Financial Statements

Caipo y Asociados
Torre KPMG, Av. Javier Prado Oeste 203
San Isidro. Lima 27, Perú.

Teléfono 51 (1) 611 3000
Fax 51 (1) 421 6943
Internet www.pe.kpmg.com

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Banco Central de Reserva del Perú

We have audited the accompanying financial statements of Banco Central de Reserva del Perú, which comprise the balance sheet as of December 31, 2007, and the related statements of income, changes in equity and cash flows for the year then ended, and the summary on significant accounting policies and other explanatory notes. The financial statements of Banco Central de Reserva del Perú as of December 31, 2006 were examined by other independent auditors, whose report dated February 26, 2007, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting principles and policies described in note 2 to the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Peru. 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 auditor's 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 Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as 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.

As explained in note 2, the financial statements of Banco Central de Reserva del Perú as of December 31, 2007 have been prepared in conformity with accounting principles generally accepted in Peru, and include the accounting practices contained in the Bank's Organic Law, which differ in certain aspects from the accounting principles generally accepted in Peru, as indicated in note 3 to the financial statements.

Opinion

In our opinion, the financial statements above indicated present fairly, in all material respects, the financial position of Banco Central de Reserva del Perú as of December 31, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles described in note 2 to the financial statements.

February 20, 2008

Countersigned by:
BALANCE SHEET

Wilfredo Rubiños V. (Partner)
Peruvian Public Accountant
Registration 9943

AS OF DECEMBER 31, 2007 AND 2006
(Stated in thousands of nuevos soles)

Assets	**2007**	**2006**
GROSS INTERNATIONAL RESERVES:		
Cash in foreign currency	30,202	32,183
Deposits in foreign banks (note 5)	28,655,081	21,951,682
Securities of international entities (note 6)	50,418,976	30,337,370
Gold (note 7)	2,778,635	2,254,659
Contributions to Latin American Reserve Fund (note 8 a)	1,042,795	1,057,903
Other available assets	96,312	78,701
	83,022,001	55,712,498
OTHER ASSETS ABROAD:		
Contributions in local currency to the International Monetary Fund (note 8 b)	3,011,008	3,066,931
Other assets abroad	78,388	85,600
	3,089,396	3,152,531
DOMESTIC CREDIT	9	9
PROPERTY, FURNITURE, AND EQUIPMENT, NET (note 9)	146,838	144,882
OTHER ASSETS (note 10)	488,436	631,204
TOTAL ASSETS	**86,746,680**	**59,641,124**
MEMORANDA ACCOUNT (note 22)	15,487,227	19,939,346

See the accompanying notes to the financial statements.

Liabilities and Equity	2007	2006
RESERVE LIABILITIES	94,161	177,560
OTHER LIABILITIES ABROAD		
Counterpart of the contribution in local currency to the International Monetary Fund (note 11 a)	3,011,008	3,066,931
Other liabilities abroad (note 11 b)	491,509	567,353
	3,502,517	3,634,284
STERILIZED STOCK:		
Securities issued (note 12)	20,758,605	7,857,615
Deposits in local currency (note 13)	17,255,456	10,412,460
	38,014,061	18,270,075
MONETARY BASE (note 14)	17,779,264	13,983,523
DEPOSITS IN FOREIGN CURRENCY (note 15)	24,087,483	19,990,219
OTHER LIABILITIES (note 16)	920,125	916,718
READJUSTMENT IN VALUATION, ORGANIC LAW, ART. 89 (note 17)	163,623	1,713,053
TOTAL LIABILITIES	84,561,234	58,685,432
EQUITY:		
Capital (note 18 a)	591,376	295,688
Reserves (note 18 b)	226,902	110,349
Fair value reserve (note 6)	643,219	-
Retained earnings (note 18 c)	723,949	549,655
TOTAL EQUITY	2,185,446	955,692
Contingencies (note 21)		
TOTAL LIABILITIES AND EQUITY	**86,746,680**	**59,641,124**
MEMORANDA ACCOUNT (note 22)	15,487,227	19,939,346

STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in thousands of nuevos soles)

	2007	**2006**
FINANCIAL INCOME:		
Interest on deposits in foreign banks (note 5)	1,286,177	925,689
Interest on securities of international institutions (note 6)	1,806,012	1,008,138
Dividends received from Latin American Reserve Fund	53,789	30,177
YIELD ON GROSS INTERNATIONAL RESERVES	3,145,978	1,964,004
Interest on domestic credit operations	4,080	72,877
Other financial income (note 17)	222,502	215,129
TOTAL FINANCIAL INCOME	3,372,560	2,252,010
NON-FINANCIAL INCOME	6,971	5,895
FINANCIAL EXPENSES:		
Interest on other liabilities abroad (note 11)	(17,744)	(16,204)
Interest on securities issued (note 12)	(745,576)	(303,197)
Interest on local currency deposits (note 13)	(704,973)	(356,603)
Interest on foreign currency deposits (note 15)	(889,114)	(790,231)
Other financial expenses	(44,567)	(6,649)
TOTAL FINANCIAL EXPENSES	(2,401,974)	(1,472,884)
OPERATING EXPENSES:		
Payroll and cost of social laws	(118,972)	(120,168)
Administrative expenses	(52,137)	(51,394)
Depreciation and amortization	(9,125)	(8,200)
Other expenses (note 19)	(24,649)	(28,622)
TOTAL OPERATING EXPENSES	(204,883)	(208,384)
MONETARY ISSUANCE EXPENSES AND COSTS:		
Expenses for transport and cost of printing notes and minting coins	(22,565)	(11,936)
Cost of materials for production of coins	(26,160)	(15,046)
TOTAL MONETARY ISSUANCE EXPENSES AND COSTS	(48,725)	(26,982)
NET INCOME	**723,949**	**549,655**

See the accompanying notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in thousands of nuevos soles)

	Capital (note 18 a)	Reserves (note 18 b)	Fair value reserve (note 6)	Retained earnings (note 18 c)	Equity
Balances as of January 1, 2006	245,979	49,709	-	147,132	442,820
Capitalization of reserves	49,709	(49,709)	-	-	-
Transfer of earnings to the Public Treasury	-	-	-	(26,015)	(26,015)
Withholding for Public Treasury debt	-	-	-	(10,768)	(10,768)
Allocation to reserves	-	110,349	-	(110,349)	-
Net income	-	-	-	549,655	549,655
Balances as of December 31, 2006	295,688	110,349	-	549,655	955,692
Net changes in fair value of available-for-sale investments	-	-	643,219	-	643,219
Capitalization of reserves	295,688	(295,688)	-	-	-
Transfer of earnings to the Public Treasury	-	-	-	(137,414)	(137,414)
Allocation to reserves	-	412,241	-	(412,241)	-
Net income	-	-	-	723,949	723,949
Balances as of December 31, 2007	**591,376**	**226,902**	**643,219**	**723,949**	**2,185,446**

See the accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Stated in thousands of nuevos soles)

	2007	2006
Operating activities:		
Net income	723,949	549,655
Adjustments to reconcile the net income to net cash and cash equivalents provided by operating activities:		
Depreciation of property, furniture and equipment	8,089	7,171
Other adjustments, net	178	464
Fair value reserve	643,219	-
Decrease (increase) in assets:		
Other assets abroad	63,135	(116)
Domestic credit	-	2,849,746
Other assets	142,768	562,206
Increase (decrease) in liabilities:		
Reserve liabilities	(83,399)	100,162
Other liabilities abroad	(131,767)	(205,587)
Securities issued	12,900,990	(752,854)
Deposits in local currency	6,842,996	5,590,823
Deposits in bank, financial and other institutions	447,340	56,793
Deposits in foreign currency	4,097,264	(2,979,150)
Other liabilities	3,407	(109,463)
Readjustment in valuation, Organic Law, art. 89	(1,549,430)	(536,078)
Cash and cash equivalents provided by operating activities	24,108,739	5,133,772
Investing activities:		
Sale of property, furniture and equipment	74	2,021
Additions of property, furniture and equipment	(10,297)	(5,524)
Transfers of earnings to Public Treasury	(137,414)	(26,015)
Withholding for Public Treasury debt	-	(10,768)
Net cash and cash equivalents used in investing activities	(147,637)	(40,286)
Net increase in cash and cash equivalents	23,961,102	5,093,486
Cash and cash equivalents at beginning of year	42,061,460	36,967,974
Cash and cash equivalents at end of year	**66,022,562**	**42,061,460**

See the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2007 AND 2006

1. IDENTIFICATION AND ECONOMIC ACTIVITY

Banco Central de Reserva del Perú (hereinafter the Bank) is an autonomous legal entity of public law created 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 Law approved by Decree-Law 26123 of December 24, 1992 (hereinafter Organic Law). The Organic Law establishes that the Bank's functions are to regulate the money supply, manage international reserves, issue notes and coins, and report on the finances of Peru.

