

(Free translation from the original in Spanish. The accounting principles referred to are those generally accepted in Peru.)

**BANCO CENTRAL DE RESERVA DEL PERU**

FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

(Free translation from the original in Spanish. The accounting principles referred to are those generally accepted in Peru.)

## **BANCO CENTRAL DE RESERVA DEL PERU**

FINANCIAL STATEMENTS  
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S/. = New Peruvian sol

US\$ = United States dollar

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## **REPORT OF INDEPENDENT ACCOUNTANTS**

March 21, 2003

To the Board of Directors  
Banco Central de Reserva del Perú

- 1 We have audited the accompanying balance sheets of Banco Central de Reserva del Perú as of December 31, 2002 and 2001 and the related statements of income, of changes in net equity and of cash flows for the years then ended. These financial statements are the responsibility of the Bank's management; our responsibility is to express an opinion on these financial statements based on our audits.
- 2 We conducted our audits in accordance with auditing standards generally accepted in Peru. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion
- 3 As explained in Note 2, the financial statements as of December 31, 2002 and 2001 have been prepared in accordance with accounting practices contained in the Bank's Organic Law, dispositions of the Directors established by agreements and with generally accepted accounting principles in Peru applicable to central banks which, as stated in Note 3 to the financial statements, differ in certain aspects with generally accepted accounting principles in Peru, which comprise mainly International Accounting Standards approved by the National Council of Accountancy.
- 4 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, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in accordance with accounting practices described in Note 2 to the financial statements.

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- 5 As explained in Note 2 to the financial statements and for purposes of concurring with International Accounting Standards (IAS), during the course of 2002 the Bank modified its accounting policies regarding: i) actuarial liabilities related to the subvention of supplementary pensions of its pensioners, ii) gains and losses originating from the sale of foreign currencies, iii) unaccrued operating and note printing expenses and iv) the valuation of gold and silver holdings. The effect of these accounting changes resulted in an increase of assets and liabilities amounting to S/.205.4 million and S/.280.4 million, respectively and a net decrease in net income for the year of S/.75.0 million and the correspondent effect in net equity.

Countersigned by;

------(partner)  
Arnaldo Alvarado L.  
Peruvian Public Accountant  
Registration No.7576

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**BANCO CENTRAL DE RESERVA DEL PERU**

**BALANCE SHEET (Notes 1, 2, 3, 4, 25 and 27)  
CONSTANT VALUES**

**ASSETS**

	<b>As of December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>EXTERNAL ASSETS</b>		
Cash in foreign currency	176 311	35 757
Deposits in foreign banks (Note 5)	10 998 657	18 081 864
Securities in international institutions (Note 6)	20 330 167	10 755 194
Gold (Note 7)	1 358 488	915 600
Contributions to FLAR (Note 8)	1 067 191	1 011 774
Agreements with central banks	9 740	25 362
Other assets available	102 109	103 134
	<u>34 042 663</u>	<u>30 928 685</u>
<b>OTHER EXTERNAL ASSETS</b>		
Contributions in local currency to the International Monetary Fund (Note 8)	3 049 002	2 810 083
Other external assets	32 158	32 034
	<u>3 081 160</u>	<u>2 842 117</u>
<b>DOMESTIC CREDIT (Note 9)</b>	<u>520 484</u>	<u>402 787</u>
<b>PROPERTY, FURNITURE AND EQUIPMENT, NET (Note 10)</b>	<u>145 395</u>	<u>152 518</u>
<b>OTHER ASSETS (Note 11)</b>	<u>1 562 808</u>	<u>1 641 370</u>
<b>TOTAL ASSETS</b>	<u>39 352 510</u>	<u>35 967 477</u>
<b>OFF-BALANCE SHEET ACCOUNTS (Note 22)</b>	<u>12 988 931</u>	<u>16 297 426</u>

**LIABILITIES AND NET EQUITY**

	<b>As of December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>EXTERNAL LIABILITIES</b>		
Obligations with international entities	69 635	80 280
Due to the International Monetary Fund (Note 12)	255 789	707 237
	<u>325 424</u>	<u>787 517</u>
<b>OTHER EXTERNAL LIABILITIES</b>		
Exchange value of contributions in local currency to International Monetary Fund (Note 12)	3 049 002	2 810 083
Other external liabilities (Note 12)	1 081 781	1 119 979
	<u>4 130 783</u>	<u>3 930 062</u>
<b>MONETARY BASE (Note 13)</b>	<u>6 759 003</u>	<u>6 190 805</u>
<b>OTHER DEPOSITS IN LOCAL CURRENCY (Note 14)</b>	<u>350 076</u>	<u>251 607</u>
<b>SECURITIES ISSUED (Note 15)</b>	<u>1 908 274</u>	<u>1 822 449</u>
<b>DEPOSITS IN FOREIGN CURRENCY (Note 16)</b>	<u>22 062 999</u>	<u>20 058 133</u>
<b>OTHER LIABILITIES (Note 17)</b>	<u>1 144 072</u>	<u>1 021 634</u>
<b>RE-ADJUSTMENT IN VALUATION, ORGANIC LAW ARTICLE 89 (Note 18)</b>	<u>2 165 369</u>	<u>1 487 888</u>
<b>NET EQUITY (Note 19)</b>		
Capital	168 594	168 594
Reserves	169 818	107 522
Retained earnings	168 098	141 266
	<u>506 510</u>	<u>417 382</u>
<b>TAX SITUATION (Note 20)</b>		
<b>COMMITMENTS AND CONTINGENCIES (Note 21)</b>		
<b>TOTAL LIABILITIES AND NET EQUITY</b>	<u>39 352 510</u>	<u>35 967 477</u>
<b>OFF-BALANCE SHEET ACCOUNTS (Note 22)</b>	<u>12 988 931</u>	<u>16 297 426</u>

The accompanying notes are part of the financial statements.

(Free translation from the original in Spanish. The accounting principles referred to are those generally accepted in Peru).

## BANCO CENTRAL DE RESERVA DEL PERU

### STATEMENT OF INCOME (Notes 1, 2 and 3) CONSTANT VALUES

	<b>For the years ended December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>FINANCIAL INCOME</b>		
Interest from deposits in foreign banks	297 211	747 471
Interest from securities in international institutions	553 877	607 516
Interest from ALADI agreement	236	1 363
Interest from domestic credit	13 753	31 253
Other financial income	15 810	11 911
	<u>880 887</u>	<u>1 399 514</u>
<b>OTHER INCOME</b>		
Dividends received from FLAR	52 797	81 200
Net gain on sales of foreign currency and others	41 539	15 051
	<u>94 336</u>	<u>96 251</u>
<b>FINANCIAL EXPENSES</b>		
Interest on time and special deposits	253 558	514 270
Interest on demand deposits in Peru	147 784	317 630
Interest on BCRP certificates	101 032	200 190
Interest on loans from international organizations	13 446	40 234
Other financial expenses	11 081	17 300
	<u>526 901</u>	<u>1 089 624</u>
<b>OTHER EXPENSES</b>		
Other expenses in local currency	4	629
Other expenses in foreign currency	1 990	1 620
	<u>1 994</u>	<u>2 249</u>
<b>ADMINISTRATIVE EXPENSES</b>		
Remuneration and cost of social laws	113 749	121 085
Administrative expenses	199 222	81 632
Depreciation and amortization	10 832	11 373
	<u>323 803</u>	<u>214 090</u>
<b>MONETARY ISSUANCE COSTS</b>		
Expenses for transport and cost of notes and coins (Note 23)	686	46 380
Cost of production materials delivered to the Casa Nacional de la Moneda	5 076	5 503
	<u>5 762</u>	<u>51 883</u>
<b>Income before result for exposure to inflation</b>	116 763	137 919
Result for exposure to inflation (Note 24)	(2 393)	3 347
Net income for the year	<u>114 370</u>	<u>141 266</u>

The accompanying notes are part of the financial statements.

