|---------------------|---------------------|---------------------------------------|------------------|-------|------------------|--------|--------|-------|-------|-------|-------|
| | 2014 | 2013 | 2014 | | 2013 | | 2013 | | | | | |
| | | | US\$ | Other currencies | US\$ | Other currencies | Min. % | Max. % | | | | |
| Available-for-sale investments | | | | | | | | | | | | |
| Short-term banking | Jan-2015 / Feb-2015 | Jan-2014 | - | - | - | - | 0.200 | 0.250 | - | - | - | - |
| Short-term sovereign securities | Jan-2015 / Dec-2015 | Jan-2014 / Dec-2014 | 0.125 | 5.000 | 0.078 | 6.250 | 0.008 | 5.500 | 0.025 | 6.250 | 0.025 | 6.250 |
| Short-term supranational securities | Jan-2015 / Dec-2015 | Jan-2014 / Dec-2014 | 0.066 | 2.750 | - | 5.750 | 0.085 | 4.625 | 0.156 | 6.000 | 0.156 | 6.000 |
| Long-term sovereign securities | Jan-2016 / Jan-2020 | Jan-2015 / Feb-2020 | 0.125 | 5.375 | - | 6.500 | 0.001 | 5.375 | - | 6.250 | - | 6.250 |
| Long-term supranational securities | Jan-2016 / Oct-2019 | Jan-2015 / Oct-2018 | 0.175 | 5.250 | - | 6.500 | 0.094 | 5.250 | 0.285 | 6.000 | 0.285 | 6.000 |
| Held-to-maturity investments | | | | | | | | | | | | |
| Sovereign securities | Jan-2015 | Jul-2014 / Jan-2015 | 1.625 | 1.625 | - | - | 0.016 | 0.020 | - | - | - | - |
| Supranational securities | Jan-2015 / May-2015 | Sep-2014 / Jan-2016 | - | - | 1.450 | 2.150 | - | - | 0.100 | 2.282 | 0.100 | 2.282 |

(*) Nominal rate corresponds to coupon rate, without considering premiums or discounts obtained as of acquiring the instruments detailed above.

- (a) As of December 31, 2014 and 2013, securities from international entities correspond to first-category, low risk, financial instruments. First-class securities, issued by international organizations or foreign public entities, have a risk rating of at least A+, according to Moody's and Standard & Poor's risk rating agencies. "A" is the minimum rating for certificates of deposit for Fitch, Standard & Poor's and Moody's agencies. These securities accrue interests according to the international market and are kept in first-rate foreign banks.
- (b) Balance for the maturity of available-for-sale and held-to-maturity investments, which does not include interests, is detailed below:

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|---------------------------|---------------------------|
| Up to 3 months | 27,713,128 | 27,871,616 |
| From 3 months to 1 year | 47,596,193 | 37,521,339 |
| From 1 to 3 years | 48,594,208 | 58,729,475 |
| From 3 to 5 years | 11,032,529 | 20,967,261 |
| More than 5 years | <u>90,934</u> | <u>322,386</u> |
| Total | <u>135,026,992</u> | <u>145,412,077</u> |

- (c) As of December 31, 2014 and 2013, the Central Bank recognized income for net yield of securities for S/. 868 million and S/. 1,599 million, respectively, in item "Financial income" in the statement of income and other comprehensive income (loss). Additionally, during 2014 and 2013, an increase for S/. 245 million and a decrease for S/. 1,148 million, respectively, were recorded in item "Fair value reserve" in net equity (see Note 2.2 (c)(i)).

7. GOLD

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|-------------------------|-------------------------|
| In the country: | | |
| Coined gold (a) | 1,949,552 | 1,853,917 |
| Provision for transformation costs of gold into high purity or "good delivery" bars | <u>(2,035)</u> | <u>(1,908)</u> |
| | 1,947,517 | 1,852,009 |
| Abroad: | | |
| Gold bars (b) | <u>1,986,481</u> | <u>1,889,033</u> |
| Total | <u>3,933,998</u> | <u>3,741,042</u> |

- (a) As of December 31, 2014 and 2013, gold is represented by 552,191 troy ounces of gold in commemorative coins deposited in the Central Bank's vaults, which are valued at quotation value per troy ounce as of the aforementioned dates.
- (b) As of December 31, 2014 and 2013, balance is represented by 562,651 troy ounces of gold in high purity or "good delivery" bars deposited in first-class foreign banks; 249,702 troy ounces are held under custody and 312,949 troy ounces are held under time deposits. The latter accrue interests at an annual effective interest rate of 0.48 percent and have a term of 62 days from their constitution date (as of December 31, 2013, they accrued

interests at an annual effective interest rate of 0.265 percent and had a term of 63 days as from their constitution date). Accrued interests as of December 31, 2014 and 2013 were recorded in item "Deposits in foreign banks" in the statement of financial position (Note 4).

8. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|---|-------------------------|-------------------------|
| Contributions to IMF in SDR (a) | 1,036,968 | 1,000,391 |
| Contributions to FLAR (b) | 1,437,814 | 1,344,420 |
| Contributions to BIS (c) | <u>283,804</u> | <u>282,743</u> |
| Total | <u>2,758,586</u> | <u>2,627,554</u> |

- (a) Contribution to IMF grants to Peru access to financing facilities from this organization. IMF determines Peru's contribution as member country which, as of December 31, 2014 and 2013, amounts to 638 million SDR, comprising SDR contributions and contributions in Peruvian nuevos soles. As of December 31, 2014 and 2013, Peru's share in total installments subscribed by member countries of the IMF is 0.27 percent, and comprises the following:

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|---|-------------------------|-------------------------|
| Contributions in SDR: | | |
| Contributions to IMF in SDR (I) | <u>1,036,968</u> | <u>1,000,391</u> |
| Contributions in local currency: | | |
| Contributions to IMF for the equivalent in local currency (ii) | 1,714,490 | 1,739,373 |
| Revaluations to be settled - contributions in local currency to IMF (iii) | <u>8,611</u> | <u>1,492</u> |
| Total contributions in local currency | <u>1,723,101</u> | <u>1,740,865</u> |

- (i) As of December 31, 2014 and 2013, this item comprises contributions granted to Peru by the IMF for 240 million SDR and 233 million SDR, respectively.
- (ii) For contributions in Peruvian nuevos soles, the Central Bank did not disburse funds, but it constituted promissory notes in favor of the IMF, under which such institution may collect said amounts at any moment. Therefore, such balancing entry is recorded as a liability with the IMF in item "Other liabilities abroad" in the statement of financial position. This obligation does not accrue interests and may be requested at any time.
- (iii) This item refers to exchange difference generated by the update in the contribution in local currency between April 30 and December 31 every year. These revaluations are settled at the closing of the financial year of IMF, on April 30 every year.

