



# FINANCIAL STATEMENTS

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**Pancho Fierro (1809-1879)**

*Tápada y escribano. S. XIX*

Watercolor. 0.35 x 0.26 m.



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## Independent Auditors' Report

To the Directors  
Banco Central de Reserva del Perú

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

### ***Management's responsibility for the financial statements***

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

### ***Auditors' responsibility***

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

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

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



**Opinion**

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

**Other Matter**

Banco Central de Reserva del Perú's financial statements for the year ended December 31, 2017 were audited by other independent auditors, whose report dated February 21, 2018, expressed an unqualified opinion on those statements.

Lima, Peru  
February 27, 2019

Countersigned by:

Eduardo Alejos (Partner)  
Peruvian CPA Registration  
Number 01-29180

**STATEMENT OF FINANCIAL POSITION**

As of December 31, 2018 and 2017

	<b><u>Note</u></b>	<b><u>2018</u></b> (S/ 000)	<b><u>2017</u></b> (S/ 000)
<b>ASSETS</b>			
<b>Gross international reserves</b>			
Cash in foreign currency		168,834	162,273
Deposits with foreign banks	<b>3</b>	51,521,500	73,747,067
Deposits with foreign institutions	<b>4</b>	2,522,915	2,479,371
Securities from international institutions	<b>5</b>	140,937,963	122,620,805
Gold	<b>6</b>	4,809,657	4,700,546
Contributions to international institutions	<b>7</b>	2,801,861	2,538,742
Other available assets		<u>346,813</u>	<u>113,551</u>
		<u>203,109,543</u>	<u>206,362,355</u>
<b>Other foreign assets</b>			
Contributions in domestic currency to IMF	<b>7</b>	5,449,316	5,530,281
Other foreign assets	<b>11(b)</b>	<u>67,380</u>	<u>64,760</u>
		<u>5,516,696</u>	<u>5,595,041</u>
<b>Domestic credit</b>			
	<b>8</b>		
To banks		13,111,323	21,974,975
To the public sector		2,678,213	3,095,850
To financial institutions		3,509	-
To other institutions and funds		<u>14,527</u>	<u>120,207</u>
		<u>15,807,572</u>	<u>25,191,032</u>
Property, furniture and equipment, net	<b>9</b>	<u>165,126</u>	<u>161,057</u>
Other assets	<b>10</b>	<u>288,514</u>	<u>291,868</u>
<b>TOTAL ASSETS</b>		<b><u>224,887,451</u></b>	<b><u>237,601,353</u></b>
<b>Off-balance sheet accounts</b>	<b>20</b>	<b><u>139,157,713</u></b>	<b><u>90,599,179</u></b>

The accompanying notes are an integral part of these statements.

	<u>Note</u>	<u>2018</u> (S/ 000)	<u>2017</u> (S/ 000)
<b>LIABILITIES</b>			
Reserves liabilities		560,989	357,402
<b>Other foreign liabilities</b>			
Equivalent of the contribution in domestic currency to IMF	<b>7</b>	5,449,316	5,530,281
Other foreign liabilities	<b>11</b>	2,922,503	2,880,321
		<u>8,371,819</u>	<u>8,410,602</u>
<b>Sterilized stock</b>			
Issued securities in circulation	<b>12</b>	26,777,829	31,614,454
Deposits in domestic currency	<b>13</b>	41,813,456	44,080,794
		<u>68,591,285</u>	<u>75,695,248</u>
<b>Monetary base</b>			
Currency in circulation		59,244,028	55,270,665
Deposits in domestic currency		2,123,039	1,936,709
		<u>61,367,067</u>	<u>57,207,374</u>
Deposits in foreign currency	<b>15</b>	63,458,373	69,735,741
Other liabilities	<b>16</b>	8,427,555	17,553,334
<b>TOTAL LIABILITIES</b>		<u><b>210,777,088</b></u>	<u><b>228,959,701</b></u>
<b>Net equity</b>			
Capital	<b>17</b>	1,182,750	1,182,750
Legal reserves		804,934	870,911
Fair value reserve		(526,871)	(730,643)
Profit or loss for the year		1,091,049	(65,977)
		<u>2,551,862</u>	<u>1,257,041</u>
<b>Capital, reserves and results</b>		2,551,862	1,257,041
Adjustment for valuation article 89 - Organic Act	<b>17.E</b>	11,558,501	7,384,611
<b>Total net equity</b>		<u><b>14,110,363</b></u>	<u><b>8,641,652</b></u>
<b>TOTAL LIABILITIES AND NET EQUITY</b>		<u><b>224,887,451</b></u>	<u><b>237,601,353</b></u>
<b>Off-balance sheet accounts</b>	<b>20</b>	<u>139,157,713</u>	<u>90,599,179</u>

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the years ended December 31, 2018 and 2017

	<u>Note</u>	<u>2018</u> (S/ 000)	<u>2017</u> (S/ 000)
<b>FINANCIAL INCOME</b>			
Interest on deposits with foreign banks	<b>3(ii)</b>	939,541	805,223
Net yield on securities	<b>5</b>	1,905,579	932,066
Yield from transactions with derivative instruments	<b>2.B(f)</b>	651,124	277,981
Interest on international agreements and deposits with the IMF		28,459	12,847
Profits and dividends received from international institutions		25,255	31,178
Yield on gross international reserves		<u>3,549,958</u>	<u>2,059,295</u>
Interest and commissions on domestic credit transactions	<b>8(d)</b>	526,359	1,067,413
Other financial income	<b>20(e)</b>	42,011	6,549
<b>Total financial income</b>		<b><u>4,118,328</u></b>	<b><u>3,133,257</u></b>
Non-financial income		29,266	4,557
<b>TOTAL INCOME</b>		<b><u>4,147,594</u></b>	<b><u>3,137,814</u></b>
<b>FINANCIAL EXPENSES</b>			
Interest on foreign liabilities abroad	<b>11(c)</b>	(26,468)	(14,552)
Interest on securities issued in circulation	<b>12</b>	(844,724)	(1,236,384)
Interest on domestic currency deposits	<b>13</b>	(933,768)	(1,020,996)
Interest on foreign currency deposits	<b>15(b)</b>	(864,558)	(573,010)
Other financial expenses	<b>20(e)</b>	(26,682)	(8,477)
<b>Total financial expenses</b>		<u>(2,696,200)</u>	<u>(2,853,419)</u>
Operational expenses	<b>21</b>	(274,180)	(267,590)
Issuance expenses and costs	<b>22</b>	(86,165)	(82,782)
<b>TOTAL EXPENSES</b>		<b><u>(3,056,545)</u></b>	<b><u>(3,203,791)</u></b>
<b>Net profits (loss)</b>		1,091,049	(65,977)
Other comprehensive income	<b>5 and 8(b)</b>	203,772	158,421
<b>Total comprehensive income</b>		<b><u>1,294,821</u></b>	<b><u>92,444</u></b>

The accompanying notes are an integral part of these statements.

**STATEMENT OF CHANGES IN EQUITY**

For the years ended December 31, 2018 and 2017

	Capital stock	Legal reserves	Fair value reserve	Accumulated results	Total capital, reserves and results	Adjustment for valuation article 89 of Organic Act	Total net equity
Note	(\$/ 000)	(\$/ 000)	(\$/ 000)	(\$/ 000)	(\$/ 000)	(\$/ 000)	(\$/ 000)
<b>Balance as of January 1, 2017</b>	1,182,750	686,917	(889,064)	245,325	1,225,928	9,639,400	10,865,328
Net loss	-	-	-	(65,977)	(65,977)	-	(65,977)
Other comprehensive income	-	-	158,421	-	158,421	-	158,421
<b>Total comprehensive income</b>	-	-	<b>158,421</b>	<b>(65,977)</b>	<b>92,444</b>	-	<b>92,444</b>
Transfer to legal reserves	-	183,994	-	(183,994)	-	-	-
Transfer of profits to the Public Treasury	-	-	-	(61,331)	(61,331)	-	(61,331)
Adjustment for valuation of the year	-	-	-	-	-	(2,254,789)	(2,254,789)
<b>Balance as of December 31, 2017</b>	<b>1,182,750</b>	<b>870,911</b>	<b>(730,643)</b>	<b>(65,977)</b>	<b>1,257,041</b>	<b>7,384,611</b>	<b>8,641,652</b>
<b>Balance as of January 1, 2018</b>	<b>1,182,750</b>	<b>870,911</b>	<b>(730,643)</b>	<b>(65,977)</b>	<b>1,257,041</b>	<b>7,384,611</b>	<b>8,641,652</b>
Net profits	-	-	-	1,091,049	1,091,049	-	1,091,049
Other comprehensive income	-	-	203,772	-	203,772	-	203,772
<b>Total comprehensive income</b>	-	-	<b>203,772</b>	<b>1,091,049</b>	<b>1,294,821</b>	-	<b>1,294,821</b>
Compensation of losses to legal reserves	-	(65,977)	-	65,977	-	-	-
Adjustment for valuation article 89 – Organic Act	-	-	-	-	-	4,173,890	4,173,890
<b>Balance as of December 31, 2018</b>	<b>1,182,750</b>	<b>804,934</b>	<b>(526,871)</b>	<b>1,091,049</b>	<b>2,551,862</b>	<b>11,558,501</b>	<b>14,110,363</b>

The accompanying notes are an integral part of these statements.

**STATEMENT OF CASH FLOWS**

December 31, 2018 and 2017

	<u>Note</u>	<u>2018</u> (S/ 000)	<u>2017</u> (S/ 000)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profits (loss)		1,091,049	(65,977)
<b>Adjustments to reconcile net profits (loss) to cash and cash equivalents from operating activities</b>			
Depreciation of property, furniture and equipment	9	12,792	12,135
Amortization of intangible assets		2,220	2,407
Fixed asset write off		473	933
<b>Net changes in assets, liabilities and equity accounts</b>			
Decrease in domestic credit		9,383,460	6,793,873
Decrease in other foreign assets		78,345	348,658
Decrease (increase) in other assets		1,134	(10,794)
Increase in reserves liabilities		203,588	154,856
Decrease in other foreign liabilities		(38,783)	(285,377)
(Increase) decrease in issued securities in circulation		(4,836,625)	8,530,731
(Increase) decrease in deposits in domestic currency		(2,267,338)	13,224,748
Increase (decrease) in deposits of banks, financial institutions and others (monetary base)		186,331	(381,680)
Decrease in deposits in foreign currency		(6,277,368)	(20,096,191)
Decrease in other liabilities		(9,125,780)	(10,887,492)
Increase in fair value reserve		203,772	158,421
Increase (decrease) in adjustment for valuation article 89 - Organic Act		4,173,890	(2,254,788)
Transfer of profits to the Public Treasury	17.D	-	(61,331)
<b>Cash and cash equivalents used in operating activities</b>		<b>(7,208,841)</b>	<b>(4,816,868)</b>
<b>Cash flows from investing activities</b>			
Additions to property, furniture and equipment	9	(17,334)	(7,538)
<b>Cash and cash equivalents used in investing activities</b>		<b>(17,334)</b>	<b>(7,538)</b>
Net decrease in cash and cash equivalents		(7,226,175)	(4,824,406)
Cash and cash equivalents at the beginning of the year		151,091,690	155,916,096
<b>Cash and cash equivalents at the end of the year</b>	<b>2.B(p)</b>	<b>143,865,515</b>	<b>151,091,690</b>

The accompanying notes are an integral part of these statements.