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## BANCO CENTRAL DE RESERVA DEL PERU

### STATEMENT OF CHANGES IN NET EQUITY (Notes 1, 2, 3 and 19) CONSTANT VALUES FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>Capital</u> S/.000	<u>Reserves</u> S/.000	<u>Retained earnings</u> S/.000	<u>Total</u> S/.000
Balances as of January 1, 2001	168 594	57 659	66 538	292 791
Adjustments of prior periods	-	(96)	-	(96)
Dividend distribution according to the Minutes of the Board of Directors dated May 31, 2001:				
Transfer to Reserves	-	49 959	(49 959)	-
Amortization of accounts receivable from the Treasury	-	-	(16 579)	(16 579)
Net income for the year	-	-	141 266	141 266
Balances as of December 31, 2001	<u>168 594</u>	<u>107 522</u>	<u>141 266</u>	<u>417 382</u>
Adjustments of prior periods	-	10 834	(914)	9 920
Dividend distribution according to the Minutes of the Board of Directors dated June 6, 2002:				
Transfer to Reserves	-	51 462	(51 462)	-
Amortization of accounts receivable from the Treasury	-	-	(35 162)	(35 162)
Net income for the year	-	-	114 370	114 370
Balances as of December 31, 2002	<u><u>168 594</u></u>	<u><u>169 818</u></u>	<u><u>168 098</u></u>	<u><u>506 510</u></u>

The accompanying notes are part of the financial statements.

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## **BANCO CENTRAL DE RESERVA DEL PERU**

### **STATEMENT OF CASH FLOWS (Notes 2 and 26) CONSTANT VALUES**

	<b>For the years ended</b>	
	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>S/.000</b>	<b>S/.000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year	114 370	141 266
Adjustment to reconcile the net income of the year to cash from operating activities:		
Provision for general expenses and acquisition of notes	873	49 804
Provisions for depreciation and amortization	133 937	11 180
(Expenses) income for interest	(40 253)	77 189
Cost of materials for production delivered to the Casa Nacional de Moneda	5 076	5 503
Other provisions	(1 092)	(777)
Transfer of property and grant of equipment	-	(1 249)
Net changes in assets and liabilities:		
(Increase) decrease in other external assets	(239 043)	111 561
(Increase) decrease in domestic credit	(152 859)	99 707
Decrease in other assets	110 031	179 189
Decrease in external liabilities	(462 093)	(556 798)
Increase (decrease) in other external assets	200 721	(214 471)
Increase on base money	568 198	578 709
Increase (decrease) in other deposits in local currency	98 469	(115 965)
Increase in securities outstanding	85 826	509 347
Increase in deposits in foreign currency	2 004 865	276 010
Increase (decrease) in other liabilities	690 476	(220 596)
Net cash provided by operating activities	<u>3 117 502</u>	<u>929 609</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions of property, furniture and equipment	<u>(3 524)</u>	<u>(5 536)</u>
Net cash used in investing activities	<u>(3 524)</u>	<u>(5 536)</u>
Net increase of cash and cash equivalents	3 113 978	924 073
Cash and cash equivalents at beginning of year	<u>30 928 685</u>	<u>30 004 612</u>
Cash and cash equivalents at end of year	<u><u>34 042 663</u></u>	<u><u>30 928 685</u></u>

The accompanying notes are part of the financial statements.



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## **BANCO CENTRAL DE RESERVA DEL PERU**

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

#### **1 OPERATIONS**

Banco Central de Reserva del Peru (hereinafter the Bank) is an autonomous juridical entity of public law incorporated on March 9, 1922 as Banco de Reserva del Perú, intended to maintain the monetary stability in Peru. Its activities are presently governed by Article 84 of the Peruvian political constitution dated December 29, 1993 and its organic Law approved under Decree-Law No.26123 dated December 24, 1992, which establishes that its functions are to regulate the amount of money in the financial system, administer international reserves, issue notes and coins and report on a periodic basis on the finances of Peru.

The Bank's legal address is in Lima and it has seven branch offices in other cities in Peru. The personnel employed by the Bank to carry out its activities as of December 31, 2002 and 2001 is 1,055 and 1,067, respectively.

The Bank represents Peru for the purposes established in the Agreements with the International Monetary Fund (hereinafter IMF) and the Latin American Reserve Fund (hereinafter FLAR) and is responsible for all official transactions, operations and relations with these institutions.

The Bank may also fulfill the function of Government Agent in its relations with multilateral organizations of credit and financial agencies of foreign governments.

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

- Grant financing to the Treasury, unless under the model of acquisition in the secondary market of securities issued by the Treasury, in which case the holding of such securities may not exceed in any moment, valued at their acquisition cost, five per cent of the balance of the money base at the close of the previous year.
- Extend guarantees, performance bonds or any other guarantees and use any form of indirect financing, as well as grant insurance of any type. The operations carried out in implementing agreements of payments and reciprocal credits are not subject to the prohibition referred to in this section.
- Issue titles, bonds or certificates which are of obligatory acquisition.
- Impose sector or regional coefficients in the composition of the loan portfolio of financial institutions.

- Establish systems of multiple exchange rates.
- Purchase shares, unless these are issued by international financial organizations or those needed to be acquired for the restoration of banking and financial companies; participate, directly or indirectly, in the capital of commercial, industrial or any other companies.

## **2 ACCOUNTING PRINCIPLES AND POLICIES**

The financial statements have been prepared in accordance with accounting practices contained in the Bank's Organic Law, dispositions of the Directors established by agreements and with generally accepted accounting principles in Peru applicable to central banks. As stated in Note 3 to the financial statements, the accounting standards used by the Bank differ in certain aspects with generally accepted accounting principles in Peru, which comprise mainly International Accounting Standards approved by the National Council of Accountancy. At the date of the financial statements, the National Council of Accountancy has made official the application of IAS 1 through 41. The International Accounting Standards (IAS) 39 and 41 will come into effect as from January 1, 2003.

The most significant accounting principles and practices for the recording of operations and the preparation of the financial statements are as follows:

### a) Financial statements adjusted for inflation -

The financial statements have been adjusted to reflect the changes in the purchasing power of the Peruvian currency according to the methodology approved by the National Council of Accountancy. This methodology requires the restatement of non-monetary items of the financial statements from the date of origin by applying the Wholesale Price Index. Monetary items and foreign-currency items have not been restated since they are stated at the purchasing power at the year-end. The valuation of items subject to adjustment was made considering the criteria described in subsequent paragraphs.

The inflation based on the Wholesale Price Index, according to official statistics for year 2002, was 1.7% (deflation of 2.2% in 2001).

### b) Use of accounting estimates in the preparation of financial statements -

The preparation of financial statements requires the Bank's management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the exposition of contingent liabilities at the date of the financial statements as well as the income and expenses for the reported years. Assets and liabilities are recognized in the financial statements when it is probable that any future economic benefit associated with the item will flow to or from the Bank and the item has a cost or value that can be measured with reliability. If in the future such estimates and assumptions, that are based on the management's best judgment at the date of the financial statements, are modified because of the actual circumstances, the original estimates and assumptions will be appropriately modified in the year in which such changes occur. Major estimates related to the

financial statements are depreciation of property, furniture and equipment, provision for social benefits, amortization of intangible assets and provision for assets seized through legal actions. Additionally in 2002, major estimates include the actuarial liability related to the subvention of supplementary pensions for pensioners.

c) Cash and equivalents of cash -

Cash and equivalents of cash comprise external assets, which include funds, bank deposits, investments in securities, gold held, contributions to FLAR, agreements with central banks and other available assets.