The Bank has its legal address and headquarters in Lima, and has regional offices in seven cities in Peru. As of December 31, 2007 and 2006, the Bank headcount was 985 and 986, respectively.

The financial statements for the year ended December 31, 2007 have been authorized for issuance by the Bank's Management to be presented to and approved by the Board of Directors. The financial statements for the year ended December 31, 2006 were approved by the Board of Directors at the meeting held on March 1, 2007.

The Bank represents Peru for the purposes established in the Articles of the agreements of the International Monetary Fund (IMF) and the Fondo Latinoamericano de Reservas - FLAR (Latin American Reserve Fund) and is responsible for all official transactions, operations and relations with these institutions.

The Bank may also act as a Peruvian Government Agent in its relations with multilateral credit organizations and financial agencies of foreign governments.

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

- Grant financial assistance 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 in any moment, valued at their acquisition cost, five per cent (5%) of the balance of the monetary base at the closing of the previous year.

- Extend guarantees, letters of guarantee or any other guarantees, or use any form of indirect financing, or grant insurance of any type. It should be mentioned that the operations conducted by the Bank in implementing payment and reciprocal credit agreements are not subject to the above prohibition.

- Allocate resources for the creation of special funds aimed at granting credits or making investments to promote any non-financial economic activity.

- Issue securities, bonds or contribution certificates of mandatory acquisition.

- Establish sector or regional coefficients in the composition of the loan portfolio of financial institutions.

- Establish multiple exchange rates regimes.

- Purchase shares, except those issued by international financial organizations or those needed to be acquired to strengthen banks and financial companies; participate, directly or indirectly, in the capital of commercial, industrial or any other companies.

2. MAIN ACCOUNTING PRINCIPLES AND POLICIES

The main accounting principles and policies applied to record operations and to prepare the financial statements are the following:

(a) Basis for the Preparation of Financial Statements

The financial statements have been prepared and presented as established in Article 88 of the Bank's Organic Law, in accordance with generally accepted accounting principles (GAAP) as applicable to the Bank, and the related standards established by Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones - SBS (Peruvian Superintendency of Banking, Insurance and Private Pension Fund Administrators). The accounting principles generally accepted in Peru are the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which include the International Accounting Standards (IAS). The standards applied in Peru are those previously approved by the Consejo Normativo de Contabilidad -CNC (Peruvian Accounting Board). The standards currently in force and authorized by the CNC as of December 31, 2007, are IASs 1 to 41, IFRSs 1 to 6, and interpretations 1 to 33 of the International Financial Reporting Interpretations Committee (IFRIC).

For the preparation of its financial statements, the Bank includes some accounting practices contained in the Bank's Organic Law, as indicated in the following accounting notes. The SBS has not established specific standards for the Bank.

(b) Functional Currency and Foreign Currency Transactions

(i) Functional and presentation currency:
IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires that accounting measurements be made in functional currency, which is the currency of the primary economic environment in which the issuer of financial statements operates. The Bank's financial statements are presented in nuevos soles which is its functional and presentation currency.

(ii) Foreign currency transactions and balances:
Foreign currency transactions are those transactions carried out in a currency that is different from the functional currency. Foreign currency transactions are translated into functional currency using exchange rates ruling at the dates of the transactions. The Bank records the gain or loss on sale of foreign currency in the accounts of the statements of income.

Article 89 of the Bank's Organic Law establishes that differences which are recorded as a consequence of the readjustments 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, shall be credited in a special account, not considering them as gains or losses (see note 2 (p)).

(c) Significant Accounting Estimates and Criteria

The preparation of the financial statements requires Management to make certain estimates and assumptions to determine the balances of assets and liabilities and income and expenses to disclose contingent assets and liabilities as of the date of the financial statements, as well as significant facts included in the notes to the financial statements. Assets and liabilities are recognized in the financial statements when it is likely that future economic benefits will flow to or from the Bank and when the different items have a cost or value that can be measured reliably. Should these estimates and assumptions, based on the Management's best criteria as of the date of the financial statements, vary as a result of changes in the supporting premises and circumstances on which they were based, the balances of the financial statements would be corrected on the date in which such changes of estimates and assumptions occur, and the effect of the change would be included in the determination of net income or loss for said year, and of future years if it were the case. The most significant estimates related to the financial statements, the accounting criteria of which are described below, correspond to: provision for fluctuation in the value of available-for-sale investments, the provision for costs gold coins to gold bars, depreciation of property, furniture and equipment, provision for severance indemnities, amortization of intangibles, provision for foreclosed assets and actuarial provisions for supplementing retirement, widowhood, health care and burial benefits, and contingent liabilities and assets.

(d) Financial Instruments

A financial instrument is any contract that simultaneously gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. In the case of the Bank, financial instruments correspond to primary instruments included in: (i) gross international reserves, (ii) other assets abroad, (iii) domestic credit, (iv) other assets, and (v) liabilities in general, except for readjustment in valuation, Organic Law, Article 89.

Financial instruments are classified as financial assets, financial liabilities, or equity instruments according to the substance of the contract. Interest and other gains and losses generated by a financial instrument classified as asset or liability, are recorded as income or expense in the statement of income, except for gains or losses arising from the variation in fair value of securities held by international entities which are directly recognized in equity, and the exchange differences for valuation of balances which are recorded in the "Valuation Readjustment, Organic Law, Article 89" account. The financial instruments are compensated when the Bank has the legal right to compensate them, and Management has the intention of paying them on a net basis or negotiating the asset and paying the liability simultaneously.

According to the Bank Management's opinion, the balances in: (i) Gross international reserves, (ii) other assets abroad; (iii) domestic credit; (iv) other assets; and (v) liabilities in general, do not differ significantly from their fair value (see note 24). The recognition and valuation criteria of these items are disclosed herein in the corresponding notes.

(e) Securities of International Institutions

Until December 31, 2006, these securities were classified as held-to-maturity investments, which implied that premiums or discounts on the acquisition of these investments were amortized by applying the amortized cost method as from acquisition date to investment maturity date. As from 2007, securities of international institutions held by the Bank are classified as available-for-sale. These securities are recorded at acquisition cost and then are valued at market price. Higher or lower value of these investments resulting from comparing the book value to the market value is recorded in equity until sale or negotiation of investments. The accrued value is used for determining the fair value of commercial papers.

The Bank has not modified the financial statements as of December 31, 2006 due to the change in the classification of the securities of international institutions since this is a change in the classification of investments and not a change in the accounting policy.

The premium or discount on the acquisition is recorded on the date of sale or maturity in the results of the period.

When there is objective evidence of impairment of the accounting value, this loss will be recognized via the corresponding provision for impairment in the value of securities (charged to results of the period).

(f) Precious Metals

As established by Article 72 of the Bank's Organic Law, gold and silver holdings are recorded in the accounting books at the value established by the Board of Directors, which does not exceed the price prevailing in the international market.