By means of Law N° 29823, published on December 29, 2011, the Congress of the Republic of Peru authorized the increase of installments of Peru in the IMF, from 638 million SDR to 1,335 million SDR, for which the Central Bank shall perform the corresponding procedures and underwrite promissory notes or necessary documents to make this increase effective, once the approvals and conditions established in the IMF's Articles of Agreement are met. As of December 31, 2014, the approvals and conditions established in the IMF's Articles of Agreement have not been met for the increase of installments of Peru in the IMF.



- (b) This contribution grants Peru access to FLAR financing facilities. As of December 31, 2014, the amount paid to FLAR is US\$ 482 million, equivalent to S/. 1,438 million (US\$ 481 million equivalent to S/. 1,344 million as of December 31, 2013). As of December 31, 2014 and 2013, Peru's share in FLAR is 18 percent and 20 percent of its subscribed capital, respectively. Also, as of December 31, 2014, the Central Bank holds contributions pending of capitalization for US\$ 181 million, equivalent to S/. 540 million (US\$ 182 million equivalent to S/. 510 million as of December 2013), recorded as receivables and payables in items "Other assets" and "Other liabilities", respectively (Notes 11 and 17).
- (c) As from 2011, the Central Bank participates as a member of such international entity. BIS determines the share percentage of member countries. Peru's share is equivalent to (in units) 3,000 shares. As of December 31, 2014 and 2013, 25 percent of the market value of such shares was paid, equivalent to 66 million SDR, equivalent to S/. 284 million (S/. 283 million as of December 2013). 75 percent of the market value of (in units) 3,000 shares, corresponding to 197 million SDR, equivalent to S/. 851 million (S/. 848 million as of December 2013) was recorded as a subscribed and unpaid contribution in items "Other assets" and "Other liabilities" (Notes 11 and 17).

9. DOMESTIC CREDIT

In thousands of Peruvian nuevos soles (S/. 000)

| | 2014 | 2013 |
|--|------------------|------------------|
| To banks (a): | | |
| Currency repo transactions | 8,397,400 | - |
| Security repo transactions | 1,297,204 | 949,876 |
| Commissions receivable for currency repor transactions | <u>75,968</u> | <u>-</u> |
| | <u>9,770,572</u> | <u>949,876</u> |
| To the public sector (b): | | |
| Bonds issued by MEF in foreign currency | 1,793,217 | 1,565,776 |
| Bonds issued by MEF in local currency | 205,102 | - |
| Interests receivable | <u>29,595</u> | <u>24,979</u> |
| | <u>2,027,914</u> | <u>1,590,755</u> |
| To financial companies (a): | | |
| Currency repo transactions | 115,400 | - |
| Commissions receivable for currency repor transactions | <u>2,386</u> | <u>-</u> |
| | <u>117,786</u> | <u>-</u> |
| To other entities and funds (a): | | |
| Currency repo transactions | 87,200 | - |
| Commissions receivable for currency repor transactions | <u>631</u> | <u>-</u> |
| | <u>87,831</u> | <u>-</u> |

To the private sector:

Total

| | |
|-------------------|------------------|
| 9 | 9 |
| 12,004,112 | 2,540,640 |

- (a) As of December 31, 2014, the Central Bank carried out currency repo transactions with companies of the financial system, for which these companies sold foreign currency to the Central Bank in exchange of local currency, and were committed, under these same act, to repurchase the sold currency at a later 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, which ranges between 3.02% and 4.70%. Settlement date of these transactions varies from February 2015 and July 2016. As of December 31, 2013, no currency repo transactions were carried out.

Also, as of December 31, 2014, purchase transactions with re-purchase commitment of certificates of deposit (security repo transactions) are still held with banks at a 4.13% annual average interest rate and whose settlement date is between January and March 2015 (as of December 31, 2013, repo transactions were carried out at a 4.80% annual interest rate and its settlement date was January 2014).

- (b) As of December 31, 2014 and 2013, the Central Bank held MEF bonds issued in U.S. dollars in the secondary market, which mature between July 2025 and November 2033, and accrue interests at nominal 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, 2014, a decrease of S/. 103 million (decrease of S/. 269 million as of December 2013) was recorded in fair value in item "Fair value reserve" in the statement of financial position.

Also, on May 30, 2014, the Central Bank received sovereign bonds and a promissory note from MEF for S/. 205 million, which was used to settle accumulated loss corresponding to the loss balance for the period 2013. These securities have a term of 20 years at an annual interest rate of 2.45 percent, payable at maturity or when the redemption option is used.

- (c) As of December 31, 2014 and 2013, the Central Bank recognized interest income from domestic



credit operations for S/. 274 million and S/. 105 million, respectively, in item "Financial income" in the statement of income and other comprehensive income (loss).

10. PROPERTIES, FURNITURE AND EQUIPMENT, NET

The movement of properties, furniture and equipment is detailed as follows:

In thousands of Peruvian nuevos soles (S/. 000)

| | Land | Buildings and other constructions | Furniture and office equipment | Vehicles | Sundry equipment | Units in transit | Total |
|---------------------------------|--------|-----------------------------------|--------------------------------|----------|------------------|------------------|---------|
| Cost | | | | | | | |
| Balance as of January 1, 2013 | 24,056 | 159,287 | 4,920 | 3,601 | 71,658 | 3,945 | 267,467 |
| Additions | - | 1,211 | 84 | 391 | 5,763 | 1,163 | 8,612 |
| Transfers | - | 3,445 | - | 277 | 2 | (3,724) | - |
| Disposals and others | - | (2,222) | (92) | (950) | (961) | (221) | (4,446) |
| Balance as of December 31, 2013 | 24,056 | 161,721 | 4,912 | 3,319 | 76,462 | 1,163 | 271,633 |
| Additions | - | 2,558 | 118 | 326 | 7,481 | 972 | 11,455 |
| Transfers | - | 306 | 2 | - | 839 | (1,147) | - |
| Disposals and others | - | (1,760) | (129) | (347) | (5,696) | (16) | (7,948) |
| Balance as of December 31, 2014 | 24,056 | 162,825 | 4,903 | 3,298 | 79,086 | 972 | 275,140 |
| Accumulated depreciation | | | | | | | |
| Balance as of January 1, 2013 | - | 57,835 | 4,364 | 2,539 | 43,388 | - | 108,126 |
| Depreciation for the period (d) | - | 2,878 | 93 | 402 | 7,615 | - | 10,988 |
| Disposals and others | - | (1,224) | (91) | (950) | (844) | - | (3,109) |
| Balance as of December 31, 2013 | - | 59,489 | 4,366 | 1,991 | 50,159 | - | 116,005 |
| Depreciation for the period (d) | - | 2,987 | 91 | 444 | 7,599 | - | 11,121 |
| Disposals and others | - | (917) | (129) | (347) | (5,631) | - | (7,024) |
| Balance as of December 31, 2014 | - | 61,559 | 4,328 | 2,088 | 52,127 | - | 120,102 |
| Net cost | | | | | | | |
| As of December 31, 2014 | 24,056 | 101,266 | 575 | 1,210 | 26,959 | 972 | 155,038 |
| As of December 31, 2013 | 24,056 | 102,232 | 546 | 1,328 | 26,303 | 1,163 | 155,628 |