External assets represent international assets or gross international reserves. The difference between international assets and liabilities (comprising the items Obligations with international entities and Due to IMF) represent net international reserves. These reserves show the international liquidity of Peru and its financial capacity with respect to other countries; they are the resources the country has to honor obligations in foreign currency.

d) Precious metals -

Gold and silver held are accounted for at the value fixed by the Board of Directors, which does not exceed the price prevailing in the international market, as established under Article 72 of the Bank's Organic Law.

As from 2002, the Bank's gold and silver holdings are valued at their listed price at the end of each day. Gold valuation is obtained by using the average buy quote of the markets of London, New York and Zurich. Silver valuation is obtained by applying the average buy quote in the markets of New York and London; as well as the quotation published in Handy Harman; until 2001, gold and silver were valued at 85% of the quote of the last business day and 90% of the quote of one day before the last business day of each month, respectively. The effect of this change in the accounting estimate resulted in an increase of S/.205.4 million, approximately, to the account Re-adjustment in Valuation of Organic Law Article 89 in the balance sheet in year 2002, of which S/.160.4 million are from prior years and S/.45.0 million are from the current period.

e) Investments in securities -

The investments in securities are recorded at acquisition cost and when the market value is lower than their carrying amount, differences are recognized through the corresponding provision for fluctuation in the value of securities, recorded in the results for the period. Premiums and discounts on the acquisition of investments are amortized from the acquisition date until the date of maturity of the investments.

f) Exchange gains and losses and re-adjustment of foreign currency -

Article 89 of the Bank's Organic Law establishes that differences which are recorded as a consequence of the adjustments in the valuation in local currency of the Bank's assets and obligations in gold, silver, foreign currency, special drawing rights (hereinafter SDR) or other monetary units of international use, are credited in a special account, not considering them as gains or losses.

This valuation is made on a daily basis by applying to the balances of assets and liabilities in foreign currency and precious metals the quotation with respect to the United States dollar and the exchange rate of the United States dollar compared to the new Peruvian sol (Note 4), obtaining balances in local currency which are compared with the beginning balances. The result of such valuation of price and exchange rate is charged or credited to the account Re-adjustment in valuation, Organic Law Article 89, which as of December 31, 2002 and 2001 is recorded under liabilities in the balance sheet (Note 3-c).

As from 2002, the Bank registers the gains and losses from the sale of foreign currencies to results for the year. Until 2001, results from sale of the foreign currencies were debited or credited to account Re-adjustment in valuation, Organic Law, article 89. Results from the sale of foreign currencies are obtained by multiplying the difference between the exchange rate of the transaction and the exchange rate at prior year-end by the amount of the transaction; such a result is stated with a counter account to the account Re-adjustment in valuation Organic Law, Article 89. The effect of this change in accounting policy has resulted in an income of approximately S/.24.8 million for period 2002.

g) Property, furniture, and equipment -

Property, furniture and equipment are recorded at their acquisition cost. The related depreciation is calculated consistently by using the straight-line method at rates sufficient to absorb the cost of the assets over their useful lives. Maintenance and repair costs are charged to the results of the year when incurred and significant renewals and improvements, are capitalized. The cost and accumulated depreciation of assets sold or retired are eliminated from the corresponding accounts and the related gain or loss is included in the results for the year.

Annual depreciation rates used are the following: buildings 1%, furniture and office equipment 10%, computer equipment 25%, other equipment 10% and transport units 20%.

h) Assets seized through legal actions -

Assets seized through legal actions include lands and properties received as payments of loans granted to banks that current are being liquidated and are recorded at the adjudicated cost of seizure. Likewise, as established in Article 85 of the Organic Law, the Bank may not be the owner of more properties than those intended for its normal activities and those which are transferred as settlement of debts. The latter must be sold over a term not exceeding a year from the date of transfer. As of December 31, 2002, most assets seized through legal actions are of more than one year and the Bank

began the arrangements established by law in order to formalize the sale of such assets, by working in coordination with the Superintendence of National Assets and establishing the Special Board of Almonedas. Likewise, the Bank performed four public auctions in which the total assets seized through legal actions were included and where approximately 49% of the total value of such assets were sold (42% as of December 31, 2001).

Until 2001, the Bank carried out an annual provision of 3% over the value of the adjudicated seizure value of such assets. In 2002, the Bank has used part of the provision to cover eventual losses derived from credit support to multi-purpose banks (Note 3-a) to cover the total seized assets received in prior years.

i) Notes and coins -

Corresponds to notes and coins of legal tender emitted by the Bank which are held by the public. Notes and coins in the Bank's safe are recorded in off-balance sheet accounts at their nominal value.

j) Provision to cover eventual losses derived from credit support to the multi-purpose banking sector.

The provision to cover eventual losses arising from credit support to the multi-purpose banking sector corresponds to a provision approved by the Board of Directors in order to cover potential losses arising from transactions carried out with the multi-purpose banking sector. (Notes 3-a and 17-d). During the course of 2002, the Bank undid part of the provision to cover other eventual losses.

k) Provision for employees' severance indemnities -

The provision for employees' severance indemnities comprises all employees' rights to indemnities and is accounted when such indemnities fall due. The payments made, which are considered as definitive, are deposited in financial institutions selected by the employees.

l) Employee benefits -

- Subsidy of retirement supplementary pension

As from year 2002, the Bank modified its accounting policies regarding the treatment of the subvention of supplementary pensions of its pensioners to make it concurrent with IAS 19-Employee benefits under the Plan of defined benefits. In prior years, the Bank recognized in the results of the period the annual disbursements transferred to the Fund for Illness, Insurance and Pensions of employees of Banco Central de Reserva del Peru (Fondo para Enfermedades, Seguros y Pensiones de Empleados del Banco Central de Reserva del Perú, hereinafter the Fund) as established in article 53 of its By-laws. The effect of this change in accounting policy has been recorded in the results for the year without desegregating the effect on prior years and has resulted in a decrease in results of approximately S/.119.3 million and an actuarial obligation had to be recognized for the same amount (Notes 3-b and 17-c).

For a Plan of defined benefits, expenses related to supplementary pensions are recorded under the method of benefits per year of services, under which the cost of providing supplementary pensions are recorded to results for the period in order to distribute the cost over the worker's years of services. The value of the supplementary pension as determined by an actuary on a periodic basis, is measured at the present value of all future payments of pensions by using an average discount rate determined on the basis of the return of related assets. In determining the discount rate, the Bank has used the median of the rate of return of the last five years on international reserves. In determining this obligation, the Bank has used parameters established in the Fund' regulations.

- Other benefits supplementary to pensioners

Additionally, the Bank recognizes to results for the period annual disbursements transferred to the Fund for subsidy for medical care of workers and retirees, as well as to their spouses, children and parents (Note 3-b). Such an amount is approved by the Bank's board of directors in January every year, on the basis of the budget and programs presented by the Fund's Administrative Council and prior evaluation of actions carried-out and results obtained in the prior year.