**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**1. OPERATIONS**

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

The Central Bank has its legal address and headquarters at Jr. Santa Rosa 441-445 (previously named Antonio Miró Quesada), Lima, and has branches in seven cities of the country. As of December 31, 2018 and 2017, the number of employees hired to develop its activities is 975 and 977, respectively. Said amount includes bank workers, temporary workers, and workers on leave without pay or on temporary assignment (without pay).

The Central Bank represents Peru for the purposes set forth in the articles of the agreements of the International Monetary Fund (hereinafter the "IMF") and the Latin American Reserve Fund (hereinafter the "FLAR", for its Spanish acronym) and is responsible for all transactions, operations and official relations with these institutions. The Central Bank may also act as a Peruvian Government agent in its relations with multilateral credit organizations and financial agencies of foreign governments. The Central Bank has subscribed shares of the Bank for International Settlements (hereinafter the "BIS"), which is the institution responsible for promoting international financial and monetary cooperation, and is a bank for central banks.

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

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

- Purchase shares, except for those issued by international financial institutions or those needed to be acquired to strengthen banks or financial institutions; participate, directly or indirectly, in the capital of commercial, industrial or any other institutions.
- Own more real estate properties than those required for its activities and those that were transferred in payment of debts. The latter must be sold in a term no longer than one year after their acquisition.

The financial statements as of and for the year ended December 31, 2018, prepared in accordance with accounting principles described in note 2, were approved for issuance by the Central Bank's management on January 17, 2019, and will be submitted for approval of the Board of Directors within the period established by the Organic Act. In management's opinion, such financial statements will be approved without amendments. The financial statements as of and for the year ended December 31, 2017, were approved by the Board of Directors at their meeting held on March 15, 2018.

### **Net equity**

According to Article 93 of the Organic Act, in case the Central Bank incurs in losses, these losses shall be covered by the accounting reserve from previous year profits. If the accounting reserve isn't enough to cover the losses, the Public Treasury, within thirty days of the financial statement approval, issues and grants to the Central Bank negotiable debt securities that been interests for the non-covered amount.

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

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

As of December 31, 2017, the recorded loss is associated to the increase in the interest expense for deposits in foreign currency, which mainly comprises special deposits of the MEF, and the increase in the operational expenses for sterilization, related to the increase of CDBCRP issuance, in order to withdraw the banking liquidity surplus, which is associated to the purchase of U.S. dollars by the Central Bank (especially during the third quarter of 2017). These measures were implemented to reduce exchange rate volatility, in a context of increased capital inflows, mainly towards fixed rate markets in domestic currency. On March 26, 2018, the 2017 loss was covered with part of the legal reserves according to article 93 of the Organic Act.

Profits recorded as of December 31, 2018, are associated with the highest income generated from the International Gross Reserves investment, which shows the increase in the international interest rate due to reversing monetary stimulus of FED, and the lower operational cost on sterilization, associated with the decrease in the BCRP reference rate, consistent with a monetary stimulus policy in the context of a negative product gap and inflation expectations close to the midpoint of the inflation target range.

## **2. SIGNIFICANT ACCOUNTING PRINCIPLES**

### **A. Central Bank criteria**

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

- (a) The criteria approved by the Board of Directors based on the Board's power and authority (article 88 of the Organic Act), and
- (b) Peruvian generally accepted accounting principles ("Peruvian GAAP") which comprise: the International Financial Reporting Standards (IFRS) issued and adopted by the International Accounting Standards Board (IASB), formalized through Resolutions issued by the Peruvian Accounting Council (hereinafter the "CNC", for its Spanish acronym) and current as of December 31, 2018 and 2017, accordingly, as applicable for the Central Bank and the standards established by the Superintendency of Banking and Insurance (SBS, for its Spanish acronym). As of the date of these financial statements, the CNC has formalized the application of the 2018 versions of IFRS 1 to 17, IAS 1 to 41, SIC 7 to 32 and IFRIC 1 to 23.

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

**i. Recognition of changes in exchange rate differences**

The Central Bank records adjustments for price valuation and exchange rates, of the assets and liabilities in gold, silver, currencies, SDR or other monetary units of international use in 'Adjustment for valuation article 89 – Organic Act' in the net equity. In accordance with Peruvian GAAP, the results of the aforementioned valuations shall be included in the profit or loss of the year in which they were generated. In 2018 and 2017, this adjustment amounted to an increase of S/ 4,174 million and a decrease of S/ 2,255 million (paragraph 2.2(e) below and note 17.E).

**ii. Recording of embedded derivatives**

As of December 31, 2018 and 2017, indexed certificates of deposit (CDRBCRP, for its Spanish acronym), are recorded at its face value, recognizing the changes in exchange rate differences in 'Adjustments for valuation article 89 - Organic Act' in the statement of changes in net equity (paragraph (vi) below).

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

**iii. Valuation of financial instruments classified as available-for-sale investments**

The Central Bank calculates the fair value of its financial instruments classified as investments based on market prices. For instruments classified as available-for-sale investments recorded in 'Securities from international institutions' acquired until December 31, 2013 (note 2.B(c.i)), as well as securities issued by the MEF in foreign currency recorded in 'Domestic credit' until December 31, 2015 (note 2.B (c.ii)), the Central Bank calculates their higher or lower value by comparing carrying amount (acquisition cost) with fair value. The latter without determining the amortized cost of those investments, and record changes in net equity until investments are sold or realized. Additionally, premiums or discounts generated in their acquisition are recorded as income or expense when settled.

As of December 31, 2018, all 'Securities from international institutions' acquired as of December 31, 2013, matured.

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



As of January 1, 2016, in order to determine the higher or lower value of the instruments classified as available-for-sale investments recorded in 'Securities from international institutions' acquired since January 1, 2014, and securities issued by MEF in foreign currency which are part of 'Domestic credit', the fair value is compared to the amortized cost. The amortized cost is determined using the effective interest rate method.

**iv. Statement of cash flows**

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

**v. Disclosure of financial instruments**

As of December 31, 2018 and 2017, the Central Bank is not fully applying the requirements of IFRS 7 Financial Instruments: Disclosures and certain disclosures required by IFRS 9 Financial Instruments. The objective of these standards is to provide disclosures in the financial statements that enable users to evaluate the significance of financial instruments for the Central Bank's financial position and yield. The latter through the understanding of the nature and extent of the financial instruments to which the Central Bank is exposed; as well as the methods the Central Bank applies to manage the risks arising from said instruments.

**vi. Valuation of instruments related to exchange rate**

The Central Bank has instruments related with the exchange rate such as: transactions with held-for-trading instruments (note 2.B(f.i)), CDRBCRP transactions (note 2.2(l)) and foreign exchange swap transactions (note 2.B(t)).

Gains and losses from changes in fair value and from exchange rates are recorded in 'Adjustment for valuation 89 - Organic Act' in net equity, and profit or loss for the year is not affected in any case.

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

**vii. Securities issued by the MEF**

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

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

**B. Accounting criteria**

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

**(a) Basis for preparation and use of estimates**

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

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

#### **(b) Financial instruments**

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

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

Financial assets recorded in the statement of financial position correspond to gross international reserves, other foreign assets, domestic credit, assets recorded in 'Other assets', excluding those detailed as non-financial assets (note 10); and financial liabilities correspond to liabilities in general, except for those detailed as non-financial liabilities in 'Other liabilities' (note 16). The accounting policies on recognition and measurement of these captions are disclosed in the accounting policies described in this note.

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

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

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

##### ***Classification***

- **Available-for-sale investments**

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

- **Held-to-maturity investments**

Financial assets that may or may not include embedded derivative financial instruments, whose recovery values are fixed or determinable amounts and with definite maturity terms, and for which the Central Bank has the intention and the ability to hold them up to their maturity. As of December 31, 2018 and 2017, the Central Bank does not hold financial instruments classified in this category.

##### ***Initial recognition***

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

### **Valuation of available-for-sale investments**

#### **i. For securities from international institutions acquired until December 31, 2013**

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

#### **ii. For securities from international institutions acquired since January 1, 2014**

After initial recognition, these instruments are reassured at fair value and the interest is recorded through the determination of amortized cost, including any premium or discount in the profit or loss for the year, based on the effective interest rate. The difference between fair value and amortized cost (unrealized profit or loss) is recorded in 'Fair value reserve' in the statement of changes in net equity.

#### **iii. For securities issued by the MEF**

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

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

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

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

#### **(d) Recognition of income and expenses**

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

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

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

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

**(e) Transactions in foreign currency**

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

Assets and liabilities in foreign currency are recorded at the exchange rate of the date when transactions are performed and are stated in soles every day using the buying rate established by SBS for transactions in U.S. dollars. Balances in other currencies are expressed according to the exchange rates provided by Bloomberg (note 25(iii)).

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

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

**(f) Derivative financial instruments**

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

**(i) Held-for-trading derivative instruments**

The reference value (committed face value) of forward and future operations is recorded in 'off-balance sheet accounts' (notes 20(d) and 20(e)), which are subsequently measured at their fair value. Fair values are estimated based on the exchange rates, interest rates and market prices. The Central Bank has forward price transactions whose underlying assets are investments in international securities and forward exchange operations.

Board of Directors Meeting held May 25, 2017, approved that, since 2017, interest on underlying investment plus the higher amount received in the foreign currency in which forex-swaps are invested (simultaneous buy and sell of foreign currency transactions, one using the spot exchange rate and the other using the "forward" exchange rate) which corresponds to the foreign currency increase generated by forward points negotiated. The latter is registered in the statement of profit or loss and other comprehensive income. Thus, the effect recorded in 'Adjustment for valuation article 89 – Organic Act' from net equity, corresponds to the valuation of the underlying asset during the life of the forex-swap plus (less) the exchange effect from changes in the foreign currency with respect to the domestic currency. The Central Bank has decided to apply this change prospectively, without affecting prior financial statements.

Gains and losses from changes in fair value of future and forward exchange rate operations are recorded on 'Yield from transactions with derivatives' from the statement of profit or loss and other comprehensive income, and in 'Adjustment for valuation article 89 – Organic Act' from net equity, respectively, recognizing either an asset or a liability in the statement of financial position, as applicable.

**(ii) Embedded derivatives**

The Central Bank records the measurement of instruments with embedded derivatives at the date of the financial statements presentation, affecting the 'Fair value reserve' from net equity. Instruments measurement, without splitting the embedded

derivative, is obtained from Bloomberg information service. The effect of instruments measurement is recorded at instrument maturity in 'Net yield on securities' from the statement of profit or loss and other comprehensive income. As of December 31, 2018, and of 2017, the Central Bank does not have instruments with embedded derivatives.