- (a) As of December 31, 2014 and 2013, the Central Bank holds properties, furniture and equipment, totally depreciated and still in use, for S/. 34 million and S/. 35 million, respectively.
- (b) The Central Bank holds insurances on its main assets in accordance with policies established by the Management and Board of Directors.
- (c) As of December 31, 2014 and 2013, depreciation of properties, furniture and equipment is S/. 11 million and is included in item "Operating expenses", for S/. 9 million and "Issuance expenses and costs" for S/. 2 million in the statement of income and other comprehensive income (loss) (Notes 22 and 23).
- (d) Every year, the Management assesses whether the carrying amount exceeds the recoverable amount of its long-term assets based on available market data. In 2013, an appraisal was conducted on properties and it was determined that the appraisal value was higher than the carrying amount; therefore, the provision for impairment of properties was reverted. The Management of the Central Bank believes that there is no additional impairment evidence for fixed assets held by the Central Bank as of December 31, 2014 and 2013.

11. OTHER ASSETS

In thousands of Peruvian nuevos soles (S/. 000)

| | 2014 | 2013 |
|--|-------------------------|-------------------------|
| Financial instruments | | |
| Contribution subscribed in international organizations, Notes 8(b) and (c) and Note 17 | 1,391,603 | 1,357,734 |
| Interests receivable | 59,773 | - |
| Receivables from personnel | <u>1,206</u> | <u>631</u> |
| | <u>1,452,582</u> | <u>1,358,365</u> |
| Non-financial instruments | | |
| Collections (a) | 96,964 | 96,957 |
| Deferred charges (b) | 96,521 | 38,619 |
| Raw material, semi-prepared and finished products (c) | 48,272 | 45,810 |
| Advance payments to suppliers | 22,791 | 10,780 |
| Intangibles | 2,618 | 3,362 |
| Silver | 1,987 | 2,315 |
| Others | <u>2,200</u> | <u>2,182</u> |
| | <u>271,353</u> | <u>200,025</u> |
| Total | <u>1,723,935</u> | <u>1,558,390</u> |

- (a) Collections comprise paintings, archeological pieces, sculptures, bills, coins and other objects acquired or received by the Central Bank through donation, held for display.
- (b) Deferred charges mainly comprise cost of printing bills, which affects the expense when such bills are set available for circulation for the first time.
- (c) Raw material comprises supplies acquired by the Central Bank for manufacturing coins,



and is valued at average cost. Value of semi-prepared and finished products comprises cost of raw material, direct labor and indirect manufacture expenses.

12. OTHER LIABILITIES ABROAD

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|-------------------------|-------------------------|
| SDR allocation and revaluations to be settled (a) | 2,638,482 | 2,615,771 |
| Allocation in pesos andinos (b) | 59,620 | 55,880 |
| Others | <u>1,136</u> | <u>1,772</u> |
| Total | <u>2,699,238</u> | <u>2,673,423</u> |

- (a) As of December 31, 2014 and 2013, balance of the SDR allocation account is equivalent to 610 million SDR and corresponds to distribution made by the IMF to Peru in proportion to its installment, according to the IMF's Articles of Agreement. Balance as of December 31, 2014 and 2013 includes the exchange difference generated by the update of SDR allocation received from the IMF between April 30 and December 31 every year, which is S/. 13 million and S/. 2 million (positive update), respectively.

SDR allocation accrues interests according to the conditions set forth in the Articles of Agreement. Annual interest rates, as of December 31, 2014 and 2013, were 0.05 percent and 0.13 percent, respectively.

- (b) Allocation of pesos andinos correspond to those delivered by FLAR for the amount of 20 million pesos andinos, equivalent to S/. 60 million and S/. 56 million, as of December 2014 and 2013, respectively. This allocation does not accrue interests, does not have a defined maturity for its settlement and the counterparty has been recorded as a receivable in item "Other assets abroad" in the statement of financial position.
- (c) In 2014 and 2013, the Central Bank paid the corresponding interests for its liabilities abroad, mainly for obligations of SDR allocation, for S/. 2 million each year, which is included in item "Financial expenses" in the statement of income and other comprehensive income (loss).

13. OUTSTANDING SECURITIES ISSUED

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|--------------------------|--------------------------|
| Certificates of deposit (CDBCRP) | 15,575,100 | 18,992,400 |
| Re-adjustable certificates of deposit (CDRBCRP) | 2,627,313 | 3,111,024 |
| Discounts for the sale of CDBCRP and CDRBCRP | <u>(291,093)</u> | <u>(300,343)</u> |
| Total | <u>17,911,320</u> | <u>21,803,081</u> |

As of December 31, 2014 and 2013, outstanding securities issued comprise certificates of deposits in local currency, placed through a bidding session or direct placement in order to withdraw liquidity surpluses from the financial system.

CDR BCRP are readjusted due to changes in the quote of U.S. dollar relating to the Nuevo Sol.

In 2014 and 2013, the Central Bank recorded expenses for interests on outstanding securities issued for S/. 585 million and S/. 886 million, respectively, in item "Financial expenses" in the statement of income and other comprehensive income (loss).