Under Board of Directors' agreements of December 20, 2007, as from December 31, 2007, the Bank's gold and silver holdings are valued at their listed price in the New York market provided daily by Bloomberg and Reuters between 15:00 to 15:30, local time.

Until December 31, 2006, the gold valuation was obtained using the average selling price for gold at the London, New York and Zurich markets. Silver valuation was obtained using the average selling price at the New York and London markets, as well as the price published in Handy & Harman.

The Bank has not modified the financial statements as of December 31, 2006 for the change of the valuation since the effect of such change as of December 31, 2006 and for the year then ended is not material for the overall financial statements.

The price of gold per troy ounce was US$ 832.80 and US$ 633.80 as of December 31, 2007 and 2006 respectively. The price of silver per troy ounce was US$ 14.76 and US$ 12.80 as of December 31, 2007 and 2006 respectively.

(g) Property, Furniture and Equipment

Property, furniture and equipment are recorded at cost and are presented net of accumulated depreciation. Renewals and improvement expenses are capitalized as an additional cost of property, furniture and equipment, only when they can be reliably estimated and when it is likely that such disbursements will contribute to the generation of future economic benefits from the use of property, furniture and equipment, beyond their original normal performance evaluation. Maintenance and repair expenses are charged to results as incurred.

Annual depreciation is recognized as expense and has been computed based on the straight-line method considering the following estimated useful lives:

	Years
Buildings	100
Furniture and office equipment, and miscellaneous equipment	10
Computing equipment	3
Vehicles	5

The Bank's Management periodically reviews the useful life, residual values and depreciation method based on the forecasted economic benefits to be provided by the components of property, furniture and equipment.

The cost and accumulated depreciation of property, furniture and equipment disposed of or sold are eliminated from their respective accounts, and any resulting gain or loss is included in the results of the fiscal period in which they are incurred.

(h) Foreclosed Assets

Foreclosed assets include mainly land and properties received as payments of loans granted to banks under liquidation process and are recorded at the cost of adjudication which does not exceed their estimated realizable value, net of the corresponding provision. As of December 31, 2007 and 2006, foreclosed assets are fully amortized.

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 transferred to the Bank 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, 2007 and 2006, all the foreclosed assets are aged over a year and the Bank has made the arrangements established by law in order to formalize their sale, which has been reported on a timely basis to the Superintendencia de Bienes Nacionales (Superintendency of National Assets).

(i) Sterilized Stock

Sterilized stock is a Central Bank's liability in local currency comprised by securities issued and deposits from governmental sector and financial entities, which are not part of the legal cash reserve. It results from monetary operations to take out liquidity from the financial system, and for deposits from the said entities, which in case of reversal, would imply an increase in the monetary base.

(j) Notes and Coins Issued

This includes notes and coins of legal tender issued by the Bank which are held by the public; and are recorded as a liability on the balance sheet at their face value under monetary base. Notes and coins not in circulation are kept in the Bank's vaults and recorded in Memorandum Accounts at their face value.

(k) Employees' Severance Indemnities

Employees' severance indemnities for time of services are determined applying current legal provisions, and are recorded in the accounting books as other liabilities and charged to results and credited to the corresponding provision account as accrued. The payments made, which are considered as definitive, are deposited in financial institutions selected by the employees.

(l) Employee Benefits

As established in Article 53 of its By-Laws, the Bank supports the Fondo para Enfermedades, Seguros y Pensiones de Empleados del Banco (Fund for Disease, Insurance and Pensions of the Bank's employees, hereinafter the Fund) with the resources necessary for supplementing the expenses required for its operations. According to IAS 19 *Employee Benefits*, those benefits are considered as employee benefits under a defined benefit plan.

The Fund is a legal entity of private law established under Decree-Law 7137 and is intended to provide assistance to the Bank's active and retired employees, as well as to their spouses, children and parents, as established in its regulations. Such assistance is in addition to social security benefits and other social benefits granted by Law (National Health Security - EsSalud, Spanish acronym; National Pension System - Decree Law 19990, and The Private Pensions System).

- Supplementary pensions subsidy, widowhood pensions, and burial subsidy

  For a plan of defined benefits, the expenses related to supplementary pensions are determined under the method of benefits per year of services, under which the cost of providing supplementary pensions is recorded in the results of the year so as to distribute the cost over the employees' years of services. The value of the supplementary pension is determined by an actuary on a periodic basis and is measured at the present value of all future pension payments using an annual technical interest rate of 6%. In determining this obligation, the Bank has used the parameters established in the Fund's Regulations and the methodology for calculating the actuarial reserve for supplementary subsidy pensions, widowhood pensions, burial subsidy, and health-care services (see note 16 (b)).

- Other benefits supplementary to retirement

  The general balancing equation between health-care benefits and contributions (Kaan equation) was used to calculate the ongoing risks reserve of health care services. The supplementary subsidy for retirement and widowhood pensions, burial subsidy, and other supplementary retirement benefits are recorded under other liabilities.

(m) Interest and Commissions

Interest income and expenses are recognized in the income statement of the period when accrued and the commissions when paid.

When there is reasonable doubt regarding the collection of any financial instrument principal, interest is recognized as income provided that there is a reasonable certainty of its collection.

(n) Operating Expenses for Transporting, Printing Notes and Minting Coins

Operating expenses for transporting, printing notes and minting coins are recognized in results for the period in which they accrue.

Expenses for printing notes and cost of materials for minting coins are recognized in results for the period in which they are issued.

(o) Cash and Cash Equivalents

Cash and cash equivalents comprise gross international reserves, net of notes and coins issued and in circulation that are part of the monetary base.

The difference between gross international reserves and reserve liabilities (comprising the obligations with international entities) represents net international reserves. These reserves show the international liquidity of the country and its financial capacity in respect to other countries; they are the resources the Bank possesses to attend its obligations in foreign currency.

(p) Exchange Difference and Readjustment of Foreign Currency

Article 89 of the Bank's Organic Law establishes that differences recorded as a result of the readjustments 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 being considered as gains or losses.

This valuation is made on a daily basis by applying on the balances of assets and liabilities in foreign currency and precious metals, the prices of the latter U.S. dollars and the exchange rate of the U.S. dollar against the Peruvian nuevo sol (see note 4), obtaining balances in local currency which are compared with the accounting balances before valuation. The result of such valuation of price and exchange rate is charged or credited to the balance sheet account "Readjustment in Valuation, Organic Law, Article 89" (see note 3).

The Bank records the gains or losses on the sale of foreign currencies in the results for the period with a balancing entry in "Readjustment in Valuation, Organic Law Article 89" account (see note 17). Proceeds from the sale of foreign currencies are obtained by subtracting from the equivalent in local currency obtained from the sales of foreign currency of the month, the equivalent in local currency paid for the purchases of local currency of the month (up to the amount in dollars of the sales at the average exchange rate of the purchases). Should the monthly amount of purchases be lower than the amount of monthly sales, the excess is multiplied by the difference between the average sale exchange rate and the exchange rate of foreign currency position.

(q) Provisions

Provisions are recognized when the Bank has a present obligation, either legal or constructive, as a result of past events, and when it is probable that an outflow of resources will be required to settle the obligation, and it is possible to reliably estimate its amount. Provisions are reviewed and adjusted in each period to reflect the best estimates as of the balance sheet date.

When the effect of the time value of money is material, the value of the provision is the present value of the expenditure required to settle the provision.

(r) Contingent Assets and Liabilities

Contingent liabilities are not recognized in financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of economic resources is so remote as to be negligible. Contingent assets are not recognized in financial statements, and they are only disclosed when an inflow of economic benefits is probable.

(s) Reclassifications

The Bank modified the presentation of its 2006 financial statements to conform them to the year 2007 financial statements. Said reclassifications consisted basically in regrouping interest receivable and payable to relate them to corresponding accounts of gross international reserves and liability reserve respectively.
Likewise, the Bank has reclassified interest on other liabilities and local currency deposits of the sterilized balance and deposits from institutions which have been included in the sterilized balance and in monetary base respectively.