The Fund is an association of social assistance established under Decree-Law No.7137 and is intended to provide assistance to the Bank's employees and pensioners, as well as their spouses, children and parents, as established in its by-laws. Such assistance is in addition to Social Security benefits and other social benefits granted by Law (National Social Security-EsSalud, Spanish acronym; National System of Pensions-Decree Law No.19990 and The Private System of Pensions).

To the date of the financial statements, the Bank has not carried-out any provision to cover these eventual circumstances (Note 3-b).

m) Interest and commissions -

Revenues and expenses for interest are recognized in the results of the period when accrued and commissions when received or paid.

When in the opinion of management there are reasonable doubts regarding collection of the principal of any financial instrument, interests are recognized as earned to the extent they are collected.

n) Unaccrued printing of notes and operating expenses -

During the course of 2002, the Bank modified its accounting policy regarding operating expenses and the printing of notes. In previous years the Bank recognized in the results for the period unaccrued printing notes and operating expenses related to services rendered by third parties, previously approved by the Board of Directors in the annual budget following the criteria established by the Special Committee of Budget (Note 3-d). As from 2002, operating expenses and the expenses of printing notes are recognized in the results of the period when accrued. The effect of this change in the accounting policy resulted in an increase of results for the period of approximately S/.19.5 million.

o) Financial Statements as of December 31, 2001 -

The financial statements adjusted as of December 31, 2001 have been restated at the current value as of December 31, 2002, applying the coefficient of 1.017 corresponding to the last year and include the reclassification related to a part of the provision to cover eventual losses derived from credit support to multi-purpose banks (Note 3-a).

p) New accounting pronouncements -

IAS 39 - Financial instruments: recognition and measurement, made official by the National Council of Accountancy will be mandatory as from 2003. This standard establishes the requirements for the disclosure and valuation of financial instruments including derivatives and hedge accounting. IAS 39 classifies financial instruments as trading, generated by the company, held-to-maturity and available-for-sale instruments.

IAS 39 establishes specific criteria for the valuation of financial instruments shown in the balance sheet, the fluctuation of which will be recognized in the results of operations or net equity depending on the classification the company gave them. Substantially, financial instruments should be recognized in the financial statements at fair value. The management considers that the adoption of these standards did not have a material effect on the financial position and results of the operations of the Bank.

### **3 DIFERENCES WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN PERU**

In Peru the applicable accounting practices of the Bank as described in Note 2 differ in certain aspects from the accounting principles generally accepted in Peru which comprise mainly International Accounting Standard (IAS) made official by the National Council of Accountancy.

Major differences between the generally accepted accounting principles in Peru and accounting practices used by the Bank are detailed as follows:

- a) In the meeting of the Board of Directors dated December 3, 1998, session No.3760, the Bank decided to make a generic provision to cover eventual losses arising from credit support to the multi-purpose banking sector of S/.150 million (Note 2-j). Subsequently, in 2002 the Bank destined this provision to cover principally accounts receivable from banks being liquidated and the 'Insurance of Credit for Exports (SECREX, Spanish acronym) for approximately S/.79.2 million and to increase the provision for seized assets by approximately S/.6.9 million (Note 2-h). The net balance of S/.63.9 million corresponds to a generic provision which under generally accepted accounting principles should be deducted from retained earnings, reducing the recorded generic liabilities (Note 17-d).

- b) Through the Fund, the Bank assume the medical attention of their employees' pensioners and their relatives (Note 2-1). As of December 31, 2002 and 2001 the Bank charged to results for the period, annual disbursements made amounting to S/.10.3 million and S/.10.5 million, respectively. As of December 31, 2002, and 2001 the Bank has not estimated nor has it recorded the actuarial liabilities in its financial statements (Note 21-a). Until December 31, 2001 the Bank, through the Fund, assumed the subvention of supplementary pensions of its pensioners', which was recorded to results for the period and amounted to S/.10.4 million in 2001. To that date, actuarial liabilities relating to the supplementary subvention had not been determined nor had it been recorded in the financial statements. As of December 31 2002, such actuarial liability has been provided (Notes 2-1 and 17-c).
- c) As of December 31, 2002 and 2001, the Bank's maintains as liabilities the re-adjustments in the valuation of prices and exchange rates in local currency of the Bank's assets and obligations in gold, silver and foreign currency, SDRs or any other international currency as well as the result of the sale of such foreign currencies and precious metals for an amount of S/.2,165.4 million and S/.1,487.9 million, respectively (Note 2-f). As from 2002, results from sale of foreign currencies is recorded in the results for the year; in prior years such results was recorded as a liability in the account Re-adjustment in valuation Organic Law, Article 89 in the balance sheet. In accordance with generally accepted accounting principles the results of the valuations as well as related sales should be included in the Bank's results in the years when they were generated.
- d) As of December 31, 2001, the Bank has recorded in results of the year, unaccrued printing notes and operating expenses, as approved by the Board of Directors in the annual budget and following the criteria established by Management and Special Committee for the Budget amounting to S/.44.6 million (Notes 2-n and 23) and S/.5.1 million, respectively, which are shown pending payment in accounts payable in item Other liabilities in the balance sheet. As from 2002, the Bank records such expenses when accrued; however, as of December 31, 2002 the caption Other liabilities comprises a balance of S/.33.8 million of unaccrued expenses registered in 2001.

#### **4 BALANCES IN FOREIGN CURRENCY**

Balances in U.S. dollars as of December 31, 2002 and 2001 have been expressed in new Peruvian soles at the purchase exchange rate established by the SBS of S/.3.513 and S/.3.441 per US\$1, respectively. Balances in other currencies have been expressed in U.S. dollars at the exchange rate at the closing of the New York market as mentioned in section b) of this note.



a) Balances in foreign currency and in metals as of December 31 are summarized as follows:

	<u>2002</u>		<u>2001</u>	
	<u>Origin currency</u>	<u>Amount US\$000</u>	<u>Origin currency</u>	<u>Amount US\$000</u>
Assets:				
U.S dollars	9,300,728,045	9,300,728	8,539,939,982	8,539,940
Gold in ounces	1,114,846	386,703	1,114,846	261,638
Special drawing rights (SDR's)	127,660,632	172,927	155,425,523	195,328
Euros	139,485,483	146,223	180,255,883	159,635
Yens	8,273,409,218	69,786	10,597,113,832	80,813
Pounds sterling	23,453,733	37,803	33,206,304	48,222
Canadian dollars	55,265,674	34,996	52,839,344	33,190
Pesos andinos	20,000,000	20,000	20,000,000	20,000
Silver in ounces	971,173	4,632	971,148	3,951
		<u>10,173,798</u>		<u>9,342,717</u>
Liabilities:				
U.S. dollars	6,571,415,536	6,571,416	6,015,357,709	6,015,358
Gold in ounces	10	3	22	5
Special drawing rights (SDR's)	174,998,142	237,049	309,603,251	389,088
Euros	32,591	34	32,143	28
Pounds sterling	1,200	2	1,012	1
Pesos andinos	20,000,000	20,000	20,000,000	20,000
Silver in ounces	18,350	88	20,075	82
		<u>6,828,592</u>		<u>6,424,562</u>
Net assets		<u>3,345,206</u>		<u>2,918,155</u>
Net assets, in thousands of new Peruvian soles		<u>11,751,709</u>		<u>10,212,075</u>

b) Quotation of foreign currency and metals in U.S dollars as of December 31, are summarized as follows:

	<u>2002</u>	<u>2001</u>
	<u>US\$</u>	<u>US\$</u>
Gold in ounces (Note 2-d)	346.866700	234.685000
SDRs	1.354580	1.256730
U.S. dollars	1.000000	1.000000
Pounds sterling	1.611800	1.452200
Yens	0.008435	0.007626
Canadian dollars	0.633232	0.628141
Pesos andinos	1.000000	1.000000
Euros	1.048300	0.885600
Silver in ounces (Note 2-d)	4.770000	4.068000

**5 DEPOSITS IN FOREIGN BANKS**

As of December 31 this account comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Time deposits	10,986,217	18,069,493
Call deposits	12,372	12,296
On-demand deposits	<u>68</u>	<u>75</u>
	<u>10,998,657</u>	<u>18,081,864</u>

Deposits in foreign banks are deposited in first class banks and bear interest at rates of the international market.