As of December 31, 2014 and 2013, certificates of deposit issued by the Central Bank were acquired by:

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|--------------------------|--------------------------|
| Banks | 10,917,513 | 13,808,824 |
| Banco de la Nacion | 4,500,000 | 2,815,600 |
| Deposit Insurance Funds | 875,600 | 891,600 |
| Financial companies | 765,400 | 294,900 |
| Mutual funds and pension fund administrators' funds | 664,000 | 3,277,200 |
| Consolidated Fund of Social Security Reserve | 218,400 | 776,300 |
| Other entities | 261,500 | 239,000 |
| Subtotal | <u>18,202,413</u> | <u>22,103,424</u> |
| Discounts for the sale of CDBCRP and CDRBCRP | <u>(291,093)</u> | <u>(300,343)</u> |
| Total | <u>17,911,320</u> | <u>21,803,081</u> |

14. DEPOSITS IN LOCAL CURRENCY

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|--------------------------|--------------------------|
| Public sector | 28,866,829 | 28,349,805 |
| Banco de la Nacion | 7,620,552 | 8,295,966 |
| Deposit Insurance Fund | 1,033,082 | 752,519 |
| Banks | 517,000 | 2,119,300 |
| Municipal savings and credit banks | 258,300 | 256,000 |
| Rural savings and credit banks | 120,550 | 244,500 |
| Financial companies | 120,506 | 477,000 |
| Other entities and funds | 323 | 178 |
| Total | <u>38,537,142</u> | <u>40,495,268</u> |

(a) As of December 31, 2014 and 2013, deposits in local currency per transaction type are classified as follows:

| In thousands of Peruvian nuevos soles (S/. 000) | Interest rate (%) | Maturity | 2014 | 2013 |
|---|-----------------------------|-----------------------------------|--------------------------|--------------------------|
| Current accounts | Between 0.35 and 2.00 | No maturity | 7,024,895 | 17,153,478 |
| Per installments | Between 2.04 and 2.45 | Between January and December 2015 | 22,832,839 | 20,244,990 |
| Special deposits (overnight) | Between 2,04 and 2,30 | 5 days | 8,679,408 | 3,096,800 |
| Total | | | <u>38,537,142</u> | <u>40,495,268</u> |

(b) In 2014 and 2013, the Central Bank recognized interests on deposits in local currency



for S/. 1,075 million and S/. 1,485 million, respectively, in item "Financial expenses" in the statement of income and other comprehensive income (loss).

15. MONETARY BASE

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|--------------------------|--------------------------|
| Currency in circulation (a) | 47,543,004 | 42,530,188 |
| Deposits in local currency (b): | | |
| Deposits of banks | 3,856,496 | 4,677,754 |
| Deposits of Banco de la Nacion | 1,250,000 | 2,600,000 |
| Deposits of financial companies | 233,825 | 530,831 |
| Municipal savings and credit banks | 834,076 | 1,455,613 |
| Rural savings and credit banks | 147,517 | 142,104 |
| Others | 30 | 43 |
| | <u>6,321,944</u> | <u>9,406,345</u> |
| Total | <u>53,864,948</u> | <u>51,936,533</u> |

(a) The denomination of currency in circulation is presented below:

| | 2014 | | 2013 | |
|-----------------------|---------------|--|---------------|--|
| | Units | In thousands of Peruvian nuevos (S/. 000) | Units | In thousands of Peruvian nuevos (S/. 000) |
| Denomination S/. 10 | 124,924,882 | 1,249,249 | 111,512,302 | 1,115,123 |
| Denomination S/. 20 | 128,148,595 | 2,562,972 | 112,475,707 | 2,249,514 |
| Denomination S/. 50 | 118,543,883 | 5,927,194 | 112,579,188 | 5,628,960 |
| Denomination S/. 100 | 324,395,124 | 32,439,512 | 284,538,873 | 28,453,887 |
| Denomination S/. 200 | 16,947,954 | 3,389,591 | 16,429,225 | 3,285,845 |
| Total | | <u>45,568,518</u> | | <u>40,733,329</u> |
| Denomination S/. 0.01 | 353,931,690 | 3,539 | 354,123,856 | 3,541 |
| Denomination S/. 0.05 | 393,932,705 | 19,697 | 364,068,608 | 18,204 |
| Denomination S/. 0.10 | 1,205,678,761 | 120,568 | 1,117,938,111 | 111,794 |
| Denomination S/. 0.20 | 319,882,684 | 63,977 | 292,136,187 | 58,427 |
| Denomination S/. 0.50 | 393,672,782 | 196,836 | 366,228,212 | 183,114 |
| Denomination S/. 1.00 | 621,072,028 | 621,072 | 547,348,723 | 547,349 |
| Denomination S/. 2.00 | 131,372,828 | 262,746 | 120,311,091 | 240,622 |
| Denomination S/. 5.00 | 136,867,462 | 684,337 | 126,421,796 | 632,109 |
| | | 1,972,772 | | 1,795,160 |
| Commemorative coins | | 1,714 | | 1,699 |
| | | <u>47,543,004</u> | | <u>42,530,188</u> |

(b) As of December 31, 2014 and 2013, these items refer to deposits in local currency of entities subject to reserve requirements in the national financial system. Such funds are aimed to cover the required reserve that the Central bank needs for all obligations subject to reserve requirements in local currency and without maturity. Additionally, required reserve may be covered with cash in local currency (Note 16 (a)) and with cash of the entity subject to reserve requirements.

Required reserve comprises the minimum legal reserve requirements which, as of December 31, 2014 and 2013, held a 9 percent rate for obligations subject to reserve requirements in local currency, and additional reserve requirements, which are a part of the required reserve that exceeds the minimum legal. As of December 31, 2014, additional reserve ratio in local currency ranged between 0.5 percent and 5 percent (between 6 percent and 11 percent as of December 31, 2013).

Obligations subject to reserve requirements are classified in two regimes: general and special. As of December 31, 2014, reserve requirement funds corresponding to additional reserve requirements of general and special regimes deposited in the Central Bank accrued interests at an annual rate of 0.35 percent, equivalent to the remuneration rate of overnight deposits in the Central Bank less 195 basis points (as of December 31, 2013, the rate was 1.25 percent, equivalent to the remuneration rate of overnight deposits in the Central Bank less 195 basis points).

On November 30, 2014, the Central Bank issued Circular Letter N° 039-2014-BCRP referring to the provisions of reserve requirements in local currency, under which the reserve ratio and minimum fund requirements in the current accounts of the Central Bank are reduced. The purposes of these measures are to provide pertinent liquidity in local currency to continue promoting the structured evolution of credit.

On November 27, 2013, the Central Bank issued Circular Letter N° 043-2013-BCRP referring to the provisions of reserve requirements in local currency, under which the marginal reserve ratio and the average reserve ratio of the obligations subject to the general regime are reduced in order to continue promoting the structured evolution of credit.

16. DEPOSITS IN FOREIGN CURRENCY

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|--------------------------|--------------------------|
| Banks (a) | 36,073,782 | 39,097,986 |
| Public sector (b) | 35,531,690 | 30,059,734 |
| Banco de la Nacion (a) | 431,041 | 259,855 |
| Financial companies (a) | 707,180 | 192,695 |
| Other companies of the financial system (a) | 527,195 | 573,998 |
| Other entities and funds | 73,035 | 62,586 |
| Total | <u>73,343,923</u> | <u>70,246,854</u> |

- (a) As of December 31, 2014 and 2013, these items refer to deposits in foreign currency made by entities subject to reserve requirements in the national financial system. Such funds are aimed to cover the required reserve that the Central bank needs for all obligations subject to reserve requirements in foreign currency and without maturity.