**(g) Gold**

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

**(h) Contributions to international institutions**

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

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

**(i) Collections**

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

**(j) Property, furniture and equipment and depreciation**

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

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

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

	<b>Years of useful life</b>
Buildings and other constructions	100
Machinery and equipment	10
Vehicles	5
IT equipment	3



**(k) Impairment of long-lived assets**

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

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

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

**(l) Sterilized stock**

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

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

Indexed certificates of deposits are adjusted for changes in the sol/U.S. dollar exchange rate. Those changes are recorded in 'Adjustment for valuation article 89 - Organic Act' in net equity.

**(m) Currency in circulation**

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

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

**(n) Employee benefits**

According to article 58 of the Bylaw, the Central Bank transfers annually financial resources to the Fund for Diseases, Insurance and Pensions of the Central Bank's Employees (hereinafter the "Fund") to pay the benefits to its personnel. The total amount of the transfers from the Central Bank to the Fund is approved by the Board of Directors every year.

The Central Bank has the following defined benefits plans:

- Supplementing retirement, widow and burial benefits.

- Other supplementing retirement benefits, related to health care benefits granted by the Central Bank.

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

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

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

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

#### **(o) Operational expenses and issuance costs of currency**

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

Cost of minting coins and coin blanks includes the cost of raw materials, labor and manufacturing overhead.

Expenses for printing banknotes and cost of minting coins are initially recognized in 'Other assets' in the statement of financial position (note 10(b) and (d)), and subsequently are recognized in profit or loss of the year in which currency is set available to be in circulation for the first time.

#### **(p) Cash and cash equivalents**

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

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Gross international reserves	203,109,543	206,362,355
<b>Less:</b>		
Currency in circulation	<u>(59,244,028)</u>	<u>(55,270,665)</u>
<b>Cash and cash equivalents</b>	<b><u>143,865,515</u></b>	<b><u>151,091,690</u></b>

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

**(q) Provisions**

Provisions are only recognized when the Central Bank has a present (implicit or legal) obligation as a result of past events, it is probable that an outflow of resources will be required to settle such obligation, and their amount can be reliably estimated. Provisions are reviewed in each year and are 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 significant, the amount of the provision is the present value of future payments required to settle the obligation.

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

**(r) Contingencies**

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

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

**(s) Domestic credit**

Domestic credit comprises the following:

- Securities issued by the MEF, which are recorded and classified as available for-sale investments. Initial recognition and subsequent measurement of such investments are made in accordance with the criteria described in paragraph (c) above.
- Securities received from the MEF to cover losses according to the provisions of article 93 of the Organic Act (notes 1 and 17(D)), which are recorded at their face value and accrue interest at the agreed interest rate (coupon rate).
- Security repurchase agreements (repos) used to inject liquidity in domestic currency to financial institutions. This transaction consists of the purchase of securities at the beginning of the transaction, when financial institutions transfer the ownership of securities to the Central Bank, and at the maturity date of the repo transaction, the financial institutions repurchase the same securities and the Central Bank transfers the ownership to them. These transactions are recognized as assets in the statement of financial position with the counterpart amount in the deposit account of financial institutions.
- Currency repo transactions, which are transactions where the participating institutions sell domestic or foreign currency to the Central Bank in exchange for foreign or domestic currency, and are committed to re-purchase the sold currency at a later date at current market exchange rates under the same agreement. These transaction are recognized as assets in the statement of financial position with the counterpart amount in the deposit account of financial institutions in the currency lend.

**(t) Foreign exchange swaps**

Foreign exchange swaps, whose notional value is recorded in off-balance sheet accounts (see note 20(e)), correspond to transactions in which one party agrees to pay a variable interest rate over a domestic currency notional amount in exchange that the counterparty pays a fixed



interest rate over an equivalent notional amount in U.S. dollars and also pay the exchange valuation on the notional value in U.S. dollars.

The Central Bank calculates outstanding interest and interest payable, which are recognized in the statement of profit and loss and other comprehensive income in the year when they accrue, under 'Other financial income' and 'Other financial expenses' with a counterpart amount in 'Other assets' and 'Other liabilities' in the statement of financial position, respectively. Similarly, the Central Bank recognizes the changes in the exchange differences on the notional amount committed in U.S. dollars in 'Adjustment for valuation article 89 -Organic Act' in net equity, with a counterpart amount in the asset and liability captions mentioned above, as appropriate.

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

**(u) Subsequent events**

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

**(v) New standards and interpretations**

**i. IFRS issued and effective in Peru as of December 31, 2018**

During 2018, the CNC issued the following resolutions, by which were made official the following standards:

- Resolution 001-2018 - EF/30 issued April 24, 2018, formalized amendments to IFRS 9 Financial Instruments, IAS 28 Investments in Associates and Joint Ventures and Annual improvements to IFRS Standards 2015-2017 Cycle.
- Resolution 002-2018-EF/30 issued August 23, 2018, formalized 2018 IFRS version containing amendments to IAS 19 Employee Benefits and Conceptual Framework for Financial Reporting.

The resolutions application is according to the effective date of each specific standard, except for IFRS 15, whose effective date was postponed by the CNC until January 1, 2019, through Resolution 005-2017 EF/30.

**ii. IFRS internationally issued, but not effective as of December 31, 2018**

- IFRS 17 Insurance Contracts, effective for annual periods beginning on or after January 1, 2021.
- Amendments to IAS 28 Investments in Associates and Joint Ventures, effective for annual periods beginning on or after January 1, 2019.
- Amendments to IFRS 9 Financial Instruments, effective for annual periods beginning on or after January 1, 2019.
- IFRIC 23 Uncertainty over Income Tax Treatments, effective for annual periods beginning on or after January 1, 2019.

- IFRS 16 Leases, effective for annual periods beginning on or after January 1, 2019.
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in relation to the sale or contribution of assets between an investor and its associates and joint ventures, whose effective application was postponed indefinitely by the IASB in December 2015.
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards, effective for annual periods beginning on or after January 1, 2019.
- Amendments to References to the Conceptual Framework in IFRS Standards, effective for annual periods beginning on or after January 1, 2020.

Because standards detailed in paragraph (v) solely apply in a supplementary manner with those developed by the Organic Act and the standards issued by the Central Bank's Board of Directors, they will not have a significant effect in the preparation of the accompanying financial statements. The Central Bank has not estimated the effect of the adoption of the above mentioned standards on its financial statements, if adopted.

### 3. DEPOSITS WITH FOREIGN BANKS

As of December 31, this caption comprises the following:

	<u>Note</u>	<u>2018</u> (S/ 000)	<u>2017</u> (S/ 000)
Time deposits (a)		51,436,775	73,689,434
Outstanding interest from time deposits (b)		<u>74,237</u>	<u>46,909</u>
		51,511,012	73,736,343
Demand deposits		9,770	9,596
Outstanding interest from gold deposits	<b>6(b)</b>	<u>718</u>	<u>1,128</u>
<b>Total</b>		<b><u>51,521,500</u></b>	<b><u>73,747,067</u></b>

- (a) As of December 31, 2018 and 2017, time deposits are held in tier 1 foreign banks, accrue interest in accordance with international market rates and are mainly denominated in U.S. dollars, amounting to US\$ 9,727 million and US\$ 20,169 million, respectively.

As of December 31, 2018, deposits with foreign banks accrued an average annual interest rate of 1.68% (2017: 1.42%).

- (b) As of December 31, 2018 and 2017, the Central Bank recognized income interest on deposits with foreign banks for S/ 940 million and S/ 805 million, respectively, which is recorded in 'Financial income' in the statement of profit or loss and other comprehensive income.

### 4. DEPOSITS WITH FOREIGN INSTITUTIONS

As of December 31, 2018 and 2017, it corresponds to deposits with the IMF, stated in SDR, which accrue interest at average annual rates of 1.09% and 0.74%, respectively, and are not unrestricted, except for certain situations such as the presence of effective or potential balance of payments needs that require assistance from the IMF, or in case of a request of withdrawal from the membership of this international institution.

## 5. SECURITIES FROM INTERNATIONAL INSTITUTIONS

As of December 31, this caption comprises the following:

	2018				2017			
	Cost (i)	Unrealized gross amount		Carrying amount (iii)	Cost (i)	Unrealized gross amount		Carrying amount (iii)
		Increase	Decrease (ii)			Increase	Decrease (ii)	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
<b>Available- for-sale investments</b>								
Outstanding issued securities	18,620,241	-	-	18,620,241	12,571,152	-	-	12,571,152
Short-term sovereign securities (iv)	53,544,404	131	(229,267)	53,315,268	49,450,220	8,601	(187,907)	49,270,914
Short-term supranational securities (v)	3,979,052	449	(19,718)	3,959,783	901,417	-	(549)	900,868
Long-term sovereign securities (iv)	56,211,465	132,443	(308,523)	56,035,385	58,931,749	6,134	(491,529)	58,446,354
Long-term supranational securities (v)	8,474,593	105,360	(42,669)	8,537,284	1,109,087	24,394	(3,021)	1,130,460
	140,829,755	238,383	(600,177)	140,467,961	122,963,625	39,129	(683,006)	122,319,748
<b>Accrued interest</b>				470,002				301,057
				<b>140,937,963</b>				<b>122,620,805</b>

(i) The cost of available for sale investment corresponds to the acquisition cost for securities acquired until December 31, 2013, and to the amortized cost for securities acquired since January 1, 2014.

(ii) As of December 31, 2018 and 2017, the decrease in the amount of the fair value reserve mainly corresponds to premiums paid at the acquisition date of available-for-sale investments acquired until December 31, 2013, which are recognized in the statement of profit or loss and other comprehensive income at maturity of the instrument, as indicated in note 2.B(c.i).

(iii) The carrying amount corresponds to the estimated market value for available-for-sale investments.

(iv) It corresponds to securities issued by central governments. As of December 31, 2018 and 2017, the Central Bank's portfolio was mainly invested in sovereign bonds issued by the U.S. Treasury.

(v) As of December 31, 2018 and 2017, it corresponds to securities issued by supranational institutions, such as the Andean Development Corporation (CAF, for its Spanish acronym), European Investment Bank (EIB), World Bank, International Bank for Reconstruction and Development (IBRD), BIS, among others.

As of December 31, maturities and nominal annual interest rates on investments are as follows:

	Maturity		Nominal interest rate (i)							
	2018		2017		2018		2017			
	2018	2019	2018	2019	US\$	Other currencies	US\$	Other currencies		
				Min. %	Max. %	Min. %	Max. %	Min. %	Max. %	
<b>Available- for-sale investments</b>										
Certificates of deposit	Jan.2019 / Feb.2019	Jan.2018 / Mar.2018	2.46	3.13	(0.45)	(0.35)	1.51	1.92	(0.43)	(0.40)
Bank acceptances	Jan.2019 / Mar.2019		-	-	2.01	2.22	-	-	-	-
Short-term sovereign securities	Jan.2019 / Dec.2019	Jan.2018 / Dec.2018	0.75	2.81	(0.32)	4.50	0.13	4.50	(0.21)	3.53
Short-term supranational securities	Jan.2019 / Dec.2019	Jan.2018 / Jul.2018	0.88	2.81	1.50	1.50	1.35	1.37	3.25	3.25
Long-term sovereign securities	Jan.2020 / Augu.2023	Jan.2019 / Augu.2022	1.13	3.13	0.38	6.50	0.75	2.88	0.38	4.75
Long-term supranational securities	Jan.2020 / Dec.2021	Feb.2019	1.63	3.05	0.63	6.00	1.25	1.88	0.63	1.50

(i) The nominal rate corresponds to the coupon rate for investments in bonds, and to the discount rate for certificates of deposit, commercial papers, and other fixed income instruments, excluding the premiums or discounts obtained at the acquisition date of the instruments detailed above.