**6 SECURITIES IN INTERNATIONAL INSTITUTIONS**

As of December 31 this account comprises:

	<u>2002</u>		<u>2001</u>	
	<u>Carrying amount</u> S/.000	<u>Estimated market value</u> S/.000	<u>Carrying amount</u> S/.000	<u>Estimated market value</u> S/.000
Notes of US Agencies	7,430,069	7,580,551	3,554,887	3,650,939
Medium-term Instruments	4,603,869	4,665,695	4,752,560	4,812,784
Sovereign bonds	3,500,276	3,559,955	1,425,708	1,459,537
Commercial papers	2,308,179	2,340,195	-	-
Certificates of deposits	825,561	825,555	986,942	986,858
Treasury Notes - USA	904,359	912,422	35,097	35,782
FIXBIS at discount	<u>757,854</u>	<u>760,734</u>	<u>-</u>	<u>-</u>
	<u>20,330,167</u>	<u>20,645,107</u>	<u>10,755,194</u>	<u>10,945,900</u>

The securities in international institutions correspond to first class financial instruments and of low risk, which bear interest at rates of the international market.

Commercial papers correspond to debt securities with maturity of up to a year issued by sovereign governments, authorized public institutions or supra-national or multinational institutions with a minimum rating required by the Bank.

**7 GOLD**

As of December 31, 2002 and 2001, this item is represented by 1,114,846 troy ounces and includes commemorative coins deposited in the Bank' safe and bars of "good delivery" deposited in first class foreign banks; the latter bear interest in accordance with international market conditions.

## 8 CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

The Bank makes contributions to the following International organizations:

a) Latin American Reserve Fund (FLAR, Spanish acronym) -

As of December 31, 2002 the contribution to FLAR amounts to US\$303.8 million equivalent to S/.1,067.2 million (US\$289.1 million equivalent to S/.1,011.8 million as of December 31, 2001). This contribution allows Peru access to financing facilities of FLAR.

b) International Monetary Fund (IMF)-

As of December 31 this item comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Contributions to IMF for the equivalent in local currency of SDR 638,400,000	2,779,144	2,947,866
Revaluations to liquidate - IMF contribution in local currency	<u>269,858</u>	<u>( 137,783)</u>
	<u>3,049,002</u>	<u>2,810,083</u>

The contribution to IMF grants Peru access to IMF's financing activities.

Revaluations to liquidate - contribution in local currency IMF corresponds to the revaluation (provision) for maintenance of the value resulting from the difference from the variation of the exchange rates of SDR compared with the United States dollar and the United States dollar compared with the new Peruvian sol between April 30 and December 31 of each year. These revaluations are cancelled at the end of each financial year of IMF which is April 30.

## 9 DOMESTIC CREDIT

As of December 31 this account comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
D.S. 066-94-EF BCRP Capitalization Bonds	327,043	367,766
Reporting transactions with CDBCRP and Treasury Bonds	170,000	-
Treasury Bonds - D.S. 114-98-EF	23,432	35,012
Others	<u>9</u>	<u>9</u>
	<u>520,484</u>	<u>402,787</u>

In accordance with Supreme Decree No.66-94-EF, dated May 31, 1994, the Ministry of Economy and Finance (Spanish acronym MEF) issued BCRP Capitalization Bonds series "A" (interest-bearing bonds) and series "B" (non-interest bearing) for S/.613.8 million (historic value). Such bonds were used to settle debts maintained by the Treasury with the Bank, transfer its debts with the state development bank in liquidation and offset accumulated losses that the Bank maintained as of December 31, 1994 and allow the Bank to reach the capital indicated in the Article 5 of its by-laws. Likewise, under the decree stated above such bonds are being cancelled with the transfer of profits generated by the Bank in the percentages stated in the respective legal regulations established by MEF (Note 19-c).

As stated in Note 1, the Bank, in accordance with Article 2 of the Organic Law, is intended to regulate the amount of money in the financial system and preserve monetary stability in Peru. Accordingly, the Bank has the following instruments of monetary policy: Credits for Monetary Regulation, Purchase with re-purchase agreements of Certificates of Deposit (CDBCRP) and Treasury Bonds, Certificates of deposit (Note 15), among others.

## 10 PROPERTY, FURNITURE AND EQUIPMENT, NET VALUE

The movement of the account property furniture and equipment and the related accumulated depreciation for the year ended December 31, 2002 has been the following:

	<u>Initial balances</u> S/.000	<u>Additions to cost/ results</u> S/.000	<u>Retirements and/or sales</u> S/.000	<u>Transfers</u> S/.000	<u>Adjust- ments</u> S/.000	<u>Final balances</u> S/.000
Cost -						
Land	12,439	-	-	-	10,934	23,373
Buildings	144,176	479	-	-	-	144,655
Furniture and office equipment	4,921	1	( 275)	-	-	4,647
Transport units	3,173	117	( 485)	260	-	3,065
Other equipment	33,387	296	( 2,276)	2,916	-	34,323
In-transit units	<u>9,603</u>	<u>27</u>	<u>( 6,300)</u>	<u>( 3,176)</u>	<u>( 33)</u>	<u>121</u>
	<u>207,699</u>	<u>920</u>	<u>( 9,336)</u>	<u>-</u>	<u>10,901</u>	<u>210,184</u>
Accumulated depreciation -						
Buildings	37,314	5,710	-	-	-	43,024
Furniture and office equipment	1,448	479	( 98)	-	-	1,829
Transport units	1,906	628	( 356)	-	-	2,178
Other equipment	<u>14,513</u>	<u>5,061</u>	<u>( 1,816)</u>	<u>-</u>	<u>-</u>	<u>17,758</u>
	<u>55,181</u>	<u>11,878</u>	<u>( 2,270)</u>	<u>-</u>	<u>-</u>	<u>64,789</u>
Net cost	<u>152,518</u>					<u>145,395</u>

**11 OTHER ASSETS**

As of December 31 this account comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Contribution to international organizations (Note 17-a)	579,528	628,615
Interest and commissions receivable, net	258,564	220,026
Fund in foreign currency - Brady Plan (Note 12-c)	524,028	679,362
Art collections	81,962	81,904
Revaluations to liquidate – Brady Plan Fund	50,884	( 31,754)
Silver	16,240	13,797
Almacén Casa Nacional de la Moneda	15,399	21,193
Accounts receivable from personnel	8,940	13,529
Intangible assets	5,747	5,548
Other	<u>21,516</u>	<u>9,150</u>
	<u>1,562,808</u>	<u>1,641,370</u>

The contribution signed with international organizations corresponds to the unpaid contribution of US\$165.0 million (US\$179.6 million in 2001) to FLAR, which will be cancelled with future distributions of profits of its organization (Note 17-a).