(t) New Accounting Pronouncements

The International Accounting Standards Board (IASB) has issued certain International Financial Reporting Standards (IFRS) effective on or after December 31, 2006;

however, official approval of these IFRSs in Peru is pending. Main standards that would be applied by the Bank are:

(i) IFRS 7 - Financial Instruments - Disclosures. This IFRS is effective internationally as from January 1, 2007 and supersedes the disclosures required by IAS 32. The objective of IFRS 7 is to include in the financial statements, disclosures that allow users to evaluate the significance of financial instruments for an entity's financial position and performance, through the understanding of the nature and extent of risks arising from financial instruments as well as the methods used by the entity to manage the risks derived from these instruments.

(ii) IFRS 8 - Operating Segments - This IFRS will be in force for periods beginning on or after January 1, 2009, and will supersede IAS 14 Segment Reporting. IFRS 8 specifies how an entity should provide information about operating segments in the financial statements. Furthermore, it establishes the requirements for disclosures related to products and services, geographical areas, and major customers. IFRS 8 requires an entity to provide information about revenues derived from its products and services (or groups of similar products and services), about the countries where it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in decision-taking. Finally, it also requires that the entity provides descriptive information about the way that the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, as well as changes in the measurement of segment amounts from period to period.

(iii) IAS 23 revised *Borrowing Costs* prescribes the option to record borrowing costs and requires that entity capitalizes these costs directly attributable to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset. IAS 23 revised is effective for financial statements as from 2009.

(iv) IFRIC 9 *Reassessment of Embedded Derivatives* (effective for periods beginning on or after June 1, 2006).

(v) IFRIC 14 and IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when the reimbursement or reductions in future contributions related to assets for defined benefits will be regarded as available and provides a guidance on the impact of the minimum funding requirement (MFR) on such assets. It also states when the MFR can result in a liability. IFRIC 14 will be effective for financial statements issued as from 2009. The Bank has not yet determined the potential effect of this interpretation.

3. MAIN DIFFERENCES BETWEEN THE ACCOUNTING PRINCIPLES AND PRACTICES APPLIED BY THE BANK AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN PERU

The accounting principles and practices applied by the Bank in accordance with the Organic Law, as described in note 2 above, differ in certain relevant aspects from accounting principles generally accepted in Peru as follows:

- The Bank records in a special account in the balance sheet, under the accounting practice in Article 89 of its Organic Law, the readjustments in the valuation of prices and exchange rates in local currency of the Bank's assets and obligations in gold, silver, foreign currency, SDR or any other monetary unit of international use. In accordance with International Accounting Standard 21 *The Effects of Changes in Foreign Exchange Rates* (Peruvian GAAP), the results of the valuations should be included in the Bank's results of the year when they were generated, and results from sale of foreign currencies should be recorded as gain or loss in the year they occur. As of December 31, 2006 and 2007, the readjustment amounted to S/. 163,623,000 and S/. 1,713,053,000 respectively (see notes 2 (p) and 17).

- The Bank prepares the statements of cash flows considering as funds the cash and cash equivalents, as indicated in note 2 (o) This accounting practice differs from what is defined by IAS 7 *Statement of Cash Flows* (GAAP in Peru). The central banks have not defined a uniform accounting practice regarding to the preparation and presentation of financial statements.

4. FOREIGN CURRENCY BALANCES

Balances in U.S. dollars as of December 31, 2007 and 2006 have been stated in nuevos soles at the purchase exchange rate established by the SBS as of those dates of S/. 2.995 and S/. 3.194 per US$ 1 respectively. Balances in other currencies have been stated 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) The balances in foreign currency and in precious metals as of December 31, 2007 and 2006 are summarized as follows:

	In thousands of US$	
	2007	**2006**
Assets:		
U.S. dollars	23,533,486	13,908,329
Euro	3,409,182	2,559,430
SDR	13,550	30,557
Pesos andinos	20,000	20,000
Gold	928,441	706,587
Silver	634	2,345
Other currencies	99	440,117
	27,905,392	17,667,365
Liabilities:		
U.S. dollars	8,262,136	6,537,833
Euro	4	-
SDR	858	21,234
Pesos andinos	20,000	20,000
Silver	264	229
	8,283,262	6,579,296
Net assets	**19,622,130**	**11,088,069**

The Special Drawing Right (SDR) is an international reserve asset created by the IMF allocated to member countries in proportion to their quotas. The value of SDR is calculated daily by adding the U.S. dollar values (exchange rate quoted at noon in the London market) of specific amounts of a four-currency basket (U.S. dollar, euro, Japanese yen and pound sterling). The amounts of each currency of the SDR basket are calculated according to agreed percentages.

b) The quotations of foreign currency in U.S. dollars as of December 31, 2007 and 2006 are summarized as follows:

	In US$	
	2007	**2006**
SDR	1.580250	1.504400
Pounds sterling	1.985200	1.959200
Canadian dollars	1.006036	0.858369
Pesos andinos	1.000000	1.000000
Euros	1.459700	1.320000

5. DEPOSITS IN FOREIGN BANKS

They comprises the following:

	In thousands of S/.	
	2007	**2006**
Time deposits	28,521,246	21,861,694
Interest receivable on time deposits	119,225	71,297
	28,640,471	21,932,991
Call deposits	14,382	18,645
Interest receivable on call deposits	18	18
	14,400	18,663
Demand deposits	5	28
Interest receivable on gold deposits	205	-
	28,655,081	**21,951,682**

As of December 31, 2007 and 2006, time deposits amounted to US$ 9,522,954,000 and US$ 6,844,613,000, respectively, and were deposited in first-rate banks and accrued interest at international market rates.

Deposits in foreign banks accrued an annual average interest rate of 4.81% as of December 31, 2007 (5.28% as of December 31, 2006).

Interest receivable includes US$ 39,883,000 and US$ 22,328,000 as of December 31, 2007 and 2006 respectively, generated by term deposits, call deposits and returns on gold deposits in foreign entities.

6. SECURITIES OF INTERNATIONAL INSTITUTIONS

They comprise U.S. Treasury and Bank for International Settlements (BIS) obligations, and bonds and commercial papers of international institutions supported by sovereign governments and supra-national institutions.

Securities of international institutions correspond to first class and low-risk financial instruments, which bear interest at international market rates.

Securities of international institutions accrued an annual average interest rate of 4.58% as of December 31, 2007 (4.19% as of December 31, 2006).

As of December 31, 2007, securities of international institutions were reclassified from "held-to-maturity" to "available-for-sale". The reclassification was intended to better reflect the characteristic of liquidity of the international reserves, which should always be available to be used if necessary, through their immediate sale at prices prevailing in the market. Likewise, the objective of this reclassification is consistent with the investment policy decisions which imply the use of a reference portfolio (benchmark).

Securities are recorded at acquisition cost at purchase and later are valued at market prices provided daily by Bloomberg and Reuters between 15:00 to 15:30, local time. The accrued value is used for determining the fair value of commercial papers. Gain or loss on available-for-sale investments is recognized directly to equity. As of December 31, 2007, the Bank has recorded S/. 643,219,000 under the fair value reserve account in the equity.

Until December 31, 2006, securities were classified as held-to-maturity investments, which implied that premiums or discounts on the acquisition of these investments were amortized by applying the amortized cost method as from acquisition date to investment maturity date.

The Bank has not modified the financial statements as of December 31, 2006 due to the change in the classification of the securities of international entities since this is a change in the classification of investments and not a change in the accounting policy.

The effect was a higher value of US$ 214,980,000 for market price.

7. GOLD

It comprises the following:

	In thousands of S/.	
	2007	**2006**
In Peru	1,375,252	1,115,653
Abroad	1,403,383	1,139,006
	2,778,635	**2,254,659**

As of December 31, 2007 and 2006, this item consists of 552,192 troy ounces in commemorative coins and bars deposited in the Bank's vault and 562,650 troy ounces of gold in "good delivery" bars deposited in first-rate foreign banks in custody and deposit accounts; bearing interests in accordance with international market conditions.