As of December 31, 2018 and 2017, securities from international institutions are tier 1 and low-risk financial instruments. Securities issued by international institutions or foreign public institutions have risk ratings of at least A+, according to credit rating agencies Moody's and Standard & Poor's. Certificates of deposit have a minimum rating of A according to Fitch, Standard & Poor's and Moody's credit rating agencies. These securities accrue interest at international market rates and are kept in tier 1 foreign banks.

As of December 31, balance due on available-for-sale investments, excluding interest, is as follows:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Up to 3 months	41,497,513	38,376,642
From 3 months to 1 year	34,397,779	24,366,290
From 1 to 3 years	61,960,275	58,414,316
From 3 to 5 years	820,939	685,124
Over 5 years	<u>1,791,455</u>	<u>477,376</u>
<b>Total</b>	<b><u>140,467,961</u></b>	<b><u>122,319,748</u></b>

As of December 31, 2018 and 2017, the Central Bank recognized income on net yield of securities for S/ 1.906 billion and S/ 932 million, respectively, which are recorded in 'Financial income' in the statement of profit or loss and other comprehensive income. Likewise, it was recognized an increase of S/ 282 million and S/ 23 million, respectively, in 'Fair value reserve' in net equity (notes 2.B(c) and 17.C).

## 6. GOLD

As of December 31, this caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
<b>In the country</b>		
Gold coins (a)	2,383,215	2,329,125
Provision for cost of converting gold coins into high purity or good delivery gold bars	<u>(2,300)</u>	<u>(2,211)</u>
	2,380,915	2,326,914
<b>Abroad</b>		
Gold bars (b)	<u>2,428,742</u>	<u>2,373,632</u>
<b>Total</b>	<b><u>4,809,657</u></b>	<b><u>4,700,546</u></b>

(a) As of December 31, 2018 and 2017, it corresponds to 552,101 and 552,191 gold troy ounces, respectively, in commemorative coins deposited with the Central Bank, which are valued at quotation value per-troy ounce as of the aforementioned dates.

(b) As of December 2018 and 2017, it corresponds to 562,647 and 562,651 gold troy ounces, respectively, in high purity or good delivery deposited in tier 1 foreign banks. During 2018 and 2017, 562,647 gold troy ounces are under time deposits (2017: 249,702 gold troy ounces are under custody and 312,949 gold troy ounces are under time deposits). As of December 31, 2018, these term deposits accrued interest at an annual rate between 0.10% and 0.23% and have a 88- and 94-day term since the



date of its constitution (2017: accrued interest at an annual rate of 0.26% and had a 180-day term since the date of its constitution). The accrued interests as of December 31, 2018 and 2017, were recorded in 'Deposits in foreign banks' in the statement of financial position (note 3).

## 7. CONTRIBUTIONS TO INTERNATIONAL INSTITUTIONS

As of December 31, this caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Contributions to the FLAR (a)	1,700,108	1,612,153
Contributions to the IMF (b)	793,855	623,569
Contributions to the BIS (c)	<u>307,898</u>	<u>303,020</u>
	<b><u>2,801,861</u></b>	<b><u>2,538,742</u></b>

(a) This contribution grants Peru access to financing facilities from the FLAR. As of December 31, 2018, paid contributions to FLAR amounts to US\$ 505 million, equivalent to S/ 1.700 billion (2017: US\$ 490 million equivalent to S/ 1,612 million). As of December 31, 2018 and 2017, Peru's participation in FLAR accounts for 17% of its subscribed capital. Also, as of December 31, 2018, the Central Bank holds contributions pending of capitalization for US\$ 159 million, equivalent to S/ 535 million (2017: US\$ 166 million equivalent to S/ 536 million), which were recorded as outstanding accounts and accounts payable, and are recorded, net, in the statement of financial position (note 2.B(h)).

(b) Contribution to IMF grants Peru access to IMF's financing facilities. The IMF determines Peru's contribution as a participating country, which as of December 31, 2018 and 2017, amounts to SDR 1,335 million; made up by contributions in SDR and in soles. As of December 31, 2018 and 2017, Peru's participation in the total shares held by the IMF's member countries is 0.28% and comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
<b>Contribution in SDR:</b>		
Contribution to the IMF in SDR (i)	<u>793,855</u>	<u>623,569</u>
<b>Contribution in domestic currency</b>		
Contribution to the IMF, equivalent in domestic currency (ii)	5,380,115	5,554,846
Revaluations to be settled- contribution to the IMF in domestic currency (iii)	<u>69,201</u>	<u>(24,565)</u>
	<u>5,449,316</u>	<u>5,530,281</u>
<b>Total contribution to the IMF</b>	<b><u>6,243,171</u></b>	<b><u>6,153,850</u></b>

(i) As of December 31, 2018 and 2017, it corresponds to contributions granted by Peru to the IMF for SDR 169 million and SDR 135 million, respectively.

(ii) For contributions in soles, the Central Bank did not disburse any funds but constituted promissory notes in favor of the IMF, through which said institutions can arrange the cashing of the above mentioned contributions at any moment. Therefore, said counterpart account is recorded as a liability with the IMF in 'Other foreign liabilities' in the statement of financial position. This obligation does not accrue interest and can be requested at any moment.

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

Through Law N° 29823, published on December 29, 2011, the Congress of the Republic approved the increase in the Peru's quota in the IMF from SDR 638 million to SDR 1.335 billion.

- (c) Since 2011, the Central Bank participates as a member of that international institution. The BIS determines the percentage of participation of member countries and in the case of Peru, its participation amounts to 3,000 shares. As of December 31, 2018 and 2017, 25% of market value of such shares has been paid, corresponding to SDR 66 million, equivalent to S/ 308 million (2017: S/ 303 million). The 75% of the market value of said shares, corresponding to SDR 197 million, equivalent to S/ 924 million as of December 31, 2018 (2017: S/ 909 million), were recorded as outstanding accounts and accounts payable, and are recorded, net, in the statement of financial position (note 2.B(h)).

## 8. DOMESTIC CREDIT

As of December 31, this caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
<b>To banks (a)</b>		
Currency repo transactions	7,278,000	16,146,400
Security repo transactions	5,816,908	5,249,690
Outstanding commissions from currency repo transactions	16,415	578,885
	<b>13,111,323</b>	<b>21,974,975</b>
<b>To the public sector (b)</b>		
Bonds issued by the MEF in foreign currency	1,892,585	1,941,973
Securities issued by the MEF in domestic currency	645,231	645,231
Currency repo transactions	62,000	442,600
Outstanding interest	78,381	63,015
Outstanding commissions from currency repo transactions	16	3,031
	<b>2,678,213</b>	<b>3,095,850</b>
<b>To other institutions and funds</b>		
Currency repo transactions	14,500	91,100
Security repo transactions	-	28,495
Outstanding commissions from currency repo transactions	27	612
	<b>14,527</b>	<b>120,207</b>
<b>Deposits of financial institutions</b>		
Currency repo transactions	3,500	-
Outstanding commissions from currency repo transactions	9	-
	<b>3,509</b>	-
<b>Total</b>	<b>15,807,572</b>	<b>25,192,032</b>

- (a) As of December 31, 2018 and 2017, the Central Bank carried out currency repo transactions with financial institutions, whereby the institutions sold foreign or domestic currency to the Central Bank in exchange for domestic or foreign currency and, simultaneously, agreed to repurchase the sold currency at a later date at the exchange rate current at the repurchase date. The Central Bank charges a commission equivalent to the interest rate offered by each financial institution in auctions, less a discount established in the respective auction. As of December 31, 2018, these transactions had interest rates ranging from 0.65% to 3.40%, with settlement dates between January 2019 and October 2020 (2017: interest rates from 1.69% to 5.89%, with settlement dates between January 2018 and October 2020).

Also, as of December 31, 2018, BCRP had current purchase transactions with repurchase commitment of certificates of deposit or treasury bonds (security repos) with banks at an average annual interest rate of 3.95%, with settlement dates between January 2019 and July 2020 (2017: average annual interest rate of 3.8%, with settlement dates between January 2018 and July 2020).

- (b) As of December 31, 2018 and 2017, the Central Bank holds MEF's bonds issued in U.S. dollars acquired in the secondary market, which mature between July 2025 and November 2033, and accrue interest at rates ranging from 7.35% to 8.75%, respectively. Such instruments are classified and valued as available-for-sale investments. As of December 31, 2018, a decrease of S/ 78 million (2017: increase of S/ 135 million) in fair value was recorded in 'Fair value reserve' in the statement of financial position (note 17.C).

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

Also, as of December 31, 2018 and 2017, the Central Bank carried out currency repo transactions with public institutions, whereby the institutions sold foreign or domestic currency to the Central Bank in exchange for domestic or foreign currency and, simultaneously, agreed to repurchase the sold currency at a later date at the exchange rate current at the repurchase date. The Central Bank charges a commission equivalent to the interest rate offered by each financial institution in auctions, less a discount established in the respective auction. As of December 31, 2018, these transactions had interest rates ranging from 1.40% to 1.48%, with settlement dates in June 2019 (2017: interest rates from 2.53% to 4.83%, with settlement dates between March 2018 and June 2019).

In 2018 and 2017, the Central Bank recognized interest income and commissions from domestic credit transactions for S/ 526 million and S/ 1,067 million, respectively, which are recorded in 'Financial income' in the statement of profit or loss and other comprehensive income.