Fund in foreign currency - Brady Plan corresponds to SDR 120.4 million (SDR 147.1 million in 2001) that the Bank received and was deposited in Banco de la Nacion (National Bank of Peru). The amount of the Fund in foreign currency-Brady Plan will decrease as the Bank receives from MEF the respective transfers to make the corresponding re-purchase transactions as stated in the respective agreement. During 2002, the Bank received transfers of funds in U.S. dollars from MEF equivalent to SDR 26.7 million intended to reduce financing of IMF (Note 12-c).

Art collections correspond to works of art acquired by the Bank and maintained for display.

Almacen Casa Nacional de la Moneda comprises the supplies acquired by the Bank for the manufacture of coins.

**12 DUE TO INTERNATIONAL MONETARY FUND**

The Bank has the following liabilities with IMF:

a) Due (extended facility) -

As of December 31, 2002 due to IMF amounts to S/.255.8 million corresponding to SDR 53.6 million (S/.707.2 million corresponding to SDR 160.7 million as of December 31, 2001); these obligations are subject to effective annual interest rates ranging from 2.53% to 3.09% (2.73% and 5.51% in year 2001) and may be repayable until 2003. During 2002, the Bank has disbursed SDR 107.1 million to IMF, following the agreed-upon payment schedule.

b) Exchange value of contributions in local currency to IMF -

As of December 31, 2002 the exchange value of the contribution in local currency to IMF amounts to S/.3,049 million (S/.2,810.1 million as of December 31, 2001) corresponding to SDR 638.4 million; this obligation is not subject to interest and does not have an agreed-on maturity rate (Note 8-b).

c) Other foreign liabilities -

As of December 31 this account comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Note IMF-MEF Brady Plan (Note 11)	524,028	679,362
Revaluations to liquidate – Promissory note Brady Plan	50,884	( 31,754)
Allocation SDRs	397,539	421,674
Revaluations to liquidate - Allocation of SDR	38,601	( 19,708)
Assignment Pesos Andinos FLAR	70,260	69,990
Other	<u>469</u>	<u>415</u>
	<u>1,081,781</u>	<u>1,119,979</u>

The promissory note IMF-MEF Brady Plan corresponds to the obligation of SDR 120.4 million (SDR 147.1 million in 2001) due to IMF that was given to MEF (Note 11).

Allocation SDRs corresponds to an extended facility of SDR 91.3 million assigned by IMF that bears charges or interest under the conditions established in the agreement with IMF.

Revaluations to liquidate - promissory notes Brady Plan and allocation of SDRs correspond to the revaluation (provision) for maintenance of the value resulting from the difference from the variation of exchange rates of SDR with respect to the United States dollar and the United States dollar to the new Peruvian sol between April 30, and December 31 of each year. The revaluations are cancelled at the end of the financial year of IMF which is April 30.

**13 MONETARY BASE**

As of December 31 this account comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Notes and coins issued	6,620,065	6,095,219
Deposits in local currency of banks	96,395	78,575
Deposits in local currency of financial institutions	23,622	8,018
Other deposits and obligations in local currency	<u>18,921</u>	<u>8,993</u>
	<u>6,759,003</u>	<u>6,190,805</u>

Deposits of banks and companies of the financial system comprise principally the minimum legal reserve of 6% to which these institutions are subject for their obligations in local currency and that should be deposited in the Bank. This minimum legal reserve does not bear interest.

The balances of notes and coins issued are as follows:

<u>Nominal value</u>	<u>2002</u>		<u>2001</u>	
	<u>Units</u>	<u>Amount</u> S/.000	<u>Units</u>	<u>Amount</u> S/.000
<b>Notes:</b>				
10	43,702,210	437,022	40,669,230	413,606
20	28,793,990	575,880	26,753,529	544,167
50	26,818,430	1,340,921	26,920,542	1,368,909
100	34,204,809	3,420,481	28,624,268	2,911,088
200	1,357,214	<u>271,443</u>	1,388,772	<u>282,476</u>
		<u>6,045,747</u>		<u>5,520,246</u>
<b>Coins:</b>				
0,01	32,570,830	326	31,692,538	322
0,05	167,759,623	8,388	166,995,059	8,492
0,10	375,811,373	37,581	328,449,074	33,403
0,20	112,791,453	22,558	106,525,866	21,667
0,50	124,799,166	62,400	113,744,298	57,839
1,00	137,912,151	137,912	161,928,637	164,682
2,00	40,509,005	81,018	35,074,173	71,341
5,00	44,431,653	<u>222,158</u>	42,320,324	<u>215,199</u>
		<u>572,341</u>		<u>572,945</u>
Commemorative coins	Various	<u>1,977</u>	Various	<u>2,028</u>
		<u>6,620,065</u>		<u>6,095,219</u>

**14 OTHER DEPOSITS IN LOCAL CURRENCY**

As of December 31 this account comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Public sector	274,187	197,346
Banks	65,069	39,927
Private sector	9,678	13,918
Banco de la Nacion	<u>1,142</u>	<u>416</u>
	<u>350,076</u>	<u>251,607</u>

As of December 31, 2002 and 2001, the effective annual interest rates used by the Bank for deposits of the Public Sector were 4.03% and 11.70%, respectively. For bank deposits (“overnight”) the rates were 3.00% and 2.00%, respectively; and for deposits of Banco de la Nacion the interest rates were 3.56% and 3.00%, respectively.

**15 SECURITIES ISSUED**

As of December 31 this account comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Banks	1,478,451	1,328,914
Financial institutions	13,800	101,903
Other entities	<u>451,807</u>	<u>440,758</u>
	1,944,058	1,871,575
Discounts on sale CDBCRP and CDRBCRP	<u>( 35,784)</u>	<u>( 49,126)</u>
	<u>1,908,274</u>	<u>1,822,449</u>

The securities issued principally comprise certificates of deposit in local currency obtained through the mechanism of auction or direct placement in order to reduce surplus liquidity in the financial system with maturities of less than one year. Such certificates bear an implicit annual interest rate ranging from 2.49% to 7.24% (between 2.7% and 16.2% in 2001).

**16 DEPOSITS IN FOREIGN CURRENCY**

As of December 31 this account comprises:



	<u>2002</u> S/.000	<u>2001</u> S/.000
Banks	10,706,774	10,306,582
Public Sector	10,186,779	8,874,085
Banco de la Nacion	1,021,014	761,551
Other institutions of the financial system	133,392	112,525
Financial institutions	2,716	3,285
Private sector	<u>12,324</u>	<u>105</u>
	<u>22,062,999</u>	<u>20,058,133</u>

Deposits in banks and local financial institutions are part of the funds destined to cover the legal reserve that the Bank requires for the total obligations in foreign currency subject to legal reserve. The required legal reserve may be covered in addition with cash in foreign currency deposited in local companies of the financial system. This required legal reserve is broken down from a minimum legal reserve of 6% of the obligations subject to legal reserve and an additional reserve fluctuating between 26% and 27.1% in 2002 (between 26.8% and 27.8% in 2001). The funds covering the minimum legal reserve do not earn interest. The deposits in the Bank covering the additional reserve in foreign currency bear interest at a rate equivalent to the LIBOR rate at three months less 1/8 of one percent.

The Bank has signed agreements with “Dirección General del Tesoro Público” of MEF and “Fondo Consolidado de Reserva Previsional” (FCR) which conditions were set forth for the Bank to receive deposits from these organizations. As of December 31, 2002, the Treasury’s resources and those of FCR’s deposited in the Bank amount to US\$2,854.1 million, equivalent to S/.10,026.6 million (US\$2,501.8 million, equivalent to S/.8,754.9 million, as of December 31, 2001).