Required reserve comprises the minimum legal reserve requirements which, as of December 31, 2014 and 2013, held a 9 percent rate for obligations subject to reserve requirements in foreign currency, and additional reserve requirements, which are a part of the required reserve that exceeds the minimum legal. As of December 31, 2014, additional reserve ratio in foreign currency ranged between 35 percent and 36 percent (between 33 percent and 35 percent as of December 31, 2013).

As of December 31, 2014, reserve requirement funds corresponding to additional reserve requirements of general and special regimes deposited in the Central Bank accrued interests at an annual rate of 0.0409 percent, equivalent to 25 percent of the annual



average of the London Interbank Offered Rate (LIBOR) for one month (such rate was 0.0418 percent as of December 31, 2013).

On November 30, 2014, the Central Bank issued Circular N° 040-2014-BCRP referring to the provisions of reserve requirements in foreign currency, under which the reserve ratio applicable to indexed obligations are reduced in order to make the same considerations for the obligations in local currency.

On September 27, 2013, the Central Bank issued Circular N° 038-2013-BCRP, under which the base period of obligations subject to the general regime is modified and the base rate based on credit growth in foreign currency is increased; the average term is reduced from 3 to 2 years for foreign credits and short-term bonds subject to reserve requirements; and the reserve ratio for foreign credit obligations and bonds with average terms greater than 2 years is reduced in order to facilitate the structured evolution of credit.

- (b) As of December 31, 2014, deposits in foreign currency of public sector entities are denominated in U.S dollars (as of December 31, 2013, they were denominated in U.S dollars and euros), and mainly comprise contracts entered into with the General Board of Directors of the Public Treasury of MEF, under which conditions were established for the reception by the Central Bank of deposits provided by such entity. As of December 31, 2014, these deposits correspond to demand and time deposits, which accrued interests at an annual effective rate between 0.02 percent and 0.275 percent (as of December 31, 2013, the annual effective rate ranged between 0.00337 percent and 0.2996 percent). Time deposits mature between January and November 2015 (as of December 31, 2013, they matured between January 2014 and January 2015).
- (c) In 2014 and 2013, the Central Bank has recognized interests on deposits in foreign currency for S/. 57 million and S/. 62 million, respectively, and are included in item "Financial expenses" in the statement of income and other comprehensive income.

17. OTHER LIABILITIES

In thousands of Peruvian nuevos soles (S/. 000)

| | 2014 | 2013 |
|---|--------------------------|-------------------------|
| Financial liabilities | | |
| Re-sale commitment of foreign currency, Note 9(a) | 8,836,703 | - |
| Contribution subscribed pending of payment to international organizations, Notes 8(b) and (c) and Note 11 | 1,391,603 | 1,357,734 |
| Interests and commissions payable | 486,871 | 216,273 |
| Fund for Diseases, Insurance and Pensions for employees of the Central Bank | 6,409 | 9,811 |
| Payables | 5,847 | 5,988 |
| Deposit Insurance Fund | <u>2,642</u> | <u>1,195</u> |
| | <u>10,730,075</u> | <u>1,591,001</u> |
| Non-financial liabilities | | |
| Actuarial obligation (a) | 147,948 | 132,500 |
| Other provisions | 35,452 | 32,911 |
| Others | <u>6,701</u> | <u>6,008</u> |
| | <u>190,101</u> | <u>171,419</u> |
| Total | <u>10,920,176</u> | <u>1,762,420</u> |

- (a) As of December 31, 2014 and 2013, these items include an actuarial obligation related to the subsidy for complementary pensions and other benefits complementary to retirement to comply with benefits to employees and their families. At such dates, the provision for actuarial obligation calculated by an actuary, deducting the value of net assets of the Fund, was S/. 148 million and S/. 133 million (Note 2.2 (n)).

The Fund is a private legal entity incorporated by Law Decree N° 7137 which is aimed to provide benefits to active and retired employees of the Central Bank, as well as to their spouses, children and parents, as stated in the regulations. These benefits are additional to social security and other social benefits established by law (ESSALUD, National Pension Fund, Law Decree N° 19990 and the Private Pension Fund). In accordance with IAS 19 – Employee Benefits, the aforementioned benefits correspond to a defined benefit plan.

Net expense recognized in the statement of income and other comprehensive income (loss) for benefit plans to employees is comprised as follows:

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|----------------------|----------------------|
| Transfers to the Fund charged to provision | 11,549 | 11,268 |
| Changes of net assets from the Employees' Fund | 3,723 | 1,236 |
| Changes of reserves calculated by the actuary | <u>11,725</u> | <u>4,734</u> |
| Total | <u>26,997</u> | <u>17,238</u> |

As of December 31, 2014 and 2013, the adjustment of the actuarial reserve provision for S/. 27 million and S/. 17 million, respectively, is included in item "Expenses for actuarial provision", which is part of item "Operating expenses" in the statement of income and other comprehensive income (loss) (Note 22).

As of December 31, 2014 and 2013, the movement of the obligation for benefit plans to employees and fair value of assets of the plan is detailed as follows:

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|---|-----------------------|-----------------------|
| Balance at the beginning of the period | 132,500 | 126,530 |
| Transfers to the Fund during the period (i) | (11,549) | (11,268) |
| Provision for benefit plans to employees | <u>26,997</u> | <u>17,238</u> |
| Balance at the closing of the period | <u>147,948</u> | <u>132,500</u> |

- (i) In January 2014, the Board of Directors of the Central Bank authorized the transfer to the Fund for Diseases, Insurance and Pensions of the employees of the Central Bank for S/. 34 million (in January 2013, the Board of Directors authorized S/. 32 million). Such balance was disbursed during 2014, affecting liability and expense, decreasing actuarial obligation in S/. 12 million for pension payments to retired personnel (S/. 11 million during 2013) and increasing the item "Operating expenses" in S/. 21 million for health expenses of active employees in 2014 and 2013 (Note 22).