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

The movement of this caption for the years 2018 and 2017, and the accumulated depreciation are as follows:

Description	Land	Buildings and other constructions	Furniture and office equipment	Vehicles	Miscellaneous equipment	Units in transit	Total
	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)
<b>Cost</b>							
<b>Balance as of January 1, 2017</b>	24,056	164,921	7,004	3,569	103,317	1,671	304,538
Additions	-	1,750	204	70	5,282	232	7,538
Transfers	-	1,218	23	-	(4)	(1,237)	-
Disposals and others	-	(1,556)	(309)	-	(8,468)	(9)	(10,342)
<b>Balance as of December 31, 2017</b>	24,056	166,333	6,922	3,639	100,127	657	301,734
Additions	4,363	6,650	180	119	5,870	152	17,334
Transfers	-	120	-	-	429	(549)	-
Disposals and others	-	(735)	-	-	-	(108)	(843)
<b>Balance as of December 31, 2018</b>	<b>28,419</b>	<b>172,368</b>	<b>7,102</b>	<b>3,758</b>	<b>106,426</b>	<b>152</b>	<b>318,225</b>
<b>Accumulated depreciation</b>							
<b>Balance as of January 1, 2017</b>	-	66,702	4,145	2,692	64,412	-	137,951
Depreciation for the year	-	3,424	355	384	7,972	-	12,135
Disposals and others	-	(647)	(308)	-	(8,454)	-	(9,409)
<b>Balance as of December 31, 2017</b>	-	69,479	4,192	3,076	63,930	-	140,677
Depreciation for the year	-	3,652	384	268	8,488	-	12,792
Disposals and others	-	(370)	-	-	-	-	(370)
<b>Balance as of December 31, 2018</b>	-	<b>72,761</b>	<b>4,576</b>	<b>3,344</b>	<b>72,418</b>	-	<b>153,099</b>
<b>Net carrying amount</b>							
<b>As of December 31, 2017</b>	<b>24,056</b>	<b>96,854</b>	<b>2,730</b>	<b>563</b>	<b>36,197</b>	<b>657</b>	<b>161,057</b>
<b>As of December 31, 2018</b>	<b>28,419</b>	<b>99,607</b>	<b>2,526</b>	<b>414</b>	<b>34,008</b>	<b>152</b>	<b>165,126</b>

As of December 31, 2018 and 2017, the Central Bank has fully depreciated property, furniture and equipment, which are still in use for S/ 52 million and S/ 45 million, respectively.

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

In 2018 and 2017, depreciation of property, furniture and equipment amounted to S/ 13 million and S/ 12 million, respectively, and is included in 'Operational expenses' and 'Issuance expenses and costs' for S/ 10 million and S/ 3 million, and S/ 9 million and S/ 3 million, respectively (notes 21 and 22).

Management annually reviews whether the carrying amount exceeds the recoverable value of its long-lived assets based on available market data. In management's opinion, there is no evidence of impairment of the long-lived assets held by the Central Bank as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, no Central Bank's asset was granted as guarantee.

## 10. OTHER ASSETS

As of December 31, this caption comprises the following:

	<u>2018</u> (S/ 000)	<u>2017</u> (S/ 000)
<b>Financial instruments</b>		
Outstanding interest	5,088	-
Outstanding accounts from personnel	933	923
	<u>6,021</u>	<u>923</u>
<b>Non-financial instruments</b>		
Raw material, semi-finished and finished goods (a)	91,021	98,151
Collections (b)	81,818	94,786
Deferred charges (c)	87,294	71,234
Advance payments to suppliers	9,989	14,521
Intangible assets	8,699	6,944
Silver	2,161	2,287
Others	1,511	3,022
	<u>282,493</u>	<u>290,945</u>
<b>Total</b>	<u><u>288,514</u></u>	<u><u>291,868</u></u>

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

## 11. OTHER FOREIGN LIABILITIES

As of December 31, this caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
SDR allocations and revaluations to be settled (a)	2,852,607	2,812,433
Allocation in Andean pesos (b)	67,380	64,760
Others	<u>2,516</u>	<u>3,128</u>
<b>Total</b>	<b><u>2,922,503</u></b>	<b><u>2,880,321</u></b>

- (a) As of December 31, 2018 and 2017, the account's balance is equivalent to SDR 610 million and corresponds to the distribution that the IMF made to Peru in proportion to its quota, according to the provisions of the IMF's Articles of Agreement. The balance at the aforementioned dates comprises exchange difference generated by revaluation of SDR allocation received from the IMF from the date of the account's last movement (June 20 and December 20, for the years 2018 and 2017, respectively) until December 31 of each year, whose amounts to S/ 36 million and S/ 12 million (negative revaluation).

SDR allocations accrue interest according to the conditions of the Articles of Agreement. As of December 31, 2018 and 2017, annual interest rate was 1.10% and 0.74%, respectively.

- (b) The allocation in Andean pesos corresponds to those delivered by the FLAR for 20 million Andean pesos equivalent to S/ 67 million and S/ 65 million as of December 31, 2018 and 2017, respectively. Said allocation neither accrues interest nor has a defined maturity for its cancellation. The counterpart amount is an outstanding account recorded in 'Other foreign assets' in the statement of financial position.

In 2018 and 2017, the Central Bank recognized interest for approximately S/ 26 million and S/ 15 million, respectively, corresponding to its foreign liabilities, mainly for the obligations for SDR allocations, which is recorded in 'Financial expenses' in the statement of profit or loss and other comprehensive income.

## 12. ISSUED SECURITIES IN CIRCULATION

As of December 31, this caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Certificates of deposit (CDBCRP)	27,060,900	30,747,100
Indexed certificates of deposit (CDRBCRP)	-	829,039
Certificates of deposit settled in U.S. dollars (CDLDBCRP)	-	400,000
CDRBCRP sale's premium	-	1,360
Discounts on sale of CDBCRP, CDRBCRP and CDLDBCRP	<u>(283,071)</u>	<u>(363,045)</u>
	<b><u>26,777,829</u></b>	<b><u>31,614,454</u></b>

As of December 31, 2018 and 2017, issued securities in circulation mainly comprise certificates of deposit in domestic currency, which are placed by the auction mechanism or by direct placement to withdraw liquidity surpluses from the financial system.

As of December 31, 2018, S/ 3.596 billion of certificates of deposit guarantee repo transactions with securities (2017: S/ 4.127 billion in guarantee)

In 2018 and 2017, the Central Bank recognized interest expense for issued securities in circulation for S/ 845 million and S/ 1.236 billion, respectively, which is recorded in 'Financial expenses' in the statement of profit or loss and other comprehensive income.

As of December 31, 2018 and 2017, certificates of deposit issued by the Central Bank were acquired by:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Banks	21,236,100	26,807,382
Deposit Insurance Fund	2,259,100	1,912,400
Banco de la Nación	2,537,600	1,747,300
Mutual funds and pension fund management companies' funds	162,800	655,420
Financial institutions	428,400	435,700
Other institutions	436,900	417,937
	<u>27,060,900</u>	<u>31,976,139</u>
Discounts on sale of CDBCRP, CDRBCRP and CDLDBCRP	(283,071)	(363,045)
CDRBCRP sale's premium	-	1,360
<b>Total</b>	<b><u>26,777,829</u></b>	<b><u>31,614,454</u></b>

As of December 31, 2018, certificates of deposits issued by the Central Bank mature between January 2019 and June 2020, and accrue interest at discount rates between 2.47% and 3.80% (2017: mature between January 2018 and June 2019, and accrue interest between 1.30% and 4.78%).

### 13. DEPOSITS IN DOMESTIC CURRENCY

As of December 31, this caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Public sector	33,236,837	35,570,093
Banco de la Nación	6,302,707	6,598,876
Banks	217,000	869,060
Municipal credit and savings institutions	1,163,000	364,400
Financial institutions	389,500	349,900
Deposit Insurance Fund	465,104	319,375
Rural credit and savings institutions	32,600	8,750
Other institutions and funds	6,708	340
	<u>41,813,456</u>	<u>44,080,794</u>

As of December 31, 2018 and 2017, deposits in domestic currency are classified per type of transaction as follows:

Type	Interest rate %	Maturity	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Checking accounts	Between 0 and 1.55	Without maturity	5,534,838	3,996,976
Time deposits	Between 1.90 and 2.50	January to December 2019	28,163,511	31,866,882
<i>Special deposits (overnight)</i>	Between 1.50 and 1.55	2 days	8,115,107	8,216,936
			<u>41,813,456</u>	<u>44,080,794</u>

In 2018 and 2017, the Central Bank recognized interest on deposits in domestic currency for S/ 934 million and S/ 1.021 billion, respectively, which is recorded in 'Financial expenses' in the statement of profit or loss and other comprehensive income.

#### 14. MONETARY BASE

As of December 31, this caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
<b>Currency in circulation (a)</b>	59,244,028	55,270,665
<b>Deposits in domestic currency (b)</b>		
Banks	1,156,006	1,184,050
Municipal credit and savings institutions	409,956	325,183
Banco de la Nación	250,000	250,000
Financial institutions	209,527	113,188
Rural credit and savings institutions	97,516	64,263
Others	34	25
	<u>2,123,039</u>	<u>1,936,709</u>
	<b><u>61,367,067</u></b>	<b><u>57,207,374</u></b>

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

	<b>2018</b>		<b>2017</b>	
	Unidades	S/ (000)	Unidades	S/ (000)
<b>Banknotes</b>				
Denomination S/ 10	122,030,357	1,220,303	125,823,850	1,258,239
Denomination S/ 20	156,085,303	3,121,706	150,297,696	3,005,954
Denomination S/ 50	154,518,313	7,725,916	143,216,649	7,160,832
Denomination S/ 100	404,983,920	40,498,392	379,277,962	37,927,796
Denomination S/ 200	20,110,759	4,022,152	17,269,153	3,453,831
		<u>56,588,469</u>		<u>52,806,652</u>
<b>Coins</b>				
Denomination S/ 0.01	348,299,850	3,483	348,413,882	3,484
Denomination S/ 0.05	505,101,884	25,255	480,288,189	24,014
Denomination S/ 0.10	1,577,194,631	157,719	1,480,203,027	148,020
Denomination S/ 0.20	451,273,728	90,255	422,402,536	84,481
Denomination S/ 0.50	499,117,550	249,559	468,734,451	234,367
Denomination S/ 1.00	940,019,580	940,920	860,345,159	860,345
Denomination S/ 2.00	181,338,570	362,677	167,851,070	335,702
Denomination S/ 5.00	164,785,794	823,929	154,369,493	771,847
		<u>2,653,797</u>		<u>2,462,260</u>
Commemorative coins		1,762		1,753
		<u>59,244,028</u>		<u>55,270,665</u>



- (b) As of December 31, 2018 and 2017, it corresponds to deposits in domestic currency of financial institutions subject to reserve requirements in the domestic financial system. Such funds are intended to cover the amount of legal reserves required by the Central Bank for obligations subject to reserve requirements in domestic currency, which do not have maturity. Additionally, the amount of legal reserve requirements may be covered with cash in domestic and foreign currency (note 15(a)) and with cash of the institution subject to reserve requirements.

Legal reserve requirements comprise minimum legal reserves and additional reserve requirements, which are defined as the part of the legal reserve requirements that exceeds the minimum legal reserves. As of December 31, 2018 and 2017, the minimum legal reserves had a rate of 5.0% for obligations subject to reserve requirements in domestic currency.

Also, the obligations subject to reserve requirements are classified into two regimes: general and special.

As of December 31, 2018 and 2017, only additional reserve requirements in domestic currency are required for those institutions exceeding the limits of foreign currency sale transactions through forwards and swaps, as well as those that have obligations subject to the special regime. As of December 31, 2018, the reserve requirements' funds corresponding to the additional reserve requirements of the general and special regime in soles, which are deposited with the Central Bank, did not accrue interest, since the rate of remuneration of deposits in domestic currency was zero. This rate of remuneration is equivalent to the rate of remuneration of overnight deposits in domestic currency with the Central Bank (2018: 1.50%) less 195 bps (2017: 0.05%).