## 17 OTHER LIABILITIES

As of December 31 this account comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Contribution subscribed pending payment to international organizations	579,528	628,615
Interest and commissions payable	161,055	162,771
Actuarial obligation	119,300	-
Provisions	77,637	79,518
Accounts payable	35,899	64,184
Various	<u>170,653</u>	<u>86,546</u>
	<u>1,144,072</u>	<u>1,021,634</u>

a) Contribution subscribed pending payment to international organizations -

Under the Agreement No. 93 dated March 22, 2000, modified by agreement No. 102 of April 10, 2001 of the Representative Meeting of FLAR, member countries of FLAR agreed to increase the capital stock in US\$2,000 million through the capitalization of profits up to 2010, the Bank is responsible for contributing US\$468.8 million (Note 11). At December 31, 2002, the balance of the contribution pending amounts to US\$165.0 million (US\$179.6 million in 2001).

b) Interest and commissions payable -

Interest and commissions payable comprise principally US\$30 million (equivalent to S/.105.4 million) corresponding to interest generated by deposits made by MEF in 1994. Payment of this interest is subject to the enactment of a Supreme Decree. The provision for such interest was made as established in accordance with the agreement in the meeting of the Board of Directors in December 1996.

c) Actuarial obligation -

In a meeting of the Board of Directors held on November 21 and December 12, 2002, the recording of the actuarial obligation was approved for the subvention for the Bank's pensioners' supplementary pension (Note 2-l). Such amount was determined by an independent actuary as of December 31, 2002 who took into consideration the following:

- Use of the following life tables of Chile: RV-85-H and RV-85-M, with respect to the holder, male or female, respectively.
- Application of the 5% annual discount rate.
- Calculations based on past due annualities with immediate installment payments on a monthly basis.
- Age of retirees established on the basis of full years.

d) Provisions -

Provisions include principally a generic provision of S/.63.9 million made in 1998 to cover eventual losses arising from support to the multi-purpose banking sector. This provision was made in accordance with the agreement reached in the meeting of the Board of Directors of December 3, 1998 (Note 3-a).

**18 RE-ADJUSTMENT IN VALUATION, ORGANIC LAW ARTICLE 89**

This item results from differences arising as a result of re-adjustments in the valuation in local currency of assets and obligations of the Bank in gold, silver, foreign currency, SDRs or any other international currencies and are credited to this account without considering them as profit or losses (Note 2-f).

	<u>2002</u> <u>S/.000</u>	<u>2001</u> <u>S/.000</u>
Beginning balance	1,487,888	1,688,975
Valuation of U.S. dollars	179,632	( 178,960)
Valuation of contribution and obligations IMF	( 78,304)	72,654
Valuation of other foreign currencies	167,400	( 120,851)
Valuation of metals (gold and silver)	464,954	( 7,620)
Transfer to results for the period	( 24,786)	-
Result for exposure to inflation	<u>( 31,415)</u>	<u>33,690</u>
Final balance	<u>2,165,369</u>	<u>1,487,888</u>

## 19 NET EQUITY

### a) Capital -

At December 31, 2002, the Bank's authorized, subscribed and paid-up capital under Article 5 of its Organic Law and Decree Supreme No.059-2000-EF amounts to S/.168.6 million (S/.100 million at historic values). This capital is not represented with shares, its value being stated only in the account Capital in the balance sheet. Likewise, as established by Supreme Decree, countersigned by MEF, the Bank's capital may be re-adjusted.

### b) Reserves -

Under articles 6 and 92 section b) of its Organic Law, the Bank should make a reserve through the annual transfer of 75% of its net profits to reach an amount equivalent to 100% of its capital. This reserve may be capitalized. In the event of losses the reserve should be used to offset such losses. If this is insufficient the Treasury should issue and provide the Bank with titles of negotiable debt for the amount not covered within 30 days after the balance sheet is approved. Such titles will bear interest.

### c) Retained earnings -

Under Article 92 of its Organic Law, the Bank should distribute annually 25% of its net profits to the Treasury and 75% to constitute the reserve referred to in subsection b) of this Note. Annual distribution of net profit is determined on the basis of historical balances, as established in Communication No.001-96-EF/93.1 of "Contaduría Pública de la Nación".

The Bank decided in meeting of the Board of Directors dated June 6, 2002 to distribute the net profit of year 2001 amounting to S/.141.3 million (S/.138.3 million at historic values) as follows:

- S/.35.2 million (S/.34.6 million at historic values) to the Treasury. This amount was applied by the Bank to partly amortize the account receivable from the Treasury, related to BCRP Capitalization Bonds Series "B" (Note 9).
- S/.51.5 million (S/.50.0 million at historic values) to increase the reserve.

The balance of S/.54.6 million (S/.53.7 million at historic values) is recorded to Retained earnings and is pending distribution.

Likewise, in 2001 the Bank decided in meeting of the Board of Directors dated May 31, 2001 to distribute 2000 net profit amounting to S/.66.5 million (S/.66.7 million at historic values)

- S/.16.6 million (S/.16.7 million at historic values) to the Treasury. This amount was applied by the Bank to partly amortize the account receivable from the Treasury, related to BCRP Capitalization Bonds Series "B" (Note 9).
- S/.49.9 million (S/.50.0 million at historic values) to increase reserve.

## **20 TAX SITUATION**

In accordance with the Income Tax Law entities of the public sector are not subject to income tax. The Bank is only subject to the extraordinary solidarity tax, fourth and fifth-category (independent and dependent worker) income tax and social contributions.

The tax authorities are entitled to revise and, if necessary, amend the income tax calculated by the Bank during the last four years, as from the date the related tax returns are filed (years open to examination). 1998 through 2002, inclusive are open to examination. Since discrepancies may arise over the proper interpretation of a point of tax law applicable to the Bank, it is not possible to anticipate at this date whether additional tax liabilities will arise as a result of eventual examinations. Any additional tax, fines and interest, if arising, will be recognized in the results of the period when the disagreement with tax authorities is resolved. Management and legal counsel consider that no significant liabilities will arise as a result of any possible tax examinations.

## **21 COMMITMENTS AND CONTINGENCIES**

### a) Commitments -

The Bank makes annual transfers to the Fund for medical care (Notes 2-1 and 3-b). As of December 31, 2002 and 2001, the Bank has not estimated nor has it recorded the actuarial liability in the financial statements.

### b) Contingencies -

As of December 31, 2002 and 2001, the Bank has certain lawsuits filed against them in the normal course of activities. The Bank's management and its legal counsel consider that no significant liabilities will arise as a result of the resolution of such lawsuits.

## **22 OFF-BALANCE SHEET ACCOUNTS**

As of December 31 these accounts comprise:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Notes and coins in stock	7,927,864	10,923,837
Securities deposited in guarantee	15,857	10,677
Securities held in custody	3,495,682	4,173,154
Notes and coins retired from circulation to be destroyed	123,695	133,304
Fund for illness, insurance, and pensions of employees	68,620	80,536
Banks being liquidated	55,374	53,916
Money in process of production by Casa Nacional de Moneda	729	84,665
Other	<u>1,301,110</u>	<u>837,337</u>
	<u>12,988,931</u>	<u>16,297,426</u>

The off-balance sheet accounts include different transactions recorded only for control purposes. The securities in custody include mainly notes given to guarantee operations with the IMF.