The main categories of the assets of the plan as fair value percentage of the total assets of the plan are detailed as follows:

| | 2014 (%) | 2013 (%) |
|------------------------------|---------------------------|---------------------------|
| Deposits in the Central Bank | 25.9 | 43.1 |
| Receivables to employees | <u>74.1</u> | <u>56.9</u> |
| Total | <u>100.0</u> | <u>100.0</u> |

The main hypotheses used when determining defined benefit plans are detailed



below:

| | 2014 | 2013 |
|--|-------------|-------------|
| Discount rate | 6.0% | 6.0% |
| Increase of pensions | 7.1% | 3.3% |
| Increase (reduction) of burial | 0.6% | (1.9%) |
| Increase of health | 16.3% | 3.6% |
| Average period for pension amortization | 9.59 | 9.05 |
| Retired employees at the date of the statements: | | |
| Male | 916 | 920 |
| Females | 594 | 592 |

The table below presents sensitivity of actuarial assumptions in profit/loss of the Central Bank:

| | Increase / decrease in the discount rate | Effect on reserves for the year |
|------|---|--|
| | % | (Thousands of S/.) |
| 2014 | +0.5% | (5,698) |
| | -0.5% | 6,126 |
| 2013 | +0.5% | (5,675) |
| | -0.5% | 6,134 |
| | Increase / decrease in life expectancy | Effect on reserves for the year |
| | Years | S/. 000 |
| 2014 | +1 | (3,706) |
| | -1 | 3,414 |
| 2013 | +1 | (2,989) |
| | -1 | 2,739 |

18. NET EQUITY

(a) Capital

As of December 31, 2014 and 2013, the authorized capital of the Central Bank, subscribed and paid by the Peruvian Government according to the Organic Law and Supreme Decrees N° 059-2000-EF, N° 108-2004-EF, N° 136-2006-EF, N° 136-2007-EF and N° 124-2010-EF, is S/. 1,183 million.

Capital is not represented by shares. Its value is only disclosed in the capital account of the statement of financial position. In addition, Supreme Decree countersigned by the MEF allows the readjustment of the authorized capital of the Central Bank.

(b) Reserves

Legal reserve

In accordance with Article N° 92 of its Organic Law, the Central Bank must annually distribute its net profit as follows: (i) 25 percent to Public Treasury and (ii) 75 percent to the constitution and growth, up to 100 percent of its capital, of a reserve that, preferably, shall

be destined for capitalization. During 2014 and 2013, the Central Bank has not capitalized reserves.

Special Statutory reserve

In accordance with Article N° 63 of the Central Bank's bylaw, surplus resulting from the application of Article N° 92 of the Organic Law shall be destined to the constitution of a special reserve.

In accordance with the provisions set forth in Article N° 93 of the Organic Law, on March 25, 2014, after the approval of 2013 financial statements, the statutory reserve was applied to cover part of the losses for S/. 688 million from period 2013 (on April 12, 2013, after the approval of 2012 financial statements, S/. 184 million was transferred from the special statutory reserve to the legal reserve, and the legal reserve was applied in order to cover the loss for S/. 1,163 million from period 2012).

(c) Fair value reserve

As of December 31, 2014, fair value reserve comprises net loss for fluctuation of securities from international entities for S/. 1,129 million (S/. 1,374 million as of December 2013), net loss for fluctuation of MEF bonds – Domestic credit for S/. 167 million (S/. 271 million as of December 2013) and loss for fluctuation of structured bonds for S/. 1 million.

(d) Retained earnings

In accordance with Article N° 93 of the Organic Law, in the event of losses, the reserve must be applied to offset them; if it 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 accruing interests. On this regard, losses from 2013 were covered by the special statutory reserve, as well as by bonds and the promissory note issued by MEF described in Note 1(c).

(e) Valuation readjustments as per article N° 89 – Organic Law

In accordance with the accounting policy approved by the Board of Directors in virtue of Article N° 89 of the Organic Law, differences recorded as a result of readjustments in the valuation of local currency of assets and obligations of the Central Bank in gold, silver, currency, SDR or other monetary units of international use are credited in this account, but are not considered as profit or loss (Note 2.2 (e)).

The movement in this item as of December 31, 2014 and 2013 is detailed below:

| In thousands of Peruvian nuevos soles (S/. 000) | 2014 | 2013 |
|--|----------------|----------------|
| Balance at the beginning of the year | (476,920) | (10,030,675) |
| Add (deduct): | | |
| Valuation of U.S. dollars | 4,526,291 | 7,657,565 |
| Valuation of other currencies | (1,687,151) | 1,277,617 |
| Valuation of metals (gold and silver) | 192,891 | (1,017,015) |
| Valuation of contributions and obligations to IMF | (21,766) | (210,763) |
| Valuation of derivative operations and others related to exchange rate | 707,931 | 1,850,762 |
| Valuation of other items | <u>(4,008)</u> | <u>(4,411)</u> |



Balance at the end of the year

3,237,268(476,920)**19. TAX SITUATION**

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

The Tax Authority is empowered to review and, as applicable, correct tax determination calculated by the Central Bank in the four years subsequent to the year of presentation of tax returns. Tax returns for the years 2010 to 2014 have not been reviewed by the Tax Authority. Due to possible interpretations that the Tax Authority may have on current applicable regulations, it is not possible to determine to date whether liabilities for the Central Bank will arise or not from the reviews to be conducted. Therefore, any high tax, late-payment interests and penalties which may result from such tax reviews could be applied to profit/loss for the period when it is determined. However, the Management and its internal legal consultants believes that any additional tax payment will not be significant for the financial statements of the Central Bank as of December 31, 2014 and 2013.

20. 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, 2014 and 2013, it is not necessary to record a provision for possible losses as a result of these legal contingencies.

21. OFF-BALANCE SHEET ACCOUNTS

In thousands of Peruvian nuevos soles (S/. 000)

| | 2014 | 2013 |
|------------------------------|---------------------------|--------------------------|
| Bills and coins in stock (a) | 56,272,785 | 24,726,199 |
| Exchange swaps (b) | 33,124,890 | - |
| Forwards operations (c) | 24,191,363 | 22,113,120 |
| Futures operations (d) | 3,176,598 | 232,286 |
| Securities in custody (e) | 1,753,106 | 1,884,574 |
| Others | 351,882 | 366,938 |
| Total | <u>118,870,624</u> | <u>49,323,117</u> |

(a) As of December 31, 2014 and 2013, this item refers to bills and coins that the Central Bank holds in its vaults and that are not in circulation. Their composition is detailed below:

In thousands of Peruvian nuevos soles (S/. 000)

| | 2014 | 2013 |
|------------------|--------------------------|--------------------------|
| New | 51,680,000 | 22,038,500 |
| To be classified | 2,504,885 | 698,512 |
| Available | 1,973,793 | 1,812,662 |
| To be destroyed | 113,478 | 138,635 |
| In transit | 629 | 37,890 |
| Total | <u>56,272,785</u> | <u>24,726,199</u> |

The movement of bills and coins in stock as of December 31, 2014 and 2013 is detailed below:

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|---|--------------------------|--------------------------|
| Balance at the beginning of the year | 24,726,199 | 19,737,138 |
| Acquisition of bills and coins | 45,462,258 | 16,675,709 |
| Destruction of bills and coins | (8,902,856) | (6,980,282) |
| Removal from circulation, net of income | <u>(5,012,816)</u> | <u>(4,706,366)</u> |
| Balance at the end of the year | <u>56,272,785</u> | <u>24,726,199</u> |

- (b) Exchange swaps are derivative financial instruments in which one of the parties assumes the commitment to pay a variable interest rate on a notional amount in local currency in exchange of the commitment from the other party to pay a fixed interest rate plus depreciation of a notional amount equivalent in U.S. dollars.