As of December 31, 2007 and 2006, the balance of gold in the country is shown net of a provision of S/. 2,045,000 and S/. 2,181,000, respectively. Said provision represents the estimated expense for transforming gold coins into high purity bars or "good delivery".

8. CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

The Bank maintains contributions with the following international organizations:

(a) Fondo Latinoamericano de Reservas - FLAR (Latin American Reserve Fund)

As of December 31, 2007, the contribution to FLAR amounts to US$ 348,179,000 equivalent to S/. 1,042,795,000 (US$ 331,216,000, equivalent to S/. 1,057,903,000, as of December 31, 2006). This contribution grants Peru access to FLAR financing facilities. Peru's participation in FLAR's subscribed capital is 22.22%.

(b) International Monetary Fund (IMF)

It comprises the following:

	In thousands of S/.	
	2007	**2006**
Contributions to IMF for the equivalent in local currency of SDR 638,400,000	3,085,504	3,108,506
Revaluations to liquidate - contribution to IMF in local currency	(74,496)	(41,575)
	3,011,008	**3,066,931**

The contribution to IMF grants Peru access to IMF's financing activities. The balancing entry of these contributions is recorded as a liability with IMF, see note 11 (a). The IMF determines Peru's contribution as a participating country, which amounts to SDR 638,400,000 as of December 31, 2007 and 2006. Peru's participation in the total contributions made by IMF member countries is 0.29% as of December 31, 2007.

Revaluations to liquidate - contribution in local currency to IMF corresponds to the revaluation (provision) for maintenance of the value of contribution resulting from the difference from the variation of the exchange rates of SDR in respect to the U.S. dollar and the U.S. dollar in respect to the Peruvian nuevo sol, from April 30 to December 31 of each year. The exchange rate as of April 30, 2007 was 0.656089 SDR, and 3.171 nuevos soles per U.S. dollar. The exchange rate as of December 28, 2007 was 0.633521 SDR, and 2.988 nuevos soles per U.S. dollar. These revaluations (provisions) are paid off at the end of each IMF fiscal year, which is April 30.

9. PROPERTY, FURNITURE AND EQUIPMENT

It comprises the following:

	In thousands of S/.			
	Balances as of 12.31.2006	Additions	Disposals	Balances as of 12.31.2007
Cost:				
Land	24,784	-	-	24,784
Buildings and other constructions	155,559	1,167	-	156,726
Furniture and office equipment	4,850	21	67	4,804
Vehicles	3,025	-	308	2,717
Miscellaneous equipment	46,487	8,820	5,316	49,991
Units in-transit	617	802	617	802
	235,322	10,810	6,308	239,824
Accumulated depreciation:				
Buildings and other constructions	52,265	1,580	-	53,845
Furniture and office equipment	3,910	425	56	4,279
Vehicles	2,429	179	308	2,300
Miscellaneous equipment	31,836	5,905	5,179	32,562
	90,440	8,089	5,543	92,986
Net cost	**144,882**			**146,838**

10. OTHER ASSETS

They comprise the following:

	In thousands of S/.	
	2007	2006
Contribution to international organizations, note 16 (a)	361,112	439,285
Interest and commission receivable	3,437	4,211
Fund in foreign currency- Brady Plan	-	65,126
Art Collections	89,990	87,868
Revaluations to liquidate - Brady Plan Fund, note 11 (b)	-	(871)
Silver	1,898	7,490
Almacén Casa Nacional de Moneda	22,296	15,015
Accounts receivable from personnel	900	1,012
Intangibles, net of amortization of S/. 10,637,000 (S/. 9,910,000 in 2006)	1,720	1,824
Raw material being processed by third parties	2,571	1,988
Foreclosed assets	-	-
Miscellaneous	4,512	8,256
	488,436	**631,204**

The contribution subscribed to international organizations corresponds to the unpaid contribution of US$ 120,571,000 (US$ 137,534,000 in 2006) to FLAR, presented as other assets and liabilities, which will be paid with future distributions of profits of this organization, see note 16 (a).

Fund in foreign currency- Brady Plan was paid in February 2007. As of December 31, 2006, this balance corresponds to SDR 13,375,000 received by the Bank and deposited in Banco de la Nación (National Bank of Peru) account to be used by Ministerio de Economía y Finanzas (Ministry of Economy and Finance-MEF). The amount of the fund in foreign currency - Brady Plan decreased as the Bank received the respective transfers from MEF to effect the corresponding re-purchase transactions, as stated in the respective agreement, see note 11 (b).

Art Collections correspond to painting, archaeological pieces, sculptures, numismatic collections of coins and notes and other objects acquired by or donated to the Bank, and maintained for display, valued at market value.

Almacén Casa Nacional de Moneda comprises the supplies acquired by the Bank for the minting of coins, valued at average cost.

Foreclosed assets as of December 31, 2007 and 2006 amounts to S/. 1,622,000. The Bank has recorded a 100% provision for them.

11. OTHER LIABILITIES ABROAD

The Bank has the following liabilities abroad:

(a) Counterpart of the contribution in local currency to the IMF

As of December 31, 2007, the counterpart of the contribution in local currency to the IMF amounts to S/. 3,011,008,000 (S/. 3,066,931,000 as of December 31, 2006) corresponding to SDR 638,400,000 for both periods. This obligation is not subject to an interest rate and has no agreed-upon maturity date (see note 8 (b)).

(b) Other liabilities abroad

They comprise the following:

	In thousands of S/.	
	2007	**2006**
SDRs allocations	441,361	444,651
Revaluations to liquidate SDR allocations	(10,656)	(5,947)
Pesos andinos-FLAR allocation	59,900	63,880
Promissory notes IMF-MEF Brady Plan (note 10)	-	65,126
Revaluations to liquidate - Promissory note Brady Plan	-	(871)
Other	904	514
	491,509	**567,353**

SDRs allocations correspond to SDR 91,319,000 as of December 31, 2007 and 2006, assigned by IMF bearing charges or interest under the conditions established in the agreement with IMF. The rates corresponding to fiscal years 2007 and 2006 was 3.45% and 4.04% respectively.

Revaluations to liquidate-Promissory note Brady Plan and Revaluations to liquidate-SDR allocations, correspond to the revaluation (provision) for maintaining the value resulting from the difference from the variation of exchange rates of SDR in respect to the U.S. dollar and the U.S. dollars in respect to the Peruvian nuevo sol, from April 30 to December 31 of each year. The revaluations (provisions) are paid off at the end of the IMF fiscal year, which is April 30 of each year.

The Promissory note IMF-MEF Brady Plan in 2006 corresponded to the obligation of SDR 13,375,000 due to IMF, which was handed to MEF (see note 10). Said promissory note was paid off at its maturity date in February 2007.

Pesos andinos- FLAR allocation corresponds to pesos andinos provided by FLAR, related to the ALADI agreement. Said allocation generates no interest nor has a defined maturity.

12. SECURITIES ISSUED

They comprise the following:

	In thousands of S/.	
	2007	**2006**
Banks	19,176,780	7,095,090
Banco de la Nación	700,950	188,050
Financial institutions	37,600	24,900
Other entities	1,542,870	757,460
	21,458,200	8,065,500
Discount on sale CD BCRP	(699,595)	(207,885)
	20,758,605	**7,857,615**

Securities issued comprise mainly certificates of deposit in local currency placed through the mechanism of auction or direct placement in order to reduce surplus liquidity in the financial system, with maturities of up to three years. Such certificates are placed at discount and bore an implicit annual rate ranging from 4.08% to 6.15% (2.09% to 6.50% at 2006 year end closing).