As of December 31 the item notes and coins in stock comprises:

	<u>2002</u> S/.000	<u>2001</u> S/.000
New	5,616,333	7,106,746
Available	1,051,615	1,284,242
To be classified	183,621	1,790,805
To be incinerated and/or smelted	521,704	739,978
In transit	<u>554,591</u>	<u>2,066</u>
	<u>7,927,864</u>	<u>10,923,837</u>

The movement of the notes and coins in stock for the year ended December 31 has been as follows:

	<u>2001</u> S/.000	<u>2000</u> S/.000
Beginning balance	10,923,837	11,975,020
Acquisition of notes and coins	2,009,687	1,118,641
Destruction of notes and coins	( 4,216,005)	( 1,998,073)
Outgoing from circulation, net	( 632,374)	( 417,358)
Result for exposure to inflation	<u>( 157,281)</u>	<u>245,607</u>
Final balance	<u>7,927,864</u>	<u>10,923,837</u>

The item other corresponds principally to accounts recording Brady Plan collateral guarantees, agreements with central banks, among others. As of December 31, 2001 it also includes notes with CAF-BCRP-COFIDE.

### 23 EXPENSES FOR TRANSPORT AND COST OF NOTES AND COINS

As of December 31, this caption mainly comprises accrued expenses for the acquisition of notes in a foreign country (cost of notes, supervision expenses and value added tax) and the transportation of the currency to the Bank's branches.

During 2001, notes of S/.10, S/.20, S/.50 and S/.100 were purchased from Francois Charles Oberthur Fiduciare, De la Rue International Limited and JOH Enschedé BV, for a total cost of US\$12.3 million, equivalent to S/.44.6 million, amount that was accrued at the close of such year.

### 24 RESULT FOR EXPOSURE TO INFLATION

The net monetary position as of December 31 is as follows:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Monetary assets	39,105,057	37,848,391
Monetary liabilities	( 38,846,000)	( 37,700,058)
Monetary assets, net	<u>259,057</u>	<u>148,333</u>

The monetary position in 2002 presented on exposure to inflation (a coverage for deflation in 2001), for monetary assets exceeding liabilities of the same nature which gave rise a loss of S/.2.4 million (gain of S/.3.3 thousand in 2001).

### 25 ANALISYS OF MATURITIES

The Bank's assets and liabilities analyzed during the period from the date of the balance sheet until contractual maturity are as follows:

	<u>Up to six months</u> S/.000	<u>From six months to a year</u> S/.000	<u>From one year to five years</u> S/.000	<u>Over five years</u> S/.000	<u>Total</u> S/.000
<b>Assets:</b>					
Cash in foreign currency	176,311	-	-	-	176,311
Deposits in foreign banks	10,998,657	-	-	-	10,998,657
Securities in international institutions	4,044,127	8,793,120	7,492,920	-	20,330,167
Gold	1,358,488	-	-	-	1,358,488
Agreements with central banks	9,740	-	-	-	9,740
Other assets available	72,873	-	-	29,236	102,109
Other external assets	759	1,224	9,275	20,900	32,158
Domestic credit	351,228	-	169,247	9	520,484
Other assets	<u>338,830</u>	<u>164,360</u>	<u>760,284</u>	<u>299,334</u>	<u>1,562,808</u>
	<u>17,351,013</u>	<u>8,958,704</u>	<u>8,431,726</u>	<u>349,479</u>	<u>35,090,922</u>
Contributions to the Latin American Reserve Fund					1,067,191
Contribution in local currency to IMF					3,049,002
Property, furniture and equipment					<u>145,395</u>
					<u>39,352,510</u>
<b>Liabilities and net equity:</b>					
Due to IMF	255,789	-	-	-	255,789
Short-term obligations with international entities	69,635	-	-	-	69,635
Other deposits in local currency	350,076	-	-	-	350,076
Securities issued	1,320,674	587,293	307	-	1,908,274
Deposits in foreign currency	17,113,474	3,567,567	1,381,958	-	22,062,999
Other liabilities	<u>270,783</u>	<u>248,974</u>	<u>348,164</u>	<u>276,151</u>	<u>1,144,072</u>
	<u>19,380,431</u>	<u>4,403,834</u>	<u>1,730,429</u>	<u>276,151</u>	25,790,845
Obligations in local currency with IMF					3,049,002
Other external liabilities					1,081,781
Monetary base					6,759,003
Re-adjustment in valuation					
Organic Law Article 89					2,165,369
Net equity					<u>506,510</u>
					<u>39,352,510</u>

## 26 TRANSACTIONS NOT REPRESENTING CASH FLOWS

Transactions not representing cash flows in 2002 and 2001, which have not been incorporated in the statement of cash flows, are shown as follows:

	<u>2002</u> S/.000	<u>2001</u> S/.000
Amortization of accounts receivable with the Treasury (Note 19-c)	35,162	16,579
Property received from the Employees' Fund, net of accumulated depreciation	-	1,249

## 27 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The Bank's balance sheet is largely comprised of financial instruments. These instruments are subject to the usual risks in investments such as: interest rate risk, foreign exchange risk and credit risk. Such risks are adequately controlled by management by applying the mechanisms commonly used to face these kind of risks.

### Interest rate risk

This can be defined as the risk to which the Bank is exposed to for changes in the value of its financial assets and liabilities due to changes in interest rates.

The dimension of the risk is a function of:

- Underlying interest rate of financial assets and liabilities; and
- The structure of maturities of the Bank's portfolio of financial instruments.

Substantially all of the Bank's financial assets are interest-bearing. The Bank's financial liabilities include liabilities which are both non interest-bearing as well as interest-bearing.

The disclosures regarding these liabilities are found in Notes 12 through 18. The Bank's assets and liabilities bear interest established in accordance with market rates.

The structure of maturities of the Bank's financial assets and liabilities is disclosed in Note 25.

### Foreign exchange risk

This can be defined as the risk to which the Bank is exposed due to the fluctuation in the value of financial assets and liabilities arising from changes in exchange rates. The size of this risk is a function of:

- The mismatch in the Bank's foreign currency assets and liabilities; and
- The underlying exchange rate of outstanding foreign exchange transactions at year end.



### **Credit risk**

Credit risk is the risk that arises from a party of a financial instrument not honouring its obligations and causing the other party to incur in losses. The disclosures of credit risk enable the user of the financial statements to evaluate to what extent non-compliance by the counter-party to an obligation may reduce the amount of future cash inflows from the financial assets it has at the balance sheet date.

The dimension and credit concentration of the Bank's exposure to credit risk can be obtained directly from the balance sheet, which shows the size and composition of the Bank's financial assets. For the type of investment, the Bank has not entered into collateral agreements associated with its credit exposure.

### **Fair value -**

The information below discloses the fair value of financial instruments held by the Bank. The fair value comprises the quantity of which an asset could be exchanged between expert buyers and sellers or an obligation be paid between debtors and creditors with enough information, under the terms of a free market transaction. As the fair value of financial instruments represents the best estimate made by management, these estimates are made taking into consideration the current economic conditions and characteristics of market risks, which may change in the future.

The following methods and procedures were used by management to estimate the fair value of financial instruments:

- Available assets represent cash flows and short-term deposits which are not considered to be a significant credit risk; for this reason their book value approximates their fair value.
- The fair value of securities in foreign entities is based on market price quotations and/or market quotations of similar instruments.
- The fair value of gold and precious metals is based on the market quotations.
- Fair values of domestic credit with an original maturity term of one year and longer is assumed to be equal to the book value.
- The fair value of obligations, debts and deposits such as: due to international entities, deposits, securities issued and monetary base approximate their book value, due to the nature of these obligations which are contracted at variable and preferential interest rates.