As of October 2014, the Central Bank has carried out exchange swap transactions with banks in which the notional amount in Peruvian nuevos soles assumed by the Central Bank, as of December 31, 2014, is S/. 16,473 million and the balancing entry assumed by banks is US\$ 5,586 million. The maturity dates for these transactions ranges between January and June 2015 and the interest rate for the notional amount in Peruvian nuevos soles is equal to the capitalization of the Accumulated Index for Overnight Interbank Transactions (ION), calculated and published by BCRP, which as of December 31, 2014, is 3.55%. The interest rate in dollars is determined through a bidding session.

As of December 31, 2014, the Central Bank recognized interest income on exchange swaps for S/. 88 million, which is included in item "Other financial income" in the statement of income and other comprehensive income (loss). Also, the Central Bank recognized expenses of paid interests for S/. 1 million, which is included in item "Other financial expenses" in the statement of income and other comprehensive income and a charge to the item "Valuation readjustments as per Article N° 89 – Organic Law" in net equity for S/. 291 million, which refer to the depreciation of the notional amount in dollars.

- (c) As of December 31, 2014 and 2013, this item refers to the reference value (committed nominal amount) of forwards operations in foreign currency carried out by the Central Bank, which are classified as for trading. As of December 31, 2014, the Central Bank holds 35 forwards operations maturing between January and May 2015 (as of December 31, 2013, it corresponds to 35 forwards operations maturing between January and April 2014). Additionally, as of December 31, 2014, the valuation of such instruments generated an asset for S/. 692 million (S/. 713 million as of December 31, 2013), recorded in item "Other available assets", and a liability for S/. 4 million (S/. 134 thousands as of December 2013), recorded in item "Reserve liabilities". Such valuation was recorded in item "Valuation readjustments as per Article N° 89 – Organic Law" in net equity.

As of December 31, 2014 and 2013, nominal values of forwards operations per currency type are detailed as follows:

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|--|----------------|-------------|
| Sale of Yens for other currencies different from Nuevo Sol | 7,685,900 | 10,666,765 |
| Sol Purchase of U.S. dollars for other currencies different from Nuevo Sol | 9,903,079 | 10,331,910 |
| Purchase of euros for other currencies different from Nuevo Sol | 2,307,024 | 1,080,283 |
| Sale of euros for other currencies different from Nuevo Sol | 3,513,940 | 10,530 |
| Sale of sterling pounds for other currencies different from Nuevo Sol | 539,133 | 8,018 |
| Purchase of sterling pounds for other currencies different from Nuevo Sol | - | 7,868 |
| Sale of U.S. dollars for other currencies different from Nuevo Sol | - | 7,746 |
| Purchase of Australian dollars for other currencies different from Nuevo Sol | <u>242,287</u> | <u>-</u> |



| | | |
|--------------|--------------------------|--------------------------|
| Total | <u>24,191,363</u> | <u>22,113,120</u> |
|--------------|--------------------------|--------------------------|

- (d) As of December 31, 2014 and 2013, this item refers to the reference value (committed nominal amount) of futures operations carried out by the Central Bank for trading purposes. As of December 31, 2014, the Central Bank holds 1,538 contracts of operations with futures of prices whose underlying items are bonds from the American Treasury, expressed in U.S. dollars and bonds from the German Government expressed in euros (600 contracts of operations with futures of prices whose underlying items were bonds from the American Treasury, expressed in U.S. dollars, and bonds from the German Government expressed in euros, as of December 31, 2013), maturing between March 2015 and December 2016 (March 2014, as of December 31, 2013). Additionally, the valuation of such instruments generated an asset for S/. 1 million (S/. 311 thousands as of December 2013), recorded in item "Other available assets" and a liability for S/. 546 thousands (S/. 2 million as of December 2013), recorded in item "Reserve liabilities". Such valuation was recorded in item "Net yield on securities" in the statement of income and other comprehensive income (loss).
- (e) As of December 31, 2014 and 2013, securities in custody mainly include promissory notes in guarantee for operations with IMF.

22. OPERATING EXPENSES

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|--|-----------------------|-----------------------|
| Personnel expenses and social obligations, Note 24 | 156,995 | 156,292 |
| Administrative expenses (a) | 49,252 | 37,725 |
| Actuarial provision expenses, Note 17(a) | 26,997 | 17,238 |
| Employees' Fund | 20,989 | 19,812 |
| Depreciacion, Note 10(c) | 8,658 | 8,686 |
| Amortization | 2,894 | 3,111 |
| Others | 4,129 | 5,859 |
| Balance at the end of the year | <u>269,914</u> | <u>248,723</u> |

- (a) As of December 31, 2014 and 2013, these items mainly correspond to public service expenses, maintenance, security, consulting, and IT supplies, among others.

23. ISSUANCE EXPENSES AND COSTS

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| Production cost for issued coins | 51,622 | 54,638 |
| Printing expenses for issued bills | 36,660 | 25,573 |
| Transportation expenses for bills and coins | 95 | 2,360 |
| Balance at the end of the year | <u>88,377</u> | <u>82,571</u> |

24. PERSONNEL EXPENSES AND SOCIAL OBLIGATIONS

| In thousands of Peruvian nuevos soles (S/. 000) | <u>2014</u> | <u>2013</u> |
|---|--------------------|--------------------|
| Basic salary | 86,735 | 86,855 |
| Bonuses and vacation | 28,908 | 30,970 |
| Allowances and special payments | 18,200 | 15,687 |
| Severance compensation | 9,446 | 9,576 |
| ESSALUD | 9,084 | 9,049 |
| Training programs | 1,946 | 1,786 |
| Others | 2,676 | 2,369 |

Total

156,995156,292

25. RISKS ASSESSMENT

By the nature of its activities, the Central Bank is exposed to liquidity, credit, exchange, interest rate and operating risks. The risk administration program of the Central Bank intends to reduce potential negative effects in its financial performance.