13. DEPOSITS IN LOCAL CURRENCY

They comprise the following:

	In thousands of S/.	
	2007	**2006**
Banco de la Nación	10,041,783	6,038,708
Governmental sector	6,882,011	4,013,631
Banks	20,000	247,100
Other entities and funds	311,662	113,021
	17,255,456	**10,412,460**

As of December 31, 2007 and 2006, the effective annual interest rates applied by the Bank for deposits of the governmental sector were in average 5.24% and 4.64% respectively; for the deposits of Banco de la Nación, they were 4.96% and 4.90% respectively, and for banks (overnight deposits), they were 4.25% and 3.75% respectively.

14. MONETARY BASE

It comprises the following:

	In thousands of S/.	
	2007	**2006**
Notes and coins issued	16,999,439	13,651,038
Deposits of banks	198,955	88,886
Deposits of Banco de la Nación	410,000	120,000
Deposits of financial institutions	37,582	31,905
Other deposits and obligations	133,288	91,694
	17,779,264	**13,983,523**

Deposits of banks, Banco de la Nación and financial institutions comprise mainly the minimum legal cash reserve of 6% applicable to these institutions for their obligations in local currency, which should be deposited in the Bank. The minimum legal cash reserve does not bear interest.

Other deposits and obligations mainly comprise non-interest bearing current account deposits in local currency of municipal and rural bank (savings and credit).

The Balances of notes and coins issued are as follows:

	2007		2006	
Face value	Units	In thousands of S/.	Units	In thousands of S/.
Notes:				
10	73,406,819	734,068	59,161,730	591,617
20	61,785,322	1,235,706	55,971,334	1,119,427
50	60,417,384	3,020,869	46,568,360	2,328,418
100	100,621,457	10,062,146	80,152,164	8,015,216
200	5,254,315	1,050,863	3,904,350	780,870
		16,103,652		**12,835,548**
Coins:				
0.01	140,064,155	1,401	95,914,371	959
0.05	207,616,001	10,381	191,643,863	9,582
0.10	611,889,358	61,189	551,663,305	55,166
0.20	160,796,742	32,159	143,518,954	28,704
0.50	209,734,491	104,867	184,099,121	92,050
1.00	220,583,127	220,583	193,241,640	193,242
2.00	65,398,773	130,798	62,251,635	124,503
5.00	66,506,625	332,533	61,883,912	309,420
		893,911		**813,626**
Commemorative coins	miscellaneous	1,876	miscellaneous	1,864
		16,999,439		**13,651,038**

15. DEPOSITS IN FOREIGN CURRENCY

They comprise the following:

	In thousands of S/.	
	2007	2006
Banks	13,167,021	10,578,646
Governmental sector	10,205,175	8,871,397
Banco de la Nación	520,216	294,748
Financial institutions	5,337	16,514
Other financial system institutions	189,726	224,218
Private sector	8	4,696
	24,087,483	**19,990,219**

Foreign currency deposits of local financial system institutions are part of the funds destined to cover the legal cash reserve required by the Bank for the total obligations in foreign currency subject thereto. This required legal cash reserve may be covered in addition with cash in foreign currency deposited in local institutions of the financial system, and is broken down from a minimum legal cash reserve of 6% of the obligations subject to legal cash reserve and an additional reserve ranging from 23.9% to 24.6% in 2007 (from 23.6% to 24.5% in 2006). The funds covering the minimum legal cash reserve do not bear interest. The deposits in the Bank covering the additional reserve in foreign currency bear interest at a rate of 3.50% (2.75% as of December 31, 2006).

The Bank has signed agreements with the General Bureau of the Treasury of MEF and Consolidated Reserve Fund (FCR, for its Spanish acronym) whereby conditions are established for the receipt of deposits from these organizations by the Bank. These deposits bear interest rates at year-end ranging from 4.75% to 5.23% (from 4.26% to 5.20% at 2006 year-end). As of December 31, 2007, the Public Treasury's resources and those of FCR deposited in the Bank amount to US$ 3,387,530,000, equivalent to S/. 10,145,654,000 (US$ 2,736,910,000, equivalent to S/. 8,741,692,000, as of December 31, 2006).

16. OTHER LIABILITIES

They comprise the following:

	In thousands of S/.	
	2007	**2006**
Contributions subscribed to international organizations pending payment (note 10)	361,112	439,285
Interest and commission payable	264,333	92,749
Actuarial liability	153,837	149,068
Secure deposit fund	81,388	170,727
Funds for diseases, insurance and pension of BCRP employees	20,471	21,360
Other provisions	19,388	21,806
Accounts payable	1,856	4,526
Miscellaneous	17,740	17,197
	920,125	**916,718**

(a) Contributions subscribed to international organizations pending payment

Under agreement 93 dated March 22, 2000, amended by Agreement 102 of April 10, 2001 of the FLAR Meeting of Representatives, FLAR member countries agreed to increase the capital stock to US$ 2,109,375,000, through the capitalization of profits up to 2010; the Bank being responsible for contributing US$ 468,750,000. As of December 31, 2007, the balance of the pending contribution amounts to US$ 120,571,000 (US$ 137,534,000 in 2006), see note 10.

(b) Actuarial obligation

It includes the actuarial obligation corresponding to subsidy supplementary pensions and other supplementary retirement benefits for the Bank's retired employees and their families. As of December 31, 2007, the adjustment of actuarial obligation was recorded corresponding to supplementary pension subsidy for retirements, widowhood pensions, burial benefits and technical provision for health-care ongoing risks, see note 2 (l).

The actuarial computation as of December 31, 2007 and 2006 was determined by an independent actuary based on the following instruments and sources: (i) mortality charts established by SBS, (ii) life tables of Chile according to expectancy, widowhood or disability benefits, and (iii) CSO life tables (Commissioners Standard Ordinary) for burial benefits, and (iv) application of an annual technical interest rate of 6% in risks of retirement, expectancy, widowhood, and decease benefits for relatives.

The rollforward of the provision for actuarial obligation of retired and active employees of the Bank is as follows:

	In thousands of S/.	
	2007	**2006**
Balance at the beginning of the year	149,068	140,580
Increase debited to results (note 19)	24,464	25,543
Transfer to the Fund	(19,695)	(17,055)
Balance at the end of the year	**153,837**	**149,068**

(c) Deposit Insurance Fund

As of December 31, 2007, comprises deposit balances in time and current accounts in foreign currency for US$ 27,175,000 equivalent to S/. 81,388,000 (US$ 53,252,000 equivalent to S/. 170,727,000 in 2006). The average interest rate of said deposits in foreign currency was 5.03% and 5.20% respectively.

17. READJUSTMENT IN VALUATION, ORGANIC LAW, ARTICLE 89

It corresponds to differences arising from readjustment in the valuation in local currency of the Bank's assets and obligations in gold, silver, foreign currency, SDR or any other international currencies, which are debited or credited to this account considering them as unrealized losses or profit (see note 2 (p)).

	In thousands of S/.	
	2007	**2006**
Balance at the beginning of the year	1,713,053	2,249,131
Valuation of U.S. dollars	(2,303,370)	(1,042,098)
Valuation of other foreign currencies	384,453	341,538
Valuation of metals (gold and silver)	515,123	273,794
Valuation of contribution and obligations IMF	8,002	8,588
Transfer to the results of the year (*) and other	(153,638)	(117,900)
Balance at the end of the year	**163,623**	**1,713,053**

(*) Included in other financial income in the statement of income in 2007 and 2006.

18. NET EQUITY

(a) Capital

As of December 31, 2007, the Bank's capital authorized, subscribed and paid-in by the Peruvian State under its Organic Law, Supreme Decree 059-2000-EF, 108-2004-EF, 136-2006-EF and 136-2007-EF amounts to S/. 591,375,282 (S/. 295,687,641 as of December 31, 2006). The capitalization of the balance of the account Reserve Article 92 clause (b) of the Organic Law for S/. 295,687,641 was approved by Supreme Decree 136-2007-EF of September 3, 2007.

The capital is not represented by shares, its value being recorded only in the capital account in the balance sheet. Additionally, under a Supreme Decree countersigned by MEF, the Bank's authorized capital may be readjusted.