On June 29, 2018, the Central Bank issued Circular 0023-2018-BCRP referred to the provisions of reserve requirements in domestic currency, which states that the reserve requirements rate shall be reduced from 36% to 35% for indexed obligation of special regime of reserve requirements, and the limits are amended for the weekly and monthly agreed transactions for selling foreign currency in exchange for domestic currency through forwards and swaps.

On May 12, 2017, the Central Bank issued Circular 0018-2017-BCRP, referred to the provisions of reserve requirements in domestic currency, which states that starting on the publication date, the limits are expanded for the weekly and monthly agreed transactions for selling foreign currency in exchange for domestic currency through forwards and swaps. Through Circulars issued in the same year, it was decided to reduce from 6.0% to 5.0% the minimum legal reserve requirements rate and the reserve requirements rate applied to obligations under the general regime, as well as to reduce the reserve requirements rate for indexed obligations from 48% to 44%. These measures were implemented to provide the necessary liquidity to enable the orderly evolution of credit. Circular 0018-2017-BCRP became effective as of December 31, 2017.

## 15. DEPOSITS IN FOREIGN CURRENCY

As of December 31, this caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Banks (a)	34,622,246	37,750,375
Public sector (b)	27,463,400	30,271,313
Other financial institutions (a)	910,159	603,187
Banco de La Nación (a)	170,250	507,746
Financial institutions (a)	292,316	342,460
Other institutions and funds	1	260,660
	<b><u>63,458,372</u></b>	<b><u>69,735,741</u></b>

- (a) As of December 31, 2018 and 2017, it corresponds to deposits in foreign currency of institutions subject to reserve requirements in the domestic financial system. Such funds are intended to cover the amount of legal reserve required by the Central Bank for obligations subject to reserve requirements in foreign currency, which do not have maturity.

Legal reserve requirements comprise minimum legal reserves, which, as of December 31, 2018 and 2017, had a rate of 9% for obligations subject to reserve requirements in foreign currency, and additional reserve requirements, which are defined as the part of the legal reserve requirements that exceeds the minimum legal reserves. As of December 31, 2018, the additional reserve requirements rate in foreign currency for banks ranged between 26.0% and 29.4% (2017: 16.6% and 35.7%).

As of December 31, 2018, the reserve requirements funds corresponding to the additional reserve requirements of the general and special regime, which are deposited with the Central Bank, accrued interest at an annual rate of 1.9542% equivalent to the one-month LIBOR less 50 bps (2017: 0.3729% equivalent to 25% of the one-month LIBOR).

On June 29, 2018, the Central Bank issued Circular 0024-2018-BCRP, referred to the provisions of reserve requirements in foreign currency, which states that the upper limit for the average reserve requirements rate and the marginal reserve requirements rate for obligations subject to the general regime shall be reduced from 36% to 35%.

On December 22, 2017, the Central Bank issued Circular 0037-2017-BCRP, referred to the provisions of legal reserve requirements in foreign currency, which states that the upper limit for the average reserve requirements rate and the marginal reserve requirements rate for obligations subject to the general regime shall be reduced from 40% to 39%. These measures seek to maintain stable credit conditions in a context of credit slowdown and higher international interest rates. The latter became effective as of December 31, 2017.

- (b) As of December 31, 2018 and 2017, deposits in foreign currency of public institutions are stated in U.S. dollars and mainly comprise agreements entered into with the General Directorate of Public Treasury of the MEF, which establish the conditions for deposit-taking activities from said institution. As of December 31, 2018, such deposits correspond to demand and time deposits, which accrued interest at an effective annual rate between 1.14% and 2.83% (2017: 0.33% and 1.63%). Time deposits have maturities between January and March 2019 (2017: between January and March 2018).

In 2018 and 2017, the Central Bank recognized interest on deposits in foreign currency amounting to S/ 865 million and S/ 573 million, respectively, which is recorded in 'Financial expenses' in the statement of profit or loss and other comprehensive income.

**16. OTHER LIABILITIES**

As of December 31, this caption comprises the following:

	<u>Note</u>	<u>2018</u> (S/ 000)	<u>2017</u> (S/ 000)
<b>Financial liabilities</b>			
Reverse repurchase agreement of foreign currency	<b>8(b)</b>	7,627,182	16,774,557
Interest and commissions payable		574,915	545,771
Deposit Insurance Fund		35,211	18,640
Accounts payable		5,116	4,623
Fund for diseases, insurance and pensions of Central Bank's employees		685	491
		<u>8,243,109</u>	<u>17,344,082</u>
<b>Non-financial liabilities</b>			
Actuarial liabilities (a)		142,631	163,694
Other provisions		36,075	39,591
Others		5,740	5,967
		<u>184,446</u>	<u>209,252</u>
		<u><b>8,427,555</b></u>	<u><b>17,553,334</b></u>

- (a) As of December 31, 2018 and 2017, it comprises a provision for actuarial liabilities corresponding to an allowance for supplementing retirement, widow and burial benefits, and a reserve of current risks of health care services calculated by an actuary, less the value of the Fund's net assets (note 2.B(n)).

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

As of December 31, 2018 and 2017, 5.0% and 3.2% of the Fund's assets, respectively, are deposited with the Central Bank, which accrue interest at an effective annual rate of 4.18% and 4.37%, respectively. The difference has been granted as loans to the Central Bank's employees, which are directly discounted from the payroll.

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

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Changes in net assets of the Employees' Fund	2,975	(500)
Changes in reserves calculated by the actuary	<u>(12,760)</u>	<u>10,901</u>
	<b><u>(9,785)</u></b>	<b><u>10,401</u></b>

As of December 31, 2018 and 2017, the movement of the obligation for employee benefits and the fair value of the benefit's asset are the following:

	<u>Note</u>	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
<b>Balance at the beginning of the year</b>		163,694	163,995
Transfers to the Fund during the year (i)		(11,278)	(10,702)
Provision (recovery) for employee benefits	<b>21</b>	<u>(9,785)</u>	<u>10,401</u>
		<b><u>142,631</u></b>	<b><u>163,694</u></b>

- (b) In January 2018 and 2017, the Central Bank's Board of Directors authorized the transfer to the Fund for Diseases, Insurance and Pensions of Central Bank's Employees of S/ 45.0 million and S/ 39.7 million, respectively. In 2018, from the aforementioned amount, S/ 11.3 million were used to pay pensions of retired personnel, which decreased the actuarial liability by the same amount (2017: S/ 10.7 million) and S/ 32.1 million were transferred to the Fund for health expenses of active personnel, which increased the balance of 'Operational expenses' (2017: S/ 27.7 million) (note 21), and S/ 1.6 million were transferred to health expenses of National Mint (CNM) personnel, which were recognized in cost of issued coins (2017: S/ 1.3 million).

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

	<b>2018</b>		<b>2017</b>	
	S/ (000)	%	S/ (000)	%
Deposits with the Central Bank	685	5.0	508	3.2
Outstanding accounts from employees	<u>12,954</u>	<u>95.0</u>	<u>15,023</u>	<u>96.8</u>
<b>Total</b>	<b><u>13,639</u></b>	<b><u>100.0</u></b>	<b><u>15,531</u></b>	<b><u>100.0</u></b>

The main hypotheses used when determining the actuarial liability for employee benefits established as of December 31 are the following:

	<b>2018</b>	<b>2017</b>
Discount rate	6.00%	6.00%
(Decrease) increase in pensions	(16.6)%	0.80%
Average period of amortization of pensions	8.86	9.55
<b>Primary beneficiaries as of the statement of financial position date:</b>		
Men	968	957
Women	558	562
<b>Mortality tables:</b>		
Men	SP 2005 H	SP 2005 H
Women	SP 2005 M	SP 2005 M

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

Año	Increase/decrease in discount rate	Effects on reserve for the year in thousands of soles
		S/ 000
2018	+50 pbs	(6,765)
	-50 pbs	7,339
2017	+50 pbs	(7,911)
	-50 pbs	8,591

  

Año	Increase/decrease in life expectancy	Effects on reserve for the year in thousands of soles
	Años	S/ 000
2018	+1	2,421
	-1	(2,257)
2017	+1	152
	-1	(475)

## 17. NET EQUITY

### A. Capital

As of December 31, 2018 and 2017, the authorized, subscribed and paid-in capital by the Peruvian Government in accordance with regulations amounts to S/ 1.183 billion.

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

### B. Reserves

#### *Legal reserve*

According to article 92 of its Organic Act, the Central Bank shall distribute its net profits annually as follows: (i) 25% for the Public Treasury and (ii) 75% for the constitution and increase up to 100% of its capital of a reserve which, preferably, shall be used for capitalization. In 2018 and 2017, the Central Bank has made no capitalization of reserves.

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

Board of Directors' Meeting held March 9, 2017, agreed to establish the legal reserves, corresponding to 75% of the 2016 profit or loss, for approximately S/ 184 million.

#### *Special legal reserves*

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

### C. Fair value reserve

The movement of this caption during years 2018 and 2017 is as follows:

	<b>Securities from international institutions</b> S/ (000)	<b>Bonds issued by the MEF</b> S/ (000)	<b>Total</b> S/ (000)
<b>Balance as of January 1, 2017</b>	<b>(666,762)</b>	<b>(222,302)</b>	<b>(889,064)</b>
Foreign exchange gain	24,471	135,536	160,007
Foreign exchange loss	(1,586)	-	(1,586)
<b>Balance as of December 31, 2017</b>	<b>(643,877)</b>	<b>(86,766)</b>	<b>(730,643)</b>
Foreign exchange gain	296,080	-	296,080
Foreign exchange loss	(13,997)	(78,311)	(92,308)
<b>Balance as of December 31, 2018</b>	<b>(361,794)</b>	<b>(165,077)</b>	<b>(526,871)</b>

#### D. Accumulated results

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

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

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

#### E. Adjustment for valuation article 89 – Organic Act

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

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

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
<b>Balance at the beginning of the year</b>	<b>7,384,611</b>	<b>9,639,400</b>
Plus (less):		
Valuation of derivative instruments transactions and others related to exchange rate	631,671	(1,243,931)
Valuation of metals (gold)	109,150	400,449
Valuation of the IMF's contribution and obligations	(40,319)	(62,757)
Valuation of U.S. dollars	3,356,532	(1,944,543)
Valuation of other currencies	116,856	595,993
<b>Balance at the end of the year</b>	<b>11,558,501</b>	<b>7,384,611</b>

## 18. TAX MATTERS

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

The Tax Authorities are entitled to review and, if necessary, amend the taxes calculated by the Central Bank within the four years following the year of tax return filing. The tax and contribution returns for the years 2014 through 2018, inclusive, are open for review by the Tax Authorities. Since discrepancies may arise over the interpretation by the Tax Authorities of the regulations applicable to the Central Bank, to date it is not possible to determine whether any additional liabilities will arise as a result of eventual reviews of the financial statements. Therefore, any additional taxes, fines and interest arising from such reviews shall be recognized in profit or loss in the year in which the disagreement with Tax Authorities is resolved. In management's opinion, any possible additional settlement of taxes would not be significant for the Central Bank's financial statements as of December 31, 2018 and 2017.