The statement of financial position of the Central Bank mainly comprises financial instruments, as described in Note 2.2 (b). International reserves are a relevant component of such instruments (representing 92,2 percent and 96,8 percent of its total assets as of December 31, 2014 and 2013, respectively) and its management follows security, liquidity and profitability criteria described in Article N° 71 of the Organic Law. International reserves support the economic and financial stability of the country, while guaranteeing the availability of currencies in extraordinary situations, such as a possible significant withdrawn of deposits in foreign currency from the national financial system or external temporary shocks that may cause unbalance in the real sector of economy and feedback expectations. Additionally, the proper availability of currencies supports risk reduction for the country, the improvement of credit ratings in Peru, which translates in better conditions to obtain foreign credits for Peruvian private and public companies, as well supports the expansion of foreign investment in the country.

Reserve administration policies followed by the Central Bank considers as important to preserve capital and guarantee the liquidity of reserves. Once such conditions are met, profitability is intended to be maximized.

The management of international assets is closely related with the origin and characteristics of the Central Bank's liabilities in terms of amount, currency, term and volatility. This is to reduce financial risks that could affect the value and availability of resources under the Central Bank's administration.

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

Liquidity risk

To mitigate this risk, liquidity degree of fixed income instruments is controlled, mainly by the size of the issue and percentage acquired from each issue. Additionally, the Central Bank has a division in sections of the investment portfolio in its investment policy. Such portfolio is divided as follows:

- Immediate Availability Section: Includes very short-term investments mainly to address obligations and obligations with local banks and unforeseen events.
- Intermediation and Liquid Sections: It refers to deposits in foreign currency made by financial entities (mainly for reverse requirement obligations) and public sector in the BCRP. 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.

Credit risk



This item refers to the probability that another party may not be able to comply with an obligation with the Central Bank on time. To address this risk, investments are made on a diversifiable basis, as follows:

- Deposits in first-rate foreign banks, in terms of capital and short and long-term risk ratings, issued by main international risk rating agencies, such as Standard & Poor's, Moody's and Fitch.
- Fixed rate securities issued by international organizations or foreign public entities. As of December 31, 2014 and 2013, such obligations must have a long-term rating among the five higher categories out of the twenty ratings granted by risk rating agencies.
- Investments in debt issuance from private companies are not allowed.

The scale and concentration of the Central Bank's exposure to credit risk may be directly obtained from the statement of financial position, which describe the size and composition of the Central Bank's financial assets.

Based on risk ratings obtained and the Management's analysis, as of December 31, 2014 and 2013, the Central Bank is not exposed in countries or entities with debt matters that may represent a credit impairment risk for its investments.

Exchange risk

Exchange risk is the risk the Central Bank is exposed to due to fluctuations in value of financial assets and financial liabilities generated by changes in exchange rates. The scale of this risk depends on:

- Unbalance between the Central Bank's assets and liabilities in foreign currency, and
- Exchange rate of transactions in foreign currencies, pending at closing.

The Central Bank's assets are mainly invested in U.S. dollars, reflecting the denomination of liabilities in foreign currency (mainly bank reserve requirements and special deposits from residents) as the Central Bank's intervention currency in the domestic currency market. The composition of balances in foreign currency is described in Note 3.

Interest rate risk

Interest rate risk is related to the unexpected movement in market yield rates of fixed income assets comprised in the portfolio, which may affect the market value of investments before their maturity. The higher the maturity term of investments, is higher the impact on changes of yields over the market value of such investments. Measurement of such impact is reflected in the portfolio's term, which as well reflects risk-return preferences of the Board of Directors.

The Central Bank addresses this risk considering the term structure of its portfolio and its reference portfolio.

In this way, maximum terms have been established for investments, consistent with the market risk profile expected for each portfolio instrument.

The scale of this risk depends on:

- Relevant interest rate of financial assets and financial liabilities, and
- Maturity structure of the portfolio of financial instruments of the Central Bank.

Operating risk

It is defined as the risk of incurring in direct or indirect losses as a result of failures in processes and internal controls, persons, information systems, technology or external events.

Operating risks of the Central Bank are classified in: persons, external events, processes, information technology and communication, technology, acquisition, 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:

- Design of its processes; that is, identifying activities that support a process.
- Identification of risks and controls; that is, identifying risks in activities and controls applied to mitigate them.
- Quantification of risks and proposal of control measures, as needed.

Once risks have been quantified and control measures to be applied have been assessed, the Risk Management submits them to the Risk Committee. The Risk Committee is in charge of approving policies and recommending actions related to risk management and operation continuity, recommending prevention actions and resolution of events that may affect the Central Bank, and assessing reports and proposals submitted by the Risk Management.

26. INFORMATION ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value or estimate of market value is the amount for which an asset could be exchanged, or a liability could be settled between two aware and willing parties, under the assumption that the entity is a going concern.

When a financial instrument is traded in an active and liquid market, its price established in the market in a real transaction provides the best evidence of its fair value. When such price is not available in the market, or it cannot be an indication of fair value of the instrument to determine such fair value, market value of a similar instrument, analysis of discounted flows or other applicable techniques may be used, which are significantly affected by assumptions applied. The Management has applied its better judgment when estimating the fair values of its financial instruments. Fair value may not be an indication of net realizable value or liquidation value of such instruments.

The methodology and assumptions used to determine estimated market values as of December 31, 2014 and 2013, in applicable cases according to the Central Bank's policy, depend on the terms and characteristics of risk of several financial instruments, as detailed below:

- (a) Cash in foreign currency and deposits in foreign banks represent cash and time deposits in banks with terms up to 90 days as from their issue, respectively, which do not represent significant credit or interest rate risks.
- (b) Carrying amount of securities from international entities classified as available-for-sale investments correspond to its estimated market value.
- (c) Carrying amount of securities from international entities classified as held-to-maturity investments correspond to its amortized cost using the effective interest rate method,



except for those acquired at par value. Investments with implicit derivatives are valued at their market value.

- (d) Carrying amount of the gold corresponds to its market value.
- (e) Values of contributions to international organizations and deposits in international organizations are considered to correspond to their fair values due to the fact that they represent the amount receivable in the event that the Central Bank ceased to be member of such organizations. Additionally, contributions to international organizations cannot be traded with third parties and generate interests at interest rates based on their market risks.
- (f) Outstanding securities issued generate interests at fixed and variable rates according to the issue performed.
- (g) Deposits in local and foreign currency bear interests at fixed and variable rates, which are fixed by the Central Bank in terms less than a year.
- (h) Carrying amount of bills and coins held by the Central Bank in item "Monetary base" corresponds to market value, due to the fact that it represents cash in circulation in the Peruvian economy.

As a result, as of December 31, 2014 and 2013, the Central Bank's Management considers that the estimated fair values of the Central Bank's financial instruments are not significantly different from their carrying amounts.

27. SUBSEQUENT EVENTS

Management is not aware of any subsequent events that have occurred between the closing date of these financial statements and February 16, 2015, which may significantly affect them.