(b) Reserves

Under Articles 6 and 92 (b) of its Organic Law, the Bank shall allocate a reserve through the annual transfer of 75% of its net income until reaching an amount equivalent to 100% of its capital. This reserve may be capitalized. In the event of losses, the reserve shall be used to offset such losses; if the reserve is insufficient, the Public Treasury shall issue and provide the Bank (for the amount not covered) with securities of negotiable debt that will accrue interest within 30 days after the balance sheet is approved.

On its Meeting of March 15, 2007 the Board of Directors agreed to allocate a reserve for S/. 185,338,629. Under Supreme Decree 136-2007 EF, the capitalization of the balance of the reserve account of S/. 295,687,641 was approved. Finally, the Bank's Board of Directors agreed to record a reserve for a total of S/. 226,902,465 using the balance of the accumulated results of 2006.

An amount of S/. 49,708,517 from the reserve was capitalized on August 15, 2006 to maintain the Bank's equity soundness, which was approved by Supreme Decree 136-2006-EF. Likewise, the Board of Directors on its meeting of October 5, 2006, agreed to record a reserve for S/. 110,349,012 through the transfer of net income of year 2005.

(c) Retained earnings

Under Article 92 of this Organic Law, the Bank shall distribute annually its net income as follows: 25% for the Public Treasury and 75% to allocate the reserve referred to in sub-paragraph (b) of this note.

The financial statements for 2006 were approved by the Board of Director on March 1, 2007. On March 23, 2007, the Bank's profits for 2006 amounting to S/. 549,655,000 were distributed in conformity with article 92 of its Organic Law, recording a deposit of S/. 137,414,000 in the Public Treasury account, S/. 185,339,000 for the reserve (Article 92, clause (b) of the Organic Law). The remaining S/. 226,902,000 were allocated to increase the reserve on September 4, 2007.

19. OTHER EXPENSES

As of December 31, 2007 and 2006, this account in the statement of income is comprised mainly by the adjustment of the provision for actuarial reserve for S/. 24,464,000 and S/. 25,543,000, respectively and in 2006, for the provision for the cost of transforming gold in coins into "good delivery" bars for S/. 2,181,000 (see notes 16 (b) and 7).

20. TAX MATTERS

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

The Superintendencia Nacional de Administración Tributaria - SUNAT (Tax Authorities) is entitled to review and, if necessary, amend the taxes calculated by the Bank during the last four years, counted as from the date of filing of the related tax returns (years open to tax examination). The tax returns for years 2003 through 2007, inclusive, are open to tax examination. Since discrepancies may arise over the interpretation by the Tax Authorities of the rules applicable to the Bank, it is not possible to foresee at the date of the financial statements whether any additional tax liabilities will arise as a result of eventual tax examinations. Any additional tax, fines and interest, if arising, will be recognized in the results of the year when the disagreement with Tax Authorities is resolved. Bank's Management and the legal advisors consider that no significant liabilities will arise as a result of any possible tax examinations.

21. CONTINGENCIES

On December 15, 2006, the Fourth Section of the Lima Superior Court of Justice declared that the appeal for constitutional protection of rights filed against the Bank by former employees who adopted a retirement program with incentives in 1992 was grounded. The Court ordered the reinstatement of the employees and that the employees be paid the equivalent to the actuarial computation of the remunerations accrued and other labor rights. Subsequently, the Bank filed an appeal for legal protection against said court order, for the breach of several constitutional rights protecting due process of law (matter settled in court, due motives and valuation of means of proof), obtaining on May 24, 2007 a precautionary measure to suspend the effects of the aforementioned decision. Moreover, The Judgeship Control Bureau and the National Board of Judges declared for the dismissal of the judges that issued the judgment on December 15, 2006. Taking into account the current status of the judicial proceeding and the sound legal grounds supporting the non applicability of the reinstatement and the payment of accrued amount referred in judgment dated December 15, 2006, and based on the opinion of its legal advisors, the Bank's Management, has not recorded any provision for possible losses arising from this legal contingency as of December 31, 2007.

22. MEMORANDA ACCOUNT

They comprise the following:

	In thousands of S/.	
	2007	**2006**
Notes and coins in stock	10,151,724	15,447,412
Securities held in custody	3,229,312	3,248,364
Fund for disease, insurance and pension of employees	72,495	74,946
Banks under liquidation	52,136	52,613
Securities deposited in guarantee	1,155,816	12,274
Notes and coins removed from circulation to be destroyed	1,201	1,201
Money in process of production by Casa Nacional de Moneda	108	72
Miscellaneous	824,435	1,102,464
	15,487,227	**19,939,346**

Memoranda account include different transactions recorded for control purposes only.

Notes and coins in stock comprise:

	In thousands of S/.	
	2007	**2006**
New	4,466,487	7,007,000
Available	1,037,616	920,743
To be classified	4,407,072	6,688,677
To be incinerated and/or melted	240,549	830,992
	10,151,724	**15,447,412**

The rollforward of notes and coins in stock for the year ended on December 31, 2007 and 2006 has been as follows:

	In thousands of S/.	
	2007	**2006**
Balance at the beginning of the year	15,447,412	10,473,559
Acquisition of notes and coins	5,259,613	7,176,807
Destruction of notes and coins	(7,206,900)	-
Removals from circulation, net of income	(3,348,401)	(2,202,954)
Balance at the end of the year	**10,151,724**	**15,447,412**

Securities held in custody include mainly promissory notes in guarantee for operation with IMF.

Miscellaneous correspond to recording accounts of collateral guarantees- Brady Plan among others.

23. ANALYSIS OF MATURITIES

The structure of maturities of the Bank's financial assets and liabilities in force as of December 31, 2007, according to contractual or estimated maturity, are as follows:

Class	From six six months	Up to months to one year	From one to five years	Over five years	Total
	In thousands of S/.				
Assets:					
Cash in foreign currency	30,202	-	-	-	30,202
Deposits in foreign banks	28,655,081	-	-	-	28,655,081
Securities in international institutions	8,151,488	7,887,679	31,692,853	2,686,956	50,418,976
Gold	2,778,635	-	-	-	2,778,635
Other available assets	67,234	-	29,078	-	96,312
Other assets abroad	940	940	7,989	68,519	78,388
Other assets	88,138	2,679	307,590	90,029	488,436
Sub-total	**39,771,718**	**7,891,298**	**32,037,510**	**2,845,504**	**82,546,030**
Contribution in dollars to FLAR	-	-	-	1,042,795	1,042,795
Contributions in local currency to IMF	-	-	-	3,011,008	3,011,008
Property, furniture and equipment, net	-	-	-	146,838	146,838
Domestic credit	-	-	-	9	9
Total assets					**86,746,680**
Net liabilities and assets:					
Reserve liabilities	94,161	-	-	-	94,161
Other liabilities abroad	-	-	904	490,605	491,509
Monetary base	779,826	-	-	16,999,438	17,779,264
Deposits in local currency	17,075,880	133,414	46,162	-	17,255,456
Securities issued	12,041,560	5,166,691	3,550,354	-	20,758,605
Deposits in foreign currency	24,087,483	-	-	-	24,087,483
Other liabilities	458,170	20,872	419,702	21,381	920,125
Sub-total	**54,537,080**	**5,320,977**	**4,017,122**	**17,511,424**	**81,386,603**
Counterpart of the contribution in local currency to IMF	-	-	-	3,011,008	3,011,008
Readjustment in valuation, Organic Law, Art. 89	-	-	-	163,623	163,623
Net equity	-	-	-	2,185,446	2,185,446
Total liabilities and net equity					**86,746,680**

24. FINANCIAL INSTRUMENTS

The Bank's financial instruments assets and liabilities are subject to the usual managing risks, such as liquidity risk, credit risk, currency risk and market or interest rate risk. Such risks are monitored each day and the Bank applies the mechanisms commonly used to face these kinds of risks when required to do so.