## 19. CONTINGENCIES

Certain civil and labor lawsuits have been filed against the Central Bank, for which the pertinent legal instruments and actions have been submitted and conducted. Therefore, the Central Bank's management and its legal advisors consider that, as of December 31, 2018 and 2017, it is not necessary to record a provision for possible losses as a result of these legal contingencies.

## 20. OFF-BALANCE SHEET ACCOUNTS

As of December 31, this caption is made up as follows:

	<u>Note</u>	<u>2018</u> (\$/ 000)	<u>2017</u> (\$/ 000)
Currency in circulation (a)		51,029,138	44,453,379
Forward operations (b)		77,783,541	39,237,049
Securities held in custody (c)		3,789,388	4,380,486
Future transactions (d)		137,563	948,766
Foreign exchange swap (e)	<b>2.B(t)</b>	3,376,960	-
Others		3,041,123	1,579,499
<b>Total</b>		<b><u>139,157,713</u></b>	<b><u>90,599,179</u></b>

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

	<u>2018</u> (\$/ 000)	<u>2017</u> (\$/ 000)
New	45,598,690	41,101,190
Available	3,281,731	2,628,232
To be classified	1,766,565	540,374
To be destroyed	354,740	182,163
In transit	27,412	1,420
<b>Total</b>	<b><u>51,029,138</u></b>	<b><u>44,453,379</u></b>

The movement of 'Currency in circulation' as of December 31, is as follows:

	<u>2018</u> (\$/ 000)	<u>2017</u> (\$/ 000)
<b>Balance at the beginning of the year</b>	<b>44,453,379</b>	<b>38,271,706</b>
Acquisition of currency	23,162,598	23,132,217
Destruction of currency	(12,613,477)	(12,736,264)
Removal of circulation, net of income	(3,973,362)	(4,214,280)
<b>Balance at the end of the year</b>	<b><u>51,029,138</u></b>	<b><u>44,453,379</u></b>

- (b) As of December 31, 2018 and 2017, it corresponds to the reference value (committed face value) of the Central Bank's forward operations of foreign currency, classified as held-for-trading instruments. As of December 31, 2018, the Central Bank has 87 forward operations with maturities between January and November 2019 (2017: 48 forward operations with maturities between January and February 2018). Likewise, as of December 31, 2018, the valuation of said instruments generated an asset of S/ 133 million (2017: S/ 32 million), which was recorded in 'Other available assets', and a liability of S/ 461 million (2017: S/ 247 million), which was recorded in 'Reserves liabilities'. Said valuation was recorded in 'Adjustment for valuation article 89 - Organic Act' in the net equity.

As of December 31, 2018 and 2017, face value of forward operations according to the currency is as follows:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Buy of U.S. dollar/sell of other currencies other than sol	38,147,951	19,296,977
Sell of Japanese yen/buy of other currencies other than sol	13,425,183	10,202,298
Sell of Euro/buy of other currencies other than sol	17,401,037	7,218,588
Sell of Swedish krona/buy of other currencies other than sol	-	2,258,796
Buy of Pound sterling/sell of other currencies other than sol	76,630	260,390
Sell of Pound sterling/buy of other currencies other than sol	3,649,240	-
Sell of Canadian dollar/buy of other currencies other than sol	4,441,616	-
Buy of Australian dollar/sell of other currencies other than sol	641,884	-
<b>Total</b>	<b><u>77,783,541</u></b>	<b><u>39,237,049</u></b>

- (c) As of December 31, 2018 and 2017, securities held in custody mainly comprise promissory notes in guarantee for transactions with the IMF.
- (d) As of December 31, 2018 and 2017, it corresponds to the reference value (committed face value) of the Central Bank's future transactions classified as held-for-trading instruments, which are managed directly by the BIS, according to guidelines approved by the Central Bank. As of December 31, 2018 and 2017, the Central Bank has 352 and 631 agreements of forward price transactions, respectively, whose underlying assets are bonds of the U. S. Treasury issued in U.S. dollars, and whose maturities are in March 2019 (2017: between March 2018 and December 2019). Likewise, the estimated market value, provided by the BIS, generated an asset for S/ 1,282,000 and a liability for S/ 86,000 (2017: asset for S/ 582,000 and liability for S/ 522,000), which were recorded in 'Other available assets' and 'Reserves liabilities', respectively, in the statement of financial position and 'Net yield on securities' in the statement of profit or loss and other comprehensive income.
- (e) As of December 31, 2018, the Central Bank has 46 transactions, called "foreign exchange swaps", with banks in which the notional amount in soles in favor of the Central Bank is S/ 1.690 billion and the counterpart amount in favor of banks is US\$ 501 million. The maturity of these transactions is between January and February 2019 and the interest rate on the notional amount in soles equals the capitalization of the Cumulative Overnight Interbank Transactions Index calculated and published by the Central Bank, which as of December 31, 2018, was 3.38%. On the aforementioned date, the average interest rate in U.S. dollars, determined by auction, amounted to 1.88%.

In 2018, the Central Bank recognized interest income and expense paid and received on foreign exchange swaps for S/ 38 and S/ 19 million, which are recorded in 'Other financial income' and 'Other financial expenses' in the statement of profit or loss and other comprehensive income, respectively. Also, during said period, the Central Bank



recognized the effect of changes in the exchange rate on the notional amount in U.S. dollars as a debit to 'Adjustment for valuation article 89 - Organic Act' in the net equity for S/ 12 million, corresponding to financial institutions.

## 21. OPERATIONAL EXPENSES

This caption comprises the following:

	<b>Note</b>	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Remunerations and social benefits	<b>23</b>	157,170	155,602
Administrative expenses (a)		54,626	54,618
Health expenses of active personnel	<b>16(a)(i)</b>	32,111	27,660
Expenses for actuarial provision (b)	<b>16(a)</b>	-	10,401
Depreciation	<b>9(d)</b>	9,567	8,712
Amortization		2,220	2,407
Others		18,486	8,190
<b>Total</b>		<b>274,180</b>	<b>267,590</b>

(a) As of December 31, 2018 and 2017, administrative expenses mainly correspond to the expenses for public services, maintenance, vigilance, advisories, data supplies, and others.

(b) In 2017, expenses for actuarial provision amounted to S/ 10 million. In 2018, the Central Bank recorded a provision recovery for S/ 9.7 million in 'Non-financial income' in the statement of profit or loss.

## 22. ISSUANCE EXPENSES AND COSTS

This caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Cost of minting issued coins	45,497	45,524
Expenses for printing issued banknotes	36,860	34,854
Expenses for transporting currency	3,808	2,404
	<b>86,165</b>	<b>82,782</b>

## 23. REMUNERATIONS AND SOCIAL BENEFITS

This caption comprises the following:

	<b>2018</b> (S/ 000)	<b>2017</b> (S/ 000)
Salaries	85,863	86,396
Legal bonuses and vacations	28,728	26,743
Bonuses and allocations	17,375	16,890
Retirement compensation arrangement	9,477	9,493
Social security	8,971	9,015
Training	3,057	2,630
Others	3,699	4,435
	<b>157,170</b>	<b>155,602</b>

## 24. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The amounts of financial assets and financial liabilities of captions in the statement of financial position classified per category in accordance with IAS 39 are the following:

Note	As of December 31, 2018				As of December 31, 2017			
	Outstanding accounts (S/000)	Available-for-sale investments (S/000)	Financial liabilities at amortized cost (S/000)	Total (S/000)	Outstanding accounts (S/000)	Available-for-sale investments (S/000)	Financial liabilities at amortized cost (S/000)	Total (S/000)
<b>Financial assets</b>								
	168,834	-	-	168,834	162,273	-	-	162,273
Cash in foreign currency								
Deposits with foreign banks	51,521,500	-	-	51,521,500	73,747,067	-	-	73,747,067
Deposits with foreign institutions	2,522,915	-	-	2,522,915	2,479,371	-	-	2,479,371
Securities from international institutions	-	140,937,963	-	140,937,963	-	122,620,805	-	122,620,805
Gold	4,809,657	-	-	4,809,657	4,700,546	-	-	4,700,546
Contributions to international institutions	2,801,861	-	-	2,801,861	2,538,742	-	-	2,538,742
Other available assets	346,813	-	-	346,813	113,551	-	-	113,551
Other foreign assets	67,380	-	-	67,380	64,760	-	-	64,760
Domestic credit	13,814,868	1,992,704	-	15,807,572	23,220,112	1,970,920	-	25,191,032
Other financial assets	6,021	-	-	6,021	923	-	-	923
<b>10</b>	<b>76,059,849</b>	<b>142,930,667</b>	<b>-</b>	<b>218,990,516</b>	<b>107,027,345</b>	<b>124,591,725</b>	<b>-</b>	<b>231,619,070</b>
<b>Financial liabilities</b>								
Reserves liabilities	-	-	560,989	560,989	-	-	357,402	357,402
Other foreign liabilities	-	-	8,371,819	8,371,819	-	-	8,410,602	8,410,602
Sterilized stock	-	-	68,591,285	68,591,285	-	-	75,695,248	75,695,248
Monetary base	-	-	61,367,067	61,367,067	-	-	57,207,374	57,207,374
Deposits in foreign currency	-	-	63,458,373	63,458,373	-	-	69,735,741	69,735,741
Other financial liabilities	-	-	8,243,109	8,243,109	-	-	17,344,082	17,344,082
<b>16</b>	<b>-</b>	<b>-</b>	<b>210,592,642</b>	<b>210,592,642</b>	<b>-</b>	<b>-</b>	<b>228,750,449</b>	<b>228,750,449</b>

## 25. RISK ASSESSMENT

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

The Central Bank's statement of financial position mainly comprises financial instruments, as described in note 2.B(b). Gross international reserves are a relevant component of such instruments (represent 90.3% and 86.8% as of December 31, 2018 and 2017, respectively). Reserve management adheres to the principles of security, liquidity and profitability indicated in article 71 of the Organic Act. International reserves contribute to the country's economic and financial stability insofar as they guarantee availability of foreign currency in extraordinary situations, such as in the case of an eventual significant withdrawal of foreign currency deposits from the domestic financial system or temporary external shocks, which may cause imbalances on the real economy and feedback expectations. Likewise, a suitable availability of foreign currency helps to reduce the country risk and improve Peru's credit ratings, which results in better conditions for private and public Peruvian companies to obtain foreign credits, and helps the foreign investment growth in the country.

Financial risks management mainly focuses on foreign liquid reserves assets, which are traded in international markets. These assets comprise deposits with foreign institutions, securities from international institutions, foreign holding of golds and SDR holdings in the IMF.