The Bank's balance sheet comprises mostly financial instruments, as described in note 2 (d). International reserves are a relevant component of said instruments and its management adheres to the security, liquidity and profitability criteria indicated in Article 71 of its Organic Law.

International reserves contribute to the country's economic and financial stability, insofar as they guarantee availability of foreign exchange in extraordinary situations, such as an eventual significant withdrawal of foreign currency deposits from the financial system or external shocks of a temporary character which could cause imbalances in the actual sector of the economy and feedback expectations.

The Bank's reserve management policy prioritizes the preservation of capital and guarantees of the liquidity of reserves. Once these conditions are met, return is to be maximized.

The management of international assets is closely related to the origin and characteristics of the Bank's liabilities, in terms of amount, currency, term and volatility. The objective is to minimize market risks that could affect the value and availability of the resources managed by the Bank.

Management of international reserves and related liabilities, management of related risks and investment policies.

Reference portfolio (Benchmark): This reference portfolio is a fundamental instrument for the management of international reserves. As defined, this portfolio uses the risk-return combination approved by the Bank's Board of Directors, set forth in terms of liquidity, credit quality, length and diversification by currencies and issuers. The benchmark is neutral to market expectations and it should be replicable, which is particularly relevant in circumstances of extreme market volatility.

The Bank builds its own benchmark portfolio. With regard to the management of investments, the following risks are considered:

Liquidity risk: The risk is minimized by distributing reserve assets into four tranches:

- Immediately available reserves: very short-term investments, including one-day investments, required to meet obligations and unforeseen events.

- Liquidity: investments with terms of up to one year, comprising bank deposits with gradual maturities and high-liquidity fixed income investments in the international market.

- Intermediation tranch: comprising investments that replicate Governmental Sector deposits in the Bank.

- Investment: investments with 1 year or longer maturities (mainly sovereign bonds), which imply greater volatility in prices, but also a higher profitability.

Credit risk: This risk refers to the possibility that a counterpart is not able to meet an obligation with the Bank on a timely basis due to insolvency. In order to face this risk, investments are diversified into:

- Deposits in first-rate foreign banks, according to the capital involved and to short-term and long-term risk ratings assigned by the main international risk rating agencies, such as Standard & Poor's, Moody's and Fitch.

- Fixed income securities issued or backed by international organizations, governments and government agencies. These securities should be rated as long-term papers and must have been assigned one of the four highest ratings of the twenty assigned by risk rating agencies.

- Investments in corporate debt issues are not permitted.

The magnitude and 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. The Bank has not entered into collateral agreements associated with its exposure to credit risk due to the type of investment it carries out.

Currency risk: This risk can be defined as the risk to which the 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 mismatch between the Bank's foreign currency assets and liabilities; and,

- The underlying exchange rate of outstanding foreign currency transactions at year-end.

The Bank assets are mostly invested in U.S. dollars, reflecting both the denomination of foreign currency liabilities (mainly bank reserve and special resident deposits) and the Bank intervention currency in the domestic foreign exchange market. The Euro is the second important currency in terms of the composition of international reserves by currency, as indicated in note 4.

Market or interest rate risk: This risks refers to unexpected movements in the market yield rates of fixed income assets in the portfolio, which could affect the market value of investments prior to their maturity. The longer the maturity period of investments, the greater the impact of changes in yield over the market value of said investments. The measure of said impact is reflected in the duration of the portfolio.

The Bank faces this risk considering the structure of the maturities of liabilities to determine the composition of the maturities of its assets, as a result of which the overall portfolio has a very short duration. Hence, the impact of changes in the market interest rates over the portfolio's market value is minimum.

Additionally, maximum maturities are established for investments, in line with the market risk profile selected for each instrument in the portfolio.

The magnitude of this risk depends on:

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

In general, all of the Bank's financial assets are interest-bearing. The Bank's financial liabilities include interest-bearing and non-interest-bearing liabilities. The disclosures regarding these liabilities are found in notes 11 through 16.

The Bank's interest-bearing assets and liabilities are based on rates established in accordance with the market economic conditions, effective as of the moment when the financial instruments are issued.

The structure of maturities of the Bank's financial assets and liabilities is disclosed in note 23.

Comparison against the benchmark portfolio: The Bank's real portfolio consists of the investments of international reserves, which may deviate from the parameters approved for the benchmark in terms of the management of investment terms, duration, total bank risk and credit risk, and diversification of issuers. These deviations are dealt with trying to obtain the highest profitability for the investments, maintaining the latter within the range authorized by the Bank's Board of Directors.

The real and reference portfolios are valued daily at market prices. Even though most investments are maintained until they mature, the market value of both portfolios is considered an important indicator to measure the efficiency in the management of international reserves.

Fair value

The information below discloses the fair value of financial instruments held by the Bank. The fair value is the amount at which an asset can be exchanged between duly informed expert buyers and sellers or the amount at which an obligation between adecuately informed debtors and creditors is paid under an arms' length transaction.

As the fair value of financial instruments represents the best estimate made by the Bank's 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 estimations were used by the Bank's Management to estimate the fair value of financial instruments:

- Cash and short-term deposits included in gross international reserves are not considered to be a significant interest rate risk; hence their book value approximates their fair value.

- The fair value of securities of international institutions is based on quality of these type of investments that support to classify them as available for sale, and on the permanent monitoring of this portfolio in relation to its market value.

- The fair value of precious metals is based on prices in the international markets and considers transforming costs when applicable.

- The fair value of domestic credit corresponds to its book value.

- The fair value of obligations, including obligations with international institutions, other liabilities abroad, deposits, securities issued, and monetary base is close to their book value because most of these obligations are short-term liabilities that are contracted at variable interest rates.

25. SUBSEQUENT EVENTS

In order to preserve monetary stabilization, the Bank seeks to support monetary sterilization mechanisms and strengthen liquidity levels of the entities subject to reserves and a better complementation of domestic reserves with the resources coming from abroad for the short and long-term financing by local financial institutions, through the measures described below:

a) On January 17, 2008, the Bank published Circular 005-2008-BCRP regarding Regulations for Overnight and Term Deposits at the Banco Central de Reserva del Perú, which established that monetary instruments would include term deposits in domestic currency at the Bank.

b) On January 18, 2008, the Bank published Circular 006-2008-BCRP modifying paragraph 7 of the Rules of Acquisition and Negotiation for Certificate of Deposits of Banco Central de Reserva del Perú, in order to establish that in cases of transfer of ownership on those securities, in which at least one of the parties is a non-resident, the recording will be made within three business days following the communication to the Bank. Likewise, the Bank may collect commissions for the recording of transfers. In said case, the Bank will publish said commissions in its institutional web page.

c) On February 1, 2008, the Bank published Circular 009-2008-BCRP referred to Rules for Certificate of Deposits subject to Restricted Negotiations at Banco Central de Reserva del Perú (CDBCRP-NR). The CDBCRP-NR are securities issued by the Bank representing liabilities of the latter in favor of the acquirer, in order to regulate the quantity of money of the financial system. They are represented by book-entries and are issued on discount.

   The Bank may establish repurchase agreements in the acquisitions of CDBCRP-NR, an carry out any other operation that is deemed necessary.

   Except for operations mentioned in the foregoing paragraph, the change of ownership of CDBCRP-NR is not allowed.

d) On February 1, 2008, the Bank published Circular 010-2008-BCRP regarding provisions of cash reserves in foreign currency, according to which the minimum legal reserve rate increased to 7% and the marginal reserve rate increased to 40%. Likewise, the rate for minimum reserve requirements in current account was raised to 2%.

e) On February 1, 2008, the Bank published Circular 011-2008-BCRP regarding provisions of reserves in local currency, according to which the minimum legal cash reserve increases to 7% and the marginal cash reserve rate to 15% for the obligations subject to cash reserve in excess of the average level of the base period, which corresponds to December 2007. Likewise, the rate for minimum reserve requirement in checking account was raised to 2%.