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

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

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

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

**A. Liquidity risk**

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

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

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

As of December 31, the distribution of investments into tranches is reflected in the percentage composition by term at maturity of the liquid foreign reserves assets as shown below:

	<u>2018</u> (%)	<u>2017</u> (%)
<b>Maturity</b>		
Between 0 and 3 months	49	56
Between 3 and 12 months	17	12
More than one year	34	32
	<u>100</u>	<u>100</u>

The Central Bank's undiscounted cash flows payable according to contractual terms are as follows:

## As of December 31, 2018

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Without maturity	Total
	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)
<b>Financial liabilities per type (i)</b>							
Sterilized stock							
Certificates of deposit	3,184,008	8,820,660,,	13,581,329,	1,191,832	-	-	26,777,829
Deposits in domestic currency	23,149,944,	5,766,341,	12,897,171,	-	-	-	41,813,456
Monetary base	-	-	-	-	-	61,367,067,	61,367,067
Deposits in foreign currency	55,642,292,	7,816,080,,	-	-	-	-	63,458,372
Other financial liabilities	613,115	4,180,652	2,547,117	916,200	8,457,592	-	16,714,676
<b>Total non-derivative financial liabilities (ii)</b>	<b>82,589,359</b>	<b>26,583,733</b>	<b>29,025,617</b>	<b>2,108,032</b>	<b>8,457,592</b>	<b>61,367,067</b>	<b>210,131,400</b>
Accounts payable on derivative instruments	378,008	29,078	54,155	-	-	-	461,241
	<b>82,967,367</b>	<b>26,612,811</b>	<b>29,079,772</b>	<b>2,108,032</b>	<b>8,457,592</b>	<b>61,367,067</b>	<b>210,592,641</b>

## As of December 31, 2017

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Without maturity	Total
	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)	(S/ 000)
<b>Financial liabilities per type (i)</b>							
Sterilized stock							
Certificates of deposit	4,057,243	12,895,420	13,911,046	750,745	-	-	31,614,454
Deposits in domestic currency	23,116,936	7,487,800	9,479,082	-	-	3,996,976	44,080,794
Monetary base	-	-	-	-	-	57,207,374	57,207,374
Deposits in foreign currency	22,165,460	11,912,782	-	-	-	35,657,499	69,735,741
Other financial liabilities	1,087,890	1,725,413	11,014,721	3,628,821	8,407,474	-	25,864,319
<b>Total non-derivative financial liabilities (ii)</b>	<b>50,427,529</b>	<b>34,021,415</b>	<b>34,404,849</b>	<b>4,379,566</b>	<b>8,407,474</b>	<b>96,861,849</b>	<b>228,502,682</b>
Accounts payable on derivative instruments	247,245	522	-	-	-	-	247,767
	<b>50,674,774</b>	<b>34,021,937</b>	<b>34,404,849</b>	<b>4,379,566</b>	<b>8,407,474</b>	<b>96,861,849</b>	<b>228,750,449</b>

(i) As of December 31, 2018 and 2017, financial liabilities do not include future interest.

(ii) As of December 31, 2018 and 2017, it corresponds to the valuation of held-for-trading instruments.

## B. Credit risk

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

- Deposits with tier one foreign banks, according to the capital involved and to short-term and long-term risk ratings assigned by the main international credit rating agencies, such as Standard & Poor's, Moody's and Fitch.
- Fixed income securities issued by international institutions or foreign public institutions. As of December 31, 2018 and 2017, these securities shall be long-term bonds assigned with one of the five highest ratings from the more than twenty long-term ratings assigned by credit rating agencies.
- Debt investments of private institutions are not allowed.

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

The following is a summary of the risk rating of liquid reserves assets as of December 31:

	<u>2018</u> (%)	<u>2017</u> (%)
<b>Long-term rating</b>		
AAA	53	50
AA+/AA/AA-	19	23
A+/A/A-	28	27
	<u>100</u>	<u>100</u>

Based on the obtained risk ratings and management's analysis, as of December 31, 2018 and 2017, the Central Bank has no exposure in countries or institutions with debt issues that may pose a credit risk for its deposits with foreign banks and investments.

## C. Exchange rate risk

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

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

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

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

As of December 31, 2018, the free market buying rate published by SBS for transactions in U.S. dollars was S/ 3.369 (2017: S/ 3.238). Balances in other currencies have been stated in U.S. dollars at the exchange rate provided daily by Bloomberg, as described in paragraph (c) below.

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

	2018		2017	
	U.S. dollars (US\$ 000)	Other currencies (US\$ 000)	U.S. dollars (US\$ 000)	Other currencies (US\$ 000)
				<b>Total</b> (US\$ 000)
<b>Monetary assets</b>				
Cash in foreign currency	50,114	-	50,115	50,115
Deposits with foreign banks	9,743,799	5,549,018	20,184,523	22,775,499
Deposits with foreign institutions	-	748,862	-	765,711
Securities from international institutions	32,646,207	9,187,561	33,625,849	37,869,304
Gold	-	1,427,621	-	1,451,682
Contributions to international institutions	504,633	327,026	497,885	784,046
Other available assets	101,439	1,503	33,581	35,068
Other foreign assets	-	20,000	-	20,000
Domestic credit	570,705	-	608,685	608,685
Other assets	3,013	717	4,804	5,510
	<b>43,619,910</b>	<b>17,262,308</b>	<b>55,005,442</b>	<b>64,365,620</b>
<b>Monetary liabilities</b>				
Reserves liabilities	156,417	10,098	107,281	110,377
Other foreign liabilities	-	20,000	-	20,000
Deposits in foreign currency	18,835,967	-	21,536,671	21,536,671
Other liabilities	2,310,659	257	5,205,198	5,205,479
	<b>21,303,043</b>	<b>30,355</b>	<b>26,849,150</b>	<b>26,872,527</b>
<b>Subtotal</b>	<b>22,316,867</b>	<b>17,231,953</b>	<b>28,156,292</b>	<b>37,493,093</b>
<b>Derivative instruments</b>				
Forwards position, net	11,323,226	(11,338,249)	5,959,536	(37,774)
<b>Net monetary position</b>	<b>33,640,093</b>	<b>5,893,704</b>	<b>34,115,828</b>	<b>37,455,319</b>

In addition, the Central Bank has issued indexed certificates of deposit (CDRBCRP) in domestic currency, which are adjusted for changes in the sol/U.S. dollar exchange rate and are settled at maturity in soles. As of December 31, 2018, the Central Bank has not issued CDRBCRP (2017: balance was S/ 829 million, representing US\$ 256 million) (note 12).

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

	<b>2018</b> (US\$ '000)	<b>2017</b> (US\$ '000)
<b>Assets</b>		
U.S. dollar	43,619,225	55,004,687
Japanese yen (i)	3,985,844	3,150,963
Euro	5,168,305	2,231,877
Gold	1,428,360	1,452,437
SDR (ii)	1,075,889	1,051,872
Pound sterling	1,525,147	402,787
Other currencies	4,079,448	1,070,997
	<u>60,882,218</u>	<u>64,365,620</u>
<b>Liabilities</b>		
U.S. dollar	21,303,043	26,849,149
SDR (ii)	1,522	1,039
Other currencies	28,833	22,339
	<u>21,333,398</u>	<u>26,872,527</u>
<b>Net assets</b>	<b><u>39,548,820</u></b>	<b><u>37,493,093</u></b>

- (i) As of December 31, 2018 and 2017, there is no exposure to this currency, since it is fully covered by forward operations (note 20 (c)).
- (ii) The SDR is a foreign reserves asset created by the IMF and allocated to its member countries in proportion to its share of membership as a country member. The SDR value is calculated daily by adding the U.S. dollar values (noon London quotation) of a basket of five currencies (U.S. dollar, Euro, Chinese yuan renminbi, Japanese yen and Pound sterling). The amounts of each currency of the SDR basket are calculated according to agreed percentages.

- (c) The main foreign exchange rates used by the Central Bank in relation to the U.S. dollar as of December 31, are the following:

	<b>2018</b>	<b>2017</b>
Gold troy ounce	1 281.280000	1 302.86000
Pound sterling	1.275200	1.351700
SDR	1.390790	1.424130
Euro	1.145700	1.201000
Japanese yen	0.009124	0.008878

According to article 89 of the Organic Act, as of December 31, 2018, the Central Bank registered a net positive adjustment on valuation of foreign currency of S/ 4,174 million



(2017: net negative adjustment of S/ 2,255 million) in 'Adjustment for valuation article 89 - Organic Act' in the net equity (note 17(e)).

The following table shows the sensitivity analysis on changes in the price of the main currencies to which the Central Bank is exposed as of December 31, 2018 and 2017. The analysis determines the effect of devaluation or revaluation of a reasonably possible change in the exchange rate of sol against foreign currencies, considering constant the other variables in the statement of profit or loss and other comprehensive income. A negative amount reflects a net potential decrease in net equity, while a positive amount reflects a net potential increase. In both cases, these changes do not affect the Central Bank's profits because both are recorded as exchange differences in net equity.

<b>Sensitivity analysis</b>	<b>Changes in exchange rates</b> (%)	<b>2018</b> (S/000)	<b>2017</b> (S/000)
<b>Devaluation</b>			
U.S. dollar	5	6,661,999	6,070,132
U.S. dollar	10	13,323,997	12,140,264
Pound sterling	5	256,909	65,211
Pound sterling	10	513,819	130,422
Japanese yen	5	671,421	510,124
Japanese yen	10	1,342,841	1,020,248
Euro	5	870,172	361,341
Euro	10	1,740,343	722,682
<b>Revaluation</b>			
U.S. dollar	5	(6,661,999)	(6,070,132)
U.S. dollar	10	(13,323,997)	(12,140,264)
Pound sterling	5	(256,909)	(65,211)
Pound sterling	10	(513,819)	(130,422)
Japanese yen	5	(671,421)	(510,124)
Japanese yen	10	(1,342,841)	(1,020,248)
Euro	5	(870,172)	(361,341)
Euro	10	(1,740,343)	(722,682)

#### **D. Interest rate risk**

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

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



As of December 31, 2018 and 2017, the average duration of the investment portfolio (including internally managed foreign assets, deposits with foreign banks, investments in securities and gold holdings) was 0.73 and 0.60 years, respectively.

#### **E. Operational risk**

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

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

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

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

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

## **26. INFORMATION ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

When a financial instrument is traded in an active and liquid market, its fixed price in the market through real transactions offers the best evidence of its fair value. When there is no fixed price in the market, or it cannot be an indicative of the fair value of the instrument to determine said fair value, one can use either the market value of a similar instrument, the analysis of discounted flows or other applicable techniques, which may be significantly affected by the assumptions made. Management has used its best judgment in the fair value measurement of its financial instruments. Fair value may not be an indicative of the net realizable value or the liquidation value of said instruments.

The methodologies and assumptions applied to determine the estimated market values as of December 31, 2018 and 2017, in all cases applicable according to the Central Bank's policies, depend on the terms and risk characteristics of the diverse financial instruments, as detailed below:

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

Consequently, as of December 31, 2018 and 2017, the Central Bank's management considers that the estimated fair value of the Central Bank's financial instruments does not differ significantly from its carrying amount.

## **27. SUBSEQUENT EVENTS**

From December 31, 2018, as of the date of the independent auditors' report, there have not been any material events that may affect the financial statements.